

ABSTRACT

Title of Document: WHY WAS MONGOLIA SUCCESSFUL?
POLITICAL AND ECONOMIC TRANSITION IN
1990-1996

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Mongolia's historical, geographical, political, and economic circumstances seem to be closest to those of the Central Asian states. Yet, unlike these states, Mongolia was able to successfully transition to a democratic political regime and introduce far-reaching economic reforms. This dissertation analyzes this puzzle by focusing on the early transition period in Mongolia. The dissertation provides detailed account of political and economic processes during the ten years from 1987 to 1996. The account of events is based on primary data drawn from government and party documents, cabinet minutes, daily newspaper accounts, memoirs of the participants, and detailed interviews with the participants of the events.

In addition to the detailed description, the dissertation provides alternative theoretical frameworks – as opposed to the structural explanations provided thus far – which could be useful in explaining why things happened the way they did in Mongolia.

Namely, the dissertation brings in two groups of political economy theories – institutions and constitutional design and special interest and collective action theories –and attempts to explain the events in Mongolia through the lens of these theoretical arguments.

The first chapter provides a comprehensive literature review on Mongolia's political and economic transition and places it in a comparative perspective. The second chapter describes and analyzes the nature and extent of the partial economic and political reforms that were implemented in the late communist period. The third chapter describes in detail the political events that led to the collapse of the long-standing communist regime and the subsequent radical political changes that took place following the peaceful “democratic revolution”. The fourth chapter deals in detail with the economic shock the country faced with the withdrawal of the Soviet financial assistance, the first policy response, and the overall politics of economic decision making. I pay special attention to privatization, the cornerstone of early reform attempts. The last chapter summarizes, classifies, and prioritizes the variety of factors – historical, external, political, institutional, and cultural – that were identified as having contributed to the successful political and economic transition.

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TRANSITION IN 1990-1996

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Dedication

to Bayartsogt, Gombo-Erdene, and Khorol-Erdene, for their enduring love and
encouragement

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Introduction

When communism – as an economic system and political doctrine – collapsed in 1989-1990, (almost) all post-communist countries envisaged themselves to become liberal democracies with a free market economy. However, the transition path proved to be difficult. After twenty years of transition we observe a diversity of political and economic regimes.

Ultimately, all Central and Eastern European countries became democracies. However, the political transformation took very different paths in different countries: negotiated transition in Poland and Hungary, popular revolt in East Germany and Czechoslovakia, and communist coups in Bulgaria and Romania. The paths and the emerging regimes in the former Soviet Union are even more diverse, from the determination to the democratic and radical economic changes in the Baltic States to the continuation of the authoritarian rule in Belarus and some Central Asian republics.

It is commonly argued that the initial conditions and policy choices determined the transition path outcomes. Such factors as the initial level of income, degree of economic and political dependence on the Soviet Union and the Council of Mutual Economic Assistance (CMEA)¹ trade regime, longevity of the regime, geography (proximity to EU), size of the private sector, prior experience with the market economy and others have been identified as contributing factors to the outcomes. As the EBRD

¹CMEA, sometimes abbreviated as COMECON (1949–1991), was an economic organization under the leadership of the Soviet Union comprising the countries of the Eastern Bloc along with a number of communist states elsewhere in the world.

Transition Report claims, approximately half of the variation could be explained by these initial conditions (EBRD 1999).

On the other hand, it was argued that policy choices also had major influence on the performance of transition economies. Some countries opted for early and radical reforms while others delayed reforms and/or implemented them only half-heartedly. Those countries which adopted early and swift reforms were generally more successful in restoring output and curtailing high inflation. Usually these countries were also the ones that opted for a radical democratic political change.

Mongolia's initial conditions were very similar to those of the non-European Soviet Republics. Many observers of Mongolia noted that it was a de facto "sixteenth republic of the Soviet Union". In particular, Mongolia's initial conditions were probably closest to the Central Asian republics. Mongolia was the second country in the world to adopt communism. Mongolia was a net recipient of financial resources and its economic dependence on the Soviet Union and the CMEA trade was the highest among the member countries. It never had a history of democracy or market economy and was the poorest among the group. One would expect that the transition path and the outcomes would be quite similar to those of the former Soviet Republics and most notably Central Asia. However, in the early 1990s Mongolia opted for very rapid democratic political changes and far-reaching economic reforms. In terms of economic performance, Mongolia's output fall was significantly less and lasted shorter than in the former Soviet Union and inflation was much lower. Mongolia's transition path and outcomes are puzzling.

This dissertation attempts to deal with this puzzle. Mongolia's transition drew some interest from the scholarly community in economics, political science, and to a lesser extent anthropology and sociology. However, it often falls through the cracks of comparative research, when scholars discuss any combination of Eastern European, former Soviet Union, or Central Asian transitions. One of the reasons is its relatively small size and hence perceived insignificance. Secondly, Mongolia does not easily fit into any of the paths taken by different groups of countries, therefore conveniently left out from comparative or other analysis. The few studies that do deal with Mongolia's political and economic transition are often general and do not provide sufficient details. The feeling is that Mongolia deserves more focused attention. This dissertation aims to fill this gap.

The dissertation is organized as follows. I start with describing Mongolia's political and economic transition efforts and outcomes by placing it in a comparative perspective, mostly with the republics of Central Asia but also other transition countries in Eastern Europe and members of the Commonwealth of Independent States (CIS²). I do an (almost) exhaustive literature review on both political and economic transition in Mongolia and identify the gaps. Based on this, I describe my research methodology, data sources used in the analysis, and significance of this research.

² CIS was established in 1991 after the collapse of the Soviet Union. Currently, it includes 11 countries (9 official and 2 unofficial members). Out of the 15 former Soviet Republics, the three Baltic States did not join the union from the very beginning. Georgia withdrew from the CIS in 2009.

In the second chapter I provide a brief history and describe the characteristics of the central plan in Mongolia and the nature of the economic and political reform efforts undertaken in the late communist period. This chapter provides a useful background for understanding the peculiarities of the central plan in Mongolia and its political situation by the end of the communist regime. The next two chapters constitute the core of the dissertation. They describe in great detail the sudden political developments in the early 1990 and the subsequent radical political and economic changes that took place following the peaceful “democratic revolution”. I give special attention to privatization, the cornerstone of early reform attempts. In describing the events, outcomes, and policies I mostly rely on the historical facts that are drawn from interviews with the participants of the events, archives of government documents, and newspaper information, and memoirs of the participants. I also make references to the secondary sources where available.

The two chapters attempt to shed some light on explaining the policy choices made by the country’s leadership and their outcomes by employing selected theoretical frameworks. In particular, I apply two sets of political economy theories – constitutional design and institutional theories as well as special interest and collective action theories. The limited explanations of rapid political and economic changes that took place in Mongolia usually focus on the conjuncture of structural and historical factors. The actor-centric approach of the above political economy theories helps to explain the decisions and events from the perspective of the players, their preferences and strategies, thus providing a different perspective.

The last chapter summarizes and classifies the variety of factors – historical, external, political, institutional, and cultural – that were identified earlier in the dissertation as having contributed to the successful democratic and market economic transition. Among the multiplicity of factors, I attempt to identify those which were most important in the sense that their existence was sufficient for successful democratization and privatization to take place.

Chapter 1 Mongolia's Transition in a Comparative Perspective: Literature Review

The chapter gives a background of Mongolia's transition by placing it in a comparative perspective. In this chapter I show that Mongolia's transition – political and economic – has been relatively successful by providing statistical and other data. I compare Mongolia's transition to that of some Central Asian republics and other transition economies. The main purpose of this chapter is to: (i) provide some evidence on relative performance of Mongolia compared to other postcommunist transition countries on such dimensions as political democratization, macroeconomic performance, structural reform efforts and progress in institution building; (ii) look, in a comparative perspective, at the initial conditions and policy choices made by the Mongolian government; (iii) review the existing literature on Mongolia's democratic political transition and critically analyze the arguments that attempt to explain such a transition; (iv) review and critically analyze the existing literature on economic reforms in Mongolia and particularly privatization highlighting the major contributions made and identifying the gaps; and finally (v) place my own research within the existing literature and highlight its significance.

The literature on democratic political transition in Mongolia is extremely scarce. There are only a handful of articles on political transition, e.g. Fish (1998, 2001), Fritz (2002, 2008), and a book by Rossabi (2005) which describes in more detail the processes that went on during the early-to-mid transition period. There are a few studies by the Mongolian scholars such as Ganbat (2004) and Munkh-Erdene (2010), both in English.

The dominant argument of these studies, with some exception for Rossabi's, is that Mongolia's political transition has been unexpectedly successful, given the unfavorable initial conditions. Some authors (e.g., two articles of Fish) try to look at the structural and historical factors that contributed to the democratic transition and consolidation. However, they do not contain much detail about the processes and the players. Rossabi's outlook is quite different. He argues that Mongolia's democracy is facing some troubles and challenges. His study goes against the dominant argument of relative success and focuses on the negative aspects of the democratization process such as corruption, etc. One advantage of the book is that it contains much more detailed description of the processes (and therefore is considered valuable by the reviewers) while at the same time it has been criticized for taking a biased outlook and relying on too few primary sources and few participants of the events who had only marginal influence on the policies.

Literature on economic reforms and privatization is more extensive although not abundant, partially because of the direct interest and involvement of the international financial institutions (IFIs) in economic policies. The bulk of literature on economic policies is produced by the IFIs, including several comparative studies on transition economies. For instance, there are two major reports produced by the World Bank and European Bank of Restructuring and Development (EBRD) on economic transition in post-socialist countries (e.g., de Melo et al 1996). As for Mongolia specific studies, there are few articles on macroeconomic policies by Yusuf and Burki (1992), Hahm (1995), Boone (1994), Cheng (2003), Black (2001), and Slok (2001) in addition to the country economic reports produced by the International Monetary Fund (IMF), the World Bank,

and the Asian Development Bank (ADB). Rossabi argues in his book that the economic policies pursued by the Mongolian government in the 1990s were imposed by the IFIs and were largely wrong. A similar but not as strong of an argument is raised in a descriptive book by Nixon et al (2000).

Privatization issues have been studied in more detail by Denizer and Gelb (1992), Anderson, Korsun, Lee, and Murrell (various years). They provide more detailed account of the privatization policies and examine the performance of privatized enterprises. Nixon and Walters (2006) examine the distributional aspects of privatization.

The chapter provides an (almost) exhaustive review of the existing literature on political and economic transition in Mongolia.

1.1. Relative Political and Economic Performance of Mongolia

Mongolia is considered a fast reformer, both in terms of political changes and economic reforms. This section provides some evidence on the country's political and economic performance by putting it in a comparative perspective.

Mongolia's 1989 geopolitical status was categorized as "nominally independent of the Soviet Union but ... the de facto sixteenth republic" (Murrell 1996, 26). Cross-country studies conducted by the World Bank and others classify Mongolia in the former Soviet Union category because of the close economic and political ties of Mongolia with

the USSR. The group of countries that Mongolia is most close and could be compared with are the less developed Central Asian republics of the former Soviet Union. The reasons for classifying Mongolia in this group are multiple. First, the Central Asian republics and Mongolia adopted the communist regime in the early 1920s, the first countries to follow in this path. While most other countries in the Baltic region and Eastern Europe had only four decades of communist experience, the Central Asia region endured the communist regime far longer. Second, Mongolia and other Central Asian republics are post-communist countries with the lowest income levels³, with the exception of Kazakhstan and Turkmenistan. Average PPP per capita GDP during 1990-2000 was US\$1,448 in Mongolia (the lowest), US\$1,462 in Tajikistan, US\$2,179 in Uzbekistan, and US\$2,580 in Kyrgyz Republic. In Kazakhstan per capita income stood on average at US\$5,169 and Turkmenistan at US\$6,570⁴ during the same period. Income levels make Mongolia and most Central Asian republics low-income countries and the poorest among the group.

Third, in terms of the shock experienced by the demise of the CMEA system and breakdown of the Soviet Union Mongolia is quite similar to these countries. Mongolia depended on large transfers from the Soviet Union. The Central Asian republics were also net recipients within the Soviet Union. Mongolia's trade overwhelmingly depended on the CMEA arrangements. There are other similarities as well, including lower level of industrialization, lack of market experience, and geographical proximity. However, Mongolia's political and economic transition diverged vastly from that of Central Asia.

³ The comparison group does not include China and Vietnam.

⁴ Income levels are calculated based on the IMF World Economic Outlook Database.

1.1.1 Political Freedom and Democracy

Table 1.1 below provides the political rights and civil liberties freedom indices for selected comparative countries. The scores represent an average of each country's ratings on 'political rights' and 'civil liberties', and the scores range from 1 (most free) to 7 (least free). Mongolia, classified as a least free country in 1989 partially gained political freedom in 1990 as a result of the resignation of the politburo and free elections. In 1991, it was classified as 'free'. However, all countries in the Central Asia region performed relatively poorly and some slipped from 'partially free' status in the early 1990s back to 'not free' status. In the 1999–2000 survey, Mongolia was the only postcommunist country outside of East Europe to receive a rating that entitled it to classification as a 'free' polity (a score of 2.5 or better). All of Mongolia's neighbors were designated as 'partly free' (scores of 3–5) or 'not free' (scores of 5.5–7). For comparison, the table provides data for the some of the best performers in the post-communist region, Poland and Estonia, and medium performers such as Russia and Ukraine.

Table 1.1 Freedom House Freedom of the World Index, selected countries, 1989-2010 (1=most free, 7=least free)

	1989			1990			Average 1991-1995			Average 1996-2000			Average 2001-2010		
	PR	CL	Status	PR	CL	Status	PR	CL	Status	PR	CL	Status	PR	CL	Status
Mongolia	7	7	NF	4	4	PF	2.2	2.8	F	2.0	3.0	F	2	2.2	F
Tajikistan	6	5	NF	5	4	PF	6.4	6.4	NF	6.2	6.2	NF	6.0	5.4	NF
Turkmenistan	6	5	NF	5	4	PF	6.8	6.4	NF	7.0	7.0	NF	7.0	7.0	NF
Ukraine	6	5	NF	5	4	PF	3.2	3.6	PF	3.2	4.0	PF	3.4	2.8	PF
Uzbekistan	6	5	NF	5	4	PF	6.6	6.4	NF	7.0	6.0	NF	7.0	6.6	NF

Kyrgyzstan	6	5	NF	5	4	PF	4.4	3.2	PF	4.8	4.6	PF	5.4	4.6	PF
Kazakhstan	6	5	NF	5	4	PF	5.6	4.6	PF	6.0	5.0	NF	6.0	5.0	NF
Russia	6	5	NF	5	4	PF	3.0	3.8	PF	3.8	4.4	PF	5.7	5.0	PF
Estonia	6	5	NF	5	4	PF	2.6	2.4	F	1.0	2.0	F	1.0	1.3	F
Poland	4	3	PF	2	2	F	1.8	2.0	F	1.0	2.0	F	1.0	1.3	F
China	7	7	NF	7	7	NF	7.0	7.0	NF	7.0	6.4	NF	7.0	6.0	NF

Source: Freedom House dataset, www.freedomhouse.org

Notes: Data for Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Russia, Kyrgyzstan, Kazakhstan, and Estonia for 1989 and 1990 reflect those of the USSR.

PR – Political Rights, CL – Civil Liberties, NF – Not Free, PF – Partially Free, F - Free

In terms of the freedom of press index which is also produced by the Freedom House, Mongolia scored 40 (out 100 points, lower scores representing greater freedom) in 1993 and gradually reduced its score down to 28 in 2000. In 1999-2000 survey, Mongolia ranked seventh out of the 28 countries of the post-communist region. Only the Czech Republic, Poland, Slovenia, and the three Baltic States scored better than Mongolia. In contrast, Turkmenistan scored 89 points in 1993 and remained at this level, while Kyrgyzstan's and Russia's performance deteriorated during this decade, from the 40s up to 60 (the Freedom House dataset)⁵. In 2000, Mongolia became the only post-communist country rated as a consolidated democracy which is not a candidate for accession to the EU and which is located east of the line from the Baltic States to Romania (Freedom House in Fritz, 2002, 75). Mongolia maintained its "free" status since 1991, while performance of some countries such as Uzbekistan, the Kyrgyz Republic, and Russia has worsened throughout the 2000s.

⁵Unfortunately, Freedom House's more detailed "Nations in Transit" report which provides comprehensive, comparative, and multidimensional study of reform in the post-communist states of Europe and Eurasia and a broad analysis of the progress of democratic change in these countries covers 29 transition countries, but not Mongolia.

1.1.2 Macroeconomic Performance

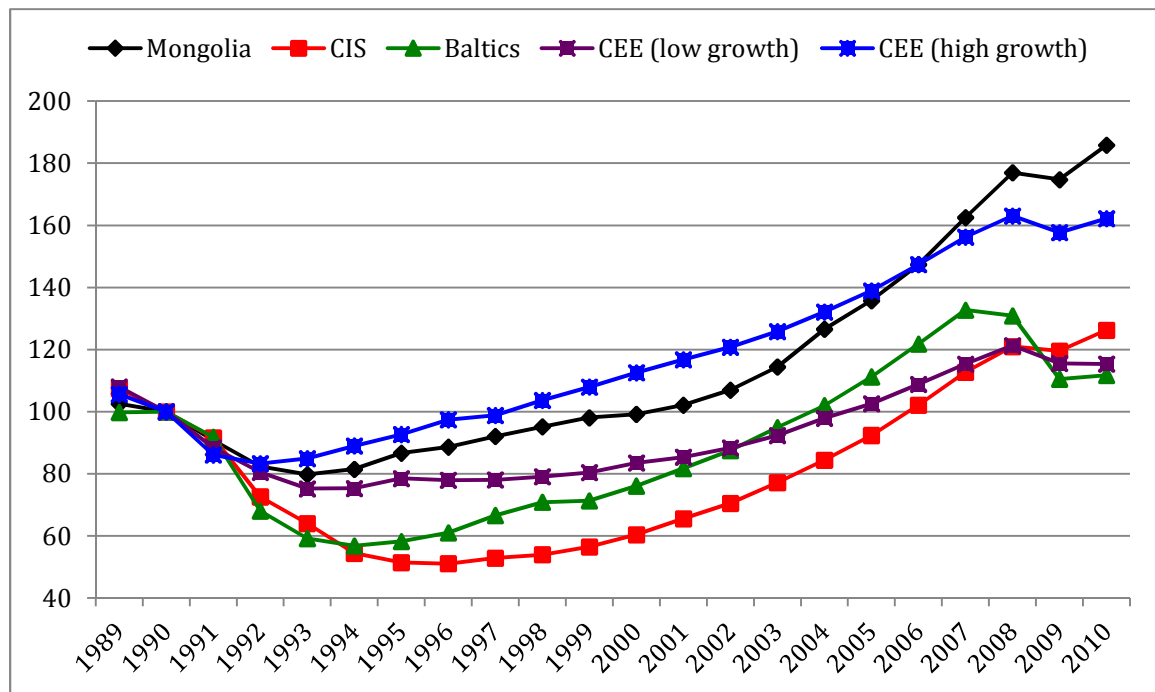
Some literature provides evidence on how Mongolia's macroeconomic performance compares with those of other transition economies (de Melo et al 1996, Cheng 2003, Black 2001, World Bank 1996, EBRD 1999, and IMF 2005). Like many other former socialist economies, Mongolia suffered great output losses and hyperinflation at the outset of its transition, which was followed by subsequent economic recovery and gradual price stabilization. Three consecutive years of economic decline were followed by a modest recovery in 1994. The initial output loss was relatively small (IMF 2005).

“Compared with other transition economies, Mongolia's adjustment process has been relatively smooth. While Mongolia's output recovery was more sluggish than in the best-performing countries in Central and Eastern Europe, its growth performance during the transition, in general, has been better than those of the Baltic States, the Commonwealth of Independent States (CIS) except for Uzbekistan, and the poorer performers of Central and Eastern Europe”⁶ (Cheng 2003, 13, see Figure 1.1 below). While the Baltic States and the CIS suffered a cumulative output loss averaging 38.1 and 49.6 percent, respectively, until their initial recovery (Havrylyshyn et al 1999), Mongolia's cumulative output decline was about 20 percent. Mongolia has shown steady growth throughout the 2000s, while growth also picked up in almost all countries in the region. Mongolia's growth rates have been most impressive during 2004-2009, due to

⁶ Havrylyshyn et al (1999) and Cheng (2003) warn that the data need to be interpreted with caution in light of the weaknesses in the quality of national accounts and related data in transition economies.

the surge of world prices of major commodities, which also boosted growth in resource-rich transition economies such as Russia, Turkmenistan, and Kazakhstan. Mongolia is expected to become one of the world's fastest growing economies in the next decade due to the exploitation of newly found mineral resources (IMF 2011).

Figure 1.1 GDP performance in 26 transition economies, index, 1990=100 (1990-2010)



Source: World Bank data and IMF World Economic Outlook

Notes:

1. CIS – Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan
2. Baltics – Estonia, Latvia, and Lithuania
3. CEE (low growth) – Bulgaria, Croatia, Macedonia FYR, and Romania
4. CEE (high growth) – Albania, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia

Inflation, measured by the average annual percentage change in consumer prices (see Table 1.2 below) and peaked at more than 250 percent in 1993, “proved harder to control than initially expected and remained above 10 percent for seven years, but, again,

compared with other transition economies, performance has been equal or better” (IMF 2005, 5). Throughout the 2000s, Mongolia depicted higher inflation than some transition countries – particularly since 2005 – mainly due to the high growth rates and expansionary fiscal policies. Inflation is proving to be a continuous challenge under the circumstances of an overheated economy owing to the recent mining boom (IMF 2011).

Table 1.2 Inflation, annual average rate, percent (1991-2010)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001-2005 (avg)	2006-2010 (avg)
Caucasus	94.8	874.8	2662.3	7514.6	276.4	25.9	8.2	3.8	3.8	1.7	4.6	7.8
Central Asia	111.8	933.0	1797.2	1049.9	428.4	307.2	56.7	21.3	24.9	19.6	10.5	10.2
Other CIS	107.4	1202.0	1897.1	937.3	328.4	51.0	26.6	29.7	110.4	62.2	16.3	11.0
Baltics	186.6	1013.6	202.9	51.9	31.1	21.8	9.4	5.8	2.1	2.6	2.3	4.2
Poland	70.3	43.0	35.3	32.2	27.9	19.9	14.9	11.8	7.3	10.1	2.8	2.7
Hungary	34.2	23.0	22.5	18.9	28.3	23.4	18.3	14.2	10.0	9.8	5.9	5.4
Mongolia	20.2	202.5	268.4	87.6	56.8	46.8	36.6	9.4	7.6	11.6	6.5	11.2

Source: IMF, World Economic Outlook Database

Note: Caucasus includes Armenia, Azerbaijan, and Georgia; Central Asia includes Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan; Other CIS include Belarus, Moldova, Russia, and Ukraine; the Baltics include Estonia, Latvia, and Lithuania.

Some attribute relative economic performance of Mongolia to the speed and depth of reforms (e.g., Cheng 2003, de Melo et al 1996). Cheng (2003) argues that Mongolia’s relatively smooth transition was “probably due to the combined effects of its relatively underindustrialized economy prior to the transition, a peaceful and relatively stable social and political environment, and sound economic policies” (4). However, this observation explains little about the reasons for successful transition, because “a peaceful and relatively stable social and political environment” was itself a creation of the transition

and not an independent variable. The more important question is why Mongolia had “sound economic policies”, which needs to be explained.

1.1.3 Economic Reform Measures

Mongolia was a relatively fast reformer in terms of economic policy changes. The World Bank and other international financial organizations (e.g., EBRD) undertook assessments of the pre-transition period and the process of transition itself. For instance, a study by de Melo et al (1996) analyzed the factors that determine the relative performance of transition countries. Their argument is that the success of economic reforms is usually measured by the pace and depth of economic liberalization. De Melo et al construct the so-called Liberalization Index⁷ that accounts for the governments’ efforts in liberalizing the domestic markets and foreign trade and changing the ownership structure.

De Melo et al categorize 28 transition countries by their Cumulative Liberalization Index (CLI) which is a sum of LIs over the period of 1989-1994 (see Appendix 4 for the indices of individual countries). They divide all countries into four categories: advanced performers with CLI of 3 and above, high intermediate reformers ($2 < \text{CLI} < 3$), low intermediate reformers ($1.3 < \text{CLI} < 2$), and slow reformers with CLI less than 1.3 points. Mongolia (CLI=2.27) is categorized as a high intermediate reformer and

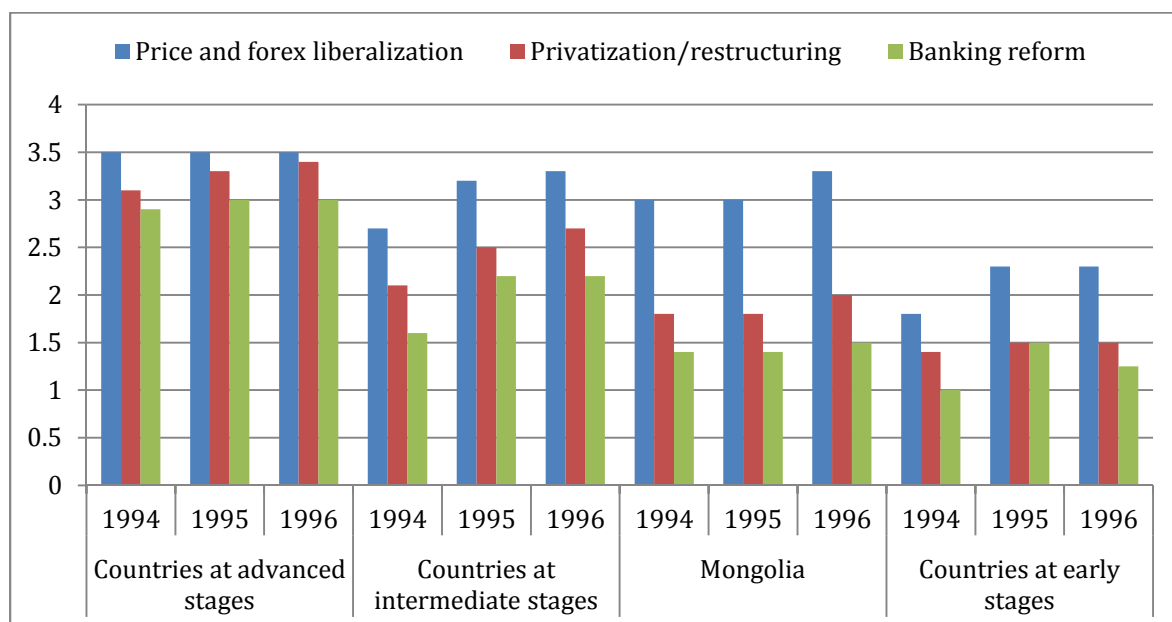
⁷The Liberalization Index (LI) consists of the weighted sum of the three components: internal markets (price liberalization and elimination of state trading companies), external markets (trade and foreign exchange liberalization), and private sector entry (privatization and banking reforms). The index of 0 means that the country did not reform at all and the index of 1 indicates that it is a “basically-reformed” country.

grouped together with the Baltic States and selected countries in South-Eastern Europe. Central Asian countries in the comparison group fall either into low intermediate (Kyrgyzstan and Kazakhstan) or slow reformers (the other three republics). Some have argued that the CLI is rather flawed, as, firstly, it does not adjust for when the transition began, which was a little earlier in Mongolia than in Central Asia. Secondly, the cumulative index is not a measure of reform but rather of the level of cumulated policy, therefore it absorbs the results from the 1980s reforms. Babecky and Campos (2011) find that using the World Bank CLI as a measure of reform tends to increase the probability of finding a positive and significant effect of reform on growth, compared to the EBRD transition index (148), which points to the inflated nature of the index.

EBRD developed its own set of transition indices which measures the level of small and large-scale privatization; enterprise reform; price, trade and exchange rate liberalization; competition policy; and financial sector and infrastructure reforms. Mongolia was not included in the EBRD Transition Reports until 2006. However, the transition indices for Mongolia were backdated for the entire transition period since 1989, which provides a reliable source for comparative analysis. These are cumulative indicators that measure the reform efforts in (almost) all postcommunist countries since the late 1980s. The EBRD transition indices – general and sector specific⁸ – on various dimensions range from 1 (little or change from a centrally planned economy) to 4+ (standards and performance typical of advanced market economies.)

⁸ There are 6 general indices: 3 indices related to enterprises and 3 to markets and trade. There are also sector specific scores on financial sector, legal reform, infrastructure, and energy sector reforms. Some of these indicators were developed later when the core reforms were completed and countries opted for more sophisticated reforms.

Figure 1.2 Progress of reform across 26 transition countries, EBRD transition indices, (1994-1996)



Source: EBRD Transition Reports 1994, 1995, and 1996 and transition indicators dataset

- Notes:
- The columns represent the average scores attributed to a particular group of countries for progress along the specified dimensions of reforms.
 - Countries at advanced stages include the Czech and Slovak Republics, Hungary, Poland, Slovenia, Croatia, and the three Baltic Republics.
 - Countries at intermediate stages include Albania, Bulgaria, Macedonia FYR, Romania, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine, and Uzbekistan
 - Countries at early stages Azerbaijan, Belarus, Tajikistan, and Turkmenistan

On most indicators, Mongolia’s performance is better than the countries at early stages of reforms. In terms of price and trade liberalization, Mongolia’s performance is quite similar to the countries at intermediate stages, while it lagged behind these countries in terms of privatization and privatization and enterprise restructuring. Overall, Mongolia’s early reform performance is moderate by the EBRD indicators.

Variance in reform indices lessens with time, when the ‘laggards’ finally introduced critical reforms (with a couple of exclusions) in the late 1990s. By 2000, most

Eastern European transition countries achieved the 3+ to 4+ indices on most dimensions and others also caught up with the reforms. The average transition index reached 2.8 (with Turkmenistan, Uzbekistan, and Belarus included) in 2000 and 3.0 without these three countries (EBRD 2001). By 2010, most of core reforms were completed with basic transitions scores (6 core indicators) reaching 3.4 in Mongolia, 3.1 in Kazakhstan, 3.2 in Russia, 1.7 in Turkmenistan, 4.05 in Estonia, and 3.9 in Poland (EBRD 2011). However, Mongolia performs relatively poorly (as most other lower income transition countries) in terms of more sophisticated indicators of financial markets, infrastructure reforms, energy and corporate sector reforms (ibid).

