This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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Executive Summary

Mongolia made headlines in major media outlets around the world during the review period (2011–2013) for one reason in particular – the country’s unprecedented economic growth. Fueled by a mining boom, the Mongolian economy has becoming one of the fastest-growing in the world subject to considerable investments. According to official estimates, the economy grew by 17.3% in 2011 and 12.3% in 2012, and estimates place growth at 18% to 20% for 2013. This rapid growth has yielded some benefits for the country overall, as the poverty rate fell from 39% in 2011 to 28% in 2012. At the same time, however, socioeconomic inequality is growing.

The key political events during the review period include the renaming of the former ruling party, the Mongolian People’s Revolutionary Party (MPRP), to the Mongolian People’s Party (MPP); the splitting in 2011 of former president Enkhbayar Nambar and others from the MPP to form their own party and reclaim the old name of MPRP; the arrest and sentencing of Enkhbayar on charges of corruption; and parliamentary and local elections in 2012.

The 2012 parliamentary election was historic in many aspects. For one, it was held under a new mixed proportional-majoritarian electoral system, which significantly changed the dynamics and landscape of politics in Mongolia. The Democratic Party (DP), which for the second time in its history won a majority in parliament, also managed to gain a majority at the local level. As a result, the DP for the first time held the presidency with a majority in parliament and local governments at the same time. Second, the new system allowed other parties to gain traction. The MPRP-led Justice Coalition, advocating resource nationalism, rose to win 11 out of 76 seats in the parliament. The Justice Coalition joined the ruling coalition with the DP and the Civil Will-Green Party (CWGP), holding 25% of the government’s cabinet seats. Finally, the new election law also introduced a candidacy quota of 20% for women.

In general, the elections were seen as fair and democratic. However, there was controversy surrounding the arrest of the former president Enkhbayar on corruption charges in the run-up to
the parliamentary election. Whereas his supporters viewed this as a political tactic on the part of his competitors, others believed it to be just, though long overdue. The issue attracted unprecedented international coverage, largely as the result of a huge public relations campaign conducted by Enkhbayar’s family and international politicians with personal and business connections to Enkhbayar.

The management of natural resources, which includes the massive Oyu Tolgoi (OT) gold-copper mine, dominated political and economic discourse during the period under review. The mine’s development has generated concerns about environmental problems and policies governing other strategic resources. Public opinion is divided over the Mongolian government’s 34% share in the OT mine, a share that was stipulated in the 2009 investment agreement. Indeed, the 2012 election campaign was marked by growing support for resource nationalism. Nonetheless, work on the OT project continued and the mine went into commercial operation in the first half of 2013. Estimates suggest that once in full production, OT will account for one-third of Mongolia’s GDP.

History and Characteristics of Transformation

Just over 20 years ago, Mongolia peacefully transitioned from communism to democracy, leaving behind its centrally planned economy and single-party authoritarian system for a free-market economy and multiparty parliamentary system. In recent years, the country has taken considerable steps forward in establishing a more modern and vibrant economy, with a booming mining sector driving double-digit economic growth. Spread out across 1.54 million square kilometers, Mongolia is the world’s 19th largest country, but has a population of only 2.7 million, making it the least densely populated country in the world. Slightly more than half (54.2%) of the population is Buddhist. The country boasts a high degree of religious freedom and a very high literacy rate of 97.8%. Traditionally, Mongolia has been a country of nomads with a heavy dependency on agriculture; 30% of the population still depends on animal husbandry.

The trajectory of Mongolia’s transformation course is unique. In 1990, the year in which the communist one-party system came to an end, most of the conditions commonly identified by political scientists as necessary for successful democratic transition were absent in the country. Mongolia lacked any meaningful pre-communist experience with modern parliamentary democracy. The absolute dominance of state-owned and collectivized sectors in Mongolia’s planned economy, which precluded the presence of influential entrepreneurs, hindered the emergence of an independent middle class that could have become an engine of democratization in a manner similar to that seen in South Korea and Taiwan. Finally, Mongolia had neither an established dissident movement nor a long tradition of anti-communist resistance. Bucking these odds, Mongolia underwent in 1990 a successful and remarkably peaceful democratic transition, and has succeeded in preserving its newly established democratic system.
Featuring unprecedented growth rates, Mongolia is now one of the fastest-growing economies in the world. Driving this growth is a booming mining sector in which Mongolia holds key deposits in copper, gold, coking-coal and uranium at a combined value of more than $1.2 trillion. Mongolia has a major competitive advantage in being located next to China, the largest commodity consumer in the world. However, given that more than 90% of the landlocked country’s exports go to China, the Mongolian economy is currently heavily dependent on China’s growth. Underlying the country’s long-term development is the National Development Strategy (NDS). The strategy aims to transform Mongolia into an export-oriented and knowledge-based economy by focusing on the exploitation of strategic minerals, a reduction of urban and rural disparities, balanced ecosystems, the consolidation of democracy and fight against corruption. The NDS’ stated objective is to make Mongolia a middle income, knowledge-based country by 2021. In line with these objectives, the country’s legal framework is gradually changing to support such economic growth.

The head of the state is the president. The prime minister is the head of government, and all legislative power is vested in the Great State Khural (Assembly), Mongolia’s unicameral parliament, which has 76 members who are elected by popular vote for a term of four years. The last general election, held on 28 June 2012, yielded the following results: The Democratic Party (DP) won 33 out of the 76 seats, the Mongolian People’s Party (MPP) won 26 seats, the Justice Coalition won 11 seats, the Civil Will-Green Party won 2 seats, and 3 independent candidates each won a seat. The DP, Justice Coalition and Civil Will-Green Party took part in the coalition government. In the cabinet, the DP holds 11 seats, the Justice Coalition 4 seats and the Civil Will-Green Party one.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

There is no competition with the state’s monopoly on the use of force throughout the entire territory. There are no organized groups that hold the power to challenge the state’s monopoly on the use of force. Aside from the election riots of 2008 and smaller, local environmentalists’ opposition to mining activities in 2010 and 2011, Mongolia has not seen any substantial use of force by organized groups. The environmentalist group Fire Nation created a stir when they approached the parliament building on horseback and shot at the building with bows and arrows in protest to their demands not being met. They have been involved in armed altercations with mining companies as well; this has resulted in some members being jailed, although no serious injuries were reported. There are some ultra-nationalistic groups who believe that the government has not done enough to control foreign influence in Mongolia and have targeted foreigners, especially the Chinese, in attacks. In the run-up to the 2012 parliamentary elections, however, the government specifically targeted criminals in these groups, and have indicated the political will to protect foreign citizens. In April 2012, the state showed its willingness to use force when police arrested former President Enkhbayar Nambar on corruption charges by the Independent Authority Against Corruption (IAAC). The arrest was broadcast live on television, showing a large number of police officers raiding Enkhbayar’s home who had refused to turn himself in.

The large majority of the population accepts the nation-state as legitimate. Although there are diverse ethnic and religious groups, Mongolia is a relatively homogeneous country with a large percentage of the population comprising the same social and ethnic groups. Even when there are differences, there is never any serious discussion over the legitimacy of the current concept of the Mongolian nation-state. Citizenship is not denied to particular groups within Mongolia. However, the citizenship of Kazakh-Mongolian citizens that left the country for Kazakhstan and later returned to Mongolia remains unclear.
Religious dogmas have no noteworthy influence on legal order or political institutions. Mongolia has seen a revival of religion, especially Buddhism and the traditional shamanism, in the last twenty-three years since democratization. While some high-level officials are known to be religious, there are no religious groups that have substantial influence on national politics and its decision-making process.

