Balancing Mongolia’s Growth and Sovereignty: Up, Down, or Out?

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AS A LANDLOCKED AND SPARSELY POPULATED COUNTRY wedged between two continental giants, Mongolia is understood to have limited options for consequential diplomacy: Russia to the north, China to the south, and non-contiguous partners farther afield. Mongolia has theoretically attempted to cultivate balanced relations along these three lines. In practice, its partnerships have failed to meet that goal. Following Mongolia’s democratic revolution in the early 1990s, China fully supplanted Russia as Mongolia’s main developer, and non-contiguous neighbors continue to play a comparatively insignificant role in Mongolia’s growth. Though this dynamic is well understood, a recent development warrants renewed discussion: Khaltmaa Battulga of the Democratic Party became Mongolia’s new president in an election that was widely regarded as a referendum on China’s role in the economy.1 Despite winning the election, Battulga, a China-skeptic, has put himself in an unwinnable situation. If he is to maintain the support of Mongolian voters, he must somehow distance the country from China while sustaining economic growth, engaging in what will prove to be a difficult balancing act.

Many Mongolians resent their Chinese neighbors, viewing them as hegemonic and exploitative. This attitude is rooted in a complex history of domination and exploitation, and more recently, indirect Chinese hegemony through control of Mongolia’s mineral resources. Today, resources are the crux of pervading sinophobia, as investment by China in Mongolia’s extraction and transportation infrastructure is perceived by Mongolians as having resulted in foreign (mostly Chinese) domination of trade and high-level corruption within the government and mining industry.2 Many Mongolians limit their opinions of China to disapproval, but some have taken more extreme stances, organizing themselves into specifically anti-Chinese, ultra-nationalist groups such as Tsagaan Hass and Dayar Mongol.3 While there are no known connections between Battulga and these groups (whose numbers are politically insignificant), it is undeniable that Battulga’s campaign capitalized on anti-Chinese sentiment.4 Battulga’s supporters contributed much to this strategy, labeling his opponent, Miyegombyn Enkhbold, “erliiz (a person of mixed Mongolian and Chinese
Inconveniently for Battulga, economic realities undermine the nationalist platform upon which he was elected. The first and foremost of these realities is that Mongolia is very much economically dependent on China. For example, 90% percent of Mongolia’s exports go to or through China, and China plays a crucial role in developing the infrastructure required by Mongolia’s mining industry. China’s importance as an importer is partially reflected in Mongolia’s growth rates. After dipping to 1 percent in 2016, growth increased to 5.3 percent reportedly because China’s ban on North Korean coal created better market conditions for Mongolian exports (growth also owes much to a May agreement with the International Monetary Fund for a bailout package of $5.5 billion). Furthermore, China has become Mongolia’s largest source of foreign direct investment (FDI) during a time of particular need, as overall FDI from other sources fell from $4.5 billion in 2011 to less than $100 million in 2015. But such investment is not guaranteed. Mongolia needs China’s development capacity far more than China needs Mongolia’s coal and copper. Should Battulga seek to undo Chinese hegemony without undoing the Mongolian economy itself, he must somehow counterbalance China’s role with other partners.

It may come as a surprise to some, considering overall negative trends in global opinion toward Russia and mixed perceptions among former Soviet republics and satellites, but Mongolians generally see Russia in a favorable light. This is in part because the Soviet Union, though guilty of exporting political horrors, did guarantee Mongolia’s independence in the decades after the fall of the Qing empire (excluding Inner Mongolia, which remains part of China). Later in the century, the Soviet Union invested heavily in what was then known as the Mongolian People’s Republic. As Gregory Delaplace writes, “Russians are remembered as great providers, and their liberality in dispensing the products of socialist ‘modernity’ has secured their position until today as ‘elder brothers’ to Mongolia.” Indeed, this sentiment is corroborated economically. At their height, Soviet subsidies comprised 37 percent of Mongolia’s GDP, and the railroad infrastructure built by the Soviets in the 1960s is still essential for commercial transport, despite receiving few upgrades since then. Mongolians have not forgotten their country’s twentieth-century relationship with Russia,
and Khaltmaa Battulga tapped into this amity by aligning himself with Russia and Vladimir Putin during the campaign.\textsuperscript{17}

Considering Russia’s popularity in Mongolia, an obvious choice would be to expand the trade and investment partnerships between the two. The problem is that Chinese demand dwarfs Russian demand for Mongolian resources, and Russia is unlikely to invest in Mongolia’s infrastructure out of pure goodwill for a Soviet-era comrade. To incentivize Russia, Mongolia may have to leverage its intermediary position between north and south. Russia cares much more about its economic relationship with China, so Mongolia’s opportunity to expand its Russian relationship can come about via trilateralism. Mongolia’s previous president embraced this strategy by working his way to the negotiating table of the China-Mongolia-Russia economic corridor.\textsuperscript{18} However, this type of project cannot increase Russia’s economic stake in Mongolia without also increasing China’s. For example, the corridor project is very publicly part of China’s larger Silk Road Economic Belt, which makes deemphasizing China’s outsized role rather difficult. Trilateralism could be a gainful strategy, but it cannot significantly dilute Chinese hegemony in the short term.

If counterweighting Chinese influence by turning to Russia is problematic, Mongolia’s remaining choice would be to reinvigorate the Third Neighbor policy, which was always meant to prevent monopolization of the economy by contiguous neighbors. After all, large democratic states such as the United States or Japan should take interest in supporting Mongolia, a fledgling democracy in a rather undemocratic neighborhood. Unfortunately, the Third Neighbor policy has had time to prove itself, and it has yet to live up to expectations. Chinese monopoly has persisted, and FDI from the United States, Japan, and Germany has not yet materialized in significant quantities.\textsuperscript{19} This could be because Western investors were put off by the rise of resource nationalism,\textsuperscript{20} the logistical difficulty of investing in the resource sectors of a landlocked economy, or the perceived insignificance of Mongolia as a country of only 3 million people. Despite these economic factors, there are reports of new Western investments in Mongolia,\textsuperscript{21} and Battulga did promise to resume the Third Neighbor policy at his inauguration.\textsuperscript{22} The new administration seems committed to the policy, but meaningfully reducing dependence on China remains a tall order.

Despite his anti-Chinese, pro-Russian, and pro-anyone-else campaign positions, Battulga has curtailed anti-China rhetoric in the months since his inauguration and even congratulated Xi Jinping on the PRC’s 68th anniversary. This behavior, though cordial and pragmatic, is inconsistent with the values that got Battulga elected. If it foreshadows the rest of his term, Battulga’s supporters could become disaffected by the time he runs
for reelection. Realistically, Chinese dominance cannot be undone in the short term without disastrous consequences, Russia is largely uninterested in counterbalancing China’s economic role, and Third Neighbors are unlikely to alter the dynamic in a meaningful way. Thus, by encouraging resource nationalism and sinophobia in a country whose economy depends on China, Battulga put himself in a lose-lose scenario. If he is to ensure the success of his administration, he must adopt a balanced approach that recognizes China’s essential role in the Mongolian economy while acknowledging the deep distrust among Mongolian voters. If he cannot negotiate this impasse, Battulga is likely to suffer politically and Mongolia will still be in search of a better path forward.

*Robert Gill was an intern with the Russia and Eurasia Program at CSIS.*
**Endnotes**


5. Ibid.

6. Ibid.


10. Ibid.


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19 Ibid., 5.
23 Yang, “President Khaltma Battulga, Mongolia’s Pragmatist.”