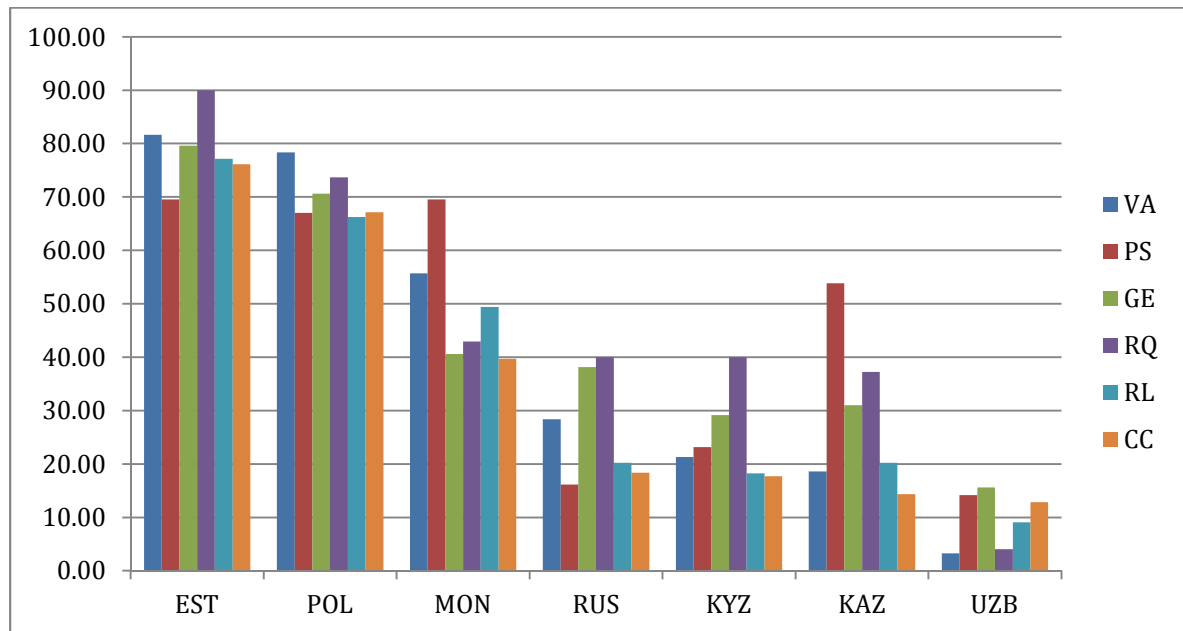
1.1.4 Governance and Institution Building

Other studies have looked at the comparative institutional dimensions of transition. The World Bank governance indicators are widely used to estimate the quality of governance. The six composite indicators – ranging from -2.5 (the worst) to +2.5 (the best), with mean zero – are drawn from about 30 existing data sources that report the views and experiences of citizens, entrepreneurs, and experts on the quality of various aspects of governance. Mongolia fared relatively well in terms of political stability and absence of violence, while still experiencing major problems in the areas of government effectiveness, regulatory quality, and control of corruption.

The data show that throughout 1996-2010 Mongolia fared better than most Central Asian countries – some of the worst performers in the world – while it still had a

long way to go to catch up with some advanced performers in Eastern Europe and the Baltic region (Figure 1.3). Black (2001) concludes that Mongolia “has made relatively good progress towards reforming its government and institutions and making a transition to a market economy, as compared to the poor showing of most Asian members of the CIS” (15).

Figure 1.3 All governance indicators, rankings for selected transition countries, percentile (averages for 1996-2010)

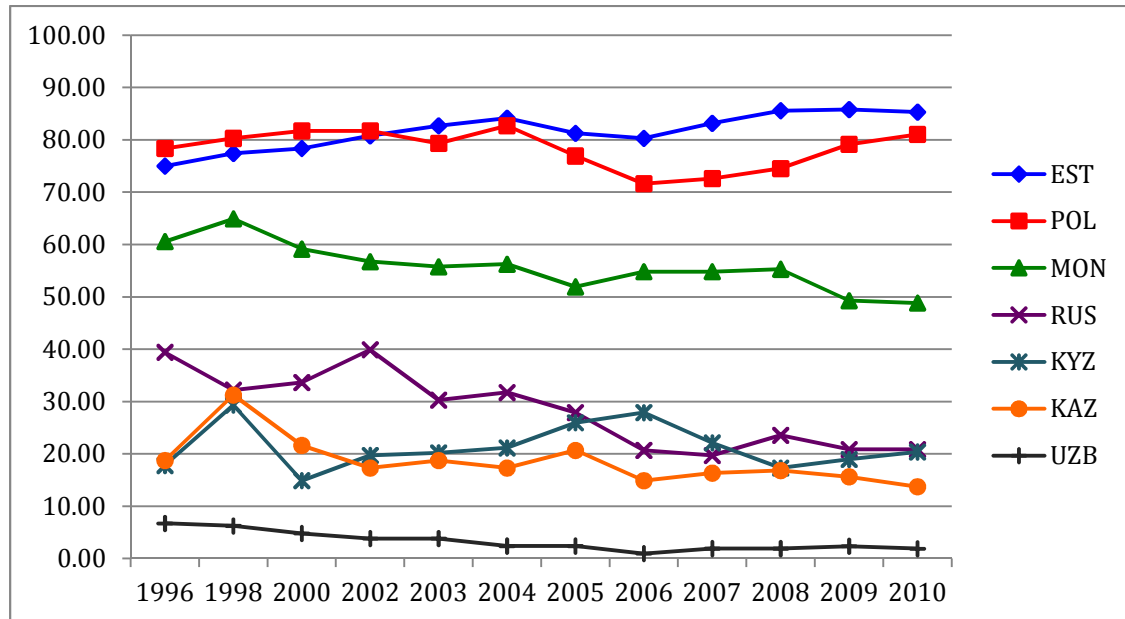


Source: Worldwide Governance Indicators dataset, the World Bank

Notes: EST – Estonia, POL – Poland, MON – Mongolia, RUS – Russia, KYR – Kyrgyzstan, KAZ – Kazakhstan, UZB – Uzbekistan;
 VA – Voice and Accountability, PS – Political Stability/No Violence, GE – Government Effectiveness, RQ – Regulatory Quality, RL – Rule of Law, CC – Control of Corruption.

The figures below (Figure 1.4 and Figure 1.5) show the dynamics of two indicators, Voice and Accountability where Mongolia fares better than at least half of the countries in the world, and Control of Corruption index where Mongolia’s performance is rather weak.

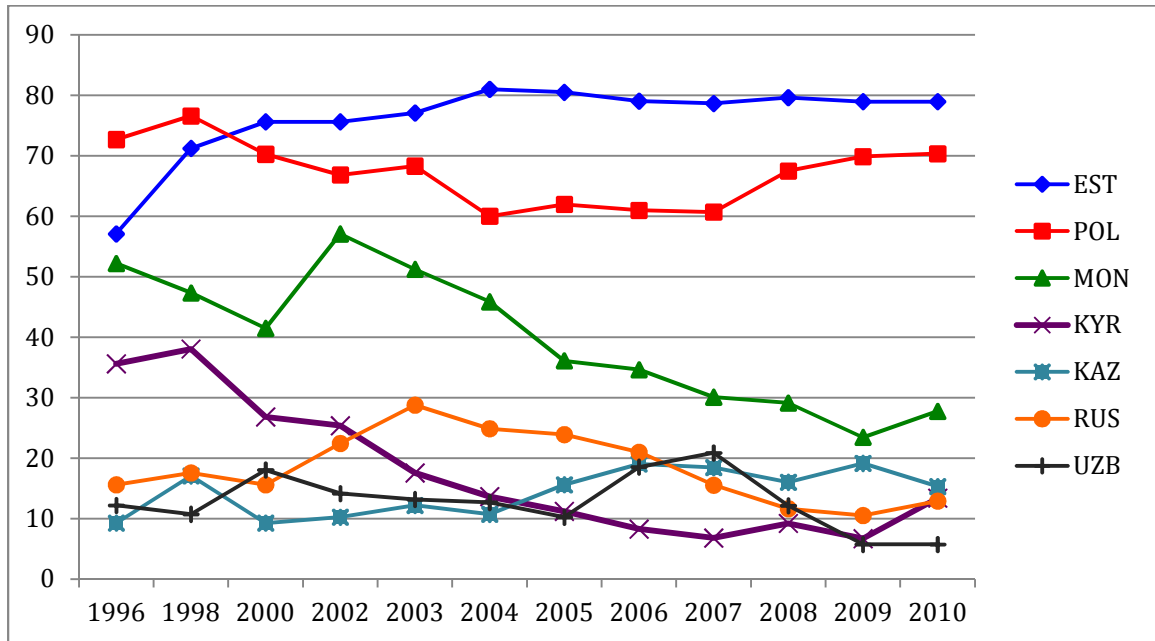
Figure 1.4 Voice and Accountability Index, world rankings of selected transition countries (in percentile, higher percentile indicates better relative performance), 1996-2010



Source: Worldwide Governance Indicators dataset, the World Bank

Both indicators show some decline in rankings, while Control of Corruption worsened significantly since a modest ranking of the 57th percentile in 2002 down to the 23rd percentile in 2009. The issues of increasing corruption have been noted by many observers of the country.

Figure 1.5 Control of Corruption Index, world rankings of selected transition countries (in percentile), 1996-2010



Source: Worldwide Governance Indicators dataset, the World Bank

To sum up the above discussion, there is a broad consensus among the scholars and international observers that Mongolia has been relatively successful in transitioning to democracy and markets, especially in the initial stage of transition this dissertation is concerned with. During the later period of transition, the differences among transition countries in terms of democratization, liberalization and macroeconomic performance became less profound, with the exception of few non-reformers such as Uzbekistan and Belarus. After the initial profound (and unexpected) breakthrough, Mongolia started experiencing some difficulties in sustaining and deepening its earlier success. For instance, there is a recurring issue of inflation and worsening of some governance indicators. Although Mongolia's performance is better than the baseline group of Central Asian countries, it should be noted some of these countries are among the worst performers in the world on many dimensions of democracy, economic reforms, and

institutions. Simultaneously, the gap between Mongolia and other well performing transition countries on institutional dimensions has widened in the past decade or so.

1.1.5 Initial Conditions and Policy Choices

The analysis of relative performance of transition economies centered around two groups of factors that potentially explain the diverging economic performance: initial conditions and policy choices (e.g., World Bank 1996, EBRD 1999, de Melo et al 2001).

It was argued that there is a range of structural, political and geographical factors that distinguish the transition economies from each other. “A variety of factors – including the degree of industrialization, the geographical orientation of trade, the extent of initial macroeconomic imbalances and the legacy of state institutions – determine a country’s starting position in the transition” (EBRD 1999, 27). These factors could influence the subsequent development in many ways. Countries with greater macroeconomic imbalances were likely to delay implementing reforms because of the larger adjustment costs. Governments inheriting weak state institutions and facing a legacy of rigorous central planning can find it more difficult to implement reforms. Countries close to the European Union can benefit from the process of regional integration (ibid).

De Melo et al (2001) analyze the role of initial conditions and their interaction with policy choice and economic performance during the transition period in 28 countries, which includes Mongolia as well as China and Vietnam. A total of 11 potentially important country-specific factors are clustered into two groups utilizing the

principal components analysis. The first cluster measures macroeconomic imbalance and unfamiliarity with market processes (market distortions), while the second cluster represents the level of socialist development and its associated structural distortions (overindustrialization) (ibid, 9-10).

Based on these first two principal components, countries are clustered into four broad groups. “Those in the FSU⁹ all started from deep market distortions, but the Slavic countries were far more developed than those in Central Asia, and had more serious structural distortions. Countries in CEE¹⁰ had lesser market distortions but, being relatively more developed, had severe structural distortions” (de Melo et al 2001, 26). Mongolia’s situation is similar to that of Central Asia, where it starts with greater market distortions but lesser structural distortions due to its lower development. However, in accordance with de Melo et al, Mongolia’s market distortions were less severe than in Central Asia and close to those in the Baltic States (ibid, figure on page 12).

De Melo et al use the principal factors in multiple regression analysis to determine the extent to which they influence the reform process and economic performance. Comparing actual and predicted economic liberalization, “Mongolia and the Kyrgyz Republic reformed more rapidly than would have been expected given their initial conditions; Bulgaria and Romania reformed more slowly” (ibid, 26). The paper concludes that policy is still the most important factor determining growth differences while initial conditions dominate in the inflation equation. Political reform emerged as

⁹ The FSU stands for Former Soviet Union.

¹⁰ The CEE stands for Central and Eastern Europe.

the single most important determinant of the speed and comprehensiveness of economic liberalization (ibid, 27).

Thus, while initial conditions have been important, they are not solely responsible for the pattern of reform. Most of the countries performed as expected by the initial conditions. However, there are cases where countries with similar backgrounds performed differently. In Mongolia's case the reforms were faster than indicated by initial conditions. Search for additional clues to the diverging performance brought the analysts to the importance of policy choices and the reform process. Among the reforms, EBRD distinguishes between liberalization and privatization which can be implemented relatively quickly, and institution building which takes more time. Countries have typically focused first on liberalization and privatization and institutional reforms accelerated only once these reforms had been comprehensively implemented (EBRD 1999,29).

The 1999 EBRD report uses the dataset developed by de Melo et al (cited above) and largely builds on its analysis. However, their construction of the principal components differs in that overindustrialization is measured by employment rather than by GDP shares and pre-transition growth is measured for the five years prior to market reforms, i.e., 1985-89 for CEE but 1987-91 for CIS countries. As a result, overall differences in the factor weights are not very large across dimensions. Rather, the different starting positions across the region reflect differences across the whole range of dimensions considered in the report. This result stands in contrast to that of de Melo et al, which found stronger differences in factor weights between macroeconomic distortions on the one hand and structural distortions, on the other (EBRD 1999, 28).

The 1999 EBRD report revealed large differences in patterns of reform both across countries and across the various aspects of reform. Variation in liberalization and privatization remains considerable even after the first decade of market-oriented reforms, while the differences in progress in institutional reform across the transition economies are even greater. These differences can be attributed partly to differing initial conditions, but policy choices have also had a significant impact. “Regarding the development of institutions that support markets and private enterprise, ... countries that have achieved sustained progress in liberalization, macroeconomic stabilization, small-scale privatization, and openness to foreign trade and investment have also advanced steadily in the development of market institutions. However, the process of institutional change is shaped by many other factors, including the power of the state, legal traditions and foreign assistance” (ibid, 38).

In a recent paper Babecky and Campos (2011) look at the impact of structural reforms on economic growth, with emphasis on the experience of the transition economies. Using the data of 46 studies done in this area – including de Melo et al above – and employing a meta-regression analysis, they explain the main reasons why a given variable (or set of variables) is more or less robustly related to economic growth. They found that short-term costs of reforms are non-negligible and their growth effects are negative, while in the longer run reforms tend to produce positive and substantially larger effect on growth (ibid,140). Thus, countries which implemented early painful reforms, tend to recover sooner and sustain their growth.

Accounting for the initial conditions and institutions helps to explain the variance in growth among different countries. Using these variables in the model reduces the positive and significant effect of the reforms on growth (ibid, 149). Among the policies themselves, Babecky and Campos find that external liberalization – trade and foreign exchange liberalization – seem to have the most significant and positive impact on growth, while, somewhat surprisingly, internal liberalization (of prices etc) and privatization seem to have negative effect on growth, albeit the effect is not robust. Thus, external liberalization plays a dominant role in driving up the long-run effect of structural reform on economic growth (ibid, 148).

Based on the above deliberations, I summarize the factors that were favorable or not favorable for Mongolia’s transition to democracy and market economy in the table below (Table 1.3).

Table 1.3 Initial conditions and historical coincidences in Mongolia

Factors	Mongolia’s position	Effect (negative or positive)
INITIAL CONDITIONS		
1. Degree of centralization and plan coverage	High degree of centralization, universal coverage of plan, the most centralized plan	Negative
2. Dependence on CMEA arrangements – the less dependent the more successful	High dependence on CMEA and particularly the Soviet Union, probably the highest among the group	Negative
3. Degree of economic shock	Extreme shock, due to high dependence on the old trade regime and financial assistance	Could be negative or positive

4. Level of development, industrialization (role of agriculture), and income	Semi-industrialized (lower level of industrialization), large share of agriculture, agriculture is resilient	Positive
5. Citizens' attitude towards the Soviet Union and the regime and the legacy of pre-communist democracy and markets	Less negative attitude compared to other socialist countries, therefore greater attachment to the previous regime; no experience of living in a democracy or market economy	Negative
6. Geography – closeness to Western Europe and prospects of joining the EU	No pressure to join the EU, geographical proximity to China, large authoritarian state	Negative
7. Institutional legacies – the need to build new political and market institutions, some starting with a clean slate which could be easier, more recent history of markets	No recent history of markets, market institutions absent; but no need to build a national state from scratch (there was a sovereign state with homogenous population)	The former is negative and the latter is positive

HISTORICAL COINCIDENCES (DEVELOPMENTS)

8. Strong political breakthrough – exceptional leaders	Radical reformist Prime Minister (although from the old communist party) and coalition government during 1990-1992, which gave the reformist opposition greater power	Positive
9. Political reforms precede economic reforms – weakening of the traditional bastions of power: the ministries and SOEs, few new interest groups are formed to make claims	Political reforms took place swiftly, early first free elections in 1990, proportional representation in the legislature, weak special interest groups (little evidence of devolution of power to the lower level bureaucrats and SOEs), weak ministerial lobbies; no prominent conservative ruler (potential autocrat)	Positive

Source: Author's judgment, the factors in the first column are taken from World Bank 1996 and EBRD 1999 and summarized.

Mongolia's relative performance is puzzling given that most initial conditions – with the exception of the state building – were most unfavorable. Therefore, "... quite

surprisingly, Mongolia's pattern of growth and recovery resembles more those in the high-growth Central and Eastern European countries, which are very different from Mongolia in terms of geography and history, and have had a somewhat shorter-lived experience under a Soviet-style system of central planning" (Cheng 2003, 14). Cheng points out a relatively rudimentary economic structure which likely to have reduced the complexity of the market reforms, facilitating price liberalization and early enterprise restructuring. However, he argues that the early adoption of appropriate adjustment policies and market-based reforms is likely to have been instrumental in promoting sustainable growth (ibid).

Thus, the agreement is that initial structural and historical conditions were not favorable for Mongolia and its relative success is largely due to the reform policies. However, why such policies were adopted is not studied in the literature which deals with Mongolia's economic transition.

1.2. Political Democratization: Literature Review

This and the next sections will review the existing literature on describing and explaining the democratic and economic changes.

1.2.1 Structural Factors of Democratization

Political events in Mongolia drew some interest from the international scholarly community. Steven Fish (1998) argues that economic, historic, and geographic factors,

such as the long duration and extent of sovietization, absence of democratic tradition, lowest standard of living, highest economic dependence, and severe geographic isolation, as well as greater initial political continuity (of the old party) did not afford any conditions that were favorable for democratic transition. At the same time, there were a handful of structural or cultural preconditions that might have favored democratization in Mongolia, such its small size in terms of population, near-universal literacy, ethnic homogeneity, and “individualism” fostered by their country’s hardy nomadic traditions. However, Fish argues that these preconditions do not add up to a convincing explanation (127-128). So, the puzzle is “How did a country that “should have” ended up at the level of Turkmenistan and Uzbekistan in terms of democratic achievement find its way into company with Hungary and Poland?” (129).

Fish attempts to explain the democratization process in the light of the events and processes – and the main political players and their convictions – in 1990-1992 that determined the subsequent institutional framework that proved to be critical for deepening the democratic transition. Faced with power challenge from the democratic opposition, the old party leadership – much divided and after significant in-party battle – decided to accommodate the opposition and call for first-ever open national elections in July 1990. Moreover, Fish notes that even after they won the first elections, they decided to invite some of the opposition leaders into the government. This latter decision, Fish argues, was, at least partially, motivated by the desire of the ruling party to share the blame with the democratic opposition for the country’s economic distress. Likewise, the opposition forces were not excluded from the process of discussing and approving the

first democratic constitution in 1992. However, it still remains somewhat mystical that the transition process was quick but smooth and accommodating. The desire to share blame could not possibly explain such a process. One way to shed some light would perhaps be to look into the underlying ethnic and cultural aspects of the revolutionary change.

Fish (1998) further argues that the constitution, which “emerged out of a process of genuine deliberation and struggle within the national legislature”, was a product of compromise and therefore considered highly legitimate (ibid, 130). The constitution determined the new democratic regime type which is defined as “a semi-presidential regime in which parliament dominates” (ibid, 133). It was not a pure parliamentary system as in Slovakia or presidentialism as in Kazakhstan. The proposed regime distributed power among the state organs in such a way that neither the president (head of the state with more ceremonial duties) nor the prime minister (chief executive) would have absolute executive power, a system closest to the one in Poland (ibid, 132-133). Broad consensus still exists on the merits of the new political order. However, again, the adoption of the new state structure begs the question why such a form was chosen for the constitution.

Other crucial institutions such as the election law proved to be less durable, with rules changing with every election. However, in Fish’s opinion, the provision that only political parties – and not movements, associations, or enterprises – could nominate candidates was important for party strengthening and consolidation. Fish argues that

political parties in Mongolia were remarkably strong and the country developed a mature political party system relatively early (ibid, 135-136). This argument was made by Fish following the successful consolidation of the previously disarrayed democratic forces in 1995-1996 which led to their victory in the 1996 parliamentary elections. However, the subsequent developments within the parties showed that the trend was not sustained (e.g., Fritz 2002). Another important feature of the Mongolian politics was its vibrant civil society. Fish in particular mentions two types – free media and women’s associations – that contributed to strengthening the democratic transition (ibid, 136-137).

In a related article, Fish advances his argument about Mongolia’s uniqueness in terms of democratic reforms (Fish 2001). Fish attempts to explain Mongolia’s comparative success from a different angle. Previously, Fish explored the factors that facilitated Mongolia’s democratization. In this article – argument of which is consistent with the previous one – Fish looks at the lack of the factors that inhibit democratization. Fish argues that some of the factors that are widely regarded as blessings for democracy upon closer, comparative examination in the Central Asian context turn out to be curses. Unlike most of the Central Asian countries and several other former Soviet Republics elsewhere, Mongolia lacked these factors which may have contributed to the democratization process in this country.

It is often considered that natural endowment brings about economic growth and therefore helps democracy. However, Fish argues that “Natural superabundance often reduces politics to competition over access to the agencies that control the proceeds of

sales of natural resources. This game corrupts the political class and distorts state apparatus. These pathologies are evident ... virtually everywhere in the postcommunist and developing worlds”, with Kazakhstan, Turkmenistan, Russia, and Azerbaijan being cases to the point (Fish 2001, 325). Fish further argues that Mongolia’s “relatively modest natural endowment – or at least the modest means that it has to exploit such an endowment as it has – has spared the country the enormous impediment to political development and to democratization in particular” (ibid). However, it should be noted that some countries which opted for a totalitarian regime – e.g., Belarus – have very modest means, which goes against Fish’s argument. Moreover, the mining sector has been a major economic sector and Mongolia possesses large deposits of various minerals and recently embarked on two world-scale mining projects. However, the fact that Mongolia operated only one big copper mine – Erdenet – jointly with the Russians at the time democratization was taking root and information about the resource endowment was limited, perhaps supports Fish’s argument. Along this argument, the newly found mineral wealth could pose a threat to democracy and integrity of state institutions in Mongolia.

Fish continues that others factors, such as geostrategic importance and existence of an external patronage also may seem important for advancing democracy in postcommunist countries. Countries of geopolitical importance usually receive great attention from external players who have certain agenda and if they happen to be democratic, then this creates advantages for promoting democracy in the recipient country. Fish argues that most Central Asian republics (and not only them) received

financial and military backing from various external powers – be it Russia or Western countries. Nazarbayev and Lukashenko were supported by Russia while Akayev in Kyrgyzstan, Eltsin in Russia, and Berisha in Albania were supported by the U.S. and other Western countries. What is more, in each case certain leaders received massive and often unconditional external patronage. And the very same leaders, although many of them championed the initial democratic opening and national independence, subsequently led the country to greater authoritarianism.

Fish argues that, on the other hand, Mongolia did not have great geopolitical importance and none of the Mongolia's leaders enjoyed great external patronage. However, it should be noted that foreign powers did attach some significance to Mongolia due to its geopolitical location and perhaps it enjoyed at least as much attention as some of the Central Asian republics, e.g., the Kyrgyz Republic. Moreover, Japan and the United States – the two largest bilateral donors – played a significant role in providing financial and technical assistance, thus promoting, at least indirectly if not more aggressively, democratic values. Pomfret (2000) argues that “Mongolia's apparent liberalism and geostrategic location made it a favored aid recipient, especially when aid is measured on a per capita basis” (151). But, consistent with Fish's argument, no executive was singled out as a champion of democratic transformation, as it happened in Central Asia, thus allowing him to rise to greater authoritarianism. Support was provided to the government in general which experienced frequent changes.

Two more factors, or, rather, lack of thereof – existence of a national father figure and concentration of central power – are considered by Fish to be of vital importance for relatively successful democratic transition in Mongolia. Most of Central Asian countries did have a father figure – Karimov, Niyazov, and Nazarbayev, to name a few – which, combined with superpresidentialism proved to be catastrophic (Fish 2001, 329-330). Some of the “founding fathers” were democrats in addition to nationalists, e.g., Eltsin, Akayev, or Ter Petrosian in Armenia, while others were not the champions of the democratic change. However, even many of the initially democratic leaders slipped back to authoritarianism. This was at least partially conditioned by the political system of power concentration in these countries. Evidence suggests that “democratization has been more robust in countries with constitutions that disperse central power” (ibid, 331).

In contrast with the countries described above, Mongolia did not have a single dominant leader at the time of regime change. “No single person was regarded at the nation’s founder of independence and/or democracy” (ibid, 330). Fish argues that the old communist leadership was relatively liberal and collegial – this was probably true by the end of the regime, but it was not certainly the case when the country was ruled by Choibalsan and Tsedenbal from the 1940s to the mid-1980s – while the new democratic forces were dispersed and often in conflict with each other. “Mongolia had a number of forceful politicians of many political stripes at the time of transition, but no one politician who enjoyed such matchless prestige” (ibid, 335). Moreover, Mongolia’s choice of semipresidential system with strong parliament has been a boon to democracy. The constitutional choice, Fish argues, was in part shaped by the concerns about the country’s

independence against possible efforts on the part of China or Russia to compromise the country's sovereignty. It was argued that dispersing power among many players – president and the parliament – would be less threatening for the sovereignty. Perhaps, the recent history of a single ruler who was considered to be a puppet of the Soviet Union was still fresh in people's minds.

To sum up, Fish's arguments concerning the absence of foreign patronage and lack of natural resources as contributing structural factors to the democratization of Mongolia seem to be less convincing, because the country did have resources and is largely dependent on foreign aid. Moreover, some of the authoritarian regimes emerged despite lack of mineral wealth. At the same time, his arguments about the absence of a father figure and constitutional design seem to be more compelling and backed by strong regional evidence.

Fritz (2002) called Mongolia one of "the most remarkable outliers in the post-communist universe as regards democratization" (75). In this article, Fritz analyzes why democratization occurred in Mongolia by applying various theoretical approaches. She argues that the so-called "preconditions school" which emphasizes the importance of some preexisting conditions that favor democratic transition clearly does not explain the outlier case of Mongolia. Along the lines of Fish, she argues that almost all preconditions, including economic, geographical, and historical, were unfavorable in Mongolia. Fritz also explores what she calls "the mode of transition school". Analytically, there are at least two ways of thinking how a country could transition to

democracy. First, the old and new elites could agree on certain rules of the game and extend mutual guarantees; these are called ‘pacted transitions’ and are auspicious for establishing and consolidating democracy. Some of the Southern Europe and Latin America followed this path. The other approach – the so-called ‘regime-controlled transition’ – is based on evidence from Eastern Europe. The idea is that the shift of power occurs as a result of the first free elections and the new elites more decisively break up with the old regime, thus leading to democratization (Fritz 2002, 79).

Fritz argues that while Poland and Hungary opted for negotiated or pacted transitions, Mongolia’s transition, like that of Bulgaria, has been more regime controlled, although there were some elements of a pact. The old ruling elite – the Mongolian People’s Revolutionary Party (MPRP) – took the lead and called for free elections, thus allowing the new opposition to contest them openly. It is generally assumed that pacted transitions are more advantageous for democratic transition and subsequent consolidation, while elite-controlled transitions are less promising (ibid). Nonetheless, Mongolia was successful both in transitioning to democracy and later consolidating it. Therefore, in Fritz’s view, these theoretical approaches offer little in explaining the events in Mongolia.

Fritz’s own central argument is one of “dependent democracy” meaning that Mongolia always was highly dependent on external forces, be it the Soviet Union or Western multinational and bilateral organizations. Fritz distinguishes several stages in the development of democracy in Mongolia and argues that external forces played an

important role, although the conjuncture of circumstances and events differed at every stage. First, the very breakdown of the old regime was triggered from outside. Mass protests designed after those in Eastern Europe and the failure of the Soviet Union forced the old elite to step down and agree to the first democratic changes. By 1988 – with withdrawal of Soviet troops and decline in financial assistance – it was becoming clear that the Soviet Union would not back up the communist regime. The process was peaceful as both sides were committed to non-violence. The “founding elections” of 1990 led to re-installment of the old party in power, but with democratic means. The opposition was far weaker and poorly organized, therefore no meaningful ‘pact’ could be reached between the old elite and the opposition. Thus, the very first phase was dominated by the old elite.

Fritz further argues that at the second stage – approval of the new constitution and first economic reforms – the MPRP decided to co-opt some of the leaders of the opposition, mostly for two reasons: they wanted to use the knowledge of the younger generation and share the responsibility for the looming economic crisis (ibid, 87-88). The constitution which was broadly debated among the political parties established a new political order with a rather weak presidency. Fritz maintains that from a comparative perspective, this was auspicious for further democratization and argues that adoption of a semi-presidential system with a strong legislature was probably influenced by the political systems that were being adopted in Eastern Europe. At the time of this important political change in Mongolia, the Soviet Union still existed. After the collapse of the union, most of the former Soviet republics opted for strong presidency. Thus, the

second stage was also dominated by the old rulers which allowed extensive participation from the opposition. Although external factors undoubtedly were important in the political changes that took place in Mongolia in the early 1990s, they could not explain why Mongolia decided to follow the Eastern European example rather than the (former) Soviet Union, as the latter was much closer – historically, geographically, etc. – to Mongolia. I believe, in addition to the external factors, domestic interplay of forces and beliefs of the main political players also were important in building the new political system.

The third stage, when a conservative wing within the MPRP came to power, danger to democracy persisted. However, Fritz argues that the conservative MPRP government was kept on track by the influence of donors who were providing financial assistance which was essential for dealing with the economic shock the country was experiencing following withdrawal of the Soviet aid. Mongolia became one of the “most heavily donored countries in the world” (ibid, 90). Foreign players not only advised on economic issues but also promoted – although not officially – democratic changes. Consistent with Fritz’s argument, foreign aid increased substantially since 1993 and equaled on average to about 19 percent of GDP until the end of the 1990s. However, as it will be shown later, the more conservative MPRP government was guided by domestic political constraints rather than pressures from the IFIs, often pursuing policies contrary to what was advised. It is true that foreign party foundations – namely the American International Republican Institute and the German Konrad Adenauer Foundation – were active in directly promoting democracy and assisting to foster a viable opposition able to

contest effectively the 1996 parliamentary elections. However, this again does not explain why the MPRP government was committed to democratic changes during its rule in 1992-1996.