The administrative structures of the state provide most basic public services throughout the country but their operation is to some extent deficient. Mongolia has a small population compared to its vast land size, making it the least densely populated country. At the same time, around 30% of the population still lives a traditional nomadic herding lifestyle. These factors make it extremely difficult to provide even the most basic infrastructure to citizens living in remote rural areas. Access to education and healthcare is burdensome. Many areas of the country still lack constant access to electricity. However, the problem with infrastructure unfortunately extends to urban areas, even the largest city, the capital city of Ulaanbaatar. Over 60% of the approximately 1.2 million Ulaanbaatar residents live in what is called the “ger” (Mongolian word for yurt, the round, portable nomadic dwelling) districts, where administrative structures are ineffective.

Economic growth and an increase in funding across the board are supporting innovative policy changes to address these issues.

2 | Political Participation

General elections are regularly conducted on the national level. In 2012, there were two nation-wide elections – the parliamentary elections in June and the local elections in November, both of which saw the shift of power from the Mongolian People’s Party to the Democratic Party. The parliamentary elections of 2012 saw the introduction of a mixed proportional system as well as the usage of an electronic voting machine. Civil society organizations monitoring the parliamentary election under the Civil Society Watch for Fair Elections Network revealed some problems in the voter registration process and bias in media coverage but deemed the use of electronic voting machines to be a success. Others voiced concern that the price of entering the campaigns was too high, perhaps impairing political participation. There remained, however, a serious lack of trust in the results. Even before the election officially began, rumors about the corruptibility of the machines were rampant, and many expected failures. Some reports of power outages at voting stations also complicated the validity of some results. However, no one reported any issues large enough to effect the broader election results.

Nine parties, including the former ruling party the Mongolian People’s Party, signed a petition to get all the votes manually recounted, but the General Election Committee (GEC) did not find sufficient evidence to warrant carrying out a full manual recount.
After the elections, two MPP candidates were disqualified by the GEC for breaking the election laws, and two Democratic Party candidates were awarded the seat. In two other constituencies, a re-vote was called as no candidate in these constituencies obtained the 28% threshold required for election. Voter turnout was at 65%, almost 10% lower than the 2008 parliamentary elections. While many attribute the decrease in voter turnout to general voter apathy, some believe the decrease is due to the new electronic voting machines having curbed election fraud. Another positive change was marked by the introduction of Mongolians abroad being allowed to vote in the elections. Although the number of Mongolians abroad is not large enough to have a big impact, it is a welcome step in ensuring all citizens can partake in the political process. The parliamentary elections also saw many new members elected who were previously primarily big business owners. This points to the restrictive and selective nature of nomination and campaign processes in parties where private finances figure prominently.

International observers declared the 2012 parliamentary elections free and fair. However, the number of international observers was lower than those present in previous elections, suggesting that international organizations had more faith in Mongolia to hold more consistently free and fair elections. Domestic political parties also sent their own observers to almost all polling stations.

Democratically elected political representatives have considerable power to govern. However, there are suspicions of big businesses and external actors, namely Russia and China, having strong influence on key issues, but this influence is largely confined to foreign policy issues. This point becomes somewhat diluted due to the fact that most parliament members are also business elites who have been democratically elected, therefore legitimizing their special-interest policy decisions behind the veil of elections. This represents less an undermining of democratic procedures and has more to do with direct influence on the decision-makers.

The country’s constitution (1992) guarantees freedom of association and assembly. In general, citizens are not restricted in their ability to associate and assemble. Since the arrest of Nambaryn Enkhbayar, there have been frequent protests and hunger strikes by his supporters, which were not restricted or forced to end with undue force. Demonstrating commitment to ensuring the safety of citizens, court hearings were held in 2012 regarding the 2008 election riot. The judiciary sentenced three former top police chiefs to prison for their failure to take proper action during the riots, which resulted in the deaths of five citizens.

Freedom of expression is subject to some limitations, but generally there are no outright prohibitions of the press. The constitution guarantees freedom of expression, but there are many flaws that are then abused in censoring journalists. The Law on State Secrets vaguely defines “state secrets” and is used to restrict the voice of journalists. Journalists and media outlets practice self-censorship for the fear of
retribution and charges of defamation. Although there is a plurality of media outlets, they are not truly independent. The private media outlets are all owned by big businesses and high-level politicians, each of whom are interested in advancing their own agenda. As a result, the owners of the media outlet have direct influence on agenda-setting and practice censorship over their own editors and journalists. In early 2013, the government debated introducing regulations to censor website comments but has since dropped the idea.

3 | Rule of Law

In an effort primarily intended to prevent Mongolia’s two powerful neighbors from exercising influence on its politics, the framers of the new 1992 constitution laid out a strong formal separation of power mechanisms. However, amendments made in 2000 to the constitution allowed for members of parliament to hold simultaneously posts in the cabinet. In the past, critics have pointed out that such dual officeholders might compromise horizontal accountability between legislative and executive branches of the government. Cabinet posts are also used as political bargaining chips in forming coalitions for a majority government, which further complicates the separation of the legislative and executive branches.

These criticisms were once again voiced after the 2012 election when the newly elected Justice Coalition formed its cabinet. Currently, 17 out of the 19 current cabinet members simultaneously serve as members of parliament. Even though many members of the parliament spoke out against this practice, there is no strong drive to abolish it. The limited number of qualified politicians able to fill the important posts exacerbated the situation. Temuujin Khishigdemberel, a member of parliament and outspoken critic of the practice, was recently appointed as Minister of Justice, for example. This reflects the lack of political will to ensure greater separation of powers in the near future.

The judiciary is the weakest of the three branches. Numerous complaints and reports have indicated that human rights violations, corruption and nepotism persist in the Mongolian judicial system. The lack of judiciary independence is a key factor here. Under the current system, the president appoints Supreme Court justices which, as many critics point out, undermines the judiciary’s oversight of the other branches of the government.

The public’s confidence in the judiciary system was further eroded by the manner in which the corruption case against former President Enkhbayar was handled. Although the evidence proved that Enkhbayar was indeed guilty, the timing of the case and issues of due process created suspicions of intrusion and opposition-driven pressure. Furthermore, the charges ultimately substantiated in court were not as
extensive as the initial evidence suggested. This suggest that the judiciary does not have the capacity to fully implement the law.

There have been significant developments in the prosecution of office abuse during the last couple of years. The newly formed IAAC charged numerous high-profile figures with embezzlement and corruption. The most prominent and controversial was the arrest of former President Enkhbayar. The fact that the IAAC charged one of the most popular politicians in Mongolia itself fostered hopes that the authorities might get tough on corruption. Many high-profile corruption charges that followed Enkhbayar’s imprisonment further solidified this view.

But it is important to point to an apparent bias, as the IAAC charges have mostly targeted former ruling party officials. This has led to widespread suspicions that the IAAC has become a political retribution tool of the current administration. The IAAC remains a troubled institution. In March 2011, the head of the IAAC, Chimgee Sangaragchaa, was himself arrested and sentenced to two years in prison for leaking state secrets. While the organization remains an important development in Mongolian politics since its establishment in 2007, the IAAC has been mired in political issues for some time now. This suggests that the institution is largely controlled by political interests in the country, who themselves do not want to face corruption charges by a truly independent authority.