In general, Fritz's argument that a conjuncture of various factors where foreign actors played an important role facilitated democratic transition and consolidation in Mongolia is substantiated by facts and processes, although it seems to understate the interaction of domestic actors and their viewpoints and strategies.

A subsequent article by Fritz (2008) analyzes the democratization process beyond the initial successful transition. Moreover, unlike the previous article it provides some detail about the political events that took place in 1990-2007, including the approval of the constitution in 1992, victory of the democratic opposition in 1996, and building up of social and governance issues such as corruption in the period since 1997. Fritz argues that Mongolia democratized "against all odds" and elective democracy became the "only game in town" by the end of the 1990s. Mongolia benefited from "a benign combination of supporting factors as well as the absence of obstacles that have plagued potential transitions elsewhere" (Fritz 2008, 766).

However, Fritz justly notes that the economic and social development has been more volatile during this period than in established democracies, which put some pressure on the stability of political institutions. Swings in the outcomes of parliamentary elections, deepening poverty and income inequality, mineral resource boom and the

related emergence of new external players created fertile ground for corruption and rent seeking thus putting pressure on governance structures. “When a democratic system fails to deliver benefits in terms of good governance and shared prosperity, rather than concentrating wealth and creating corruption, it may (over time) also chip away at its minimalist foundation” (ibid, 780). Fritz concludes with a well-grounded argument that “democracy in Mongolia endures, but it is troubled” (ibid, 766).

In a ‘lightweight’ article, Persson (2010) compares the Mongolia’s democratic transition to that of Turkmenistan. The two countries shared several common features at the time of the Soviet collapse; yet, Mongolia became a democracy while Turkmenistan became one of the most authoritarian regimes in the world. Persson consults some of the theories concerning the process of democratic transition from communism. McFaul (2001) argued that the outcome of transition in post-communist countries – democratic or otherwise – depended on the balance of power within the new states. An unequal distribution of power assured a more stable transition, and the dominant ideology decided the outcome: democracy or dictatorship. This approach explains why Turkmenistan with its absent opposition and civil society fell into an authoritarian path (Persson 2010, 53). Mongolia, however, with its more vibrant civil society and stronger but not dominant opposition is an exception among post-communist states. An equal distribution (relatively speaking) of political power Mongolia resulted in peaceful transition to democracy as opposed to an internal conflict (ibid, 52).

Persson brings in other structural factors such as Mongolia already being a sovereign state before the transition and lack (at least at the time of early transition) of natural resources. These are the two contrasting factors that distinguish it from Turkmenistan, where President Niyazov relied on extreme personality cult in order to gain legitimacy in a newly independent state and where natural resources such as gas were abundant at the onset of transition, making Turkmenistan's resource constraint less severe compared to Mongolia (ibid, 53-54).

1.2.2 Anthropological Views

Alternative explanations of the democratic changes were provided by two anthropologists, Sabloff and Kaplonski. Sabloff (2002) offers an anthropological/cultural explanation of the rise of democracy in Mongolia. She argues that Mongolia's democratization defies the popular arguments about the importance of political culture, the latter being defined in terms of the traditions of Western Christianity. In particular, she argues that the prevalent Mongolian culture of liberal democracy, rather than being imposed by the Western influence, in fact has its roots in the country's history and Genghis Khan's rule in the 13th century. Genghis Khan is credited with establishing the rule of law, participatory government such as the mass assembly the Great Khural and Council of Wise Men, introducing meritocracy, and tolerating freedom of religion. Moreover, pastoral nomadism naturally encourages personal freedom (Sabloff 2002, 27-30).

Sabloff's argument is based on the results of a survey she conducted among the residents of the capital city and Khovd *aimag* (province) in the far west. She found that Genghis Khan's governance and 'democratic' principles had a strong legacy for the current generation of Mongolians. The democratic principles – personal freedom, representative government, rule of law, and equality – the respondents consider as important characteristics of a democratic society coincided with the values of liberal democracy (defined by Diamond). Moreover, modern Mongolians credit Genghis Khan with instituting similar principles to the ones they think are high priority in a modern democracy (ibid, 32). The study implies that "Mongolians' political culture comes not only from the West but also from Mongolians' collective memory of their great leader, Genghis Khan" (ibid, 33). However, the study is less than convincing in the sense that the survey results may reflect not a strong legacy of Genghis Khan's democratic political values but rather the rising nationalistic sentiments among the modern Mongolians which associate some positive qualities with their great khan. Alternatively, they could be an indication of wider historical and cultural values that generally favor more or less egalitarian principles.

Another anthropologist Kaplonski (2004) examines the issues of social memory, culture and identity in the context of the collapse of socialist rule in Mongolia. Kaplonski's account of the democratization process is focused around the issue of history and how its interpretations had influenced the course of democratic transition. Kaplonski argues that although there was great distortion and suppression of historical truth during the communist period, there also existed unofficial competing interpretation of the past

that were (both intentionally and unintentionally) propagated and preserved during these years due to the reminiscent nature of the official historical texts (Kaplonski 2004, 11-14).

For instance, images and interpretations of Chinggis Khaan¹¹ and other main historical figures as well as some events of the communist past (e.g., the period of collectivization of the 1950s) were such that, in spite of following the Soviets and official party, they often contained evocative transcripts that helped to sustain an “underground” unofficial interpretation. These interpretations helped to forge social memories which had major influence on the national identity – who is the “true mongol” – and later helped to formulate the framework for the democratic changes in the early 1990s. Some portions of the book described the critical events in January-March 1990 from a social memory, historical truth and national identity perspective (Chapter 3). The subsequent analysis (Chapter 4) focuses on the symbols of democracy as derived from the perceptions about the historical past and national identity as framed by the collective social memory. Although an interesting study, I find it less relevant to the subject matter of my research.

1.2.3 Democratic Consolidation

Several more recent studies focused on the next stage of democratic development, consolidation of democracy. In a comparative study of six East Asian countries – Japan,

¹¹ There are different ways of spelling the name of the Mongolian emperor. The conventional way used for long time in the West is Genghis Khan. However, the more recent studies and particularly of those who are engaged in the field work in Mongolia often started spelling the emperor’s name as Chinggis Khaan which reflects the original Mongolian pronunciation. I refer to the name as it was spelled in the original works I am reviewing.

South Korea, Taiwan, Thailand, the Philippines, and Mongolia – Shin and Wells (2005) attempt to determine to what extent these democracies are consolidated. They employ Linz and Stepan’s (1996) definition of democratic consolidation being a state where democracy “is the only game in town”. Citizens must not only accept democracy but also reject its alternatives. They also must “show a preference for democracy *both* as a regime *and* as a set of political practices (Shin and Wells 2005, 89-90). Using the East Asia Barometer data compiled annually by conducting face-to-face interviews with randomly selected voters, the authors find that all six countries demonstrate high level of support for democracy, with at least three quarters preferring democracy as a regime (ibid, 94-95). In terms of the democratic processes, 72 percent of Mongolian voters express attachment to a non-democratic practice of censorship, while other types of practices – judicial dependence or disrespect for law – did not receive majority approval.

The bottom-line conclusion Shin and Wells make is that democracy is fully consolidated in Japan, Korea, and Taiwan, as their voters support both democratic regime and democratic practices, while Thailand, the Philippines, and Mongolia are still not yet consolidated democracies with some preference for non-democratic practices (ibid, 98).

Analyzing the same data, Ganbat (2004) reaches similar conclusions. In his views, Mongolian democracy is “far from being a consolidated democracy” (32). A substantial majority of the citizenry is not capable of understanding the liberal or substantive notion of democracy and an equally large majority is not yet fully detached from the virtues of authoritarian rule. A large majority, moreover, sees most officials of

the national and local governments as corrupt, yet this majority remains, by and large, satisfied with the way the current regime performs as a democracy. Such uncritical citizen views of Mongolian democracy coupled with a large dose of optimism about its future can create “an equilibrium in which a low level of public demand for democracy accompanies an equally low level of elite supply of it. Such a low-level democratic equilibrium may pose Mongolia’s biggest obstacle to its further development into a complete democracy” (ibid).

A State of Democracy Desk Study conducted by Landman et al (2005) apparently uses different set of criteria in assessing democracy. The methodology was developed by the International Institute of for Democracy and Electoral Assistance (IDEA) and organized around the so-called four pillars of (i) citizenship, law, and rights; (ii) representative and accountable government; (iii) civil society and popular participation; and (iv) democracy beyond the state (Landman et al 2005, 2). The authors conclude that Mongolia appears to have had consolidated democracy over the past 15 years, with the constitutional design and vibrant civil society contributing to the process. It is argued that there is no serious threat to the democratic governance, although its long-term prospects remain precarious (ibid, 3). Among the problems, issues of corruption, poverty and unemployment, as well as due process in justice and right to health and other social and economic rights were seen as areas of concern.

The general agreement among those who studied the democratization process is that Mongolia democratized against all odds and maintained its democratic institutions in

the face of multiple challenges. There could be multiple explanations which boil down to the external forces (presence of pro-democratic players and absence of other patrons), unique historical coincidences (absence of a national father figure and lack of natural resources), existence of pseudo-democratic traditions, and constitutional design which provides balance of power.

The consensus on the success of democratic transition is almost undivided. However, views diverge as to whether Mongolia's democracy was able to consolidate itself. Some argue that democracy was consolidated and has become "the only game in town" while others argued that it is far from consolidation. There are some warning signs of increased corruption and deteriorated governance. In any event, the Mongolian democracy is likely to face more trials in the future.

1.3. Economic Reforms and Privatization: Literature Review

The first detailed account of the economic situation in Mongolia at the end the 1980s and early 1990s was provided by the IMF, World Bank, and ADB. Mongolia expressed its interest in membership in major IFIs at the end of 1990 and these institutions conducted comprehensive macroeconomic surveys of the country. The reports produced (or endorsed) by these organizations – ADB 1992, Milne et al 1991, Yusuf and Burki 1992, World Bank 1992 – are useful by both providing extensive economic data and analysis of the economy, including the general macroeconomic performance – growth, inflation, external balance – as well as sectoral analysis of the

economy, and macroeconomic policies such as fiscal and financial sector policies. The early reports provide some information on the state of affairs at the very end of the communist era, and then initial liberalization and stabilization efforts of the government, and its ambitious privatization program.

1.3.1 Macroeconomic Studies

The ADB country study (1992) is the most comprehensive one. It contains description and analysis of the economic and social development under the central plan. In particular, the study focuses on the national income aggregates, the structure of the economy, fiscal and financial sectors, saving and investment trends, and employment and wages, and the foreign economic relations. The book provides more detailed analysis of various economic sectors, including agriculture, industry, transport, energy, social infrastructure, natural resource and environment. Overall, this is a country study from a macroeconomic and sectoral perspective which is supported by comprehensive economic data. It covers the late communist period and the initiation of reform in 1991.

Milne et al (1991), Yusuf and Burki (1992), and World Bank (1992) reports are similar in structure and coverage of issues, although more concise. These first reviews of the Mongolian economy describe the economic pressures that surfaced in 1991 and the various measures undertaken by the government since then. After an introductory background, the reports assess economic developments in 1990 and 1991, the key reform

and policy issues – price liberalization, stabilization efforts, and launch of privatization – and the country’s development prospects in the medium term.

The emerging picture from the above country studies is that for most of its 70 years of independence, Mongolia has been a centrally planned economy with extremely close ties with the Soviet Union. During this period, the country has been gradually transformed from a rural nomadic economy to a semi-industrialized economy, a producer of semi-processed raw materials. Industrialization was made possible by large investments and loans from the Soviet Union. These loans amounted to a third of the state budget and quarter of GDP, permitting Mongolia to run large fiscal and external deficits and to enjoy relatively high rates of growth.

However, things have changed dramatically in 1990 when the democratic changes occurred in the country, and the Soviet system collapsed leading to two major shocks for the economy: (i) termination of aid and (ii) disruption of foreign trade with dismantlement of CMEA. The new coalition government formed in 1990 pledged to “construct a market-oriented economy.” The government has embarked upon a comprehensive program of reforms covering the entire spectrum of economic policies, including privatization, price liberalization, and the establishment of new institutions for macroeconomic management. Mongolia has moved swiftly to remove its old central planning system, and new institutions and policy instruments were being put in place. The reports approve of the government efforts in liberalization and stabilization, but often warn against too swift privatization.

Later reports of the IFIs – e.g., Country Economic Memoranda, Country Assistance Strategies, and regular economic updates – are also informative as they follow the macroeconomic performance, assess the macroeconomic policies, and provide policy recommendations as the country continued on its reform path.

1.3.2 Economic Reform Agenda

Other sources on economic performance and economic reforms are scarce. Several scholars did some analysis of the reforms. Denizer and Gelb (1992) analyze the very first reform attempts of the Mongolian government with a focus on privatization. They argue that the Mongolian circumstances make it difficult to determine whether the country would adopt fast or slow reforms. It is often argued that an appropriate institutional and organizational capacity is needed for successful reforms; Mongolia lacked those severely. Furthermore, a political transition to democracy makes market reforms irreversible. Mongolia's radical political reforms – as well as independence and nationalistic sentiments – did indeed help economic reforms. However, it was argued that excessive politicization in the face of highly contested elections and social cost of reforms also contributed to the slow down of the reform process.

Another factor that was considered important in making a successful transition is the existence of a clear model for the transformed society, such as Western Europe for the post-communist countries in Eastern Europe or Asian tigers for China and Vietnam.

Mongolia, according to Denizer and Gelb, lacked such a model due to its geographical isolation and historical ties. Lastly, severe macroeconomic imbalances or shocks force swift corrective measures but the choice between the liberalization and tightening of control was still unclear. The authors argue that beyond a certain point, it would be difficult to sustain orderly reform process and governments may opt for wartime like control measures. Mongolia faced rapidly shrinking resource envelope due to the fall of the Soviet Union and dismantlement of CMEA trade regime. This induced fast reforms, but the success of reforms depended on the external aid that could help to preserve the capacity to implement market reforms. All in all, Denizer and Gelb maintain that Mongolia's situation was not very conducive to fast economic reforms and depended to a large extent on a fine balance of multiple factors. As the IFIs reports, the authors remain inconclusive as to the scope and success of reforms.

Boone (1994) argues that the story of Mongolian economic reforms is one of “a clash between the urgent need to respond to the external shock and a lack of consensus concerning the speed and direction of reform” which made garnering support for major policy reforms more difficult, thus making transition more challenging (330-331). For instance, price liberalization efforts of the central government were offset by price controls installed by local governments and line agencies. A similar argument was raised by Murrell et al (1996) in their analysis of price reforms in the early 1990s when rapid price liberalization was proclaimed but implemented only gradually. They argued that the reforms fell short of their initial rhetoric because of the great influence “by the policy practices inherited from the socialist era and by conceptions of the nature of

economic processes that were embedded in these policies”, rather than lack of commitment (176). This goes contrary to the wide-spread argument that Mongolia adopted a shock therapy in its economic reforms.

Despite the lack of consensus, substantial macroeconomic liberalization has taken place. Boone (1994) attributes it to legal and political reform that permitted traders to engage in economic activities thus leading to rapid growth of the private sector. In particular, in the first nine months after the new government was formed in October 1991, some 27 laws aimed at transition to a market economy were passed by the parliament. “In effect, macroeconomic liberalization has been led by microeconomic change” (Boone 1994, 332).

Another argument justly raised by Boone is that the conditionalities imposed by the IMF and others on Mongolia played a mixed role in promoting reforms, as these organizations initially opposed both rapid privatization and rapid economic reforms. Boone claims that they were inexperienced with rapid reforms and preferred cautious, gradual program. Their position contributed to undermining the political position of the reformers at the time. “During spring of 1991 an unusual situation arose where the [government was] advocating more rapid and comprehensive reforms than the IMF” (ibid, 354). However, IMF’s position changed shortly afterwards. Yet, when the IMF started advocating quick reforms, the more conservative wing within the government and parliament strengthened and a gradual reform program was agreed between the

government and the IMF, which was implemented only partially. Thus, as Boone argues, the reforms which began with (a rhetoric of) a “big bang” turned out to be gradual.

Nixson and Walters (2000) argue the opposite. They maintain that “too much weight has been given to the orthodox policy prescriptions of the IMF [and others] that represent the “Washington Consensus” and that too little attention has been paid to those who have argued for a more balanced ... approach to economic reform” (60). The successive governments since 1990 have chosen to implement ‘shock therapy’ rather than pursue a more carefully sequenced and gradualist reform process, which has “deepened the crisis brought about by the external shocks and have further harmed the well being of the population” (ibid). Nixson and Walters argue that this choice has been made by the governments themselves even though it was perhaps influenced by foreign advisers and with external technical assistance. However, a more careful analysis of the actual reform steps provided in Boone (1994) and Murrell (various years) indicates that the reforms were far from shock therapy and these authors seem to fall for the rhetoric rather than actual reform measures.

A critical outlook on the economic developments in Mongolia is advanced further in Rossabi (2005). Rossabi provides an account of the political economy of Mongolia from the late communist period until the early 2000s and deal with the peaceful transition in the early 1990s, significance of foreign aid, and market reforms in 1990-1997, among other issues.

The chapter on the peaceful transition in 1990 provides significant detail about the events in the late 1989 and early 1990, until after the first free election of July 1990, and could mostly be regarded as an accurate account of the events. The chapter describes the mass protests in Ulaanbaatar in early 1990 and how they led to the resignation of the politburo and ultimately the first competitive elections of July 1990. However, the main argument of the book is that, in spite of some political gains, the overall political and economic transition has gone wrong due to ill-fit policies. The country ended up being desperately poor, with high level of corruption, lower level of literacy, poorer health services, depleted culture and environmental degradation.

Rossabi briefly touches upon the “three pillars” of shock therapy implemented in Mongolia. Rapid privatization was ripe for exploitation and abuse due to the lack of market experience and the economically and politically well-connected gained from it enormously while the general public benefited little if at all. Rapid price liberalization led to high inflation and bankruptcy of many enterprises. Cutting the budget and the public sector in general weakened the state and undermined education, health, and social welfare. The economy was in free fall, which was the result of the policies pursued by the successive governments at the advice and pressure of international financial institutions (Rossabi 2005, 51-54).

One of the main themes of the book is the role played by the IFIs that contributed to such poor state of affairs in the country. The IFIs saw Mongolia as a “laboratory in which to experiment” the free market principles (ibid, 36). They did not really care about

the historical and cultural heritage of the country when they were imposing the “cookie cutter” policies of democracy and free markets on a country which never had experienced these, and therefore it is not surprising that things have gone wrong. The book therefore depicts a rather gloomy picture.

In spite of some the valuable details, the book is flawed in several ways. Rossabi’s book does not tell a balanced story. Humphrey (2007) argues that “many of these problems do characterize Mongolia today, but the issue is how they should be explained and whether there are not also positive features of the present scene to balance the picture” (203). Yet, for Rossabi’s critics, Mongolia is a success story because it “has become a stable and open democracy, and its different post-socialist governments, far from slavishly following foreign precepts, have pursued varied policies of their own devising” (ibid, 204).

Furthermore, it relies on too few sources – most notably opinions of only four individuals who played a marginal role in democratic politics and policy making in Mongolia – who “are not highly popular nor influential nor especially unique” (Campi 2007, 841). The author claims to have met and interviewed an impressive number of the leaders and players on both sides. However, the book does not make reference to their account of the events and ideas.

Nonetheless, in spite of the above flaws, the book was praised for providing well documented details about the processes and issues, which is an achievement in itself

(Humphrey 2007). Moreover, he provides a valuable overview of the challenges confronting Mongolia and pointed out to the dangers inherent in the system of international aid and development agencies (Kaplonski 2005).

1.3.3 Private Sector Development and Privatization

The issue of privatization attracted justified interest from the IFIs and scholars. Hahm (1993) analyzes the structure and profile of the private sector. There are two ways to develop the private sector: by encouraging new private entities and by privatizing state-owned ones. The new legal framework in Mongolia allowed the former but the latter has been the main instrument to develop a market economy. Hahm (1993) argues that unlike in China, “privatization serves as the main vehicle for Mongolia’s conversion to a market economy and the main instrument for private sector development” (13).

Hahm argues that, although the scope and level of privatization were impressive, however, there remained numerous “kinks” in the system that serve as impediments to private sector development (ibid, 17). For instance, after the initial phase of privatization, small enterprises and agricultural entities continued to work as before the privatization due to government intervention (e.g., state procurement quotas and other operational constraints) and the smallness of the domestic market. As for large enterprises, many of the newly privatized enterprises remained under the state control until 1993 (ibid, 21). Though formally abolished, the historic pervasiveness of state orders continued to influence and affected all sectors of the economy, particularly the

agricultural sector. State regulation of foreign trade through export licenses gave preferential treatment to state exports. State control of imports was even more pervasive given the lack of diversified foreign market and isolated position. The paper concluded that “a positive early response from the private sector greatly depends on how well these issues are addressed and on how well the authorities nurture the environment for private sector development” (ibid, 44). It seems the privatized enterprises in Mongolia continued to operate, at least initially, under the old institutional arrangements that governed the economy during the centralized planning.

Korsun and Murrell (1995) described the progress of privatization – “one of the fastest privatization programs in the reforming socialist countries” (486) – by placing it in the context of sweeping program of political and economic reforms implemented since 1990. They point out to several peculiarities of Mongolia’s privatization program which make it a “fascinating example of post-socialist reforms” (ibid, 473). First, the speed of privatization is puzzling given that it occurred in the face of opposition from the ruling party. Second, fast privatization occurred amid slower liberalization and stabilization, the other two major fronts of economic reforms. Third, it occurred in the absence of any proper institutions to support property rights (ibid).

Korsun and Murrell’s discussion of the genesis of the privatization program is accurate. They describe in detail how a few economists developed a framework that was gleaned from the developments in Hungary and Russia; the legal framework which was slow to develop; and the three main elements of privatization: agricultural, small, and

large privatization. They focus on the main political players, those who promoted the privatization and those who opposed it. They argue that several factors help to understand why things changed so quickly. The general desire for change was strong throughout the society and the radical reformers took advantage of it by demonstrating “unexpected organizational capabilities” (ibid, 486). Naturally, there were opponents. However, they were not cohesive enough to stop it, while the agricultural opposition – the strongest conservative group – was neutralized by allowing them to decide on the methods of privatization of the rural cooperatives.

The aftermath of privatization and particularly post-privatization performance of enterprises, their efficiency and governance issues are analyzed in several articles by Anderson, Korsun, and Murrell (1999 and 2003) and Anderson, Lee, and Murrell (2000). Nixon and Walters (2000, 2006) focus on the impact of privatization on income distribution and poverty.

Anderson et al (1999) note that mass privatization in Mongolia, unlike other reform efforts which were implemented haltingly or were slowed down considerably, was a program “where progress kept remarkably close to a very ambitious timetable” (218). On the supply side, privatization was highly centralized with the Privatization Commission deciding on most issues and enterprises having little discretion as to the valuation of assets, plan and method of privatization. On the demand side, privatization was decentralized, with every citizen being entitled to shares to be purchased with vouchers through stock exchange and brokerage firms. Anderson et al note that

managers and employees were given a weak preference over outsiders. They could buy the shares of their enterprise at the initial nominal price of 100 per share. However, this preferential treatment was not exploited by employees because the average market price per share turned out to be 76. Therefore, employees waited for their enterprises to be auctioned and then proceeded to buy the shares. Anderson et al (1999) argue that the outcome was that insiders became the new owners, however, not through the preferential treatment but through the market mechanism, which perhaps was one distinguishing feature of the Mongolian case vis-à-vis some other transition countries where substantial explicit privileges were given to the insiders.

The article examines ownership and governance issues of privatized enterprises in terms of exit (owners selling their shares) and voice (owners active in corporate activities). The authors found mixed results which are not easily interpretable. Core owners were in place in a significant number of enterprises. Some ownership changes did occur as a result of opening the secondary cash market for shares (in August 1995, the data is collected 10 months later) which led to more concentrated ownership. In terms of governance, “many enterprises do follow the company law and do not deviate from elementary criteria of good governance, even though mechanisms for the enforcement of the law are virtually non-existent” (Anderson et al 1999, 235). However, it was found that governance mechanisms are of poorer quality in outsider-dominated enterprises, “suggesting that exit of small shareholders is necessary before voice can gain hold in these enterprises” (ibid).

In an earlier article Korsun and Murrell (1995) made an interesting observation: Mongolia's privatization has gone ahead of any meaningful institutional reform and could "provide a test of the theories that emphasize the effect of ownership patterns on the development of sound corporate and government policy" (473). In a follow up article, Anderson et al (2000) use the survey data of half of privatized enterprises to determine whether privatization amidst weak institutions led to positive results and how ownership patterns affect performance of enterprises.

Overall, about 34 percent of shares were owned by insiders, 45 percent by outsiders, and 20 percent by the state (Anderson et al 2000, 530). Interestingly, they found majority state-owned enterprises depicted better performance on average than those owned by others. The explanation could be that the insiders did not have efficiency as their primary goal while outsiders were dispersed and could not exert much control over the management. Better performance of state enterprises is counterintuitive because state ownership is not expected to induce good performance. However, Anderson et al (2000) suggest that the government pressured the state enterprises to perform due to its severe resource constraint and commitment given to the IFIs (545). Most importantly, the authors found that – under the conditions of virtual absence of formal market institutions – competition played a critical role in inducing good performance. The quantitative effect of competition in Mongolia's enterprise sector was larger than those found in previous studies of Eastern Europe and the former Soviet Union (ibid, 547).

Thus Anderson et al (2000) discovered that, in the shorter run, privatization per se did not produce higher efficiency in Mongolia. On the contrary, residual state ownership generated better performance. However, the paper concludes this does not mean that privatization process was irrelevant. Opening of the secondary market (cash as opposed to vouchers) and further development of market institutions make it entirely plausible that the effects of private ownership would begin to show. Thus, one could conclude that the efficiency objectives of privatization were not met while the government may have been more successful in achieving the political objectives of limiting the role of the state and building the rudiments of the private sector, which perhaps was indeed the case in Mongolia.

Stubbs et al (2000) argue that while small enterprise sale went well, large-scale privatization was not wholly effective, with state retaining a measure of ownership in 45 percent of privatized enterprises which left private investors fragmented and ineffectual minority holders. Moreover, share market was sluggish to develop due to the lack of knowledge among the populace about the workings of a capital market and confusion with the voucher scheme. Insufficient attention has been given to publicity and education of potential shareholders. Secondary (cash) market was very slow to be developed. The “sum effect of these was to leave the programme substantially discredited in the public view. With hindsight, and with only modest foresight, it can be seen that the programme was hastily executed and seriously flawed” (Stubbs et al 2000, 143).

Nixson and Walters (2006) hold similar views. Their paper focuses on the distributional impacts of privatization that have attracted relatively little attention in international experience. They argue that privatization in Mongolia “was undertaken without very much analysis or even consideration of the likely short- or long-term impact on poverty and income distribution” (1557) and the results are troubling, as in some transition countries. It should be noted that the analytical link between privatization and income distribution is not clear. Nixson and Walters argue that the shock therapy approach to economic reform was broadly encouraged by the IMF and was consistent with the interests of key sections of the Mongolian nomenklatura. They argue that fast privatization, which was not in the interests of the great majority of Mongolians, was launched at least partially because “new vested interests were generated, based on the new (or potential) distribution of productive assets” (ibid, 1558). However, as it will be shown later, no strong interest groups were present in Mongolia’s privatization, with the possible exception of agricultural collectives, which was traditionally a well-organized group. No new vested interests emerged in the process of privatization, as privatization methods and low level of corruption indicate.

In order to investigate to what extent and in what ways privatization contributed to increases in poverty and inequality in Mongolia, the paper concentrates on the privatization of livestock, residential property, and SMEs and draws on the primary data collected in four surveys – two participatory and two sample surveys – carried out in 2003. The authors note that privatization took place in the context of severe macroeconomic disturbances, which were independently responsible for a considerable

part of the rise in poverty and inequality. However, the evidence – mostly qualitative – points “unambiguously toward privatization having a significant effect with respect to rising inequality and, although perhaps to a lesser extent, to rising poverty” (1575).

Privatization of livestock contributed to a widening of wealth inequality because assets were distributed only to members of the cooperatives and distribution between members was inequitable with several groups, for example, female-headed households, losing out. The transfer at no cost of urban apartments to sitting tenants was extremely inequitable given that the large majority of Mongolians failed to benefit at all, leading to a massive inequality in wealth and subsequent income flows. With respect to the privatization of SMEs, the initial distribution of shares was markedly unequal with insiders gaining at the expense of outsiders. This argument is contrary to Anderson et al (1999) cited earlier who claim that insiders gained access to their own enterprises through market mechanisms rather than intentional privileges. Nixon et al are probably correct in their view that privatization led to increased income inequality. However, one should expect some increase in income inequality under the market economy, as the previous system was highly egalitarian (at least nominally), to large degree at the expense of efficiency.

To sum up, there are diverging views about the economic reforms in Mongolia which could be divided into two camps. Those who support radical and fast reforms consider Mongolia to be a relative success because it embarked on early reforms and pushed through one of the most ambitious privatization plans. “A voucher privatization

program was the centerpiece of these reforms and in terms of speed, comprehensiveness, and clarity of design the program constitutes an example for the poorer, smaller transition countries” (Anderson et al 1999, 215). They attribute the relative economic performance of Mongolia – moderate, by transition country standards, output decline and moderate inflation – to the liberalization and stabilization as well as early privatization efforts of the government. Moreover, some argued that the reforms often fell short of the initial ambitious design and could have been even faster.

There is also a group of scholars who support a more gradual approach to transition and consider the Mongolian experience flawed in many ways. They argue that the government’s reform design was dictated by the IMF and others and government had to follow their orders due to severe resource constraint. The reform policies were ill fit for Mongolia and left out many important aspects of development such as institution building, income distribution and poverty. Although the positive outlook about Mongolia’s reforms is dominant in the literature, many of the arguments raised by the proponents of gradual reforms are valid and well documented.

1.4. Research Methodology and Significance of Research

Thus far I have reported the facts and summarized other people’s interpretations of the political and economic transition in Mongolia. This section explains why the research topic was selected, why certain methods were employed, and what the contribution of this dissertation is to the existing knowledge on Mongolia and transition in general.

- Why broad issues of political and economic transition?

Literature on Mongolia's political and economic transition is scarce. At the same time the country's experience is unique and to some extent unexpected. Mongolia does not follow the general pattern of political and economic development in transition countries. To be more accurate, it does not fit into the expected pattern of development which was common for countries with similar background, most notably in Central Asia. Rather, its development – both political and economic – is similar to that in poorer performing countries in Eastern Europe and the Baltic States.

Well known studies in comparative political and economic performance such as Åslund (2007), EBRD's Transition Reports of various years until 2006 (when Mongolia became member of the EBRD), and the World Bank study of the privatization process and outcomes (World Bank 1997a) do not include Mongolia. The few sources that do analyze Mongolia provide little detail about the processes and events and interplay of politics and economics. Therefore, focusing on broader issues of political and economic transformation seems to be justified, as they are still not well documented and studied.