Even though civil rights are largely guaranteed in Mongolia, violations still occur. From the cruel and inhumane treatment of people in custody to the discrimination of sexual minorities to the provision of inadequate due process and equal protections, these sporadic yet persistent violations call for a more effective system capable of protecting fundamental civil rights in Mongolia. On the one hand, these violations are not checked largely because of the ineffective judicial system. Charges and prosecutions related to civil rights violations are relatively rare in Mongolia. On the other hand, the culture that accepts and tolerates civil rights violations hinders any significant effort to address the issue. However, there are incremental efforts underway that could precipitate much broader change. In January 2013, for instance, Minister of Justice Temuujin, citing breach of privacy, ordered to invalidate the ubiquitous requirement of criminal record checks for all new job applicants. Although small, new developments such as this is raise awareness of existing civil rights violations.

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but are often inefficient. While there is not much unnecessary friction between institutions, there is weak institutional memory and continuing cooperation. The institutions themselves are not strong enough; too much depends on the individuals leading the institution. As a
result, policies are disrupted by changes in leadership. Frequent changes to ministry names and duties along with the creation of entirely new ministries creates institutional confusion. Even within political parties, there is a wide array of views among different factions, making it hard to sustain a long-term policy if the balance of power shifts. The parliament of Mongolia has 76 members and is the legislative arm while the government of Mongolia with the prime minister and the other cabinet members is the executive arm. After the June 2012 parliamentary elections, a cabinet was formed with 19 ministers, 17 of whom are members of parliament. Due to a large portion of ministers being members of parliament, there is naturally lesser friction between the institutions, though this creates a problem when it comes to checks and balances. While the Civil Service Council of Mongolia has a system of selecting civil servants based on merit, it is usually the case that the ruling party appoints civil servants to posts based on political affiliation more than merit. This results in the inefficiency and discontinuity of efforts in the institutions.

All relevant actors see the democratic institutions in Mongolia as legitimate. However, due to the 2012 parliamentary election result disputes in certain constituencies, the opposition MPP members of the parliament have boycotted several parliamentary sessions. Although the opposition made claims that the newly formed parliament is illegitimate, this has not gained any momentum. But this indirectly cautions that unless the democratic institutions are formed through more transparent and formal process, they will continue to face legitimacy issues.

Several government bodies and institutions are seen as distinctly problematic. The judiciary and the Independent Authority Against Corruption (IAAC) are vulnerable to political manipulation. Calls for institutional reform are common.

5 | Political and Social Integration

The party system in Mongolia is fairly stable, yet the high degree of clientelism in forming parties inhibits their effectiveness in society. This widespread practice can shape one’s career significantly as much depends on an individual’s party affiliation. This creates a situation in which individuals join parties only to benefit from the spoils. Moreover, this practice has severed the parties’ social roots. According to a survey of Sant Maral Foundation in June 2012, 62% of Mongolians do not think that parties represent public opinion.

The parties have deep roots in Mongolian society, with affiliations often decided on the basis of tradition. Many of the MPP’s supporters were also loyal to the Mongolian Communist Party, whereas DP supporters were often involved in the protests that led to Mongolia’s democratization. These loyalties, however, reinforce clientelism by making personal affiliations a strong motivation in political decision-making.
Currently, 5 out of 22 parties registered at the Supreme Court of Mongolia have seats in parliament. The new election law that replaced the majoritarian voting system with a mixed majoritarian and proportional system tried to ensure more seats for small parties. The system has significantly benefited the former president Enkhbayar Nambar’s newly formed MPRP, granting the party’s Justice Coalition 11 seats in the parliament and 4 seats in the cabinet.

Interest groups play an active, if not prominent, role in Mongolian society. A 2011 survey by Mongolia’s national statistics office (NSO) estimated that more than 6,000 NGOs representing a wide range of interests are currently operating in Mongolia.

Recent rapid growth in the mining sector has elevated the role of interest groups addressing negative environmental impacts and advocating the rights of the indigenous people. The Ongi River Basin Movement, for example, placed pressure on the legislature, which resulted in a 2009 law prohibiting mining operations in river basins. This success has inspired other environmental groups that currently serve as an oversight mechanism in the growing mining industry. However, in some cases, these groups also turn to nationalistic and violent measures. The leader of the Ongi River Basin Movement Tsetsegee Munkhbayar, for example, was imprisoned for shooting at mining company equipment. His actions point to the thin line that divides effective influence on government policy from activities that undermine democracy in Mongolia.

Beyond environmental NGOs that enjoy political support only occasionally, organizations that focus on civil rights and health issues are drawing increased attention from the central governments. Three HIV/AIDS prevention and support NGOs continue to operate in Mongolia and have been able to hold conferences with the Ministry of Health on a regular basis. As with other interest groups, however, political promises and political will remain hard to reconcile in many cases.

Despite the economic hardships and no previous democratic legacy, Mongolians have overwhelmingly approved the notion of a democratic regime since 1990. Asian Barometer’s survey shows that 85.4% of Mongolians regard the current form of government as the best form, and 12.2% prefer a different form. However, in another Asian Barometer survey conducted in 2010, 48.4% of Mongolians stated that democracy is always preferable, while 32.1% stated that authoritarian government is under certain circumstances preferable.

Categorical support for democracy was much higher in the past, and the consideration of authoritarianism as an option used to be lower. This slight decline in democracy’s approval rating can be attributed in large part to the government’s inability to resolve many mining-related issues that have been dragging on for years. However, the fundamentals of Mongolian democracy remain strong as evidenced by the peaceful aftermath of the 1 July 2008 riots.
According to an Asian Barometer survey of 2006, 89.8% of all Mongolians state that one must be very careful in dealing with people, whereas only 10.2% found that most people can be trusted. Mongolians overwhelmingly prefer to trust people with whom they have close relationships and local regional affiliations, which can be attributed in part to the legacy of communism and in part to traditions of self-reliance in nomadic culture. The situation is further exacerbated by the increasing migration to urban areas as new migrants lose their sense of community when they arrive in new environment. Urban areas, especially Ulaanbaatar, are increasingly dangerous for all inhabitants. Increased rates of crime further undermine social capital and trust, which in turn reinforces a tendency to rely on whom one knows rather than abstract laws and institutions.

The adverse effects of low levels of social capital can be observed in all institutions, which are subject to widespread nepotism and conflicts of interest. However, thanks to the growth of social media in recent years, numerous formal and informal associations and self-organized groups have sprung up throughout Ulaanbaatar city. Whether this will significantly increase social capital has yet to be seen.

II. Economic Transformation

Driven primarily by the mining boom and intense activity in the private sector, as well as high levels of government spending, the Mongolian economy continues to grow at a high rate. According to official estimates, the economy grew by 17.3% in 2011 and 12.3% in 2012, compared to 6.4% GDP growth in 2010. Surveys done by the World Bank, IMF and NSO of Mongolia predict that economic growth will reach 18% to 20% in 2013, making it the fastest-growing economy in the world. The economic boom has yielded some benefits, with poverty rates declining from 39.2% in 2010 to 29.8% in 2011. Nonetheless, poverty remains high with almost 22.4% of the population living on less than $1.25 (PPP) a day, according to the 2011 Human Development Report. There is a clear urban-rural divide in poverty rates (26.6% in urban areas, 33.3% in rural areas) according to the NSO’s Household Socioeconomic Survey for 2010 – 2011. Rural poverty is driving citizens to move to cities for work opportunities. However, most migrants have limited transferable skills and therefore face difficulties in securing employment, which increases the share of poor people in the city. The Gini coefficient (36.6 in 2008) shows a moderate level of social inequality, and the 2011 Human Development Report ranks Mongolia at 110 with a Human Development Index (HDI) score of 0.653. However, there is widespread belief that the benefits of the economic growth experienced in the past two years have
been unevenly distributed and the projected mining industry boom could lead to rising inequality. In addition, a hike in food and fuel prices has disproportionately affected the poor.