- Why the period of 1987-1996?

I cover briefly the late communist period because it not only provides some interesting insight into what followed later, but also of interest in itself. Moreover, the

analysis of the late 1980s provides some background for applying some theoretical approaches to the democratization process in Mongolia. Furthermore, they provide critical information about the groups and special interests that were formed in the late communist period and their relative power that ultimately influenced the choice of privatization methods and the process itself. This information will be used when I attempt to apply political economy theories to privatization in Mongolia.

The period of 1990-1996 seems to be fascinating because it laid foundation for the new political and economic regime. The first two years of transition (1990-1992) are unique in the sense that unexpected and unprecedented political and economic developments occurred in the country. Political institutional arrangements were also quite unique. The years of 1992-1996 are also special because the old party regained full power but democratic and market changes were not reversed. The first six years of transition are also a period which sets out Mongolia from the rest of Central Asia and many CIS countries. Reforms and performance of transition countries in the following periods, especially in the economy, evened out to some extent when ultimately most of the transition countries advanced their reform agenda.

Why stop at 1996? This is dictated by the need to limit the scope of my research. Since the issues I deal with in this dissertation are broad and it aims to provide a detailed account of what happened in a given country during a given period of time, I opted to limit my research to end at the parliamentary elections of 1996. Many have argued that the year of 1996 marks a cornerstone in the development of democracy and market

economy in Mongolia. It was the year when the political power was peacefully transferred to the democratic opposition, for the first time in the past 70 something years. The end of 1995 also saw the completion of the first large enterprise privatization scheme, the cornerstone of early reform efforts. The subsequent period saw deepening of democracy and economic reforms, which marked a new stage in Mongolia's development.

- Why mostly descriptive methods and what are the data sources?

The existing literature, with the possible exception of Rossabi (2005) and Korsun and Murrell (1995) lacks detail about the processes that took place in the early transition period, the agents and their beliefs, and interplay of political and economic developments in Mongolia. In order to fill in this gap, one needs to focus on the particulars, the fine points of the events and processes, which grants the use of descriptive methods.

Moreover, I take advantage of my personal experience of living through these dramatic changes and access to the primary data, especially those available in the local language. I base my description and analysis mostly on the primary data: government documents (from the national and government archives), party documents (documents of three major political parties from the party archives), statistical data (National Statistics Office, Ministry of Finance, and international financial organizations), newspaper materials (two main daily newspapers "Ardyn Erkh" and "Unen", from January 1990 to June 1996), interviews with the participants of the events (about two dozen interviews

with a wide range of participants who represent various periods of time, different political parties, and differing perspectives, most of them were the key decision makers of their time, please see Appendix 7 for the full list of people interviewed), memoirs of the participants of the events (the last communist leader J. Batmunkh, former Prime Minister D. Sodnom, first President P. Ochirbat, member of the parliament D. Lundeejantsan, and the leader of the Mongolian Democratic Union S. Amarsanaa), and public opinion polls. I believe the use of primary data would be a main strength of this research.

There are two issues with using interview data. First, interviews were conducted about 20 years after the events that are described in the dissertation. The recollections of events and processes may have been ‘filtered’ through the test of time so that the interviewee is trying to sell a certain point rather than recollect events in an impartial manner. Second, many of the interviewees are people whom I know personally, which can be positive or negative. On a positive side, the interviewees may feel more comfortable sharing some facts and ideas due to greater trust in the interviewer. On the negative side, depending on the type of prior encounter, personal relation may also prevent the interviewee from sharing some facts thus limiting the full potential of the interview.

I tried to address the issues related to the validity of the interview data by several means. First, I selected people who represent diverging views (due to their political affiliation or position) so that facts and events are crosschecked by both sides of the political camp as well as the third parties, where necessary. I also validate the interview

data against the contemporary newspaper accounts of the events and processes. I present those data that do not contradict the evidence provided by other sources, including detailed memoirs of the participants. My personal observation of the interviewees was that all of them had a genuine interest in providing as accurate information as possible. I believe my personal relation with many of these interviewees – positive yet distant enough – helped to get qualitative information otherwise not available.

- What is the analytical part?

In addition to the structural and historical explanations, Chapters 3 and 4 of the dissertation provide analytical parts which attempt to employ alternative analytical frameworks to explaining the processes and outcomes in Mongolia. The attempts to analyze the democratic transition in Mongolia rarely apply any theoretical approach, partially because Mongolia's case does not fit into the common pattern of democratic transition and consolidation. The explanations provided (e.g., Fish 1998 and 2002, and Fritz 2002 and 2008) focus on structural and historical factors that were present or absent in Mongolia that allowed such a transition. I believe actor-centric political economy approaches provide a useful tool in explaining political as well as economic policy choices and outcomes. These theories are able to capture the interplay of political and economic factors and actors that ultimately determined the policy choices.

Likewise, the existing account of Mongolia's economic reforms does not explain why certain economic policies – for instance, swift privatization – were chosen in

Mongolia in the early 1990s and why certain methods of privatization were preferred over others. Voucher privatization is by no means unique to Mongolia. However, the particular methods employed differed from those used in other countries such as Russia or the Czech Republic. I attempt to employ the same political economy arguments in explaining the privatization process which sets out Mongolia apart from other postcommunist countries and also explains the sectoral differences that were evident in Mongolia.

Thus, the substantive chapters of the dissertation weave together new descriptive contribution with use of alternative analytic frameworks. The dissertation wraps up with the summarizing and categorizing the external, structural, historical, political, institutional, and cultural, factors that potentially contributed to the relative success of Mongolia's transition to democracy and the market economy. In the last chapter I identify those factors – among the many presented earlier – that are critical, in the sense that they were among the sufficient conditions for successful transition, and explain why I believe them to have that role. I also briefly then explain why the others are less important. In doing so, I attempt to provide a comparative perspective by referring to the examples of Central Asia and occasionally other countries in the region, which were provided earlier in the dissertation.

- What is the contribution of this research?

The existing literature on Mongolia's democratization contains a few academic articles and a couple of books by political scientists and anthropologists on democratic transition and consolidation, and a handful of brief surveys of selected political events that took place in the country. They lack significant detail about the processes. Likewise, literature on economic reforms predominantly focuses on the macroeconomic performance and sectoral analysis. They rarely touch upon the process of decision making and the interplay of politics and economics. Analysis of privatization is more comprehensive and systematic, but also in most cases lacks detail and does not explain why certain privatization methods were chosen.

The dissertation provides a detailed description of the political and economic events that took place in Mongolia in the early 1990s, thus filling in the gap that exists in the current literature. I believe this will be the main strength of this empirical research. In doing so, I emphasize the main players – political parties, international organizations, and individuals – and their beliefs, constraints faced, and how these factors influenced adoption of certain policies. I provide a political economy analysis of democratic and economic reforms. My story of the political and economic events differs from Rossabi's (the most detailed account thus far) because it relies on primary sources and more balanced in terms of arguments and sources. It also supports the general argument of successful political and economic transition. The dissertation unearths a lot of qualitative primary data that have not been used in the academic literature before. This I believe allows for a more nuanced and subtle explanation of the events and takes into account the peculiar conditions that were present in Mongolia.

Lastly, the dissertation aims at providing some analytical insight into explaining the processes and outcomes in Mongolia by using alternative analytical frameworks. I also attempt to identify the key factors that ultimately determined the path of democratic political and market economic change taken by Mongolia. In doing so, I make some contrasts with the historical, cultural, political and institutional circumstances of the Central Asian republics.

Chapter 2 Central Plan and Its Demise in Mongolia

Mongolia differs from other former socialist countries in that it had a very long history of political, economic and fiscal dependence on the Soviet Union. After three centuries of Chinese colonization, Mongolia entered the twentieth century as an impoverished country with animal husbandry being almost the sole source of livelihood for its nomadic population. There were over 700 Buddhist monasteries in the country that housed 100,000 monks, almost one sixth of the entire population and a third of male population (Baabar 2006). The Soviet influence was established as early as in the 1920s, after Mongolia gained its independence from the Qing Empire. Some initiatives to develop capitalism during the 1920s failed to blossom because the pro-Soviet faction within the Mongolian People's Party (soon renamed the Mongolian People's Revolutionary Party or MPRP) – the only political party at the time which led the popular uprising against the Qing Empire – consolidated their power (with the support of the Soviets) and successfully eliminated all opposition.

At the onset of the regime, the party denounced traditional values such as religion and the traditional way of life. The regime declared that building a modern socialist economy based on industrial development, technological advancement, and continuously improving the wellbeing of its subjects was the main goal of the regime. Up until the death of Bodgo Jibzundamba VIII, the last monarch and religious leader of the country, in 1924, Mongolia was a theocratic monarchy. The 1924 congress of the MPRP was significant for its adoption of Lenin's formula for "bypassing capitalism". Mongolia's

destiny was to realize the “the historical necessity of the non-capitalist road... for once backward countries ... with the support of the world’s first Soviet socialist state.” Thus, the cause of non-capitalist development became the party’s general line (Okladnikov et al. 1983, 344).

Following this major political decision, a new regime with public ownership of all means of production and limited civil liberties was imposed on the people of Mongolia and became a full-functioning communist¹² system by the late 1940s. The Constitution of 1940 and particularly of 1960 not only made the goal of building a new society explicit, but also identified the means by which such advancement should occur: by developing a comprehensive central planning system and reliance on the ‘fraternal’ assistance of the Soviet Union.

The regime was not accepted easily because the new path of development denied the old traditions and the religion. This was especially true for the Buddhist monks – about a third of the male population of the country at the onset of the regime served in the Buddhist temples – whose interests were affected the most. The famous mass uprising of the monks in 1937 led by the prominent religious leaders and the subsequent brutal suppression was a landmark victory for the new regime. It also showed that the regime was backed up militarily and financially by the Soviet Union, which made the future uprisings improbable. After successfully eliminating all “domestic enemies” – political

¹² The terms ‘socialist’ and ‘communist’ will be used interchangeably in the dissertation, meaning the peculiar political and economic system in Mongolia and other countries in the Eastern bloc.

opposition, religious leaders, noblemen and the like – by the end of the 1940s, the communist party¹³ launched its comprehensive economic development plan.

The first five-year plan was introduced in 1948 marking the beginning of new era of central planning. The last landmark event in imposing socialism was forceful creation of agricultural collectives – the so-called *negdels* – via cruel nationalization of livestock in 1959. The year of 1960 when the new (third) Constitution was adopted marked the year the country stepped into socialism with full state ownership and central planning under way. Two decades later, the ideologues of the regime would declare that the “general line of the party, centered on the country’s bypassing capitalism in its advance to socialism has triumphed. Mongolia accomplished the historic transition from feudalism to socialism by taking a non-capitalist path of development” (Balkhaajav, et al. 1981, 67).

During the first two five-year plans (1948-1957) and the subsequent three-year plan (1958-1960)¹⁴, Mongolia grew from a monoculture livestock-breeding country into an agrarian-industrial economy. However, full-scale industrialization began during the 1960s, with the emphasis on shifting from agro-based activities to manufacturing finished goods and the development of mining, infrastructure, transport and communications. In the 1960s about one third of all investment was allocated to industry, a sevenfold increase over the previous decade (ADB 1992, 10-11). During the third five-year plan (1961-1965), a new industrial complex was built in Darkhan in the northern part of the country,

¹³ The term ‘communist party’ refers to the Mongolian People’s Revolutionary Party. The MPRP was the ruling communist party from 1921 to 1990 and beyond.

¹⁴ An interim three-year plan was introduced to coordinate the plans with those of CMEA countries.

which turned it into the second largest city in the country. This period also saw significant expansion of crop farming by utilizing virgin land. The most significant event during these five years was Mongolia's joining the Council of Mutual Economic Assistance (CMEA) in 1962. This led to establishment of joint ventures and credits coming from not only the Soviet Union but also other Eastern European countries. Mongolia's national plans were now coordinated with those of the USSR and CMEA members.

The fourth five-year plan (1966-1970) aimed at strengthening and expanding the production and technological base by further industrialization. A new industrial complex was built in the city of Choibalsan in the eastern part of the country. Major power generation projects were undertaken during this period. The 1970s saw great expansion of the light industry, such as leather, carpet, food processing, etc. During the second half of the 1970 the planners became focused on productivity and quality, when the economy started showing the signs of growing inefficiency. The next decade, the 1980s, was marked by the expansion of agricultural farms and completion of a major mining project, the joint USSR-Mongolia copper and molybdenum plant Erdenet in 1981. Erdenet became the third largest city. During the last five-year plan (1986-1990) the focus shifted from physical production targets to policy reforms, which will be discussed in more detail later.

Although one could argue that the alternative, market and private ownership-based path of development could have brought higher levels of development for

Mongolia, one also should acknowledge that several decades of communist rule witnessed a major transformation from an extremely backward, semi-feudal, pastoral economy to a semi-industrialized economy, uninterrupted rates of growth and modest but rising living standards of the people. The country was transformed not only economically but also socially, with free and universal education and health care system, and comprehensive social welfare programs.

2.1. The Classical Central Plan and Its Institutional Characteristics

Mongolia adopted the economic planning system in 1948, the second country in the world after the Soviet Union to follow this path. After successfully nationalizing all means of production by the end of 1950s, the Constitution of 1960 officially declared that the country had entered a new stage in building socialism, namely “the final stage in building the material and technological base of socialism.” It also declared that the economic development of Mongolia would be “determined and directed by a single state national economic plan in the interests of the constant growth and development of productive forces of the country” (article 15, *Constitution of the Mongolian People’s Republic*, 1960). The plan covered all economic activities and included targets for production, investment, prices, employment, wages, and living standards of the people. Targets were not only specified in numeric terms, but also each year they provided for an incremental increase in all indicators, with the usual exception of prices.

The economy of Mongolia was an example of the “classical central plan”, unlike in Hungary or Poland where significant private sector and market activities took place. In addition to the state ownership of all means of production, there are several key institutional characteristics of the central plan that were fully developed in Mongolia: centralized planning of all economic activities; the command-and control system; and implicit taxation and fixed prices.

Centralized planning was developed on a short (annual), medium (five-year), and long-term (10-15 years) basis. During its long communist history, Mongolia has gone through a few long-term plans, such as the “General Scheme of the Development and Location of the Mongolian People’s Republic Productive Forces up to 1990” produced in the late 1970s and eight five-year plans. The state created a multitude of organizations that were involved in this process. Planning originated within the party, which produced the guidelines for economic and social development for the five-year period corresponding to the party congress. Based on these guidelines, the State Planning Commission (SPC) drafted the five-year and annual national economic plans, which were approved by the People’s Great Khural (the national elected assembly) and became law. The Council of Ministers (the cabinet) directed and implemented national planning through the SPC and through the Ministry of Finance (MoF). Planning for different sectors of the economy was conducted by relevant ministries and state commissions; local plans were drawn up by local governments.

The plan was comprehensive. National economic plans included general development goals as well as specific targets and quotas for agriculture, capital construction and investment, domestic and foreign trade, industry, labor resources and wages, retail sales and services, telecommunications and transportation. They contained targets not only for all major economic and social indicators such as output, investment, prices, wage level, but also detailed targets for every individual enterprise. Plans were prepared in physical terms, because they were meant to transform the physical reality rather than the financial value. The comprehensive plan had to ensure that it reached every industry and enterprise and extended to the remotest corners of society. The state wanted to make sure that it controlled all means of production so that no productive force would be diverted from the legitimate objective set by the communist party.

Once approved, the plan was mandatory, not indicative. Unlike forecast or projection, the plan extended beyond the speculative sphere in which it was first conceived. “A plan is based on a commitment by the subject to act in a predetermined, coordinated manner, in order to achieve a set goal. A plan is thus an instrument that a conscious individual uses as a means of controlling reality through predetermined action” (Dembinski, 1991). Approved plans had a force of law and the system of command and control was designed to ensure that planned targets were met by state-owned enterprises (SOEs) and other agencies. The state plan was published in the Mongolian press; plan fulfillment was also reported in the press, although some irregularity and inconsistency existed (Sanders 1987). Thus, the plan manifested the conscious, targeted direction of socioeconomic development processes.

2.1.1 Command-and-Control System

In order to achieve the economic and social development outcomes outlined in the plans and widely publicized, the state had to create an elaborate enforcement mechanism. The planners could not simply rely on the goodwill and selfless devotion to the national interest on the part of their subordinate officials and managers (Rutland 1985). An extensive command-and-control system was established in order to address the principal-agent issues.

In the absence of market competition and market incentive structure, the command-and-control system needed to compensate for these and ensure that the plan was delivered. The system had to be able to control the behavior of agents at the level of whole organizations as well as individuals. The main problem consisted in the information intensity of monitoring and evaluating the performance of enterprise management (as making the plan in the first place) and therefore required an extremely complex system to tackle the information asymmetry and vast potential for shirking and fraud.

The command-and-control system put in place in Mongolia to deal with this issue was immense and consisted of numerous rules and players. The banking system with a single state bank established in 1954 closely monitored all transactions of all government entities and state-owned enterprises (SOEs). The Regulations of the Bank of Mongolia

(1954) outlined the major functions of the bank to monitor the implementation of the physical and financial plan, profitability of the SOEs, and tax collection through the accounts established with the bank. Since 1956, cash transactions among the enterprises outside the state banking system were prohibited, thus ensuring total control over the flow of money (Rinchin 1996, 338).

Together with the launch of plan, in 1952 a new function of financial control was assigned to the State Control and Inspection Commission (SCIC). The functions of the Commission included, among others, “monitoring the registration and maintenance of state property, implementation of planned targets pertaining to the quality of the goods and services, labor productivity, and cost reduction; ... inspecting usage of budget funds” (*Resolution 103 of the Council of the Ministers*, April 4, 1952). The Commission conducted frequent site visits to enterprises and conducted a detailed inspection of all accounts, material assets, manufactured products, their quantity and quality, petty cash, etc. The resolution specifically mentioned the penalties for the breach of plan, such as monetary penalties, administrative measures including demotion or resignation from the government post, and even imprisonment. Selected reports of misbehavior and measures taken were publicized in an attempt to demonstrate the seriousness of the enforcement.

Until the mid-1960s the SCIC was a hierarchical organization supported by the Prosecutor’s office and the Ministry of Internal Affairs. It’s main goal was to “detect the enemies of the state”, i.e., those who sabotaged the plan, by employing harsh measures. For instance, in 1947 the State Small Khural (lower house of the national assembly, later

dissolved) approved a law which imposed capital punishment for those individuals who used public – state or cooperative – property for personal gain or allowed such misuse. As C. Bavuu (a former senior controller) recalls, the law – “the cruel Jambaldorj law”, named after the person who initiated it – was enforced until the mid-1950s in the severe cases of misuse (interview with Bavuu). Likewise, skipping work, producing low-quality goods, or giving misinformation about the number of livestock or public assets were considered as criminal acts and punished accordingly. All these acts were considered as acts of sabotaging the regime.

However, this approach started changing since the mid-1960s. Bavuu noted that the system was not successful in detecting poor performance because it was highly centralized with no powerful branches in the localities, little outreach, and poor local staff. It mostly relied on administrative tools and was costly for the government (interview with Bavuu). In 1964 the Plenary Meeting of the Central Committee of the MPRP decided to combine the state control system with the party control. By the decision of the politburo the First Deputy Chair of the MPRP Control Commission¹⁵ was appointed simultaneously the Chair of the SCIC. This was the period when the party started playing a leading role in all decision-making. The youth organization and trade unions were also involved in the control function. The strategy of the communist party was to bring NGOs and the general public into the control functions. Public control units – so-called control groups and control posts – mushroomed as a result of a countrywide campaign. These units were established (almost) in every enterprise and government agency. The public control units were led by the party leaders of individual enterprises

¹⁵ The communist party also had its own control functions and the appropriate organizational structure.

and organizations. In 1972, there were 960 public control units with some 11,000 members.

The grassroots control system led by the party cells was further consolidated into the so-called “people’s control system” in 1972 by the decision of the 3rd Plenary Meeting of the Central Committee of the MPRP and later legalized. The main objective of creating the “people’s” system – which referred to the participatory nature of the control – was to engage as much as possible the workers of SOEs in the control process. The workers were the insiders within the SOEs who had intimate information about the production process and behavior of the directors of SOEs as well as fellow workers. With proper incentives, the workers could help the regime to solve the principal-agent issues.

The Law on People’s Control and Inspection was approved in 1981. The law and the entire experiment with devolution of control were designed after the similar experiment in the Soviet Union. Bavuu, as the deputy chairman of the SCIC, worked on the draft law in 1979-1980. As part of drafting the law, he studied similar laws passed in the Soviet Union and East Germany, which were built on the same principles. In 1980 he accompanied Minister of Justice B. Chimid to Moscow to familiarize himself with the Soviet system of state control. Bavuu recalls that the delegation was quite impressed with the system when visited the central control organs in Moscow. However, he was disappointed to see the incompetence and carelessness of local organs in Kabardino-Balkar region in Caucasus, where they were sent as part of the study tour. To him, the

system did not work well in the regions, which cast some doubt in the success of the new system (interview with Bavuu).

The newly legalized structure was based on the same principles of uniting the state, party, and public control elements. This new decentralized nature of the control was meant to address the growing information asymmetry issues. Those appointed to the people's control groups exercised substantial power against the management of the SOE to criticize the production and decision-making processes and point to and report on the cases of misuse of resources, waste and inefficiency. The units conducted inspections on a regular basis and inspections covered such important issues as fulfillment of the plan by SOEs, use of inputs and technology, incidences of waste and inefficiency, and behavior of the directors of SOEs. The local control units could undertake their own measures or inform the upper instances about the problems. The renamed People's Control and Inspection Commission (PCIC), in turn, now inspected not only selected SOEs and agencies but also monitored the performance of the control units.

Members of the people's control units were elected by the open vote of all workers and appointed for two years. Usually those elected were the best performing workers and were considered by the party leaders as reliable. By the mid-1980s, the number of those involved in the control system reached 40,000 – over 80 percent of which worked in the control units – making it the largest state/public organization in the country (interview with N. Luvsanjav, the former top controller).

The ultimate goal of the state control was to improve efficiency, increase rate of return on public investment, promote economy in the use of resources, detect any production gaps and ways to overcome it by identifying reserves that could be used for improving productivity. Inspections aimed not only at detecting bad performers but also revealing best practice and expanding it to other enterprises and farms. They also suggested changes to the existing norms and normatives on the unit consumption of raw materials, energy, and technology. Broad involvement of workers meant that a large group of people gained experience in economic matters which was the positive side of the reforms. The normatives (or ceiling on the use of certain inputs per unit of product) constituted an important piece of information for drawing annual and multi-year plans. In 1982 alone, as a result of state control some 4,975 normatives were revised; 2,966 new normatives were introduced; and 4,388 normatives were enforced resulting in 52 million Togrogs of public savings (Sanjdorj and Bavuu 1982).

The state control was one of the cornerstones of the regime and was as important as planning itself. Naturally, the communist party gave utmost importance to the function of control. Just like the planning commission, the control commission was a powerful well-staffed organization and had a higher status than other government commissions. Since the commission was involved in inspecting enterprises and agencies in various sectors, the best performing and brightest employees of various ministries with professional knowledge of the industry were selected to work for the commission (interview with Bavuu and Luvsanjav).

The communist party was a real source of power under the system and, as mentioned earlier, its powers escalated since the 1960s. As in all other socialist countries, in Mongolia the performance of individual enterprises with regard to plan was monitored by the party organizations, which were set up at every entity including state enterprises, state and collective farms, schools, hospitals, and government organizations. The inspection and control in the name of the Central Committee of the MPRP were frequent. However, the open votes to select control groups were party controlled. As Bavuu said, in those days it was virtually impossible to organize anything without party involvement. In fact, ultimately the reform was to improve the party control over production through broad engagement of the workers. In all organizations, the head of the control group was simultaneously deputy party leader of the organization (interview with Bavuu).

2.1.2 Implicit Taxation System

How did the communist rulers in Mongolia accumulate resources necessary for fulfilling the plan? One important feature of the central plan is that it was based on a system of implicit taxation. McKinnon argues that the one of the essential features of the classical socialist economy was that the system of taxation is “largely implicit and uncoded” (McKinnon 1992, 110). Because the state owns all means of production, the surpluses are extracted directly from enterprises and indirectly from households without codified or formal tax laws.

As in other centrally planned economies, the tax system in Mongolia was dominated by turnover and enterprise profit taxes, the two main types of implicit taxes. The amount of these taxes depended on the prices set by the planners, i.e., these taxes were embedded in the price system. As shown in Table 2.1, throughout the 1960-1980s, 70-95 percent of tax revenue came from turnover and state enterprise taxes.

Table 2.1 Shares of major sources of state budget revenue, 1960-1990 (as percent of total revenue)

	1960	1965	1970	1975	1980	1985	1989	1990
Tax revenue	95.2	91.1	79.2	84.0	78.2	81.2	71.5	77.6
Turnover tax	65.6	71.7	56.2	54.2	49.8	47.7	34.9	35.6
Enterprise taxes	18.4	15.2	18.3	26.0	24.8	30.1	33.8	31.5
Personal income tax	4.8	1.8	2.0	1.4	0.8	0.7	0.8	0.8
Nontax revenue	4.8	4.8	5.1	5.3	5.0	4.5	4.5	4.5
Social security	4.8	3.5	4.0	3.9	3.9	3.6	3.7	3.7
Foreign borrowing	0.0	4.1	15.7	10.7	16.8	14.3	23.9	17.9
Total revenue and net borrowing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance of Mongolia

Turnover taxes were levied on imported consumer goods, exported goods and certain domestically produced goods and were the price differential between the price paid to the supplier and price paid by the consumer (Tanzi 1992). In the case of imported goods, they were the difference between the (fixed) domestic price and the price paid to the foreign supplier of the good converted into the local currency at the official exchange rate. These were also known as the import price differential. Turnover taxes on exported goods were determined by the price differentials between the domestic procurement price and the foreign contract price converted into the local currency at the official exchange

rate. Domestic producers paid turnover taxes which were included in the wholesale price.

There were laws regulating personal income tax, e.g., Tax Law of 1957 and 1964. However, there was no such legal regulation for turnover or enterprise taxes. Resolution of the Council of the Ministers (1961) specified that the turnover tax rate could be anywhere between 15 and 60 percent (Rinchin 1996). Turnover and profit taxes were individually negotiated with enterprises, depending on their expected performance. There was no uniform tax rate or tax principle.

Throughout the 1970s and the first half of the 1980s, about three quarters of turnover tax revenue was contributed by the foreign trade state companies in the form of import and export price differentials. Domestic producers paid significantly less, with vodka and beer producers contributing about 70 percent of domestic turnover taxes. However, in 1986 turnover taxes on a large number of products were withdrawn and replaced by profit taxes. This was not a deliberate tax policy change but rather a result of wholesale price reforms which led to substantial increase in wholesale prices on many goods. Since retail prices on most goods and services remained at the same level, the price differential between the wholesale and retail price was much smaller as a result. On the other hand, enterprises were able to increase their revenue due to higher wholesale prices and therefore now had to pay higher profit taxes (see table above for details).

Enterprise taxes, or profit taxes, were incorporated or “planned” into the wholesale prices and were individually negotiated with enterprises. The profits were defined as the difference between the sales revenue and production costs. The enterprise profit tax therefore was a tax on production rather than on net income and was in effect a mandatory transfer of funds to the budget (ADB 1992). The share of profit taxes in the total revenue increased gradually through the 1970-1980s, as turnover taxes declined.

Personal income tax played a negligible role. During the earlier years of the communist regime, tax structure served to discriminate against the private sector, with progressive tax rates of 7-15 percent on wages and salaries and 35-75 percent on income from private entrepreneurship which hired labor (Tax Law 1957). Since 1960 when all means of production were completely nationalized, excluding a small fraction of the herds left in private ownership after the mass expropriation in the agricultural sector in 1959, the tax differentials ceased to play a meaningful role and were eliminated in 1960. Following the policies of the Soviet Union, a series of personal income tax cuts were undertaken in the 1960s, thus reducing the importance of direct taxation. The tax rates were further reduced down to 0-4.2 percent (the lowest and highest) in 1971 (*Order 140 of the People’s Great Khural*¹⁶, July 5, 1971). The ultimate goal of the tax system was to eliminate any type of direct taxes levied on individuals, as “the levels of socialist accumulation increased reaching a level sufficient to finance government activities without personal taxation” (Tsedenbal, 1967, Vol. II, 439).

¹⁶ People’s Great Khural is a national assembly which gathered only twice a year and made decisions on major national policy issues. Although de jure a supreme decision-making body, it was in fact a rubber stamp for the decisions made by the Central Committee of the Communist Party and the Council of Ministers (the executive).

2.1.3 Fixed-Price System

Another important feature of the central plan was that it was based on a fixed-price system. The fixed-price system ensured the stability and predictability of the planned economy both in terms of the production and consumption. The history of planned economy in Mongolia witnessed extraordinary stability in terms of prices, which have not seen significant changes for decades (Table 2.2).

Table 2.2 Retail prices on selected consumer goods, 1960-1990 (Togrogs/unit)

Commodity	Unit	1960	1970	1980	1990
Milk	Liter	1.2	1.3	1.4	1.9
Meat	Kg	5.0	6.2	5.9	5.9
Coats	Piece	137.0	112.0	119.0	170.0
Shoes	Pair	44.0	41.0	57.0	46.0
Coal	Metric ton	40.0	50.0	50.0	50.0
Gasoline	Liter	0.9	0.9	0.9	1.2
Power (household use)	kW/hour	0.4	0.4	0.4	0.3

Source: National Statistical Office

The fixed-price system created an illusion of relative stability of real income of the people, particularly at the earlier stages of socialist development. However, when the economy started experiencing shortages, which became particularly noticeable in the 1970s and 1980s, the real incomes gradually eroded. The black market of consumer goods, particularly clothes and shoes, flourished towards the end of the 1980s, while prices and supply of utilities, transportation, housing, basic foodstuff, and other essential

goods were maintained at a stable and incrementally increasing levels (see Table 2.3 below for the real per capita production of some basic goods).

Table 2.3 Per capita real production of selected goods, 1960-1990

Commodity	1960	1970	1980	1990
Electricity, kW per hour	117.5	439.3	973.2	1613.1
Coal, kg	649.7	1602.0	2719.0	3443.7
Copper concentrate, kg	-	-	-	170.0
Fluorspar, fluorspar concentrate, kg	42.3	61.8	375.0	355.0
Cement, kg	-	77.1	110.5	212.4
Leather boots, pair	0.9	1.3	1.3	2.3
Leather coat, piece (per 100 persons)	1	3	3	2
Fur coat, piece (per 100 persons)	3	3	5	7
Processed meat and meat products, kg	13.4	28	35.3	28.4
Processed milk and dairy products, liter	1.05	9.0	15.5	28.4
Flour, kg	27.6	66.7	51.8	90.1
Bread and confectionary, kg	14.6	29.8	43.5	50.5
Hand soap, pieces	2	3	3	5

Source: National Statistics Office 1991 *“The Economy of the Mongolian People’s Republic in 70 years (1921-1991)”*, Statistical Almanac

Table 2.4 provides data for the nominal and real income of the people during the 1960-1990. We observe a moderate and decreasing growth in per capita real income throughout the last three decades of the communist regime.