Gender inequality does play a role in poverty, but this role is relatively small when compared across the region. Mongolia has a score of .410 on the Gender Inequality Index. A strong tradition of formal equality in employment as part of the Soviet/Communist legacy is an important component of this status. In higher education, women comprise a considerable majority with a ratio of women to men at 149.4%. There is no available data for gauging income levels across ethnic lines. Rural poverty is sometimes hard to gauge, with informal economic transactions (barter) making up a sizable chunk of herders livelihoods.

### Economic indicators

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### Economic indicators

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7 | Organization of the Market and Competition

The Heritage Foundation’s 2013 Index of Economic Freedom for Mongolia score has reached 61.7%, making its economy the 75th freest in world. Major improvements to regulatory efficiency resulted in increased scores for business, labor and monetary freedom. Mongolia scored 4.5% higher than the regional average, ranking 12th out of the 41 countries in the Asia-Pacific region. The Global Competitiveness Report scores for the country’s financial market development, which is classified primarily as factor driven, are lower than that given for many economies in transition. Foreign investment is officially welcome, but a legislative framework facilitative of such investment is still in a fledgling state. The parliament passed the Law on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors in May 2012.

According to the new law, any foreign entity investing either more than MNT100 billion (approximately $76 million), or in strategic sectors must seek approval from the government. Strategic sectors include mining, banking and finance, and media and communications. The law was passed in a hurry leading up to the election and with pressure from the public as Aluminum Corporation of China bid to buy 60% of SouthGobi Resources, a listed company who owns multiple coal deposits in Mongolia. The law is expected to undergo revision. More recently, the government has been getting involved in sectors it deems to be strategically important.

With recent economic growth comes the need for Mongolia to ensure that its international investment agreements meet the country’s best interests. Currently, there is a strong commitment to market-based competition, but hoping to diversify its range of economic partners, policymakers prefer investments made by countries other than Russia or China. Overall, the Mongolian business landscape features a few
companies with diverse investments in a variety of sectors and businesses where there is little room for new entrants and unfair competition can be observed to some extent.

The Mongolian Stock Exchange signed a strategic partnership agreement with the London Stock Exchange in 2011 to further improve the financial market. A modern and efficient regulatory framework continues to evolve along with economic growth. With no minimum capital required, launching a business takes less than 10 procedures on average.

Anti-monopoly policy is formulated in the Law on Prohibition of Unfair Competition of 1993 and the Law on Competition in 2009. In 2004, the Authority for Fair Competition and Customer Protection (AFCCP) was set up. Policy efforts against monopolization and unfair competition have gained momentum since the Democratic Party won the 2012 parliamentary elections, and the AFCCP has become one of the most active government organizations in Mongolia. However, unfair competition can still be observed in every industry, especially when it comes to government tender selection processes.

Since the onset of its economic transition, Mongolia has promoted foreign trade and investment, and achieved tangible results in trade liberalization. Mongolia’s accession to the World Trade Organization (WTO) in January 1997 underlines the country’s relative success in developing a new trade regime. In the wake of WTO accession, around 30 laws related to the simplification of customs service and the reduction of customs duties on foreign trade were passed and amended. However, some pledges were not realized, specifically with regard to foreign trade tariffs. The trade-weighted average rate is 5.1%, and costly non-tariff barriers further constrain trade freedom.

The trade deficit reached record levels of $1.7 billion in 2011 as imports of mining-related equipment and fuel imports have surged. But exports also grew strongly, reaching $4.8 billion in 2011 from $2.9 billion a year ago. The policy of trade liberalization is often to the detriment of domestic producers who have to compete with cheap imports. As for exports, customs duties were imposed on only a few items such as unprocessed cashmere. Mongolia is actively engaged in negotiations for trade discounts with other nations. In 2012, 92.5% of all exports went to China; this makes Mongolia’s economic success heavily dependent on China’s growth. In addition, 54% of all imports come from China and Russia. Given China’s huge market share (followed by Russia), Mongolian authorities have shown a clear preference for investment from other countries. Chinese investment in the mining industry became a political issue in 2012, with the rejection of China’s Chalco bid to buy a majority share of SouthGobi Resources.

In 2013, there were altogether 14 commercial banks and 212 small non-banking financial institutions (NBFIs) in Mongolia. Although NBFIs cannot take deposits,
they provide basic banking products and services. Major commercial banks have already adopted international best practices in corporate governance and business processes. In February 2012, Goldman Sachs bought a 4.8% stake in Mongolia’s third largest bank, Trade and Development Bank of Mongolia (TDBM), and later in April 2012, Trafigura Beheer B.V. bought a 5% stake in the Golomt Bank, Mongolia’s second largest bank.

The financial system has undergone rigorous modernization over the past years. The minimum capital requirement for commercial banks ordered by the Bank of Mongolia (BoM) is MNT8 billion ($6.8 million). Weathering the strain caused by the global financial turmoil, the banking sector has stabilized. According to Eurasia Capital, the Mongolian banking industry expanded 50.1% in 2011. The sector wide net earnings exceeded $130 million. Assets surged to $6.7 billion and the bank assets to GDP ratio reached a new height at 86.5%. Compared to other countries in the region, Mongolia has some of the lowest tier 1 capital buffers in the East Asia region and also some of the highest non-performing loan (NPL) ratios that date back to the banking sector crisis from 2008–2009 when two large banks failed. Admittedly, the ratio of NPLs to gross loans has fallen from 5.8% in 2011 to 4.1% (excluding the NPLs of the two failed banks) in 2012. The banking system remains highly dollarized. About one-third of deposits are denominated in dollars and easy convertibility exists between local and foreign currency deposits.

The Financial Regulatory Commission was established in 2006 to regulate financial services by supervising legal compliance and protecting the rights of investors and clients.

8 | Currency and Price Stability

Inflation threatens not only to hamper economic growth, but also to cause political instability, but the government seems unable or unwilling to deal with it. In 2011, the government’s Human Development Fund spent over $600 million in cash handouts to fulfill an election promise, an amount that is equal to nearly 40% of state expenditures according to U.N. figures. The government increased civil servant salaries in two phases in 2012, starting with a MNT80 thousand (approximately $55) increase and later by 23% which brought the average monthly salary to MNT630 thousand (approximately $434). Cash handouts and salary increases are directly contributing to inflation. However, the government stopped distributing cash handouts in 2012 to everyone, and the two main parties agreed not to make cash handout promises in the 2012 parliamentary election.

Monetary policy in Mongolia is implemented by Mongolia’s central bank, the BoM. A principle objective of the BoM is to ensure the stability of the Mongolian national currency, the tugrik. The governor of the BoM is formally independent from the
government, is appointed for a six-year period by the State Great Khural and reports to the parliament. Policies during the financial crisis have shown that the BoM acts independently in pursuing its goal of monetary stability, although inflation in Mongolia has been increasing in recent years and reached 14.3% in 2012 according to the NSO. The World Bank Q4 2012 report stated that “inflation has eased slightly in recent months, but remains persistently high, due to high food prices and expansionary fiscal policy which has led to demand side pressures in an already overheating economy. The headline rate was 15.9 percent in August, with the increase in the index driven mostly by the increase in food, notably meat, prices.” BoM announced their monetary policy for 2013 to keep inflation stable and collaborate with the government to restrict the impact of supply-driven inflation. The goal is to keep inflation below 8% by the end of 2013 and in the range of 5% to 7% percent in the 2014/2015 fiscal year.

Due to intermittent intervention by the BoM to limit the depreciation of the tugrik, net foreign exchange reserves (excluding BoM borrowing from the Chinese central bank, deposits by the Development Bank of Mongolia and by domestic banks) have been declining steadily and at the time of this writing have reached a two-year low of $1.4 billion. In 2013, the BoM announced to maintain the floating exchange rate regime with interventions in the foreign exchange market limited to smoothing out excessive volatility in the exchange rate without attempting to reverse the underlying trend.

The Fiscal Stability Law (FSL) went fully into effect in January 2013. The FSL will promote fiscal discipline by enhancing transparency, strengthening accountability, and setting up regulations that would limit the fiscal balance, government debt, spending growth, while preventing a boom-bust instability. Moreover, the law provides legal grounds for the establishment of the Stabilization Fund. The objective of this fund is to ensure fiscal stability in the medium and long term by accumulating windfall revenues and enabling budget support when commodity prices fall or in the event of other external shocks.

Fiscal policy has remained excessively expansionary. According to the IMF, the overall fiscal balance worsened by 5.33% of GDP in 2011, to a deficit of 4.75% of GDP. Revenue surged, thanks to the value-added tax and customs duties collected on the import of capital goods for mining development. But this was more than offset by a 62% increase in government spending. Mongolia’s medium-term prospects are promising. Coal and copper production will be ramped up and activity outside the mining sector is also projected to remain buoyant, although this would need to be supported by continued reforms to strengthen the business climate.
9 | Private Property

The 1992 constitution established the basic regulatory framework for property rights, which were further secured by a series of laws such as the Law on Land Ownership of Citizens of Mongolia, the Law on Property Ownership Rights and the Law on Registration of Property Ownership. The Global Competitiveness Report 2012 – 2013 ranks Mongolia at 118th out of 144 countries in property rights, unchanged from the previous year. There is a lack of institutional commitment to the strong protection of property rights. Overall, property and contractual rights are recognized, but enforcement is weak. The judicial system remains inefficient and vulnerable to political interference. Intellectual property rights law is not effectively enforced by the government of Mongolia.

Property rights are particularly vague, which leads to conflicts when it comes to land ownership. Ger (Mongolian yurts) districts in the cities are often inhabited by migrants from rural areas, and the overwhelming majority do not hold rights to the land they are living on. This complicates city services and infrastructure and makes city planning particularly difficult. In the 2012 parliamentary and Ulaanbaatar city elections, the two major parties had widely differing approaches to this problem. The MPP suggested that the migrants be relocated so that the government could improve infrastructure, services and add apartment complexes. The DP responded by suggesting that ger district inhabitants be granted land rights and that planning move on from there. The DP victory last year, suggests that voters approved of the former approach. However, no large policy shifts have been announced. In the city itself, many buildings have been erected in recent years without zoning permits on supposedly protected lands.

Though there are some state-owned companies, the private sector is viewed as the backbone of the economy and comprises the major share of GDP. The regulatory framework has become more supportive in fostering private-sector growth. Given Mongolia’s small market size, most sectors are dominated by oligopolies. The government welcomes private investment, including foreign investment. The Law on Concession was passed to support public-private partnerships in 2010.

Privatization of state companies does not always proceed consistently with market principles. According to the Public Procurement Law of 2000, all government purchases of service and goods are conducted through tender selection and winners often have good political connections.

The new 2012 draft Law on Minerals presented by the president’s office triggered an uproar in the mining community. The draft law no longer provides for “investment agreements,” in developing strategic deposits; these agreements have been replaced with so-called “mining agreements” to be entered into between the government and
a license holder of a strategic deposit. Under these agreements, the Mongolian state has the right to take an equity interest in the license holder, free of charge. The Business Council of Mongolia (BCM) has argued that the law would discourage investment. However, given the potentially huge reserves in Mongolia, the country has a strong bargaining position. With public calls for the government to exercise more direct control over the country’s mineral resources, the government is finding it increasingly difficult to balance private company interests with the interests of voters.

10 | Welfare Regime

Following sweeping economic reforms in the early 1990s, the Mongolian government cut most social welfare programs. While the situation has improved with annual increases in government spending, these safety nets remain inadequate and access to services is inconsistent.

Among the developing Asian economies, Mongolia had in 2011 one of the highest shares of government expenditure on social security and welfare, at about 36%, matching the shares reported for the developed economies of Australia, Japan, and New Zealand. Nonetheless, the government has yet to yield the desired effects as poverty levels remain high.

The government set up the Human Development Fund (HDF) in 2009, which constituted the government’s strategy to share mining revenues. It started with a cash handout of 120,000 tugriks for every citizen in 2010. Monthly cash handouts were sustained at 21,000 tugriks, which continued until June 2012. However, a universal Child Money Program replaced the HDF disbursements. It is widely believed that cash allowances are ineffective as they only drive inflation rates upward. The implementation of targeted social-protection and employment-generation programs are generally felt to be more effective in battling poverty. Pension allowances, student stipends and disability allowances have been increased in the past two years. The reliability of these funds is often subject to change, as different minister appointments can lead to corrupt practices. The Ministry of Education, for example, offers numerous scholarship opportunities, but students consistently report that access to applications is often dependent on informal application fees and Ministry connections.

The minimum monthly wage has been increased from 108,000 tugriks to 140,400 tugriks in 2011, and civil servants’ salaries were raised in 2012. However, with increasing inflation rates, pay levels are not sufficient to meet the basic necessities.

Women and members of ethnic or religious minorities have almost equal access to education, public office and employment. In recent years, reports of repression of
religious minorities and Christians in particular, have declined. Administrative barriers to registration or permits for churches have been lowered, although not in each region.

Women in do not enjoy full equal opportunities in politics and the workplace. Violence against women remains high, with 20% of women surveyed by the National Statistical Office reporting to have been physically abused by a partner or husband (2009 figures). The Law on Gender Equality was approved in 2011, including a gender-based quota for civil service management positions. Although women’s representation in politics fell continuously from 11.8% in 2000 to 3.9% in 2008, a new Election Law, approved in December 2011, which proposed a mixed system with a 20% quota for women candidates resulted in a threefold increase in the number of women parliamentarians in the 2012 parliamentary elections. However, some parties put female candidates at the end of proportional lists, which significantly decreased the actual number of women elected to office. In 2012, the parliament had 9 female members, placing Mongolia significantly below the global average of 19.8%.

However, men continue to dominate political decision-making, and women remain over-represented in unpaid or low-paid jobs. Female enrollment in tertiary education is high, with women comprising almost 70% of university students.

People of economically disadvantaged backgrounds and those from rural areas have limited opportunities when compared to the urban elite. Informal connections offer the primary means to career advancement, leaving talented students and professionals lost in the shuffle if they do not come from a family with influence.

11 | Economic Performance

Mongolia’s economic performance has been satisfactory for the past few years. In 2009, real GDP fell by 1.6% due to a sudden decline in the price of copper, Mongolia’s key export. The economy, however, has since gained momentum and has become one of the fastest-growing economies in the world. The rapid growth is largely attributed to the mining boom, led by the 2009 investment agreement between Rio Tinto-owned Ivenhoe Mines and the Mongolian government for developing the Oyu Tolgoi (OT) mine, the largest untapped gold-copper deposit in the world.