Table 2.4 Per capital nominal and real income in Togrogs and its growth rate, 1960-1990

	1960	1970	1980	1990	Growth rate (percent)		
					1970/1960	1980/1970	1990/1980

Nominal income	1174	1660	2146	2539	141.4	129.3	118.3
Real income	1254	1836	2523	3060	150.4	133.8	121.3

Source: National Statistics Office 1991 *“The Economy of the Mongolian People’s Republic in 70 years (1921-1991)”*, Statistical Almanac

The problems with the fixed-price system and the need to reform it were repeatedly discussed by the top leaders of the country. As the former Prime Minister D. Sodnom admitted in an interview, the prices no longer served any economic purpose because they did not reflect the costs or the interplay of supply and demand. They became a tool of political management rather than economic policy. The issue of price reforms was postponed for several decades and some partial reforms were finally introduced in 1986. However, these were not radical because they reformed the wholesale price system while the retail prices were maintained at the same level, i.e., at the level of the 1960s. Sodnom and the former Finance Minister A. Bazarkhuu note that a hot debate about price liberalization among the leaders which took place in the mid-1980s did not lead to major changes because it was almost politically impossible to pursue such reforms. The communist leadership thought that liberalizing prices might shake the foundations of the system and ultimately the legitimacy of the regime.

Because the economy was dependent on foreign inputs and markets, the policy of fixed pricing inevitably meant that the state had to provide subsidies in the cases where the cost of production was higher than the fixed price. The government spent a significant share of its budget in the so called material production¹⁷. In addition to public

¹⁷Material production under socialism covered production of material products: goods and material services, such as transportation and distribution of goods, repairs and the like. Provision of non-material services (such as health care, education, science, general administration and the like) was treated as

investment in these sectors, these expenditures included various types of subsidies (Table 2.5).

Table 2.5 Budget expenditures by sectors, 1960-1990 (as shares of total expenditure)

	1960	1965	1970	1975	1980	1985	1989	1990
Material production	53.1	50.5	46.3	37.6	38.5	43.6	47.1	44.5
Agriculture	13.1	9.5	11.8	11.1	10.0	9.5	13.4	12.4
Industry	6.5	11.1	7.4	3.1	2.1	3.1	6.2	7.4
Construction	9.1	11.0	4.3	7.0	8.0	5.1	7.1	6.8
Transport and communication	6.3	3.0	1.6	0.8	0.6	1.2	1.6	1.2
Communal services	6.1	3.4	1.4	4.8	3.5	4.7	8.5	6.5
Trade	12.0	12.3	19.7	10.8	14.3	20.0	10.2	10.2
Social and cultural activities	31.4	37.4	38.8	41.9	40.4	37.9	38.6	42.8
Education	14.4	17.0	17.1	18.6	18.6	16.7	15.8	17.7
Health	8.9	9.2	9.0	9.0	8.1	7.6	7.8	8.5
Social security	4.3	4.8	4.0	4.1	3.2	3.1	3.1	3.5
Social welfare	1.0	2.7	5.3	6.6	7.3	7.1	7.2	8.3
Other (science, culture, sports)	2.7	3.6	3.4	3.6	3.2	3.5	4.7	4.8
Defense and administration	13.2	11.4	13.7	18.6	19.7	17.3	13.3	11.6
Other	2.3	0.7	1.2	1.9	1.4	1.2	1.0	1.1

Source: Ministry of Finance

Subsidies included export, producer, and consumer subsidies. Producer subsidies include subsidization of “unplanned” losses incurred by state enterprises, due to inefficient technology as well as government intervention in pricing decisions. Enterprises, including state trading companies and state agricultural farms, were also granted with consumer subsidies, when the fixed price of consumer goods was less than the cost at the retail point. The government subsidized many essential goods and services

activities in the non-material sphere where only redistribution and final consumption of product and income takes place (Khomenko 2006).

such as housing, food, transportation, heating, children's clothes, etc. The subsidies were also given in the form of free medicine and food. These constitute the bulk of budget resources spent on material production, which amounted to about 45 percent of state budget on average in the three decades of 1960-1990.

The communist state pursued strong paternalistic policies with regard to personal consumption. Besides cash wages, workers and employees "receive payments and allowances from social consumption funds in the form of social insurance payments, pensions, various benefits, grants to students, free education and free medical services, expenditure on the maintenance of kindergartens, nurseries, etc." (*Statisticheskiy Yezhegodnik SEV 1984*, p. 379).

2.2. Role of Foreign Aid and Trade

Although the basic system of the central plan in Mongolia described above closely resembles that in the Soviet Union, there is one feature that distinguishes Mongolia from most other countries in the Eastern Bloc, perhaps with the exception of Cuba – its heavy reliance on foreign aid as a means of securing funds for investment and development purposes. Mongolia started receiving substantial amount of aid after joining the Council of Mutual Economic Assistance (CMEA) in 1962.

2.2.1 CMEA Trade Regime

Foreign assistance and investment in Mongolia came in the form of credits on preferential terms, grants, turnkey projects¹⁸, and joint ventures. Joint ventures in such sectors as transportation (Mongolian Railroads Company) and minerals (Erdenet Copper Mining Concern) were of strategic economic value to the Soviet Union. With the establishment of several joint ventures, industrial development accelerated significantly. Foreign trade expanded rapidly. The country started specializing in certain industries and adopted international standards of measurement.

As a new member of CMEA, Mongolia now officially became part the specialization and “division of labor” among the CMEA countries. Mongolia’s further industrial development was determined by its role as a supplier of agricultural products. Developing light industry including leather and fur processing, meat and meat products, wool and cashmere became the core of the industrialization policies in the 1960-1970s. A new boost to foreign aid was conditioned by the adoption of the “Comprehensive Program of Developing Socialist Economic Integration” in 1972 at a CMEA summit (interview with Bazarkhuu). The main purpose of the comprehensive program was to support relatively backward CMEA member countries – namely Cuba, Vietnam, and Mongolia – to develop economically and integrate them into the system of division of

¹⁸ Examples of turnkey projects constructed since 1960 include a woodworking combine built by Poland; a flour mill by Hungary; cement works by Czechoslovakia; a meat combine by East Germany; a house-building combine by the Soviet Union; a furniture and cardboard combine by Romania; a sheepskin coat factory by Bulgaria, and many others. There were a few hundred projects of varying size financed by the Soviet Union alone. Turnkey projects financed by loans from the Soviet Union and other CMEA countries were a major form of assistance in the 1980s.

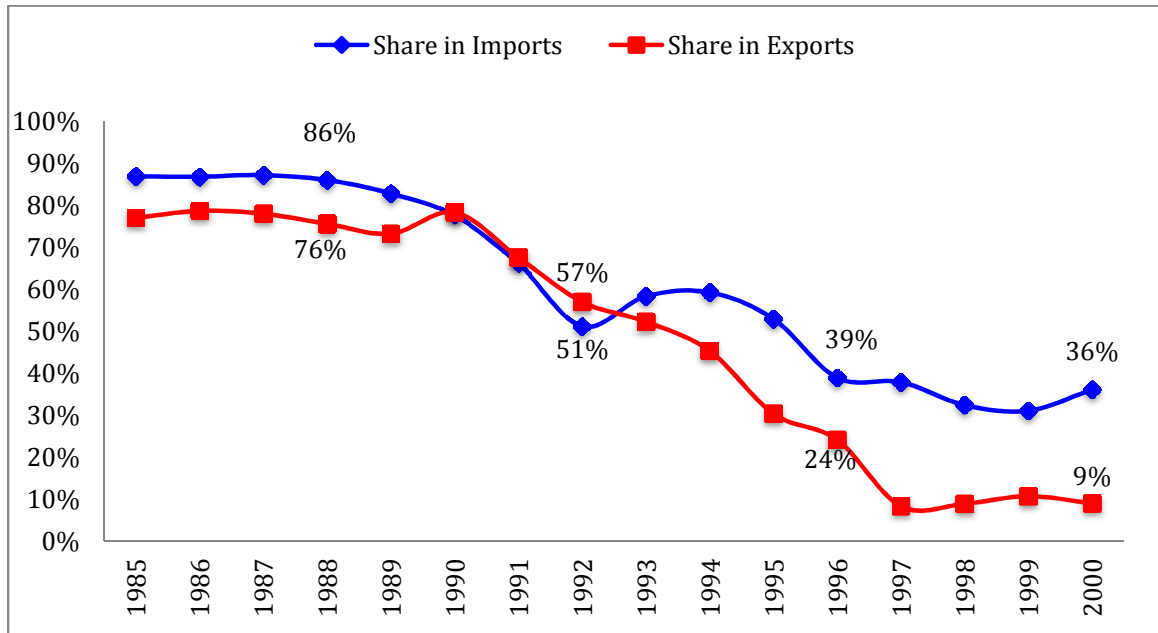
labor. Following the adoption of the program by the CMEA, the Mongolian government took series of measures in its planning, foreign trade, loan, and foreign exchange systems in order to incorporate the new foreign economic policies. Transferrable ruble became the main foreign currency to be used in all international transactions. The five-year and annual plans and investment plans were now tightly integrated with those of the Soviet Union and other CMEA countries. The flow of resources from these countries increased substantially as a result.

As part of the newly implemented policies of integration, Mongolia became a supplier of agricultural products – meat, wool, cashmere – and later with the launch of Mongolia-Soviet joint venture of the Erdenet Copper Mining Concern in 1981, supplier of cheap copper and molybdenum. As the sole purchaser of export products of Mongolia, the Soviet Union imposed prices lower than the world prices, which created a new incentive for the Soviet Union to maintain economic relations with Mongolia.

Mongolia's tight economic and political ties with the Soviet Union defined in major way the socio-economic development of the country since the 1960s. Because of the undiversified nature of its economy, Mongolia's dependence on the CMEA arrangement was perhaps the highest among the group (interview with Bazarkhuu and ADB 1992). Exports accounted for 28.1 percent and imports accounted for 46.9 percent of GDP on average throughout the 1980s (adjusted ratios calculated by the IMF in Milne et al 1991, 25). The share of imports is even higher if the financing of large turnkey projects is included in the calculation, imports/GDP ratio reaching 56 percent in the second half of the 1980s. Within the high share of trade in Mongolia's GDP, the Soviet Union played a

dominant role throughout the second half of the 1980s, but its share sharply decreased in the first half of the 1990s (see Figure 2.1).

Figure 2.1 Share of the USSR/former USSR in total exports and imports of Mongolia (percent, 1985-2000)



Source: National Statistics Office, Statistical Yearbook, 1989-2002

Note: Data from 1985 to 1991 show trade with the USSR. Data from 1992 on includes countries which formerly were part of the USSR, namely Belarus, Kazakhstan, Russia, and Ukraine in total imports and Kazakhstan, Russia, and Ukraine in total exports.

According to T. Namjim, one of Mongolia's former top planners, over the period of 1965-85, Soviet aid to Mongolia increased tenfold; the basic assets of the Mongolian national economy grew almost tenfold; and gross social production and national income grew almost fourfold. During the last two decades leading to the drastic changes in 1990, Mongolia's Net Material Product grew at an average rate of 5.5 percent annually. In the mid-1980s, when most CMEA countries were experiencing systemic difficulties and sluggish growth, Mongolia had the highest rate of growth of national income (Namjim, in

newspaper *Komsomol'skaya Pravda*, November 26, 1986). During this period of time Soviet aid to Mongolia was more “generous” than ever before (Sanders 1987) and there were certain geopolitical reasons which will be discussed later. As a result, the economy grew at an average rate of 6.1 percent annually during 1966-1989 (National Statistics Office).

This increased reliance on foreign aid is reflected in the budget numbers. Budget revenue figures presented in Table 2.1 reveal a rising deficit during 1960-1990. Revenue lag recorded its highest level in the 1980s, with a structural deficit ranging from 13-14 percent in the first half of the 1980s to 15-20 percent in the second half of the 1980s. Foreign borrowing was almost the sole source to support this extremely high fiscal deficit. Borrowing was well above 30 percent of GDP for most of the 1980s. As the budget increasingly relied on foreign financing, the need to mobilize domestic resources to meet development objectives diminished. As such, neither expenditure cuts nor additional revenue mobilization was observed. As a consequence, during the three decades before transition the economy grew without a rigorous resource constraint as well as structural adjustment (ADB 1992). During the late communist period, Mongolia borrowed not only for investment purposes, but even for consumption purposes, in particular to pay for imported consumer goods.¹⁹

The external shocks of the late 1980s were absorbed by an increased foreign assistance but had considerable negative effect on the balance of payment and fiscal

¹⁹ This argument surfaced repeatedly in interviews with the former Prime Minister D. Sodnom, former Finance Ministers A. Bazarkhuu and G. Davaasambuu.

affairs, leading to further weakening of the budgetary position in the second half of the 1980s. By the end of 1990, outstanding foreign debt amounted to about 10 billion transferable rubles, which was ten times the country's GDP, in accordance with Standard and Poor's estimation²⁰. It should be noted that about 80 percent of total debt was created in the fifteen years between 1975 and 1990 (Namjim 2002), and well over 60 percent in the 1980s only (See Table 2.6 below).

Table 2.6 Disbursement of loans from the CMEA countries by loan category (1980-1990)

	Trade loans (Balance of payment deficit)		Technical assistance loans (Investment projects)		Total amount of loans, mn transferable rubles
	Amount, mn transferable rubles ²¹	Percentage of all loans	Amount, mn transferable rubles	Percentage of all loans	
1980	81.3	28.5%	204.2	71.5%	285.5
1981	189.0	31.1%	418.5	68.9%	607.5
1982	190.0	28.9%	467.4	71.1%	657.4
1983	205.0	35.3%	375.6	64.7%	580.6
1984	230.2	36.8%	394.5	63.2%	624.7
1985	251.5	38.1%	408.7	61.9%	660.2
1986	270.1	35.4%	492.5	64.6%	762.6
1987	285.2	38.9%	448.9	61.1%	734.1
1988	270.0	37.1%	457.9	62.9%	727.9
1989	205.4	31.5%	446.3	68.5%	651.7
1990	161.8	28.6%	404.0	71.4%	565.8
Total	2,339.5	34.1%	4,518.5	65.9%	6,858.0

Source: National Statistics Office, various years

²⁰ The two countries held negotiations for debt repayment in the late-1980s –early 1990. The Mongolian Government insisted on renegotiating the amount, arguing that for decades Mongolia has been selling agricultural and mineral products to the USSR at prices well below the market rates. The Mongolian Government requested 90 percent debt relief (Namjim 2002). However, the negotiations were interrupted in 1990. This outstanding debt was paid off in 2004, as a result of a deal between the two countries. Mongolia paid \$250 million. Many said that the deal marks the largest debt forgiveness by Russia of loans provided by the former Soviet Union.

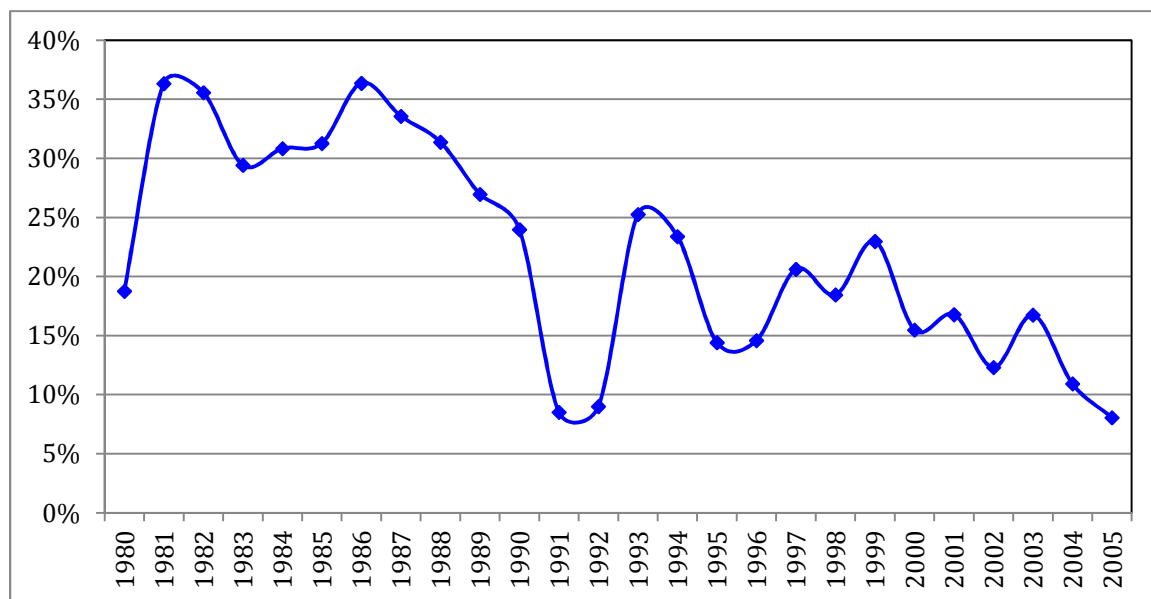
²¹ Transferrable ruble was the main trade currency within the CMEA and its official exchange rate was TR1=US\$1.

Loans received from the Soviet Union and some other CMEA countries were generally divided into two categories: trade loans to compensate the balance of payment deficit and technical assistance loans that financed turnkey projects and machinery and equipment. Investment loans were used in the industrial, agricultural, construction, energy and infrastructure, and social development sectors and were given at a preferential interest rate of 1.5-2 percent per annum. As Table 2.6 above demonstrates the share of trade loans vs. technical assistance loans has generally been increasing throughout the mid-to-late-1980s, mainly due to deteriorating terms of trade. For the period from 1975 to 1990, the prices of machinery, equipment, spare parts and other critical import items increased on average by 220 percent, with prices of some items increasing fivefold. During the same period, the prices of export items such as copper and agricultural products increased only by 36 percent (Namjim and Itgel 2003).

Following the economic difficulties the Soviet Union started experiencing and the establishment of the new convertible currency trade regime, Soviet foreign assistance to all developing countries within CMEA and outside of it in the form of trade credits, technical assistance and project assistance slowed down considerably in 1990, and stopped in early 1991. Figure 2.2 provides data on the relative significance of foreign aid. The share of foreign aid peaked in the mid-to-late-1980s when the Soviet Union increased substantially its financial and technical aid. Aid reached over 30 percent of GDP in the 1980s. These were used to finance several large turnkey projects as well as finance the foreign trade deficit. Not surprisingly, this period coincides with the

unprecedentedly high levels of budget deficit, which peaked at 23.9 percent of GDP in 1988.

Figure 2.2 Share of foreign aid (ODA) in GDP (1980-2005, in percent)



Source: National Statistics Office, Ministry of Finance

Note: ODA (official development aid) in 1980-1990 includes all external resources received in the form of budget assistance, trade loans, and turnkey projects financed by the Soviet Union and other CMEA countries. ODA since 1990 includes concessional loans and grants provided by multilateral and bilateral donors for the balance of payment purposes and project financing.

Extensive use of imported inputs in most production activities and extensive reliance on imports of consumer goods amplified supply shortages in all sectors and contributed to a sharp decline in output in the early 1990s. The rapid political and economic changes taking place in many trading partners and the collapse of the CMEA resulted in enormous trade disruptions. Growing reluctance to supply goods for transferable rubles and the breakdown of the old Soviet distribution system resulted in import constraints from trading partner countries. Trade with convertible currency area expanded but could not fully compensate for declining trade with the former CMEA

partners. Exports fell by 43.5 percent and imports by 49 percent in 1990. The following year saw another round of sharp contraction in imports, a further halving of the 1990 import level (World Bank 1993). Imports became essentially concentrated on petroleum and food, and export earnings afforded very limited amounts of other products.

2.2.2 Geopolitics of Foreign Aid

What kind of considerations did the Soviet Union rely on when it decided to provide such a 'generous' support to Mongolia? First, Mongolia was the second country in the world to follow in the path of socialist development and the Soviets had a clear political interest in spreading the ideas of the dictatorship of the proletariat and socialism outside its own territory. Soviet dominance was established in the 1920s, after the Red Army supported Mongolia's liberation effort against the Chinese colonization. The Soviet Union was guided by its own interests when it offered to protect the independence of Mongolia during the 1930s and 1940s when Mongolia was struggling to be recognized by the world community as an independent state. Scholars agree that the Soviets had important geopolitical reasons for dominating Mongolia, such as using Mongolia as a buffer state between China and Japan and the Soviet Union (Dashpurev and Prasad 1993, 43). It could be argued that a country of less than two million people was a great buy for the Soviets; they got the same geopolitical benefits but at very little cost relative to other countries "on the market".

After a power struggle in the early 1960s among the political leaders of the MPRP, the pro-Soviet wing took over (not without the help of the Soviet rulers) and the policies of Sovietization of Mongolia were openly pursued. Soviet troops were stationed in Mongolia since the mid-1960s when the relationship between the Soviet Union and China deteriorated and the two countries parted, following their own ways. The number of Soviet advisers, consultants, and specialists in every branch of the social, economic, and political life of the people increased substantially (Dashpurev and Prasad 1993, 55). There were over 100,000 Soviet specialists stationed in Mongolia with their families by the early 1980s. By the 1980s, the main aspects of economic and social development were decided with heavy involvement of the Soviet Union.

Soviet specialists stationed in Mongolia were involved mostly in technical issues but less so in policymaking. A few ministries had Soviet advisors, usually one per ministry, who provided guidance on policy issues. Bazarkhuu recalls that the advisor who worked at the Ministry of Finance was not heavily involved in ministerial issues and was removed from political decisions. Apparently, this was the case with other ministries as well. The consultation with the Soviets was at the higher level on general development and sectoral issues, but not at the enterprise level, perhaps with the exception of Erdenet copper plant where numerous Soviet engineers were employed. The number of policy advisors in Mongolia was minimal, while the bulk of specialists were the military and technical staff.

Technical specialists worked in their own units and did not directly interact with Mongolians, e.g., there were several construction units that worked on major construction projects; they employed a few Mongolians like drivers and support staff but not technical specialists. There were entire residential districts in Ulaanbaatar (and a couple of other cities such as Darkhan and Erdenet) where the Soviet specialists lived, with schools, specialized shops and services with limited (Soviets only) access.

It was no accident that Mongolia's joining the CMEA coincided with the worsening of political relations between the Communist Parties of the Soviet Union and China. The ideological differences of the leadership of the two parties became more profound in the early 1960s – 1962, to be precise – which eventually led to the breakup and even military conflict between the two countries. Mongolia was forced to follow the Soviet Union. Mongolia became a member of CMEA in June 1962 at the 16th extraordinary meeting of the CMEA. In 1964, Soviet military troops were moved to Mongolia to “help the construction sector in Mongolia”; two residential districts were initiated and big construction projects began shortly after. Accompanying the construction troops, a big contingent of Soviet military engineering, communications, air, tank and machine-gun units were stationed in Mongolia. As a result, Mongolia had to cancel its Law on Protection of Peace and the associated anti-military measures adopted in an effort to support the world peace movement. The Defense Ministry was re-established, after about ten years since its abolishment in the early 1950s, and military budget increased. Talks about the Chinese invasion were intensified during these years

(Rinchin 1996). In return for the military involvement, the Soviet Union expanded its financial and technical support.

Soviet aid decreased sharply since 1989 and approached zero within less than two years. This is conditioned both by economic and geopolitical reasons. The Soviet economy experienced severe decline in the late 1980s so that it has become increasingly difficult to spare resources to support a regime elsewhere. Secondly, the geopolitical situation in East Asia and the world as a whole changed so much that the USSR did not need any support of Mongolia in the region. Both the USSR and Mongolia improved their political and economic ties with China in the mid-1980s. Mongolia resumed border trade with China in 1985, but the relationship between the two countries improved noticeably after Mikhail Gorbachev's Vladivostok speech in July 1986, in which he said that Mongolia and the Soviet Union were discussing a partial withdrawal of Soviet troops. A Soviet motorized rifle division withdrew between April and June 1987, a 25 percent cutback of the roughly 60,000 Soviet troops still left in Mongolia (Jarret 1988, 81).

In his speech to the United Nations in December 1988 Gorbachev promised that a 'large portion' of the troops would be withdrawn, subsequently quantified at three-quarters. The decision reflected the change in the global environment and subsequent change in foreign policy of the Soviet Union, rather than the pressure of the Mongolian leaders. In March 1990 the Mongolian and Soviet governments reached an agreement that all troops and their equipment will be withdrawn by September 1992 (Jeffries 2007,

7). In 1987 Mongolia officially renewed its scientific and technical cooperation with China, which was disrupted for over two decades.

2.3. Demise of the Central Plan and Attempts to Reinvent It (1987-1989)

2.3.1 Economic Reforms

The first signs of a demise of the central plan were reflected in the macroeconomic performance of socialist countries. By the early 1960s, many countries in Central and Eastern Europe and the Soviet Union itself already exhibited the first signs of stagnation and slowdown. The most developed countries among the group – Czechoslovakia, the German Democratic Republic, and Hungary – recorded the lowest growth rates. In 1963, Czechoslovakia was the first communist country to register an official decline in national income in peacetime, a shattering event. Numerous studies of former socialist countries provide ample evidence of the demise of the system which started in the 1960s. Since the 1960s, many countries tried reforms which came under various labels such as “market socialism”, “workers’ self-management”, or “third way” between capitalism and Soviet-style socialism. In spite of partial reforms effort, by the early 1980s, general stagnation had taken hold across the whole socialist camp (Åslund 2002).

Macroeconomic and social indicators of Mongolia during 1960-1990 show a more cheerful picture. Economic growth of Mongolia was one of the highest in the group through the end of the 1980s (see Table 2.7 and Table 2.8).

Table 2.7 Net Material Product (NMP) and Gross Domestic Product (GDP) average annual growth rates, 1966-1989, percent²²

Period	Average annual growth rate
1966-1970	4.7%
1971-1975	6.7%
1976-1980	6.8%
1981-1985	6.8%
1986-1989	5.5%
Average for 1966-1989	6.1%

Source: National Statistics Office

Table 2.8 Change in NMP (in constant prices) 1980-1990 (in percent of 1980) in selected CMEA countries

Indicator	BUL	CUBA	CZECH	GER	HUN	MON	POL	ROM	VIET	USSR
NMP in 1990 (1980=100)	141	143	117	139	112	156	108	144	153	127

Source: *Statistical Yearbook of COMECON Countries 1989*, Table 21, p. 59

Note: BUL – Bulgaria, CZECH – Czechoslovakia, GER – East Germany, HUN – Hungary, MON – Mongolia, POL – Poland, ROM – Romania, VIET – Veitnam

In spite of seemingly successful functioning of the central plan in Mongolia, as growth rates demonstrate, efficiency issues were a major problem and emerged

²² Data for 1966-1979 show annual growth rates of the Net Material Product. Data for 1980-1989 show GDP growth rates. Net Material Product was the main macroeconomic indicator used for monitoring growth in national accounts of socialist countries. NMP is the conceptual equivalent of Gross Domestic Product (GDP), but numerically is calculated differently. NMP is calculated for the material production sectors only, and excludes most of the “non-productive” service sectors, which are part of GDP, and depreciation of fixed assets.

continuously. In a small and undiversified economy like Mongolia the task of drawing comprehensive plans has been easier, particularly at the initial stages of socialist development. Lack of well-trained planning cadres has been mentioned as a hurdle, but Mongolian planners relied heavily on the Soviet education system and expertise. However, as the economy matured and became more diversified, it is not difficult to imagine that the planning task became exceedingly difficult. Mongolia's State Planning Commission prepared plans for production and sales of over 2,000 products in the mid-1980s (Namjim 2004, 313), which was significantly less than in a giant economy like the Soviet Union, where over 60,000 product plans were drawn up in total, representing some 10 to 15 million different types of product in circulation in the USSR (Yakovets in Rutland 1985, 116). Yet the planning exercise became increasingly cumbersome for Mongolia's limited capacity.

The initial high growth rate of socialist production was fuelled by extensive methods. Generally the inefficiency built into the investment processes meant that high growth rates could be generated only by disproportionately high investment rates, at the cost of consumption. Mickiewicz (2010) argues that centrally planned economies were already in recession or near-stagnation, in spite of maintaining huge investment spending programs. Mongolia, with a record-breaking 46 percent of its GDP spent on investment, generated only 4.2 percent GDP growth in 1989 (Mickiewicz 2010, 29-30).

Inefficiencies and economic malfunctioning of the system started to be recognized and openly discussed by the country's leadership in the early-to-mid-1980s, although the

problems emerged earlier. Massive investments in the industrial production led to a substantial change in the structure of the national output. However, it was noted that the production efficiency and rate of return on investment was consistently falling. In 1987 Prime Minister Sodnom stressed that there was an increasing gap between the “potential growth rate” conditioned by growth of assets and actual economic growth. It was noted that much of the greatly improved industrial growth potential has not been realized. In spite of the unprecedented increase in investment, the real production rose only at a moderate rate.

The most important reason for satisfactory economic and social performance was foreign aid pumped into the economy in massive amounts. Large infusions of Soviet and CMEA aid and the agreement of Moscow to underwrite the Fifth Five-Year Plan (1971-1975) had salutary effect on the economy. Gross industrial production rose by 45 percent during this period. All subsequent five-year plans were coordinated with the Soviet Union and other socialist countries. More aid was forthcoming in the following years to support agriculture, mining, fuel, power, food, and light industries (Worden and Savada 1991). It was noted by the top leadership that in the fifteen years between 1975 and 1990, total investment amounted to 58 billion Togrogs which was 3 times more than all investment in the preceding 55 years of socialist development (*T. Namjim, First Deputy Chairman of the State Planning Commission, Speech at the 6th Plenary Meeting of the Central Committee of the MPRP, June 22, 1989*).

As the central planners estimated, in the 5th five-year plan (1971-1975), one Togrog²³ of investment in the material sector produced 0.21 Togrogs of marginal net output. The number was reduced down to 0.12 Tog in the 6th five years (1976-1980), 0.13 Tog in the 7th five years (1981-1985), and 0.098 Tog in the first three years of the last five-year plan, i.e., 1986-1990. Investment in agriculture was least productive compared to other sectors. The marginal net product of one Togrog of investment in agriculture was 0.07 Tog in the 5th five-years, while the same indicator fell down to 0.03 Tog in the first three years of the 8th (last) five years. One of the reasons of low return on investment was increasing prices on investment goods and deteriorating terms of trade. However, it was emphasized that one should not blame the worsening terms of trade alone for this problem (from *Speech of P. Damdin, Secretary of the Central Committee of the MPRP at the 6th Plenary Meeting of the Central Committee of the MPRP (June 22, 1989) on improving the efficiency and rate of return on investment*).