Economic growth, fueled by construction at the OT mine site, accelerated from 6.4% in 2010 to 17.3% in 2011 and 12.3% in 2012, a slight slowdown due to the decrease in coal exports, which were affected by the Chinese economy. The economy is expected to feature double-digit growth in the coming years once the OT mine goes into full operation in 2013.
The NSO survey reports a decline in the unemployment rate from 13% in 2010 to 9% in 2011. However, unemployment remains high, inhibiting further economic development. Key commodities of the mining and extractive industry, such as gold, copper and coal attract foreign direct investments (FDI). FDI comprised 44% of GDP in 2011, up from 26% in the previous year. But these high levels of FDI, much like agricultural goods (21% of GDP), are highly dependent on global commodity prices and natural factors. A new foreign investment law, the Law on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors enacted in 2012, imposes new restrictions on foreign investment in mining, banking and other strategic industries. Significant foreign investments in these industries will now be subject to government or parliamentary approval, which may impact future economic output.

12 | Sustainability

Mongolia continues to be affected by serious problems of land and ecosystem degradation. Desertification, pasture and land degradation, air and land pollution continue resulting from climate change, mining, over grazing and rapid urbanization. In recent years, increased pollution from household heating, transport, industry, and power generation has led to dangerous levels of air pollution in Ulaanbaatar, making it the second most air polluted city in the world by World Health Organization (WHO) standards, closely following Ahwaz, Iran. The government has taken incremental measures to abate the problem by introducing energy-efficient stoves and upgrading informal settlements with housing. However, the effectiveness of the policies is yet to be tested.

There is an urgent need to solve utilities, water sanitation and land problems. Access to safe drinking water has increased but the proportion of the population using improved sanitation facilities has not changed from 1995 levels.

However, progress has been made in integrating sustainable development policies and programs, including an increase in protected water sources. In 2012, the government of Mongolia ratified a series of environmental laws, expanded its system of nature reserves, and began investing in energy-efficient technologies and pollution abatement schemes. The first independent renewable energy generator, the 50MW Salkhit Wind Farm, marks the country’s first big step toward a sustainable energy market. The wind farm is scheduled to start production in 2013 and will supply 100,000 households in Ulaanbaatar with clean energy.

Additionally, green development has been added to the mandate of the Ministry of Environment, and work is underway for the preparation of a national strategy for green growth. The country joined the SE4ALL initiative. Revised environmental legislation eliminates legal loopholes and has generally improved the quality of regulations. The law also introduces international standards in environmental
auditing and the “polluter pays” principle. The recent upsurge in mining activities has brought environmental issues, such as water management in the South Gobi region, to the forefront of policy debates.

The Mongolian Constitution guarantees the right to education. Basic education is provided free of charge. Although school enrollment rates are high for both girls and boys at all levels, significant disparities in educational outcome by location and the system’s overall quality remain a concern. Learning achievement is low, particularly in rural areas.

In recent years, the government has focused on technical and vocational training in order to facilitate the expansion of key industries such as mining and the development of new infrastructure. In 2012, the government began to actively enforce certain minimum criteria for private colleges and universities, closing many schools that did not have an acceptable curriculum.

The government is partnering up with private companies and international donor agencies to increase investment in technical vocational education and training, and to create the skilled workforce needed for development. Also, the number of private and government scholarships for study abroad has increased, especially for students pursuing engineering-related degrees.

In general, spending for education as a percentage of GDP is relatively high (5.5% of GDP in 2011), but it is important to note that as a result of the country’s vast territory and harsh winter climate, large sums are spent on heating and transportation. Educational reforms have been going on since 2005; the Ministry of Education and Science’s latest reform involved an attempt to adopt the Cambridge education system.

An insufficient amount is spent on research and development, which inhibits the further development of scientific research. Schoolteachers at every level of education are poorly paid, which has created a chronic lack of teaching personnel, especially in rural areas. Corruption at schools is widespread. The private sector, which can pay higher salaries, hires most of the highly qualified teachers, especially university professors.
Transformation Management

I. Level of Difficulty

The political leadership’s capacity to govern faces several structural constraints. The country’s vast territory, combined with a small and sparsely located population, makes development difficult in administrative, economic and infrastructural terms. In addition, the country is landlocked, which is a disadvantage for trade. The city of Ulaanbaatar, where half of the population resides, serves as the center of political, economic and social activities. Semi-nomadic livelihoods continue to prevail in rural areas where decentralized governmental structures are difficult to establish. Another problem stems from the added costs of providing government services, such as education, health, social and other administrative services, to citizens in remote areas. In addition, a large portion of the population still engages in animal husbandry, a practice that depends directly on nature and its vagaries, including drought, severe cold weather and natural disasters, which may wipe out their herds and place them into poverty. A shortage of skilled workers in all sectors of the economy and the lack of quality education further hinders development.

Prior to the onset of democratic transformation in the 1990s, Mongolia featured few civil society traditions. Under socialism, citizens’ political involvement was formal and guided by the government. Women’s and youth organizations as well as trade unions existed, but were supportive of the ruling party to propagate the dominant ideology. A small but vocal number of civil society organizations have emerged since democratic transformation, representing and protecting citizens’ rights and interests by trying to influence government policies. In recent years, mining activities have led to a surge in environmental organization activity.

Trends in urbanization have shown a large part of the rural population leaving their traditional social support networks in the countryside for better standards of living in the city. This has increased the number of informal settlements around urban areas, leaving a large part of the urban populations with no framework for community-building.

Increased access to the Internet and the use of social networking sites have enabled people to form informal groups online that engage actively in civic issues pertinent to the society. On the other hand, the communist government did aim to produce an
educated populace, acutely aware of economic disenfranchisement. Mongolia’s successful democratic transition and currently active civil society suggests that the foundation for such activities has been lain, although it is difficult to speak of a tradition of civic commitment.

There have not been many violent incidents in Mongolia based on social, ethnic or religious differences. Nevertheless, in recent years, some environmental groups have begun pressuring the government, pressing for the resignation of incumbents and a fundamental change in government structures. Some armed clashes have occurred in the conflict between pastoral herdsmen and advocates of mining. Also, public opinion on the June 2012 arrest of former president Enkhbayar has been divided. The government and its supporters see Enkhbayar’s arrest and imprisonment as a long-overdue act of justice, whereas his allies assert that his arrest is simply an attempt by the government to purge a political foe.

Hyper-nationalist gangs have gained traction in recent years, largely thanks to the perception among many Mongolians that the country is being exploited by foreign (i.e., Chinese) actors. Violent, racially motivated crime is on the rise, although there are indications that the Mongolian authorities are pro-actively seeking to solve the problem.

II. Management Performance

14 | Steering Capability

The Mongolian government puts forward long-term strategic priorities. However, populist positions, countering political party promises and special interests tend to prevent these priorities from being realized in a timely manner. Policymaking, which often lacks vision, fails to make use of scientific research, and neither financing nor implementation mechanisms well considered.

Domestic policy changes are often made to appeal to voters, but without considering long-term goals. Educating voters about issues is a lower priority than securing votes in the short term. Mongolia faces a difficult development challenge as it tries to manage its mining-led growth. Although the government has pursued more populist measures (e.g., cash allowances) instead of focusing on realistic strategies to alleviate poverty, there is progress being made in terms of managing mining revenues appropriately. Starting in 2012, the feasibility of election action plans must be approved by the General Election Commission before they can be presented to the
Lawmakers are now barred from making election promises about jobs and money as part of the new election law passed in 2011.

Although official estimates claim that the poverty rate has declined in the last two years, it is generally believed that inequality is growing. Nonetheless, Mongolia is well on-track to meet its Millennium Development Goal (MDG) commitments by 2015: maternal and infant mortality rates having fallen steadily over the past two decades, literacy is nearly universal, and gross enrolment for primary and secondary education reaches well over 90%.

The government of Mongolia set strategic priorities and makes policies based on these priorities. However, the extent to which it effectively implements these policies is questionable.

The cornerstone for Mongolia’s long-term development is the National Development Strategy (NDS). Based on the MDGs, this strategy targets the development of an export-oriented, knowledge-based economy, and aims to exploit strategic minerals, reduce urban and rural disparities, halt ecosystem imbalances, consolidate democracy and bring an end to corruption. The NDS’ objective is to render Mongolia a middle income country with a knowledge-based economy by 2021. Much of the framework for implementing the NDS effectively is still being drawn up. There has been noticeable gains made in fighting corruption. However, effective implementation is often challenged by a populist agenda and interest of political powers.

Environmental policy is a clear example of where the government has been unable to fully implement its own policies. Whereas endangered plant and animal species and national parks are afforded strong legal protections, enforcing these protections is seriously lacking. Many animals are poached for valuable parts, sold to China or are even available in Mongolian markets. Protected areas, especially around Ulaanbaatar, are being developed for housing. Pollution from the informal mining sector’s use of dangerous chemicals continues to ruin limited fresh water resources.

As a relatively young democracy, most of the policymaking missions are new for the parliament and the government of Mongolia. While the government attempts to absorb and apply best practices from success stories in other contexts and draw on the benefits of international consultants, it has no institutional memory and rarely learns from past experiences. Policymakers often do not make policy based on research; they are more likely to make decisions based on the interests of political parties and the political benefits to be culled. Although research from academic experts, scholars and research institutions is available, policymakers do not actively draw on the available data.

The former Ministry of Nature and Environment changed its name to the Ministry of Nature, Environment and Green Development. This ministry became one of the four policymaking ministries with a general mandate (as opposed to other ministries with...
more specifically defined mandates) under the newly formed coalition cabinet. This marks a shift in the government’s priorities toward embedding green development issues into the policymaking process.

Overall, there is a lack of policy continuity because power shifts result in re-appointments for nearly every political post, including the State Secretary of the Ministries – who is tasked with ensuring policy continuation.

15 | Resource Efficiency

The 2012 parliamentary elections yielded a major change in political dynamics as power shifted from the MPP to DP. Since the elections there have been numerous political dismissals and new appointments for key political and public personnel that are based on political affiliations and loyalties.

The new government has restructured the cabinet and administration, adding three ministries but eliminating fifteen regulatory agencies. Overall, the total number of bodies has been reduced from 43 to 28. The previous cabinet spent most of the funds raised by a $580 million bond sale on cash handouts and inefficient welfare programs. The new government will prohibit the allocation of proceeds from sovereign bond sales to cash handouts, social welfare programs and debt repayment.

In 2012, the budget deficit was -3.6% of the total GDP. The new Fiscal Stability Law, which went into effect in January 2013, caps the state structural deficit at -2% of the GDP. The law also puts a ceiling on the state debt, limiting it to 50% of GDP for 2013 and 40% of GDP thereafter.

Overall, policy coordination, which depends entirely on individuals and lacks a systematic framework, is inadequate and in its early stages of development. Whereas the NDS provides a high-level framework for policy coordination and implementation, essential elements of the framework are still under development. Examples of weak policy coordination include the generous cash handouts and expansionary budget policy that has undermined a monetary policy aimed to fight inflation. Individual ministries rather than local governments also make decisions on investments in basic social infrastructure. State organizations are often bureaucratic and inefficient, which has adverse effects on good policy coordination.

The government of Mongolia intensified its fight against corruption in 2012. The legal framework to battle competition draws primarily on the 1990 Law on Political Parties, the 1996 Law on Anti-Corruption (amended in 2006), the 2000 Public Procurement Law and the 2002 National Program for Combating Corruption. The Independent Authority Against Corruption (IAAC), which was established in 2007,
has the ultimate power to investigate anyone whom the authority considers to be involved in corruption.

The legal framework for battling corruption improved dramatically when the parliament passed in January 2012 the Law on Regulating Public and Private Interests in Public Services and Preventing Conflicts of Interest. Officeholders and parliament members are required to declare their assets to the IAAC each year, though the legitimacy of the declarations are questionable. A major development in 2012 was undoubtedly the arrest of the former President Enkhbayar Nambar on corruption charges. There have been concerns that the IAAC has been biased in selectively targeted individuals. If true, this sets a dangerous precedent. However, the active approach against combating corruption is a good start and has become an important issue on a national scale.

President Elbegdorj Tsakhia has openly endorsed the fight against corruption and made it one of his main priorities. In January 2013, seven high-level individuals were detained in connection with alleged corruption, money laundering and mismanagement of MIAT Mongolian Airlines, the national carrier. Other similar cases have been brought forward against a vast number of very large conglomerates. There is clearly an element of accounts settlement among the oligarchs, but it is nevertheless a very significant and positive step in the right direction.

16 | Consensus-Building

There is a general consensus on the twin objectives of democratic and economic transformation, but there have been attempts by the state in recent years to take on a larger role in the operation and regulation of the mining sector. Major political actors agree on consolidating democracy, but resource nationalism is growing as many advocate for the government’s involvement in sectors deemed strategic.

A Draft Minerals Law proposed by the president is under consultation. An earlier draft version of the law set the stage for the government to appropriate mining operations. The Oyu Tolgoi Investment Agreement that was signed in 2009 has been under heavy scrutiny as the government seeks to renegotiate the deal and increase its stake share from 34% to 51%. This calls into question the government’s commitment to contracts. Populism, including the Justice Coalition’s resource nationalism, is on the rise among the major political parties and is fueling a divisive atmosphere.

There is little question of Mongolia’s commitment to democracy and a market economy; however, Mongolian policymakers continue to struggle with balancing market forces while providing social safety nets and advancing responsible/sustainable development. There is considerable thought given to long-
term development goals, in particular among increasingly active civil society organizations.

Reformers can successfully exclude or co-opt all actors with anti-democratic interests. There are no anti-democratic actors with substantial influence or veto powers. While there are a small number of people advocating for a non-democratic regime, these people are not taken seriously by the public or the government.

The Mongolian Armed Forces do not have a history of seeking political control, and there are no indications that the military seeks any role in policymaking.

The political leadership generally prevents cleavage-based conflicts from escalating. However, socioeconomic gaps have been growing, leading to an unstable political environment fueled by populism. The urban-rural divide along with the generally lower socioeconomic status of new migrants to urban areas mark key socioeconomic gaps.

The 2012 parliamentary election results, in which the Justice Coalition won 22% of votes, demonstrated the public’s dissatisfaction with the DP and MPP’s grand coalition. The constant talk of a mining boom and rapid economic growth generated unrealistic expectations of sudden, positive change. Several politicians have exploited the absence of such rapid change in garnering support among a now wary public. Debates in 2012 and early 2013 over the Oyu Tolgoi Investment Agreement and foreign investment in Mongolia have stirred nationalistic emotions in rallying the public and prevented the escalation of cleavage-based conflict.

The political leadership permits civil society participation. It takes into account and accommodates the interests of most civil society actors. The president emphasized civil participation when he created the Citizen’s Hall in 2009 to hold open, public discussions of policy issues.