The existing planning practices were criticized at the party plenary meeting for being overly centralized and inflexible. It was emphasized that heavily centralized planning leaves individual enterprises limited scope for input decisions, low incentives for innovations and so-called “socialist entrepreneurship”, i.e., various initiatives to improve efficiency and production levels, turning individual enterprises into passive players waiting for the instructions from the higher authorities. It was underlined that under the existing planning practices, the foremost goal of enterprises became to fulfill the planned production targets at any cost, which had negative impact on the quality of

²³ The national currency of Mongolia, a commercial rate of 4.44 Togrogs per transferrable ruble was set in 1961 as the official exchange rate and was used in all CMEA foreign transactions.

the goods and services, as well as productivity and efficiency (*Third Plenary meeting of the Central Committee of the MPRP, June 1987*).

By the mid-1980s the Soviet Union and other CMEA countries have already initiated reforms, gradually drifting away from the centralized plan towards the system of indicative planning and economic incentives. Mongolia lagged behind these countries in terms of the scope and nature of the reforms. The changes that were taking place in the Soviet Union and particularly Central and Eastern Europe were felt in the trade regime between Mongolia and these countries. Mongolia's external terms of trade started deteriorating in the second half of the 1980s, when CMEA trade arrangements changed to reflect the world prices. The new contract prices for traded goods for 1986-1990 were fixed at the average world prices for 1985 which turned out to be disadvantageous for Mongolia. This resulted in deterioration of the terms of trade by 12 percent in 1986 (see Table 2.9 below). Mongolia suffered from the fixed 1985 level prices when in the subsequent years the world prices of copper increased and world prices of petroleum products, the main import item, declined. However, the amount of aid, particularly the balance of payment loans, which culminated in 1986-1988, effectively covered these imbalances and concealed the imminent signs of institutional demise in Mongolia.

Table 2.9 Terms of Trade (1975-1990)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Index, 1980=100	149	100	99	94	87	83	86	76	76	78	83	85
Annual change (%)	8.3	-8.3	-1.0	-6.5	-6.7	-6.3	3.8	-11.9	11.0	22.0	5.4	3.4

Source: ADB 1992, Table A19

These unfavorable changes which involved transferring to hard currency regime and worsening terms of trade, combined with the customary path to follow in the steps of its “big brother” finally forced the Mongolian government to undertake more decisive reforms.

The eighth five-year plan (1986-1990) was the last comprehensive central plan elaborated by the government. During this period, the focus shifted from the achievement of physical targets under the central plan to policy reforms. Notwithstanding the generally on-track achievement of targets during the plan period, there was a growing realization among policymakers that the CMEA structure was gradually disintegrating and that the changing international environment required restructuring of the economy based on free-market systems and dismantling of central planning (ADB 1992, 11).

In the late 1980s, dissatisfaction with the economic slowdown of the last years of almost 40-year reign of Tsedenbal and the influence of the Soviet *perestroika* led Mongolia to launch its own program of economic reforms. Loss of efficiency and poor quality of goods were considered the main issues by the country’s communist leadership. The very first reform ideas were openly discussed in 1985 by the Central Committee of the MPRP, following similar discussions held by the Communist Party of the Soviet Union. During the following party meeting (May 1986) it was noted that “The main goal for the forthcoming five years is to increase efficiency by economizing on material costs; improve the quality of products and services; increase labor productivity; introduce

technical innovations; improve economic mechanisms of planning and management in all sectors of the economy.” (*Speech of P. Jasrai, Deputy Prime Minister and Chairman of the State Planning Commission at the 12th Plenary Meeting of the Central Committee of the MPRP on May 21, 1986*).

The leaders took a gradual approach in reforming the system of centralized planning. Following these discussions, experiments with a new economic management system were gradually introduced in line ministries, starting with the SOEs and entities under the Ministry of Light and Food Industry and Ministry of Communications in 1985. Ministries and their subordinate SOEs moved to a new system of management and planning after two years of experimenting. The politburo was encouraged by generally positive results – moderate increase in industrial output and total sales, some reduction in costs, and examples of economy on raw materials – and planned introducing the new mechanism gradually in all enterprises. Experiments continued in 1986 in energy and water sectors, with new ministries engaging in the experiments gradually over the next two years. It was planned to finish the experimental period by the end of 1989 and move to the new system by the end of 1990.

Batmunkh (2001) thus explained the delay in reform: “We were carefully studying the reforms taking place in the Soviet Union, watching how they proceeded and whether they would succeed. It was also necessary to think how similar reforms would work in Mongolia. Radical reforms experimented in a giant economy like the Soviet Union might not necessarily work in a small economy like ours” (77). The delay might

be due Batmunkh's leadership style. Many of his contemporaries considered Batmunkh to be a slow and careful decision maker.

Batmunkh recalled attending the 27th Congress of the CPSU in February 1986 which was held in an entirely different atmosphere. Perestroika and glasnost were in full bloom in Moscow (Batmunkh 2001, 104). Many new ideas floated and new changes were coming. The Third Plenary Meeting of the Central Committee of the MPRP which took place on June 30, 1987, announced a decision to introduce management reforms throughout the entire economy. This program aimed at, among others, reforming management and planning systems; providing greater independence to enterprises; and ensuring a balance of individual, collective, and societal interests. Thus, the reform process began in Mongolia on full scale. The reform goals were broadly defined as “employing the system of economic incentives within the socialist mode of production”, strengthening the economic management and cost accounting principles, reforming the finance and credit system to enhance production efficiency and quality of goods and services (*Report of D. Sodnom, Chairman of the Council of the Ministers of Mongolia, to the Third Plenary Meeting of the Central Committee of the MPRP 1987*).

The so-called unified planning system was officially introduced in 1987 for the first time in Mongolia, which, as the leaders believed, marked the beginning of a new era in planning. The role of the central planning should consist in ensuring macroeconomic stability and balance, the overall structure of the economy and desirable changes in the structure; pursuing policies to improve efficiency and labor productivity, as well as

continuously improving the standard of living for the people and social development. Instead of promulgating the planned numbers down to enterprises, individual entities – with the exception of export producers – were to develop their own plans within the economic norms and cost ceilings provided by the central planning authority. Plans were based on the contracts established between the suppliers and purchasing agencies, such as other state enterprises and state trading companies. As a result, the number of planned targets should be reduced and contain only the essential indicators. The performance of enterprises and their management was to be measured based on the fulfillment of contracted goods and services (*Report of T. Namjim, First Deputy Chairman of the State Planning Commission to the 3rd Plenary Meeting of the CC of the MPRP, June 30, 1987 on Improving Production Efficiency and Quality of Goods and Services*).

Individual enterprises developed their own production and profit plans based on the normatives provided by the State Planning Commission and Ministry of Finance, which included average usage of inputs, average output per unit of input, formation of accumulation and wage funds, profit-sharing principles, investment, centralized allocation of supplies and materials, state orders on certain products, ceilings on the foreign currency that they can use to order spare parts and other imported inputs. These indicators were designed to promote more efficient use of resources and prevent enterprises from stocking up on imported goods and materials in excess of the amount required by production. Indicators were delivered to SOEs before the planning process starts; they were stable; and no new indicators were given after the plan has been approved.

Economic viability of enterprises and realization of their increased independence were ultimately attached to the price system. Therefore, the most important ingredient of the reforms was the price reform. Major wholesale price revisions in 1986 attempted to reflect the increasing prices of imports and economic changes that took place in the past decades. Retail prices remained untouched. In the future, however, it was proposed to gradually move towards more flexible prices which reflect supply and demand, within the price ceilings provided by the central planning agency, although no time frame was proposed for such changes (*ibid*).

In spite of the old terminology used in the party documents, the content of the reforms was far reaching. Implementation of these reforms began with reorganization of government agencies dealing with the economy. Several key agencies responsible for planning, prices, labor, wages and salaries, and statistical services – the State Planning Commission, Central Statistics Office, the State Price and Standardization Commission, and the State Labor and Social Welfare Commission – were restructured into a new State Planning and Economic Commission in January 1988, a massive organization which brought together all the above functions.

The planning agency was to oversee only capital investment policy. The number of planning indicators was also to be decreased. Enterprises were put on a new regime of “financial autonomy”, becoming accountable for their losses and fulfilling sales and export contracts. They also were permitted to sell for profit output in excess of the state plan (*Resolution 88 of the Council of Ministers of Mongolia, December 15, 1988*). The

expenditure norms for all budget entities were revised and budgets based on these newly established norms were strictly enforced. By 1989, 1157 budget entities or 38.5 percent of all entities were put on the system of cost accounting and strict budget constraint.

Economic reforms were further strengthened by several resolutions issued by the government in early 1988, including the measures to promote individual and cooperative economic activity of the citizens, introduction of so-called “patent payments” or fixed flat taxes to be paid by the citizens involved in individual economic activity, and introduction of taxes on income of labor cooperatives (*Resolutions 75, 76, and 77 of the Council of Ministers of Mongolia, March 22, 1988*). By 1988, there were 480 individual and family-based cooperatives. Restrictions on private ownership of domestic animals were removed in March 1990 by the decision of the State People’s Khural, the national assembly. These series of regulations marked the revival of private property and individual business activity in Mongolia and created new obligations for the Ministry of Finance and relevant government agencies to deal with private sector entities and tax collection issues.

2.3.2 Political Changes and International Developments

Gorbachev’s reforms in the Soviet Union touched not only the economic base – the perestroika component of the reforms – but also political and social spheres, which was the essence of glasnost. Mongolia’s reforms were carefully designed after the Soviet reforms and contained its own glasnost – political openness – component too. It should

be noted that perestroika and glasnost were launched together by Gorbachev in 1985. However, in Mongolia increased political transparency and reduced party censorship followed economic reforms.

There was a major political change in Mongolia prior to initiating the reforms in the second half of the 1980s: removal of Tsedenbal from his party and state positions in August 1984. Tsedenbal served as the Secretary General of the Central Committee of the MPRP since 1940 and as head of the state since 1971 with death of J. Sambuu, Chairman the Presidium of the People's Great Khural. Tsedenbal was the first person to simultaneously assume the highest party and state positions. Tsedenbal's leadership became increasingly dictatorial since the late 1970s, when he started to arbitrarily remove and appoint high-ranking personnel.

The issue was exacerbated by involvement of Tsedenbal's wife. Tsedenbal was married to a Russian woman, Anastasia Ivanovna Filatova whom he met while studying in the Soviet Union. Filatova, initially far from the politics, was soon appointed the head of the Children's Fund and started increasingly getting involved in budget allocation (in favor of her pet projects) and other decision making. Eventually, with decaying health of her husband, Filatova actively interfered with party politics and appointments. She was known for offensive behavior towards the Mongolian leaders as well as the personnel serving the first family. Many Mongolian leaders were weary of her outrageous behavior. This may explain why the politburo immediately following its resignation decided to

distance itself so profoundly from Tsedenbal and his wife and initiated an investigation into their wrongdoing.

The removal of Tsedenbal happened in summer 1984, when the Mongolian leaders were on vacation. Batmunkh (then the Prime Minister) remembered vacationing in Crimea resort in the Soviet Union, when he (and Molomjamts, a Politburo member and party secretary, also vacationing in Crimea) received a call from a high-level representative of the Communist Party of the Soviet Union (CPSU). Batmunkh and Molomjamts were summoned in Kremlin the next day and met by Party Secretary Gorbachev (not General Secretary yet), Defense Minister Ustinov, KGB chief Chebrikov, and several other high-ranking officials. The Soviet leaders informed that Tsedenbal's health – who was on medical treatment in Moscow at the time – was in a critical situation (severe case of dementia) and he was no longer able to carry out the duties of the leader of a country. The Kremlin doctor Yevgeniy Chazov was there to provide medical testimony. It was recommended that Tsedenbal be promptly removed from his high posts and remain in Moscow for further treatment. Batmunkh and Molomjamts recalled being in a deep shock (Batmunkh 2001, 139). They asked about the possibility of gradually reducing the workload and eventually freeing him from all his positions, instead of such an abrupt retirement. However, the doctors and the Soviet leaders insisted on full retirement, for the sake of Tsedenbal's future health and national interests. The Mongolian leaders asked Prof. Chazov, who treated Tsedenbal for the past 18 years, to personally travel to Ulaanbaatar to explain the full details about the old leader's health to

the Central Committee of the MPRP, to promote speedy decision making, to which he agreed.

In a memoir – “Health and Power: Memoirs of the ‘Kremlin Doctor’” – where he describes many circumstances concerning the health of the Soviet leaders and of some leaders of the Soviet satellites, Chazov recalled that he knew two different Tsedenbals: in the late 1960s and early 1970s Tsedenbal was a bright, well educated and sharp-minded leader. However, this was gone in the 1980s, when his brain cells were damaged due to atherosclerosis and alcohol use and he turned into a forgetful old man without any personality. Chazov described Filatova as a belligerent, rude, not so bright woman who dominated her husband and terrorized people around her, including medical personnel. She turned into a real “thunderstorm” for the Mongolian leaders. Chazov remembered being ashamed of her, as many saw her as a Soviet citizen and representative (Chazov 1992, 68-69).

After the Kremlin meeting, Batmunkh and Molomjamts went to see Tsedenbal and his family and convey the news. Tsedenbal accepted the news relatively calmly, although diverted from the main subject several times and repeatedly asked the same questions, and agreed the politburo to meet and make the decision. Filatova, on the other hand, was furious and accused Batmunkh and others of attempting a coup (Batmunkh 2001, 141). She also claimed that she did not trust the Russian doctors’ diagnosis and accused them of conspiring against her husband.

Resignation of a communist leader who ruled the country for some 40 years was a major event in Mongolia in 1984. The party plenum of August 23 relieved Tsedenbal of all his duties, “taking into consideration his state of physical health and with his consent” (note the wording which did not say “upon his request” as was usually the case with other resignations) and unanimously elected Batmunkh – the Prime Minister and second in command – to be the new leader. With Batmunkh reassuring the continuity of policy and praising Tsedenbal for his “distinguished service to the party and the people”, Sanders (1985) for instance concluded that, “in matters of importance, nothing had changed” (130). Although for an external observer – and the general public – things looked like as if an old ailing leader was being replaced by his immediate successor, later disclosure of historical facts by the participants – both in Mongolia and the Soviet Union – revealed multiple underlying events and processes.

Sh. Nadirov, a Soviet high-ranking diplomat and party official who worked on Mongolia issues for over 20 years and was intimately involved in all interactions of the Mongolian leaders with the Soviet leaders, wrote a book of memoirs in 1995 titled “Tsedenbal, 1984” where he used previously confidential party documents. The book contains wealth of detailed information about the late period of Tsedenbal’s rule, his removal in 1984, and the role played by his wife in Mongolian politics and his eventual resignation. Nadirov observed that by 1983, some troubling news started reaching the Soviet leadership about the frequent turnover of high-ranking party and government officials in Mongolia, which subsequently led to splitting up and growing mistrust within the top leadership. Due to the economic problems Mongolia was experiencing, some

leaders within the MPRP were reported becoming more critical of Tsedenbal and his policies. As a response, Tsedenbal made frequent replacements within the cabinet and party leadership as well as local governors and party officials, trying to eliminate his critics. This nationwide campaign was reported to have reached its peak when Tsedenbal was planning to remove almost half of the current Politburo and many members of the Central Committee of the MPRP during the August 1984 plenary meeting (Nadirov 1995, 21).

It was also reported that Tsedenbal was becoming less engaged in leadership due to his ailing health and as a result Anastasia Filatova was increasingly involved in decision making, especially removals and appointments. For the Soviet leaders, there were several problems with the political situation in Mongolia. First, with involvement of Filatova, the top leadership was divided. On the one hand, there was Filatova who was promoting Maidar, first Deputy Prime Minister and member of the politburo, to replace Prime Minister Batmunkh. She was aided by a few lower-ranking officials, but this group was in minority. On the other hand, there was a larger group of people, mostly economists, including party secretary Molomjamts, Deputy Prime Minister and Chairman of the State Planning Commission Sodnom, his first deputy Jasrai, Minister of Foreign Economic Relations Ochirbat, who were disfavored by Filatova, among others. The group was in majority and supported by Prime Minister Batmunkh (Nadirov 1995, 11-13). This division meant political instability which was not desired by the Soviet leaders.

Second, this group of economists and top-level party and government officials raised an issue of economic inefficiency of some trade and production arrangements between Mongolia and Soviet Union. Most notably, there was an issue of state subsidies provided to the Erdenet copper mine, a joint venture with the USSR, due to low fixed export prices on copper and molybdenum. The price differential – 114 rubles per ton – was subsidized from the state budget, which totaled to an annual amount of 30-40 million togrogs (Batmunkh 2001, 204). Although the copper giant was profitable, the bulk of it in fact was subsidized from the budget. When distributing the profit, these subsidies were not deducted from the revenues which meant favorable treatment of the Soviet Union as a shareholder. The Mongolian side wanted change the price system so that subsidies were eliminated and Erdenet became more profitable for Mongolia. They prepared some detailed calculations on pricing and argued that the price was set too low, even by the price setting practices under the central plan. There were some talks of finding an alternative purchaser (probably Japan) of Erdenet products who could offer world prices. Second, they insisted that the state budget be reimbursed from gross revenue before profits were distributed to shareholders. And lastly, the Mongolian government wanted Erdenet to pay user charge for exploitation of natural resources (Sodnom 2003, 81). The calculations and price issues were raised with the Soviet leadership and needed to be settled.

The above incident was used by Filatova to claim that some top (pro-Chinese) Mongolian leaders were endangering the Mongolian-Soviet friendship – the most serious accusation at the time – and therefore need to be removed and replaced (en masse) by

more loyal people, i.e., her favorite Maidar. Moreover, Filatova acted as though she was backed by the Soviet leaders, which was not the case, as Nadirov claimed. In fact, the Soviet leaders were aware of the outrageous behavior of Anastasia Filatova and the negative reputation she had in Mongolia and did not want to be her ally. Since most Mongolian leaders were on the other side and Filatova was often seen as a Soviet citizen and perhaps representing the Soviet opinion, the Soviet leaders thought that removal of several prominent party leaders (generally with good reputation) might fuel anti-Soviet and even nationalistic sentiments among the Mongolian leaders and the public in general (Nadirov 1995, 21). This would be damaging for the image of the Soviet Union and economically harmful for both countries.

Thus, the overall situation in Mongolia was seen unstable and adverse for the Soviet Union. Nadirov reported that the Mongolian leadership problem was discussed at the Central Committee of the CPSU meeting in November 1983. First, the Erdenet issue had to be investigated and resolved. Initially, Soviet Union denied any price adjustments claiming that the price difference was paid in goods (i.e., there was a type of barter arrangement) and the Mongolian government makes significant profit on the price differential (i.e., the price difference between the import price and domestic retail price). The Mongolian government responded that domestic pricing was an internal issue and had nothing to do with the Mongolian-Soviet copper trade arrangements (Batmunkh 2001, 204). Soviet mining and financial specialists led by a high-ranking official of the Central Planning Commission of the USSR V. Pavlov (who later served as Russian Prime Minister) were sent to Mongolia to resolve the copper price matter and ultimately – in

June 1984 – it was decided in favor of the Mongolian government. Prices were increased (but not to the full extent of domestic price) and profits were distributed after deducting the share of price differential subsidy provided by the Mongolian state budget. The user charge for natural resources, however, was not resolved until 1991 (Sodnon 2003, 81-82).

It was agreed by the Soviet leaders that the best way to resolve the pending political situation would be for Tsedenbal to voluntarily resign from all his positions. He should be praised for his great contribution to developing the country and advancing the Soviet-Mongolian friendship and retire with dignity, and perhaps focus on writing his memoirs (Nadirov 1995, 107-108). The CPSU wanted to give some “friendly advice” to the MPRP leaders and resolve the issue peacefully. As Nadirov put it, the exact wording was to arrange resignation “with our participation but unnoticeably” (ibid). However, things did not work out in accordance with the initial plan. In the course of the following months it became clear that Filatova would not allow Tsedenbal’s resignation and the latter, barely being able to act upon his own will, would not voluntarily agree. Ultimately, as Nadirov claims, the resignation had to be executed forcefully and, with use of doctors’ testimony, it was decided to firmly pressure the Mongolian leaders to make Tsedenbal resign. However, the official reasons stated were purely medical. No one mentioned Filatova’s behavior or other considerations, probably for political and diplomatic reasons.

Batmunkh (2001) admitted that he was not aware of Tsedenbal’s intentions to reshuffle the entire Politburo in August 1984 and thus get rid of his potential rivals.

However, he agreed that there were frequent replacements among the high-ranking party and government officials in the early 1980s. For instance, about 30 percent or 12 members of the 39-member cabinet were replaced in a matter of two years from June 1981 to mid-1983. There were numerous other replacements including several Politburo members, president of the Mongolian Academy of Sciences Shirendev (for publishing a book abroad without permission), deputy Prime Minister and chairman of the People's Control and Inspection Commission Molom (for imposing penalties on some older party leaders), chairman of the Price Commission Byambasuren (for wholesale price increase on some goods which was disadvantageous for the Soviet Union), party secretary Jalan-Aajav (allegedly for being a leader of anti-party group in the 1960s). Mid-level bureaucrats also were reshuffled, particularly in the military, courts, prosecutor's office, and state control and inspection. Even women's and youth organizations did not escape some restructuring (Batmunkh 2001, 224-227).

The incident with removal of Tsendenbal highlights several important developments in Mongolia in the early 1980s. First, there was an increasing dissatisfaction with the economic development and particularly the low efficiency of Soviet aid and unfairness of some trade and other economic arrangements with the Soviet Union. Such ideas were started to be openly discussed among the leaders and conveyed to the Soviet Union as well. Thoughts and talks about alternative economic partners surfaced perhaps for the first time. Second, the Soviet political influence was still high, but the Soviet leaders started to acknowledge the opinions of Mongolians and became more receptive to their proposals as the Erdenet incident demonstrates. And finally, the

country got rid of a dominating leader and his manipulative wife. Ironically, the role of Soviet Union was most crucial in making such a quick decision. The timing might have been beneficial for Mongolia, as soon perestroika and glasnost got under way and more serious changes followed. The succeeding leader – Batmunkh – proved to be much milder and more liberal, as his cautious actions with regard to removal of Tsedenbal and the subsequent events of 1990 have proven.

After introducing major economic reforms in 1987, the party initiated several important changes in the political and social life in the country. The era of Tsedenbal was described as one of “bureaucratic centralism” and “economic stagnation”. The official decision to make changes in the political sphere was made at the 5th plenary meeting of the Central Committee of the MPRP which took place in December 1988. The MPRP started its political reforms with initiating an important process of reassessing the past policies of political repression and subsequent rehabilitation of those who were executed or imprisoned on charges of treason and counterrevolution.

The reasons for delaying the political reforms were related to two factors. First, as with economic reforms, the MPRP leadership had to “study” the experiences with glasnost and pluralism in the Soviet Union and other socialist countries. This meant careful watching of the processes and examining their party documents. Second, since the focus of the upcoming plenary meeting was going to be on re-evaluating the past mistakes, the party leaders had to learn the facts and processes that went on during the mass repressions of the 1930-1940s and repressions in the 1950s and 1960s. Some of the

original documents were kept in the Soviet archives because many Mongolians were executed in the Soviet Union. The party leadership requested these documents from the Soviet authorities. Draft documents to be discussed during the plenary meeting were published in the daily newspaper. This was the first incident when high level party documents became subject for public discussion (Batmunkh 2001, 21).

Another unprecedented event that took place just before the 5th plenary meeting was series of critical articles published in the party newspaper *Unen*. The articles were critical of leadership style and management of some high-ranking officials – members of the politburo Molomjamts, Luvsangombo, and Altangerel, among others. The articles supposedly were written by ordinary citizens who were critical of the leadership (although this could not be confirmed). Readers were astonished. Although reputed as a conservative, a prominent writer and editor-in-chief of the MPRP daily newspaper *Unen* L. Tudev was credited with initiating and supporting these open deliberations (memoirs of Lundeejantsan, member of the parliament since 1990).

Journalist T. Galdan recalled that the general expectation (among the representatives of the press and general public) was that the Central Committee would undertake a major organizational reshuffling and the named people would be removed from their high positions during the plenary meeting (newspaper *Il Tovchoo* February 1-20, 1991, issue 4). However, no organizational issues were discussed and no one was removed. Batmunkh (2001) argued that the main goal of the plenary was not to dismiss individuals but to establish new leadership principles and norms. Also, Batmunkh

thought it inappropriate to fire officials based on newspaper criticism (ibid, 25). More critical articles followed and soon became a new norm in the mass media. The above individuals – many of retirement age – were eventually removed, but in the following year.

The party plenary meeting criticized its own leadership methods as being overly centralized, condemned the leadership style of the previous decades as being based around certain personalities rather than ideology. The plenary also proposed democratic centralism, openness, and pluralism as its new principles of leading the country. In order to reinforce the party's new leadership principles, two commissions – on drafting the new party program and on rehabilitating the politically repressed – were established and started functioning in 1989.

Following the 5th plenary meeting, political and social initiative of ordinary citizens increased significantly. People started expressing their opinions openly and they were usually critical of the existing system and its leadership. In 1989 the Central Committee dissolved its own Department of Mass Media and Literature Control, which was the main censorship body which controlled the content of media and literary work. Several prior decisions about the ideological restrictions were also annulled. The newspapers were now flooded with critical articles about leaders and officials, pointed to numerous problems in economic and political life, published previously restricted materials related to political repression, etc. (Batmunkh 2001, 39). Most notably, in light of this criticism and the proposed changes, the philosopher Dashdavaa proposed to

experiment with a system of nominating several candidates in the election of the national and local assemblies (Sanders 1989, 48).

Sanders concluded that the policy of “openness”, although acting through the party-controlled media, brought in “public debate ... over a broader range of issues – multicandidate elections, the reevaluation of the post-revolutionary history, the development of cooperative and private employment”, which “could eventually lead Mongolia toward democracy” (Sanders 1989, 53).

Two new phenomena were reported in Mongolia in 1989: the Ministry of Public Security investigated “individuals who had been duplicating and distributing ‘slogans’”. However, as Minister Major-General Jamsranjav concluded, they were not “anti-state groups trying to undermine the socialist system, but “promoters of the acceleration of restructuring” (Sanders 1990, 61). Another unprecedented event was a strike organized by workers at an Ulaanbaatar factory over wages and housing conditions. The outcome of the strike was not reported. However, a local newspaper noted that Mongolia had no law banning or permitting strikes (*ibid*, 66).

As the reasons for removal of Tsedenbal suggest, broad dissatisfaction among the MPRP leaders with the efficiency of Soviet aid was building up in the early-to-mid-1980s. P. Ochirbat was appointed in January 1985 as the new Chairman of the State Foreign Economic Relations Commission (after serving for 9 years as the Minister of Fuel and Energy). Two years later the commission was expanded into the Ministry of

Foreign Economic Relations and Acquisition to include the former Ministry of Foreign Trade and State Acquisitions Commission as a result of government restructuring. Upon his appointment as the new chairman, his main task was to make estimations and draft a document to be sent to the Soviet government about the financial aid required in the upcoming five years (i.e., 1986-1990 five year plan). Ochirbat (1996) recalled that the general attitude among the Mongolian leaders in the mid-1980s was that the country was receiving huge amount of aid which was not very useful for the country. The common understanding was that there was a lot of unfinished construction, the cost of construction was very high, the Soviet technology was obsolete, and the capacity was not fully used, i.e., the Soviet-built factories were simply too big for Mongolia (Ochirbat 1996, 98).

There were several issues that the Mongolian government was particularly concerned with. First, the number of Soviet workers, especially in construction, was too high. As a Soviet official claimed, in 1985, Mongolia was hosting a third of all Soviet specialists who worked abroad and the Soviet officials regularly pushed for wage increase which further fueled the costs (ibid). It was commonly claimed by the Soviet officials that Mongolians lacked the required qualifications which allegedly forced the Soviets to bring in their own employees. Second, the dominant form of financial assistance was in the form of turnkey projects where the Soviet side completed the entire project including construction and equipment without involvement from the Mongolian side. No information on the actual costs of turnkey projects was given to the Mongolian government, although it was receiving big loans to finance these projects. Third, the Soviet technology was archaic by world standards and often not suited for the small

economy of Mongolia. Ochirbat in an interview with acclaimed Soviet journalist from the magazine *Ekho Planety* Vladimir Ionov candidly admitted the low efficiency and obsolescence of some of the Soviet factories built in Mongolia. For instance, financial estimates showed that a poultry farm and poultry processing plant built near Ulaanbaatar was to recover its initial investment only after 200 years of operation. A fur factory completed in 1988 in Ulaanbaatar used the technology of the 1960s. A large-scale timber processing plant in Tosontsengel (western province of Zavkhan) required that the entire forest of western Mongolia be cut within a year in order to operate on a full scale (from interview with Ochirbat, translated and printed in full in the newspaper *Unen*, January 28, 1989, issue 24).

The document sent in 1985 to the Soviet leaders raised several original points. First, it was crucially important to reduce the costs of construction. It was proposed to increase the number of Mongolian workers employed in the Soviet construction companies from 3,000 (employed at the time) to 17,000 which would bring the cost down and improve the qualifications of the Mongolian workers. Second, reduce the number of turnkey projects and increasingly involve Mongolian construction and other companies in completing the projects financed with loans. This will ensure transparency in cost estimates and reduce the costs. Third, it was proposed to improve domestic capacity and involvement in preparation of future projects to be developed and financed with loans.

The Soviet Union was not supportive of the above ideas, although some partial success was sporadically reported. For instance, the cost breakdown of turnkey projects

was provided to the Mongolian government on 7-10 board items instead of one bulk number. Costs of few construction projects were bargained down by about 10 percent (Ochirbat 1996, 102).

Mongolia made a big splash in Western media in 1987 when Gorbachev announced that the Soviet Union would withdraw its troops from Mongolia and Mongolia established diplomatic relations with the United States. Both events had major implications on the country's geopolitical future, signaling that Mongolia's relations with China would improve and it was diversifying its foreign relations outside the Soviet camp. Both Mongolia and the United States made some efforts to establish diplomatic relations in the mid-1980s. However these efforts were not encouraged by the Soviet Union until 1986 when the Soviet Foreign Minister Shevardnadze visited Mongolia and noted that he would support Mongolia's official relations with the USA, thus leading to establishment of diplomatic relations in January 1987 (Batmunkh 2001, 34). First ever official visits of Foreign Minister Dugersuren to Japan and Australia the same year were also important signs of such diversification (Jarrett 1988, 84).

The trend strengthened in the following years, when series of agreements were signed with China and trade picked up; the Soviets continued withdrawing its troops with 15, 000 (or 25 percent) withdrawn in 1987 and further 8,000 in 1988. The search for new economic partnership started with the two advanced countries that had diplomatic relations with Mongolia at the time: Japan and UK. Ochirbat recalled several occasions when he led some talks with the Japanese, Swiss, and British government officials and

business people in 1987 and 1989 about possibilities of trading with and investing in Mongolia, most notably in cashmere production and oil explorations. Trade with Japan doubled in 1988 compared to 1987, following the establishment of Mongolia-Japan intergovernmental economic commission (Sanders 1990). However, no major investments were agreed upon (Ochirbat 1996, 110). Efforts of diversification intensified in the subsequent the year, when Japanese Foreign Minister visited Mongolia in 1989 and Prime Minister Sodnom went on a first trip to Japan in February 1990.