The mining boom also escalated the importance of environmentally focused NGOs as they have done substantial work to balance the interests of mining companies and local communities. Associations such as the Confederation of Mongolian Trade Unions and Mongolian National Chamber of Commerce have been able to affect the government’s policies successfully. The leaders of both of these organizations were elected to parliament in the 2012 elections. However, the vast majority of civil society actors still lack the necessary clout to participate in agenda-setting and policy formulation. While there is no outright opposition against NGOs, they are seen more as service providers rather than actors that shape policy discussions.

Civil society is further weakened by corruption and weak management within NGOs. Funding from domestic or international donors is often difficult to trace once it enters an NGO. Staff are often underpaid and expected to work full-time but with volunteer
status, while managers are seen to be paid well, but are ineffective at implementing their own programs.

Although political repression and purges did take place under the former communist regime, Mongolians have not undergone any massive, systematic injustice since the Stalinist purges. From 1922 to 1940, political leaders and other individuals considered potentially subversive such as aristocrats, national entrepreneurs and Buddhist monks, were purged. This activity resulted in capital punishment for more than 20,000 people and the imprisonment of tens of thousands. After World War II, many intellectuals with nationalist views were subject to repression. Over time, political repression in Mongolia evolved from outright state terror to forms of administrative measures, the defamation of personal dignity and discrimination on the basis of opinion.

After the transition to democracy in 1990, a National Rehabilitation Commission was formed to examine each individual case of repression. The commission established around 36,000 case files. In January 1998, parliament passed a Law on the Rehabilitation of Victims of Political Repression and on Granting Compensation. As of today, around 17,400 victims have been recognized and 16 billion tugruk have been paid in compensation. In 1996, the Democratic Party officially asked for a pardon of its members on behalf of the government and party leaders of Mongolia. The MPP did the same in March 2011, on the occasion of the unveiling of the restored monument for Damdin Sukhbaatar, military leader of the Mongolian Revolution in 1921.

17 | International Cooperation

When Mongolia’s decades of dependency on Soviet aid (at one point worth nearly 40% of the country’s GDP) ended following the collapse of the Soviet Union, Mongolia sought to fill the gap with international donors. Once one of the most aid-dependent countries in the world, Mongolia has been able to reduce its dependency thanks to the country’s rapid economic growth.

However, pervasive corruption and embezzlement practices have undermined the effectiveness of loan funding. In 2008, the Mongolian parliament approved its National Development Strategy (NDS), a comprehensive strategy in line with the Millennium Development Goals. The NDS has helped the government streamline some aid more effectively and avoid the pitfalls of misusing resources. As a result, the lives of ordinary Mongolian citizens have benefited. However, critics argue that many NDS-related activities are a matter of political circumstance rather than tangible objectives.
Mongolia has proven extremely innovative in its foreign policy measures, with the clear goal of cooperating more fully with countries other than China or Russia. Mongolia has been particularly effective in cooperating with other democracies, such as the United States and EU member states. The country has cooperated with UN Peacekeeping missions in Africa, the Middle East, and Afghanistan. This signifies a very long-term outlook. Mongolia is seeking to increase its international image as a market-based democracy, encouraging other countries, many of which also have security interests in Mongolia, to provide international aid and investment. As a responsible international actor, Mongolia has capitalized on its ability to cooperate with other nations and international organizations.

Since opening itself to the world following the democratic revolution, the government has been tasked with building credibility through its commitment to democratization and by creating favorable conditions for foreign investors. Given the importance of foreign investment to ensuring the country’s future prosperity, any claim that Mongolia is hostile toward foreign investors would be deemed as detrimental to Mongolian economic growth.

The controversy surrounding the Oyu Tolgoi project is having a negative impact on Mongolia’s credibility among foreign investors. Believing the terms of the investment agreement unfair, a number of Mongolian populist politicians are calling for a revision of the agreement. This has generated a negative perception among foreign investors of Mongolia as an unstable country ridden with resource nationalism. But one must also not forget that this is also a sign of a successfully functioning democracy. Unlike the other authoritarian countries in the region, decisions in Mongolia must yield to citizens’ demands. Mongolia’s democratic credentials are well established in the international community.

Because Mongolia is located between two great powers – Russia and China – it has to prioritize the maintenance of friendly and balanced relations with both. Any international move on the part of Mongolia must carefully consider Russian and Chinese interests. Economically, Mongolia is very much dependent on both: 98.2% of all its petroleum products are imported entirely from Russia, while the 89% of all its trade is conducted with China alone.

Mongolia also strives to pursue an active foreign policy beyond its two physical neighbors. Conceptualized in its Third Neighbor policy, Mongolia’s efforts to balance out the influence of its two neighbors led it to assume an active role in international and regional organizations. Aside from its close cooperation with the Asia-Pacific Economic Cooperation (APEC) and Association of Southeast Asian Nations (ASEAN), Mongolia became a participating State of the Organization for Security and Co-operation in Europe (OSCE) in November 2012 (the first new member since Montenegro in 2006). This membership will help Mongolia strengthen ties with the organization’s member states and learn from their expertise, while also

Credibility

Regional cooperation
help bring the OSCE closer to China. Moreover, as the only functioning democracy in the entire region, Mongolia’s role in spreading democracy has become more important than ever. As a testament to this, in July 2011, Mongolia assumed the Chair of the Community of Democracies between 2011–2013.

Mongolia is also notable for having maintained ties with other communist states, despite its own successful transition. Mongolia enjoys open relations with North Korea and ties to Laos.
Strategic Outlook

Mongolia is at a crossroads. The fast economic growth resulting from the mining boom is transforming the country rapidly. There are, however, growing concerns over corruption and inequality leading to fears of a resource-cursed future. Given this massive influx of money and rapid transformation, the country needs to take steps that have long-term and sustainable goals in mind. There are some policy decisions that must be made soon to ensure a successful development path:

1. Corruption must be addressed extensively and impartially. Measures must be made to strengthen the IAAC and courts’ independence while building their capacity to combat corruption. Politically appointed commissioners for an independent agency is simply not effective, since corrupt politicians will appoint those loyal to them. By including civil society actors in the management of the IAAC, the authority would be able to act in a more legitimate fashion.

2. Environmental destruction and a rise in inequality must be contained while, at the same time, proper mining development is promoted and short-sighted decisions based on populist sentiments are avoided. Mongolia should increase resources for the implementation of environmental standards and its own environmental protection laws. Using environmental activists as a first defense against infractions would effectively show that the government takes these issues seriously while also giving credence to such activists.

3. Public expectations of regarding the fruits of rapid development are generating social unrest and contributing to violence associated with hyper-nationalist sentiments. Increasing voter education efforts so that Mongolian citizens can be given a firm grasp of the basics of resource-based development would contribute to a more stable political and investment climate for domestic and international actors. In order to cultivate active citizens involved in the democratic process, civic and political education must be made a priority and begin at an early age.

4. The government should rein in its aggressive expansionary budget policy, which is based on assumed future mining revenues. The government has to start developing policies based on empirical research and best practices rather than emotions and public pressure.

5. Higher education institutions must be capable of providing high quality technical skills in order to ensure the future employability of students. One way to effectively increase education standards and contribute to rural economic development is to encourage higher education institutions to increase their presence and, by extension, standards and reputation, in provincial centers outside of Ulaanbaatar. This would increase the educational achievement opportunities for almost two-thirds of the population, lessen the influx of internal immigration into the capital, and support the development of service industries throughout the country.