2.4. Conclusion: Slow and Ultimately Failed Reforms

The late communist period in Mongolia is hardly studied. The processes in the second half of the 1980s very much reflect what was going on in the rest of the Eastern bloc. Yet, I believe this period in Mongolia differed significantly from other countries. Mongolia fared relatively well compared to the Soviet Union and other centrally planned economies in terms of economic and social performance in the late socialist period. One could argue that the seemingly decent economic performance did not make the reforms as urgent as elsewhere. Was it the realization of the economic problems or the influence of the events in the Soviet Union that pushed the rulers to move forward with the reforms? And, most importantly, could these reforms solve the mounting principal-agent problems in a more effective way so that the central plan would be sustained as a system in the future? Scholars and former public figures offer several reasons but diverge in their opinion.

In 1984, there was a change in the ruling elite of the country. Tsendenbal, who was an extreme pro-Soviet communist leader and ruled the country for some 40 years, stepped down for health reasons, with the help of the Soviet Union. Batmunkh, who succeeded him, was believed to be more liberal and tolerant, although a close ally of his predecessor. Former top planner Namjim argues that Batmunkh's coming to power – and his strong economics background – had positive effect on the advancement of the reforms (Namjim 2004, 789). In his report to the 19th Party Congress (1986) and subsequent plenary meetings (1988 and 1989) Batmunkh noted that pressing forward with comprehensive reforms encompassing the political, economic, ideological, and social spheres of the society has become an important goal of the party.

In an interview Namjim asserts that the reforms were not urgent under the economic conditions in Mongolia. He disagrees with those who insist that the socialist economy was in a crisis situation or even stagnation (the Soviet leader Gorbachev called the 1970-1980s a period of stagnation in the Soviet Union). Mongolia continued enjoying relatively good economic times launching major investment projects. If we look at the macroeconomic data for this period, growth was maintained at about 6 percent and was the highest among the CMEA countries (Table 2.7 and Table 2.8). However, the fiscal and foreign trade data reveal that the economic situation in Mongolia was not all that positive. The budget data presented earlier (Table 2.1) illustrate the effect of worsening efficiency on the public finances.

This was conditioned by two inter-related developments in the foreign economic relations of Mongolia. First, the terms of trade worsened significantly during the late communist period. This meant that Mongolia needed either to adjust its foreign trade policies or face severe balance of payment difficulties. However, the economy was not able to make the necessary structural changes to adjust to the relative prices on the international market. This imbalance was deepening throughout the 1970s and more profoundly in the 1980s. Second, since no structural changes were made, the Mongolian rulers needed increased inflow of foreign exchange in order to maintain the same and even increasing levels of imports. The balance of payment deficit was financed by the inflow of investment and trade loans from the Soviet Union. As we have seen from Table 2.6, all types of foreign loans increased substantially in the 1980s, particularly trade loans which covered the balance of payment deficit. They amounted to almost 40 percent of total loans by the end of the 1980s.

Overall, the leaders positively assessed (at least officially) the economic and social development of the country. Batmunkh, the Secretary General of the Central Committee of the MPRP, emphasized in his report to the party plenary meeting in December 1985 that the main planned targets for the 7th five-year plan (1981-1985) were successfully fulfilled and several major investment projects were completed. Due to the increased inflow of foreign aid, the economy continued to perform at the acceptable levels into the late 1980s. D. Sodnom, who served as the Prime Minister during this time, summarized that the Mongolian economy was not performing better compared to other socialist economies, as the macroeconomic data may show. It was facing the same issues

as elsewhere. However, it was not in crisis either, owing to the Soviet assistance (interview with Sodnom).

However, the party leadership was increasingly dissatisfied with some aspects of economic performance. First, they started to question the usefulness and efficiency of large amounts of loans provided by the Soviet Union and fast-growing foreign debt. By and large, the general atmosphere was that large amounts of loans are being imposed on Mongolia without proper financial calculations in the form of often large-scale obsolete factories that did not accommodate the capacity and needs of the country. Although not openly anti-Soviet, some leaders raised the issue of inequitable trade and economic arrangements agreed with the Soviet Union and achieved some success in amending previous agreements. The Soviet Union, perhaps due to the newly prevailing spirit of openness and plurality, accepted some of the offers proposed by the Mongolian leaders.

It was acknowledged that in spite of substantially increased industrial potential, efficiency rates remained unsatisfactory. Labor productivity lagged behind the capital intensity: about one fifth of SOEs in the industrial, construction, and transportation sectors did not fulfill the planned targets for increasing labor productivity and over one third fell short of fulfilling the planned targets for reducing average production costs (*Report of J. Batmunkh at the 11th Plenary meeting of the Central Committee of the MPRP on December 4, 1985*). As a result, by the 1980s, growth has slowed down; domestic resources for investment were still scarce; efficiency and labor productivity were falling continuously; foreign aid started playing a key role now. On the other hand,

fixed prices created no incentives for individual enterprises, plan being imposed from above left little discretion and incentive for SOEs to produce more. The reforms were initiated to speed up development, improve efficiency and give incentives to the SOEs to perform better (interview with D. Sodnom).

Namjim notes that the external ideological influence – namely the perestroika launched by Gorbachev in the Soviet Union – played the key role in the reform process. The influence of the Soviet reforms – as any other political and ideological influence exercised in the course of several decades – should not be underestimated. As Prime Minister Sodnom – also a prominent economist who was appointed to this post in 1984 replacing Batmunkh – emphasized in his mid-1987 speech that the government’s reforms proposals were in line with the “revolutionary ideas of perestroika” initiated by Mikhail Gorbachev in the Soviet Union. Mongolian leaders always carefully observed and followed the developments in the USSR. Some of other party leaders critically evaluated the situation in Mongolia as lagging behind the initiatives not only in the Soviet Union but also in Central and Eastern Europe. Nonetheless the top leadership took a gradual approach.

Former Finance Minister G. Davaasambuu states that the central plan attempted to reinvent itself in all socialist countries in order to survive. The CMEA countries discussed the issues of efficiency and perestroika at the highest level such as the secretaries of the communist parties. A summit of socialist leaders was held in Sofia, Bulgaria, in 1985. It was decided that CMEA member countries would implement some

reforms in order to improve efficiency and reinvent the central plan. Mongolia followed the lead, for the following two reasons. First, Mongolia had to coordinate its international and domestic policies with other socialist countries. Since the reform was on the agenda, we also put efforts in order to implement similar reforms. Second, Mongolia had tried to improve the efficiency by introducing certain incentive mechanisms since the 1960s, as did other socialist countries. But these measures exhausted themselves and a new wave of reforms was desperately needed (personal interview with Davaasambuu).

Interviews with individuals who led the reform process in the 1980s reveal some divergence in the opinion but they all agree, firstly, that the reforms were necessitated both by the domestic circumstances of sluggish growth rates as well as external factors, such as worsening terms of trade and reforms launched in the Soviet Union. It should be noted that the reforms in Mongolia were launched relatively late compared to Central and Eastern Europe and even the Soviet Union. Secondly, in terms of the scope, the reforms were quite similar to the Soviet perestroika. They did yield partial positive changes in selected enterprises in terms of increasing output levels. However, overall the reforms were not considered successful or far-reaching. Thirdly, the reforms could not achieve its main objective of “reinventing” the central plan because it did not touch the very sources of deadweight loss and inefficiency, namely the state ownership and fixed price system and the related phenomenon of soft budget constraint. Although the very first steps – wholesale price reforms and emergence of the cooperative property – were taken, it was

politically too costly and damaging for the communist rulers to undertake further reforms, e.g., retail price liberalization, at least in the late 1980s.

I believe two important observations were overlooked in the previous studies, yet had very important repercussions on the events and policies that followed. Evidence points to the fact that the Mongolian leaders were the followers and sometimes observers of the radical events taking place throughout the region in the second half of the 1980s. These events were imposed on the country's leaders and they were not quick to respond. The late launch and slow implementation of the perestroika type of reforms contributed to the growing frustration among the masses and the new elite and disrepute of the old leadership which probably contributed to the quick and successful overthrow of the regime.

The slow economic reforms also meant that little devolution of power occurred in the late communist period to the lower levels of bureaucracy, SOEs, and local governments. Gorbachev is often accused of dismantling the control system while the state still was the residual claimant, which, many believe, led to strengthening of the bureaucrats and regional governors, massive looting of the system and its ultimate bankruptcy. This also defined the privatization and partial economic reform process. In Mongolia we still observe highly centralized economy and still strong control of the resources by the center. This contributed to the more or less egalitarian nature of the privatization and relatively fast economic reforms. These issues will be discussed in more detail in Chapter 4 of the dissertation.

Important political developments – reassessing the past policies and practices, openness and self-criticism, rehabilitation of those who were unjustly repressed on political grounds, increased diversification in foreign relations – fueled mass deliberation and lessened the fear among the people who now openly criticized the system. Thus, we observe changes both in the economic management – albeit relatively slow – as well as political governance in the late 1980s. However, in spite of these precipitating events, and the fact that it was becoming more and more clear that the system was disintegrating, the subsequent events – including political developments – came as a shock for the rulers. In the face of sudden shock, the gradual reforms launched in the late 1980s could not catch up with the new political and economic developments. The demise of the central plan as protracted as its collapse sudden.

Chapter 3 Democratic Political Changes (1989-1996)

Inspired by the developments in Eastern Europe and policies of openness declared by the party leadership in 1988, the first fledgling independent civil society movements were formed in Mongolia at the very end of the 1980s, i.e., relatively late compared to countries in Eastern Europe. The political group called “Shine Ue” (translated as the “New Generation”) was formed in October 1988 and headed by E. Bat-Uul. As active member of the group S. Amarsanaa later recalled, on the night of January 2-3, 1989, they printed over 100 political leaflets and posted them around the city, on the streets, in student dormitories, university campuses, and some state enterprises, which marked the beginning of a more active political engagement. Naturally, the leaflets created certain panic within the Ministry of Internal Affairs. They were taken off shortly and the ministry started watching the new groups more closely (Dashzeveg 1998, 18-19). The “Shine Ue” group expanded to form the Mongolian Democratic Union (MDU) in December 1989 and a shortly thereafter the Mongolian Democratic Party (MDP).

The “Young Economists’ Club” was another semi-underground group organized in April 1989 by young economists who graduated from universities in the Soviet Union and other Eastern European countries. D. Ganbold led the group. The group initially was closely watching the economic perestroika efforts in the Soviet Union and later got interested in deeper market reforms. They were the core group which eventually established the New Progress Movement and the Mongolian National Progress Party

(MNPP). The first economic reforms initiated in 1990-1992 by the coalition government, including the mass privatization program, were the brainchild of this group.

A group of mathematicians and scientists at the National University of Mongolia also formed a new movement called the Democratic Socialist Movement in 1990 which later transformed into the Mongolian Social Democratic Party (MSDP). B. Batbayar, biochemist by training and one of the leaders of this group, studied in the late 1970s and early 1980s in Krakow, Poland. When the Solidarity movement was officially registered and 'national warning strike' against the communist regime erupted in Poland in the spring of 1981, he and others who studied in Poland were forced to leave the country and transferred to domestic universities in Mongolia. Apparently the MPRP considered the influence of the dissident events in Poland to be too dangerous for Mongolian students. However, as Batbayar admitted, witnessing the events in Poland undoubtedly had an important influence on his outlook and later involvement in the democratic events in Mongolia (interview with Batbayar). He wrote several articles in 1988 and 1989 – under the pseudonym Baabar by which he became famous – about Mongolia's independence and called for dramatic political changes. These rebellious articles were distributed secretly among the newly emerging political groups and students. Baabar's articles became widely popular by the end of 1989 and early 1990 when the mass events broke out.

There were few other underground groups mostly based in the universities. The Student Union later became a prominent part of the new political movements. Most

fledgling movements joined together by the late 1989. S. Zorig, who was a young Moscow-trained lecturer of political science at the National University of Mongolia, became the main coordinator of the new movements.

The movements were led mostly by the intellectual elite who were trained in the Soviet Union and Eastern Europe. Zorig was a son of a prominent scholar Sanjaasuren, Dean of the Social Science Faculty at the National University. The “Shine Ue” movement was led by Bat-Uul who was a son of a famous Mongolian writer Erdene. The Democratic Socialist Movement included people from the academia (mostly mathematicians and scientists) and most of them were self-made intellectuals, some of them from the rural areas. Baabar, a biochemist trained in Poland, spent a year in 1989 in the UK conducting research. Gonchigdorj received his PhD in mathematics from a well-known university in the Soviet Union.

The Young Economist Club members were mostly children of the elite. Ganbold’s father was a well known economist and academic who also represented Mongolia in CMEA and the family lived in Moscow for some time. Sukh-Erdene was a son of a prominent Mongolian diplomat and also lived abroad, including the USA. He was a great grandson of Sukhbaatar, the Mongolian leader from the 1920s who led the anti-Chinese and later communist revolution. Zoljargal and Bold, both bankers, were Hungarian-trained economists and children of the elite. Enkhsaikhan, who led the club, was a Soviet-trained economist and worked for the Ministry of Foreign Economic Relations and Acquisitions.

Thus, the ‘revolutionaries’ who led the democratic movement were a well-educated and relatively privileged selective group, mostly children of the elite or self-made intellectuals, who were exposed relatively early to dissident ideas through their education or knowledge of foreign language. There were other members – especially in the Shine Ue group which later turned into the Mongolian Democratic Union – who were less educated and held more extreme views. However, they were not as influential or were removed from decision making. Amarsanaa, a founding member of the Shine Une and a Soviet-trained journalist who worked for the labor union newspaper “Hudulmur” (translated as labor) recalled in a recent memoir that some members were punished for remarks and behavior that was considered damaging for the new political forces. Thus, D. Sukhbaatar was expelled from the Democratic Union’s General Consultative Council (its governing body) for announcing at a public meeting that he was number one hooligan of Tosontsengel town in the western aimag of Zavkhan (Amarsanaa 2012). The announcement was probably the truth but the new political groups wanted to avoid an image of a street gang.

3.1. Popular Uprising and Political Roundtable Negotiations (December 1989 – May 1990)

The first popular spirit of radical change surfaced at the so-called Second National Conference of Young Artists which was held in Ulaanbaatar on December 8-10, 1989. The podium of the conference became a political podium for sharp criticism of the existing regime, its leadership, and the state of affairs – political, economic, and social –

in the country and elsewhere in the Eastern Bloc. The spirit carried over to the broader masses and the Mongolian Democratic Union – the first political organization besides the MPRP – was announced on December 10, 1989. The MDU held series of mass gatherings in the following weeks which were attended by a continuously increasing number of people.

At the first meeting held on December 10, 1989 the MDU delivered a political petition to the Central Committee of the MPRP and the People's Great Khural (please see the original document in Appendix 1). The petition noted that the reform efforts of the leadership (designed on the Soviet perestroika and glasnost) were not giving positive outcomes and more radical changes were needed. In particular, the petition put forward 13 political demands aimed at political democratization and market economic reforms. This initial document laid the foundation for the political and economic changes in the country and was sharply distinct from the reform efforts of the late 1980s (Ochirbat 1996, 137).

The document focused on the following issues, among others: (i) restrict the powers of the MPRP in the state affairs, separate the hegemonic party from the state, allow multiple political parties; (ii) create a permanent parliament; (iii) change the election system, hold the next elections in the first half of 1990; (iv) protect freedom of speech and freedom of press; (v) admit party mistakes, rehabilitate the politically repressed persons and pay compensation to their families; and (v) introduce socially oriented market economy. These ideas were reiterated in the subsequent petitions and became the focal point of negotiations.

3.1.1 First Mass Meetings and the Hunger Strike

In few days (December 13, 1989) the Central Committee of the MPRP held its 7th plenary meeting and announced that the party was committed to its course of perestroika and glasnost and its ultimate goal of building socialism. Since the political plea of the MDU was not addressed in any way in the MPRP's initial decision, the union had to continue its political fight by staging more mass protests. These attracted an increasing number of people, became more critical of the regime and gained interest from the international community and international mass media. News about democratic uprising in Mongolia was widely broadcast on major international stations. This news was not available in Mongolia for the broader public, with the exception of a Soviet channel which ran the news of the first mass meeting in December 1989 in Ulaanbaatar. Most notably, the Mongolian media was mute on the subject (Amarsanaa 2012). Some protesters might have had access through various channels including foreign journalists, who entered the country on tourist visa and started reporting on the events in Mongolia (ibid). The banners at the meetings read "Democracy is our goal", "Multiparty system", "Freedom of speech and press", "Time to wake up", "End the hegemony of the MPRP". The crowd at the meetings consisted of many types of people. In addition to those who genuinely believed in and demanded democracy and human rights, there were nationalists, extremists, descendants of those who were justly or unjustly punished or repressed by the MPRP, the radicals within the MPRP, cautious observers, and mere passers-by (Dashzeveg 1998, 23, interview with Chuluunbat).

D. Sodnom, then the Prime Minister and member of the politburo, recalls in his memoirs that the 7th plenary meeting on December 13 of the Central Committee of the MPRP did not discuss openly the political situation in the country. The petition was handed over to one of the politburo members (there were seven members at the time), but neither that member nor the party leader Batmunkh touched upon this issue. Sodnom argues that the top party leadership was not ready to discuss the radical political changes as demanded by the MDU because the issue was never raised before and they did not know how to respond to it. The issue of political change, including amending the Constitution, was discussed before but never meant to make any systemic changes. The main focus of discussion therefore was the deepening of economic reforms. Sodnom himself, responsible for the economy, explained the negative economic repercussions of quick market reforms – sudden price liberalization etc. – and pushed for gradual economic reforms (Sodnom 2003, 107-114). The lack of discussion about the emerging situation may have indicated not only the fact that it caught the party off guard. Apparently, there was significant (but silent) disagreement among the party leadership about these events and how to proceed. Some members of the politburo may have started thinking who will succeed, if the party leader resigns under the popular pressure. In any case, there was little unity around the party leader and, at least initially, no debate about the political situation. This ultimately led to the initial lack of action and some delay in resolving the situation. Sodnom admits that the party leader Batmunkh showed little leadership under the circumstances and took a neutral, indecisive position (Sodnom 2003, 113-114).

After several public protests, the MPRP finally decided to hold negotiations with the MDU and several other political movements such as the Democratic Socialist Movement, the National Progress Movement, and the Student Movement. The first negotiations were held on January 19, 1990 but did not lead to any positive change. Opinions could not be reconciled. The first congress of the MDU was organized on February 18, 1990. The government decided to send its representatives to the congress. The first deputy Prime Minister D. Byambasuren, party official Dr. K. Zardykhan, and Minister of Foreign Economic Relations and Acquisitions P. Ochirbat were selected by the MPRP to attend and observe the congress. These three were among the most radical elements within the MPRP. The congress approved its charter and prepared another political plea to the Central Committee of the MPRP and the parliament, but this time demanding them to resign, form the so-called People's Temporary Khural (Assembly) to replace the existing assembly and make political decisions until the new parliament is formed as a result of free elections, and call for elections. Series of repeated pleas were sent to the Central Committee and largely ignored or rejected throughout February 1990.

Lack of action on the MPRP side forced the newly formed democratic movements to opt for a more dramatic measure. On March 7, 1990, at 2:00 pm ten protesters representing the various movements announced a political hunger strike on the main square of the capital city demanding the resignation of the politburo and the government. Dozens of other members were protecting the strikers from the police. The number of hunger strikers increased to about thirty in a matter of few hours. Several of them were

people who later rose to prominence and served as members of parliament and cabinet members. The political situation became extremely charged and volatile. Fast action was needed. In the afternoon of March 8, Prime Minister Sodnom and Deputy Prime Minister Byambasuren met with the leaders of the protesters, including Bat-Uul, Zorig, and Baabar. It was agreed to meet in the studio of the national television. The meeting was broadcast live nationwide. The government representatives condemned the protesters for risking people's health and life by taking such an extreme measure. They further explained that the resignation of the politburo and the government should be decided by their respective governing bodies and not just by its top leadership. They argued that the decision had to be collegial. They also informed that the plenary meeting of the Central Committee would convene in 4 days and the session of the People's Great Khural shortly thereafter, where the final decisions would officially be made. Naturally, the protesters were not satisfied with such explanations, although they may have seen that change was coming (interview with Byambasuren and Sodnom 2003, 121-123).

3.1.2 Resignation of the Politburo

In the afternoon of March 9, 1990, members of the politburo, members of the cabinet and some deputies of the People's Great Khural gathered in the Government House to discuss the situation and possible ways to resolve it. Many issues were discussed and various opinions expressed. But the discussion ultimately centered around two issues. First, it was suggested that the Prosecutor General announces the activities of the democratic movements as breaching the existing laws and take forceful action against

the hunger strikers. In fact, there was no legal regulation of any mass demonstrations. Therefore, second, it was also suggested that the People's Great Khural issues a decree forbidding any public gathering or public protest in Ulaanbaatar and introduce a special regime in major government buildings and objects (Ochirbat 1996, 139).

As agreed two days earlier, the Ministry of Public Safety, Ministry of Justice and Arbitration, Prosecutor's Office, and the Supreme Court were to draft such a resolution. Accordingly, the draft resolution officially titled "On the Extraordinary Measures of Restoring Public Order in Ulaanbaatar City" was prepared. The draft resolution was a short document which centered around two issues. The first clause stipulated that starting from March 10 until July 1, 1990, any public gatherings and protests were prohibited on the streets within the Small Ring Road of Ulaanbaatar (which captures the city center and adjacent area), at railway station and airport or near any other object under government surveillance (e.g., power stations). Second, the government, police, and city authorities were to implement some extreme measures to restore public order, including restricting public movement in the city center, controlling traffic, introducing curfew if necessary, reinforcing security of special objects as telecommunications, power stations, water reservoirs, etc. Citizens were prohibited from advocating public disorder, distributing leaflets, and carrying firearms and cold steel. In case of non-obedience from the citizens, the government was authorized to use armed force in order to restore public order.

At the politburo meeting which took place earlier on the same day, Batmunkh noted that there were several problems with the draft resolution. First, it was a transitory

measure to introduce a special temporary regime in Ulaanbaatar and did not address the need for a legal document that would regulate mass gatherings and demonstrations in general. It was agreed earlier that the demonstrations need to be regulated legally and such a document was non-existent and needed to be developed and approved. Second, Batmunkh was convinced that taking extreme measures suggested in the resolution would not resolve the situation but rather likely to exacerbate it by adding oil to fire. Naturally, it did not mean that the country leader was against any government regulation or measure. Rather, he advocated more peaceful means so that the situation does not grow out control and expand into violent interactions (Batmunkh 2003, 60).

The minutes of the extended meeting – which included some cabinet members and leadership of the People’s Great Khural and which took place in the afternoon of March 9 – demonstrate that opinions diverged (see the minutes of this meeting in Appendix 2). The very fact that such a resolution was drafted in the first place indicates that there was a group of hardliners who preferred forceful action. At the meeting, they pushed for the resolution to be passed promptly and military action taken. Others were more cautious. The discussion focused on potential consequences of using force (and not using force), which were not clear at all. It was also noted that the police and internal troops would not be able to secure such a big perimeter as Small Ring Road.

Most notably, Minister of Public Security A. Jamsranjav insisted that such decision should not be taken and, even if made, could not be enforced. He threatened to resign if such a decision is made. Prosecutor General J. Baljinnyam who co-drafted the

resolution changed his position stating that the day before he supported using force, however now he thought that this would not be effective. The concern about how the resolution would be perceived by international community was raised by several attendees. Ultimately, the party leader Batmunkh decided that the decree should not be issued and the issue would be further discussed among the politburo members (Ochirbat 1996, 139; Batmunkh 2001, 58-64). He noted that resignation of the politburo was possible.

The politburo met on the same day, half an hour after the end of the above meeting. Seven full members of the politburo and few candidate members as well as party secretaries all attended the meeting. The meeting lasted about an hour. Batmunkh recalled that in a critical situation like this, no one expressed their opinion openly and everyone waited for the leader to speak out. Without much explanation, Batmunkh stated that the dire political situation in the country and the need to resolve it quickly and non-violently requires undertaking some extreme measures. He proposed that the politburo should resign and convey its decision to the upcoming plenary meeting (to be held in three days) and make it formal. Batmunkh recalled that the politburo members looked shocked and kept silent for a while, after which Batmunkh's deputy Ts. Namsrai told that it was probably the right decision. Since the decision was an important one, Batmunkh did not take a vote but rather asked every member to personally communicate his decision. Everyone agreed. Batmunkh noted that it still remains a mystery who genuinely agreed to resignation and who was forced to agree under peer pressure (Batmunkh 2001, 65-67).

The decision not to take forceful actions against the protesters and attempts to find peaceful solutions to the emerging political situation was conveyed to the democratic movements. The person to expose himself to the infuriated protesters and their leaders was Deputy Prime Minister Byambasuren. It was agreed that the Secretary General Batmunkh makes public announcement about the decision of the politburo, which he did in the evening of March 9 on the national TV and called for protesters to immediately stop the hunger strike. After the speech of Batmunkh, the hunger strike was dissolved at 10:00 pm.

The 8th plenary meeting of the Central Committee took place on March 13, 1990. The politburo officially resigned. It was decided to hold an extraordinary congress of the MPRP in April. Unlike the previous plenary, some animated discussions went on during this meeting. About 70 members of the Central Committee expressed their opinion on the current issues, democratic changes, market economic reforms, changes in the Constitution, separation of the party from the state, new state structure, and the future of the party (Sodnom 2003, 115 and 124). With the resignation of its top leadership, G. Ochirbat was appointed the new leader of the MPRP.

P. Ochirbat noted in his memoirs that this plenary meeting marked the end of the perestroika-type of reforms and the beginning of the Mongolian democratic political reforms (Ochirbat 1996, 140). A group of fifteen radical reform-oriented scholars led by Dr. K. Zardykhan and Ts. Davaadorj officially developed the party reform platform,

which was adopted by the Central Committee and served as the basis for its change. The reform program was developed on an open letter they sent earlier to the Central Committee which was published in the MPRP official newspaper “Unen” on February 23, 1990. On March 20, 1990 the next 9th plenary meeting took place and discussed the issues of organizing an extraordinary party congress and resignation of the current government and leaders of the parliament as well as appointment of the new Prime Minister, cabinet members, and the Chairman of the People’s Great Khural (nominally head of the state).

The next day, March 21, the session of the People’s Great Khural took place. Batmunkh officially resigned from his post of the Chairman of the Presidium of the People’s Great Khural and Sodnom from his post of the Prime Minister. The new interim government – to be in power until the next elections – was now led by the then Agriculture Minister Sh. Gungaadorj. Minister of Foreign Economic Relations and Acquisitions P. Ochirbat²⁴ became the new head of the state. The radical reformers Byambasuren was promoted to the post of the First Deputy Prime Minister, and Zardykhan to the post of Deputy Prime Minister. The March 1990 session of the People’s Great Khural not only appointed new head of the state and the government, but also made several important political changes. It amended the Constitution of 1960 to abolish the special status of the MPRP as the vanguard and leading force in the society. Article 82 of the amended Constitution legalized the multi-party system in Mongolia. The amendment to the Constitution was approved on March 23, 1990. On the same day

²⁴ Please note that there were two different people with the name Ochirbat: G. Ochirbat, the new party leader, and P. Ochirbat, the new head of the state who later became the first President of the country.

the session of the People's Great Khural issued a decree on the new (interim) structure of the state. It was suggested to create the State Small Khural (a permanent parliament), the lower chamber of the parliament, and the new post of the President of Mongolia. The proposed amendments to the Constitution were to be discussed at the next session of the People's Great Khural. A working group comprised of 25 prominent lawyers, many of whom were important politicians, to prepare the official amendment to the Constitution about the new structure of the state was appointed on March 23. The working group was assigned to prepare the draft amendments before the end of April. Another working group headed by the Justice Minister O. Jambaldorj was appointed to prepare the draft law on political parties and publicly discuss it.

In the meantime the new democratic forces had their own ideas of reforming the state and changing its structure and institutions. After successfully achieving their primary goal of forcing the old leadership into resignation, now they focused on the issues of building a new state structure. Continuous discussions and roundtable negotiations were held from March to May 1990. On April 24 meeting, for instance, the Mongolian Democratic Union put forward several issues, including, again, formation of a Temporary People's Khural (assembly) to replace the existing parliament; formation of the people's extraordinary council with equal participation of political parties to evaluate the past actions of the MPRP and punish its leaders; relocate the MPRP apparatus from the Government House; and provide the newly formed parties and movements with office

space²⁵. The new MPRP and government leaders did not agree to these demands, with the exception of the last point (office space was provided shortly thereafter).

In particular they considered unlawful and unconstitutional the first requirement to abruptly dismantle the existing state structure. They insisted that any changes, even the radical ones, should be made as much as possible within the existing legal framework or by lawfully amending the existing legal framework. So far, the resignation of the politburo was decided on by a due process of the party regulations. The MPRP leadership believed that the due process was even more important in making changes to the state structure. They did not rule out radical changes, however these would have to be made only by the legitimate means of changing the laws. The only establishment that had the nominal power to make changes to the existing laws and the constitution was the general session of the People's Great Khural.

The MPRP could not acquiesce to the pressure to establish a joint commission to evaluate and prosecute the old party leaders. They argued that the only legal authority to judge people and prosecute them if necessary lied within the courts, and not some vague partisan institution as "the people's council". The leadership was firm on this issue. It was not only illegitimate, but there also might have been a degree of fear of vendetta by the outraged masses (although perhaps not as severe as in Romania).

²⁵ At the time all buildings were state owned and the newly formed political parties could not rent office space unless the state/party decides to provide such space.

Box 3.1 Chronology of political events, Dec 1989 – Sep 1990

Dec 10 – First political protest took place where the Mongolian Democratic Union (MDU) was announced. The protesters demanded separation of the Communist Party from the state, multiparty system, permanent parliament, free and fair elections to be held in the first half of 1990, free press, and rehabilitation of the politically repressed by the MPRP

Dec 12 – The 7th plenary meeting of the Central Committee of the MPRP took place but no response to the political demands of the MDU was made.

Dec 17 – The second meeting (protest) of the MDU took place, about 2,000 people attended, the banners of the protesters read “Free press”, “Democracy is our goal”, “Don’t be afraid, do it”. The MDU presented its political program.

Dec 28 – Democratic Socialist Movement (DSM, the second political movement with social-democratic aspirations, mainly consisted of mathematicians and other academics) was announced.

Jan 4, 1990 – The DSM announced its platform to be the welfare of the people.

Jan 14 – The third protest of the MDU was attended by over 10,000 people. The protesters demanded repeatedly the MPRP to respond to their political pleas.

Jan 19 – The New Progress Movement (NPM, the third movement, consisted mainly of young economists) was announced.

Jan 19 – The first meeting with some of the leaders of the MPRP took place, but the MPRP did not give any positive or even definite answer. The meeting was broadcast nationwide via radio and television.

Jan 21 – The fourth meeting of the MDU took place on the main square. The MDU leader Ts. Elbegdorj announced that the MDU has about 60 branches nationwide and has over 30,000 supporters. More than 20,000 people attended the meeting.

Feb 8 – The DSM sent an open letter to the MPRP leader and head of the state J. Batmunkh. They demanded him to resign, hold free elections and form a temporary people’s khural (assembly), which will develop new Constitution, election laws and other major laws to establish a new democratic political system.

Feb 11 - Baabar, a leading author and founding member of the DSM, published as a book and distributed publicly several dissenting articles he wrote in 1988-1989.

Feb 11 – Over 30,000 people attended the fifth meeting of the MDU.

Feb 18 –The first congress of the MDU took place. S. Zorig was appointed the leader of the MDU. Simultaneously the Mongolian Democratic Party was announced.

Feb 18 – The first issue of the non-government newspaper “Shine Toli” (“New Mirror”) was printed.

Feb 22 – The statue of Josef Stalin was dismantled by the government, under the popular pressure.

Feb 24 – A joint meeting of the MDU, DSM, NPM, and Students Union took place. It was agreed to combine efforts and sent a joint plea to J. Batmunkh.

Box 3.2 Chronology of political events, Dec 1989 – Sep 1990 (cont'd)

Feb 28 - Democratic forces plead the army and special units not to use military action against the people and protesters.

Mar 2 – Mongolian Social-Democratic Party was established (based on the DSM).

Mar 3 – Fifteen scholars (mostly members and supporters but few nonpartisan) sent an open letter to the Central Committee of the MPRP insisting that radical changes are needed, both in the society and within the party. This letter later served as the basis of the new platform for the MPRP

Mar 4 – The first joint meeting of all democratic parties and movements took place and was attended by about 90,000 people. A joint official demand was handed to the representative of the People's Great Khural (national assembly). The letter demanded the politburo to resign, separate the party from the state, form a temporary people's khural (national assembly) with equal representation of new political parties, maintain public order and national sovereignty. The protesters demanded answers by March 7, via national TV and radio.

Mar 6 – Ts. Namsrai, Deputy Chairman of the People's Great Khural, met with representatives of the new political parties and movements and declared that the government could not accept their demands.

Mar 7 – In return, ten members of the MDU announced a hunger strike on the main square. More people joined.

Mar 8 – Massive protest took place. Deputy Prime Minister D. Byambasuren met with the protesters and agreed to hold roundtable negotiations. The negotiations took place shortly and were broadcast on the national television and radio. However, no definite agreement was reached. Protests continue.

Mar 9 – Negotiations renewed at 7:00 pm. D. Byambasuren led the negotiations. He announced that the politburo would resign. At 9:00 pm Party leader and the head of the state J. Batmunkh publicly announced that the plenary meeting would formally decide on the issue of resignation. Hunger strike stopped at 10:00 pm.

Mar 11 – Mongolian National Progress Party (MNPP) was established.

Mar 12-14 – The 8th plenary meeting of the Central Committee of the MPRP took place. The politburo officially resigned. It was decided to hold an extraordinary party congress on April 10.

Mar 21-23 – The 8th session of the People's Great Khural took place. Article 82 about the leading role of the MPRP was abolished from the Constitution. Resolution on the new structure of the state is issued but not legalized. Working group is appointed to prepare draft amendment to the Constitution to include the new state structure. P. Ochirbat appointed the new head of the state, Sh. Gungaadorj appointed the new Prime Minister.

Mar 29 – Political parties and movements held another public meeting and demanded to approve a new Law on Political Parties and mass media be released from the control of the MPRP.

Mar 31 – Mongolian Social-Democratic Party held its first congress.

Apr 1 – The People's Great Khural convened to discuss the draft Law on Political Parties and draft amendments to the Constitution.

Apr 8-9 – Mongolian Democratic Party held its first congress.

Box 3.3 Chronology of political events, Dec 1989 – Sep 1990 (cont'd)

Apr 15 – Three major democratic movements and three major political parties (MDP, MSDP, MNPP) signed the “Agreement on Coalition of Democratic Forces”.

Apr 24 – A renewed political demand to (i) form a temporary people’s khural (assembly or legislative organ), (ii) form people’s extraordinary council with equal participation of political parties, and (iii) relocate the MPRP apparatus (staff) from the Government House was issued by the Democratic Union and Democratic Party.

May 4 - The Presidium of the People’s Great Khural leadership () announced that it could not accept the above demands of the MDU and MDP.

May 4 – The Social-Democratic Party suggested that the re-emerging critical political situation should be resolved through peaceful negotiations. Roundtable of political parties and movements as well as the leadership of the People’s Great Khural took place. It was explained that the government is taking actions to reform the state structure. The Consultative Council to include all political parties was established within the national assembly. The negotiations were broadcast on the national TV.

May 7 – All parties signed an agreement that they will not hold any mass protests while the new mechanisms of restructuring the state organs are being developed.

May 10 – The People’s Great Khural approved the Law on Political Parties and Law on the Amendments to the Constitution on the new structure of the highest state organs introducing the presidency and the permanent parliament.

May 15 – The Presidium of the People’s Great Khural announced that the first multi-party elections will take place in 75 days. Political parties launched their election campaigns.

May 16-26 – All political parties were officially registered in accordance with the new Law on Political Parties. The MPRP was the first to register.

Jun 10 - Political parties held open discussions on the main square about their platforms in the upcoming elections.

Jun 16 – Amendments were made to the Election Law about the two-stage majority rule. The first round of elections was to be on July 8 (later officially postponed until July 22) and the second – between the two candidates who received the largest share of votes – on July 29.

Jul 22 – The first round of elections took place.

Jul 29 – The second round of elections took place. Voter turnout was 97.8 percent. The MPRP won 363 seats out of 422 in the People’s Great Khural. In terms of party preferences, MPRP won 61.8 percent, MDP – 24.3 percent, MNPP – 5.9 percent, MSDP – 5.5 percent of all votes. Based on the proportional representation, they received respectively 31, 13, 3, and 3 seats in the permanent parliament, the State Small Khural (total of 50).

Sep 3-10 – A general session of the People’s Great Khural began. P. Ochirbat appointed the President of Mongolia. R. Gonchigdorj appointed Vice President and Chairman of the State Small Khural. D. Byambasuren appointed the Prime Minister. Fifty members of the State Small Khural are appointed.

Sources: Archives of the National Democratic Party, newspaper “Unen”, Ochirbat (1996), Dashzeveg (1998), Batmunkh (2001), Sodnom (2003), brochure “Twenty Years of Democratic Party” (2010)

However, the MDU continued to push for extreme measures, eventually staging a mass picket on April 27 on the main square, which almost broke out into violence. By the time the demonstrators reached the square, it was already secured by the police. It became clear that no government representatives would come out to talk to them. They already gave their negative answer the previous day. Tens of thousands of people gathered and confrontation with the police seemed inevitable. Zorig, the main coordinator, attempted to calm down the outraged masses and make them sit down. Ultimately, the democratic leaders succeeded, the demonstration dissolved, and police left.

Amarsanaa (2012) recalls that this was a sobering experience for the democrats. The split within the MDU was becoming apparent. More extreme elements led by Dr. Nergui (an economist by training and older MDU member) pushed for further aggressive action. He was the author of the idea to establishing a people council to prosecute the old leadership. However, the leaders agreed that the April 27 picket was a mistake which almost cost them their political reputation (as a socially responsible and non-violent political force) and political gains they were able to achieve so far, including resignation of the politburo and legalization of a multi-party system. This failure had an effect of “a bucket of cold water poured over [their] heads” and taught them to realistically assess the delicate political situation and appreciate and build on the previous successes (Amarsanaa 2012, 221-223).

While some elements of the MDU were pushing for extreme measures, the social democrats pleaded that peaceful talks are the only way to resolve the issue and called for concessions on both sides. After the retreat of the MDU, the roundtable discussions held on May 5, 1990 at the initiative of the Social Democratic Party reached several very important decisions. The April 27 picket did have its positive effect. Both sides had to compromise on their positions. The MPRP agreed to include other political parties in the development of major draft documents and laws and partially reform the state structure within the amended legal framework. The democratic forces backed off with their demand to tear down completely the existing state structure and start building the state from scratch.

3.1.3 Political Consensus and Constitutional Amendments

First, it was agreed to form the Consultative Council within the Presidium of the People's Great Khural. The role of the Consultative Council was to draft, discuss, and agree on the new laws and regulations (e.g., amendments to the Constitution, Law on Political Parties, Election Law, etc). The Consultative Council should consist of the representatives from the MPRP, the Democratic Party, the Social Democratic Party, and the National Progress Party, and professional staff from the parliament, government, and ministries. Other political parties were also welcome to join the Council if they wished. The main person to coordinate the activities of the Council was B. Chimid, one of the most prominent lawyers who later was named "the father of the new constitution". Chimid served as a senior official of the Presidium of the Great Khural. In fact, it was

Chimid's idea to form such a council, which became the main coordination body among the various political parties. The Council made important decisions about the democratic political developments that followed.

Second, the parties agreed to propose to the People's Great Khural amendments to the relevant laws on the formation of the permanent parliament, the State Small Khural, the main legislative body. It was agreed that the parties would receive seats in the new permanent parliament based on the proportional representation, which, in turn, would be determined by the popular vote in the run-off elections. In other words, people will vote on their preference about the political parties and based on the share of the voters, political parties would receive seats in the Small Khural. The members of the Small Khural would be appointed by the People's Great Khural.

Third, all political parties participating in the elections will be represented in the central and local election committees, as will be described in the Election Law.

Fourth, the issue of forming the People's Temporary Khural would be further discussed by the parties, if necessary. However, this issue never came up as the democratic forces considered the compromise made by the MPRP acceptable.

Lastly, all political parties, which participated in the negotiations, should ensure political stability during and after the free elections, during the process of forming the new permanent parliament. In other words, it was agreed that no more strikes or mass

protests should take place once the parties agreed on the rules of the game. This was the compromise the democratic forces had to make in order for political developments to evolve smoothly (from the minutes of the roundtable negotiations in Ochirbat 1996, 150-152).

Five days later, on May 10, following this major agreement on reforming the state structure, a general session of the People's Great Khural was held. All the main proposals to amend the Constitution were adopted without much deliberation. The People's Great Khural traditionally played a role of a rubber stamp, which it did this time too, as all main issues were already agreed by the top leadership in consultation with the new democratic opposition.

The new Law on the Amendments to the Constitution of the Mongolian People's Republic determined the new (interim) structure. This law repealed Parts 3 and 4 of the Constitution of 1960. It was a relatively short law with four main parts. The first part concerned the People's Great Khural and its authorities, which were limited to the discussion and approval of the Constitution; and appointment of the President, Vice President, the State Small Khural, the Prime Minister, Prosecutor General, and the Supreme Judge. The People's Great Khural should hold four sessions during its entire term (the term was set at five years or until the new Constitution specifies otherwise). All law-making authority – with the exception of the Constitution – now rested with the new legislative body, the State Small Khural. The Small Khural was also solely responsible for appointing the ministers, judges, making administrative and territorial

reforms, holding public discussion and referenda, ratifying international agreements, and so on. The new permanent – permanent in the sense that it held sessions continuously – parliament was proposed to consist of 50 members, three quarters of which should be members of the People’s Great Khural.

The new law also introduced the new position of the President (part 3), who will be appointed by the Great Khural and was the symbol of the national unity and sovereignty, and the commander-in-chief of the armed forces. Authorities of the President included ratifying laws, and vetoing the laws and other decisions of both the Great and Small Khural. However, if the Khurals decided by its majority not to accept the veto, the President had to ratify laws and other decisions. The government (i.e., the cabinet) held all executive powers and was accountable to the State Small Khural. It had to develop an action plan and get it approved by the Small Khural.

The new law (one could call it the interim constitution) became effective on the first day of forming the new People’s Great Khural following the elections, and was in force until the People’s Great Khural approved the new constitution. Thus, the amendment to the constitution determined the principally new interim state structure before the free elections took place and the new constitution itself is developed and approved by the freely elected parliament. Under the new arrangement, the Great Khural was to approve the new constitution and the State Small Khural was to determine the legal basis for the radical political and economic changes that were proposed and carried out by the new government in the following two years.

3.2. The First Democratic Elections and Formation of the Coalition Government (1990-1992)

Following the amendments to the Constitution, the elections were announced to be held on July 29, 1990 – 75 days after the approval of the amendments on May 10, 1990.

The political Consultative Council was formed under the People's Great Khural with participation of the MPRP and five new democratic parties. The status and authorities of foreign observers were clearly specified; including entering the polling cabins, filming, being present during the vote counting, interviewing the candidates and their campaign managers, review complaints and the follow up decisions of the Election Commission, use translators in all their activities (Resolution of July 20, 1990 of the Presidium of the People's Great Khural).

The amended Election Law was based on the major agreements reached by the political parties: political parties are free to nominate their candidates; candidates could be nominated not only by parties but also movements, NGOs, state enterprises, and even citizens. The elections would consist of two major votes: a majority vote on the individual candidate to represent constituents in the People's Great Khural and a proportional vote on the political parties which would determine the composition of the State Small Khural. The number of seats in the People's Great Khural was expanded to include one candidate from each *soum* (the smallest administrative unit) and one candidate for every 10,000 urban dwellers. This resulted in 430 single-mandate electoral

districts which was slightly more than the previous 402 mandates in the old Khural. The Election Law specified that a successful candidate should have gained support of a simple majority of constituents in a given district. Because there were districts with several dozen candidates where no candidate could secure the support of half of voters, the law was amended to include two stages: preliminary elections to identifying two candidates with highest percentage of votes from all candidates who competed, and the run-off elections to choose between the two frontrunners. The preliminary elections were held on July 22, 1990. The run-off elections were held a week later, on July 29, 1990.

3.2.1 First Democratic Elections

In some electoral districts (all with a single mandate) there were several dozen candidates, at most 72 (district 23 of Ulaanbaatar City). However, there were 43 national districts (out of 430) where initially only single contender declared candidacy. The Election Commission had to make sure that every district had at least two candidates and called for more candidates to join the race. Ultimately, all districts had at least two candidates competing. As the number of districts in the countryside was decided on the administrative principle – there were over 300 soums represented – and the average population of a soum was around 3,000 people, rural residents were greatly overrepresented in the People’s Great Khural. This was to the advantage of the MPRP which traditionally had stronger legs in the localities and to the disadvantage of the new less-known new democratic parties and movements.

In total, there were 2,413 candidates running in 430 districts, of which 1,689 candidates were from the MPRP, 57 from the National Progress Party, 189 from the Democratic Party, and 98 from the Social-Democratic Party (Ardyn Erkh Jul 5, 1990, issue 2). Thus, there were more than one MPRP member candidate in most districts and not even one candidate per district from the new parties combined, which reflects the peculiarity of the nomination process as well as the lack of influence of the new parties in rural areas.

The nomination process was rather unusual, as noted earlier. Not only political parties but also enterprises, schools, and other entities and also citizens could nominate candidates in the elections. The peculiar outcome was that multiple candidates were nominated from the MRPP (although officially nominated not by the party itself but other entities as well) in single districts. For instance, the former Prime Minister S. Bayar recalled in a recent interview in 2010 that his colleagues at the MONTSAME News Agency where he worked as a legal expert, nominated him to run in the 1990 elections while he was recovering in the hospital from a leg injury. On many occasions, the constituents of certain districts would invite people to ballot in their districts and express their support. Thus, many prominent public figures, politicians, artists, scientists and scholars, etc. were nominated based on the “invitations” they received from certain districts. There were occasions where multiple districts wished that someone represented their district and the candidate had to choose among them. The former Prime Minister Gungaadorj recalled in a TV interview in January 2012 (on the occasion of the 20th anniversary of the new Constitution) that he received nominations to run in several

electoral districts and chose the one that came earliest, from a very remote soum in Umnugobi (South Gobi) aimag. The districts – usually in the rural areas – would sometimes be hometowns of the proposed candidates but on many occasions they were totally unrelated districts. This indicates that information about the potential candidates was scarce and the local authorities – local governors, directors of local state enterprises, state and collective farms etc. – usually had a clear advantage in being nominated, and eventually elected, in their own districts.

The number of candidates reveals two phenomena. First, the party discipline was lacking, as multiple candidates from the same party ran in the same district. In fact, parties did not play the key role in nominating candidates in the elections. The nomination process was taken over by non-partisan entities such as the government agencies and state enterprises, and even groups of ordinary citizens. This might have been due to weak influence of party ideologies in the election process; personal qualifications of individual candidates seemed to have been important in the elections of the People's Great Khural, while the various ideologies played more important role in the proportional vote to be also cast during the run-off elections.

Secondly, the degree of political competition in the districts varied greatly. The fiercest competition went on in the capital city while there was virtually no competition in some rural districts. This reflects the unequal degree of political development and influence of the new democratic movements in various localities. And thirdly, the new political forces clearly lacked human resources, particularly in the rural districts. All in

all, the MPRP had an obvious advantage in the elections of the People's Great Khural. Irrespective of the personal or party composition of the People's Great Khural, the proportional vote on parties in the run-off elections would determine the makeup of the State Small Khural – the permanent legislature with full lawmaking authorities – and the government. This last point in the elections was crucially important for the new democratic forces, as they had better chances of winning more seats in the State Small Khural through the proportional vote.

The first democratic elections in Mongolia were closely watched by the international community. For instance, 27 people from the U.S, Great Britain, Poland, and other countries worked as observers of the elections, including U.S. Secretary of State James Baker. Also, some 110 journalists representing the press of 20 some countries were also present (Dashzeveg 1998, 86). The news about the free elections in Mongolia was broadcast worldwide.

Foreign observers and journalists had the power to actually monitor the vote count at the elections posts, along with the Mongolian citizens. No major incidences of breaching the Election Law were reported. The voter turnout was very high – about 98 percent – and voter education level was also appropriate because of the high literacy level in the country. By and large, all election stakeholders considered the first elections to be free and fair and the outcomes legitimate.

As a result of voting for political parties, the MPRP received 61.7 percent of votes, the MDP – 24.3 percent, the MNPP – 5.9 percent, the MSDP – 5.5 percent, the Green Party – 1.2 percent, and the Free Labor Party – 1.2 percent of votes, respectively. Based on the number of votes, the parties received the seats in the State Small Khural were split among the parties as follows: MPRP – 31 seats, Democratic Party – 13 seats, National Progress Party – 3 seats, and Social Democratic Party – 3 seats (Prohl and Sumati, 2009).

Gonchigdorj – prominent member of the MSDP who also served as the Vice President of Mongolia during 1990-1992 – argued that the MPRP won the elections by taking over most of the rural seats. Those who ran on behalf of the MPRP in the rural constituencies were predominantly local governors and directors of state farms who usually were better known in their localities. Administrative powers were also allegedly used by the local governors in their election campaigns. More conservative rural electorate favored the local heads of the *negdels*, state farms, and local party leaders. The democratic forces did not have much influence in the rural areas (interview with Gonchigdorj).

As a result, the composition of the People’s Great Khural was rather conservative. A survey was conducted among the deputies by independent research agency “Shinjeech” shortly after the first session. Total of 300 deputies – about three quarters of the newly elected People’s Great Khural – participated in the survey. The survey included

questions on the personal attitude, beliefs and values of the deputies.²⁶ Based on responses to multiple questions, the researchers divided the deputies into five groups (Table 3.1):

Table 3.1 Groups within the newly elected People’s Great Khural (based on results of the survey)

Groups	Beliefs
“Extreme reformists” (6 percent of the sample)	They see highest value in democracy, openness, individual rights and liberties (as opposed to collective interests), most consistent supporters of radical reforms
“Smart reformers” (18.3 percent)	They value democratic principles and individual liberties but also see the need for justice, equality, and order; a strict legal system which puts certain constraints on personal liberties, prevalence of national and group interests over individuals; the group has potentially the highest influence on other groups and perhaps will form the core of the government.
“Transitory (undecided) group” (13 percent)	They are not certain of their convictions, they do not openly support either radical democratic or conservative views, they seem to support democratic values but at the same time favor restrictions on individual liberties; there is a lot of controversy in their current ideas.
“Cautious group” (28.3 percent)	They are not certain in the advantages of the new political system, doubtful whether it will be better than the previous one; they accept certain new democratic principles but at the same time they try to implement or constrain them severely, they hold a “wait and see” attitude; they have been good implementers of the old ideology, usually highly responsible, if necessary (if the new ideology wins) they will become good technocrats under the new system as well.
“Conservative group” (35 percent)	They hold largely onto the old principles, cautious about giving liberties to people, favor restrictions and harsh rules, do not see much value in individual liberties; they see the new system as a “reformed old system” rather than a totally different system; about 30 percent of the group (and

²⁶Unfortunately, I could not get access to the primary data and the information provided here is based on the report published in the newspaper Ardyn Erkh.

10 percent of the entire sample) consists of hard-line conservatives who do not accept any major change, the remaining members of the group may change their ideas as democracy progresses (Note: it is interesting that only half of the MPRP deputies are classified in this group.)
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Source: Survey conducted by Shinjeech among the deputies, in Ardyn Erkh, Sep 20, 1990, issue 33

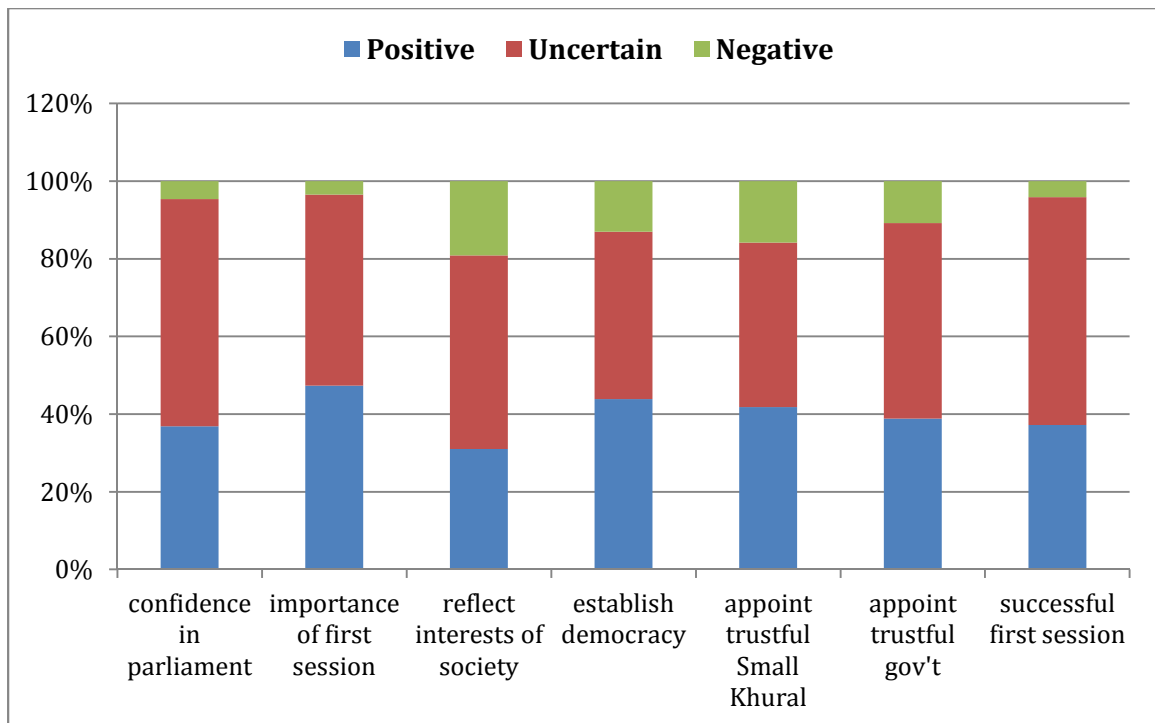
It was not surprising that the conservative group was the largest among the five groups within the parliament. They reflected the sentiments of the general public – particularly in the rural areas – and the high level of uncertainty and lack of knowledge and experience about the democratic society and market economy. This was expected given that about 40 percent of deputies were directors of state farms and agricultural collectives (Ardyn Erkh, September 20, 1990, issue 33), who constituted the most conservative group in the society. However, the study further argued that the size of the group was expected to reduce in the future, as the reforms proceed and more radical changes eventually take place.

A substantial portion of deputies (from 42 to 53 percent) admitted that they lack (or are not satisfied with their own level of) analytical, decision-making, information processing, and leadership skills. The majority (from 75 to 90.5 percent of all respondents) considered their experience in politics, legal knowledge and public speaking skills mediocre or lacking. It is interesting to note that 84.5 percent of deputies preferred the presidential political system to the parliamentary system. Sixty percent were confident that the national unity would not be jeopardized. About 31 percent expressed their

faith in foreign aid from developed countries, while 49 percent were doubtful about its usefulness.

After the elections, the government Center for Public Policy and Social Issues conducted a public opinion survey among 600 citizens of Ulaanbaatar city on August 30-September 1, 1990 about the trust in the newly elected parliament²⁷. The results are shown in Figure 3.1 below (the full questionnaire and number of responses is shown in Appendix 3).

Figure 3.1 Public opinion on the newly elected parliament (survey of 600 residents of Ulaanbaatar, the capital city, August 30-September 1, 1990, following the first free elections)



Source: S. Narangerel, PhD, researcher, in Ardyn Erkh, September 6, 1990, issue 27

²⁷Again, I could not get access to the primary data and the information provided here is based on the report published in the newspaper. Information about sampling is not given. The questions were asked at various locations, including streets and market places.

The polls reveal that, although there was little negativity, the majority of the city dwellers were uncertain and doubtful about the activities of the new parliament and its members. Naturally, the attitude differed among the supporters of different political parties. 58.6 percent of MPRP member respondents expressed their trust in the parliament, while the share was significantly lower among the supporters of other political parties: 19.3 percent of MDP, 27.7 percent of MNPP, and 9.7 percent of MSDP. The remaining 40.1 percent of MPRP member respondents were doubtful (uncertain) of the new parliament. The share was 73.4 percent among the MDP members, 66.8 percent among the MNPP, 80.6 percent among the MSDP, and 57.7 percent among the non-partisan respondents (article by S. Narangerel, PhD, researcher, in *Ardyn Erkh*, September 6, 1990, issue 27).

The People's Great Khural appointed the President, Vice President, and the Prime Minister. P. Ochirbat, who served as the Chairman of the Presidium of the People's Great Khural became the first President of the Mongolian People's Republic. He proved to be a pro-democratic radical leader within the MPRP. Even though the elections outcomes did allow the MPRP to form its own government – as noted earlier they won over 60 percent of votes – the party leaders decided to invite some representatives of the democratic forces into the government as well as the leadership of the People's Great Khural and the State Small Khural. Thus, one of the opposition leaders R. Gonchigdorj from the Social Democratic Party became the Speaker of the State Small Khural and Vice President of the country.

3.2.2 Formation of the Coalition Government and Its Policies

Byambasuren, another radical representative of the MPRP, became the Prime Minister. The newly appointed Prime Minister Byambasuren suggested forming a coalition government on a collegial (cabinet) principle. This was to reflect the new political situation in the country and the need to incorporate the voices of the new democratic forces in the government policies (Ardyn Erkh, September 25, 1990 issue 35). Initially Byambasuren suggested that a representative from the three major parties which received seats in the State Small Khural be represented in his cabinet. He suggested that a representative from the National Progress Party becomes responsible for the economic portfolio, while the Democratic Party could take over the legal reforms and the Social Democratic Party social issues. However, the MSDP refused to be part of the newly established cabinet.

On September 28, 1990 Small Khural appointed the new cabinet. The new government consisted of 12 ministers, the Prime Minister, First Deputy Prime Minister and two Deputy Prime Ministers. D. Ganbold from the MNPP was appointed First Deputy Prime Minister and D. Dorligjav – representing the MDP – was appointed Deputy Prime Minister. All other members of the cabinet – including another Deputy Prime Minister C. Purevdorj – were representatives of the MPRP (Ardyn Erkh Sep 29, 1990, issue 36). This was the first multi-party coalition government in history of Mongolia. There were no formal negotiations among the parties about forming the coalition government and no written agreement on the actions to be taken or responsibilities to be

shared. The coalition government was to a significant extent result of individual initiative by Prime Minister Byambasuren and decisions by individual leaders of the new parties (interview with Ganbold).

Gonchigdorj noted in an interview that there were several reasons for appointing Byambasuren, a radical reformist within the MPRP, the Prime Minister. First, Byambasuren led the round-table discussions of the MPRP with the democratic forces in March 1990 and was able to reach major agreements. Therefore, he was seen by the MPRP as someone who could find a common language with the new political parties and was considered to be acceptable by the democratic forces. Second, since the resignation of the politburo and the old government, a relatively conservative Prime Minister Gungaadorj led the interim government with little success. Therefore, to some extent the conservative wing lost its credibility to lead the country under the new circumstances. Third, the radical wing within the MPRP got stronger when the politburo resigned, new leadership was appointed, and elections were held. For instance, a group of several scholars who were prominent members of the MPRP wrote a famous “letter of the fifteen scholars” to the leaders of the MPRP. The letter outlined the necessity to pursue democratic political reforms and market economic reforms. To pacify this radical group and maintain political stability, some representatives of this group were included in the Byambasuren government. Thus, the government in 1990 mostly consisted of radicals within the MPRP, while democrats held only two key positions (interview with Gonchigdorj).

The new government consisted mostly from the more radical members of the MPRP. It is noteworthy that of the 16 members of the new cabinet several people later left the MPRP to join other parties or form new parties. In 1992 Labor Minister Ts. Tsolmon, Justice Minister J. Amarsanaa, Education Minister N. Urtnasan, and Foreign Affairs Minister Ts. Gombosuren formed the National Renaissance Party (archives of the MNDP, Jan 1992, Vol. 1-94). Several prominent former MPRP members also joined this party. Because of the large number of academics and practitioners with doctoral degrees (gained mostly from non-Mongolian universities) the party was referred to as the “party of the intellectuals.” Later this party joined the united Mongolian National Democratic Party (MNDP). Prime Minister Byambasuren himself broke off with the MPRP to establish his own National Democratic Renaissance Party in 1992 (different from the Renaissance Party) but gained little support thereafter. In 1997 National Development Minister J. Batsuuri simply renounced his membership in the MPRP due to the divergence of views (Dashzeveg 1998, 96-97). Thus, half of the first coalition government later turned away from the MPRP.

Mongolia saw deep economic and social crisis in 1990-1992 when the coalition government was in power. According to First Deputy Prime Minister Ganbold, the new government was implementing its policies under the circumstances where: (i) there was no legal environment for economic reforms; (ii) the public mentality was not ready for radical economic reforms; (iii) political forces without sustainable and clear views about democracy, reforms, and market economy had enormous influence on the public opinion;

and (iv) the government had to rely on the old bureaucratic machinery in implementing some radical economic policies (interview with Ganbold).

The government faced the twin challenge of stabilizing the economy and making some major structural adjustments. The core of the government's structural adjustment policy was rapid privatization of state assets. Although the concept of privatization developed with key involvement of the MNPP has been adopted by the new government and approved by the State Small Khural, the privatization process faced multiple difficulties. More conservative political forces openly opposed the privatization program and used mass media to influence the public, which in turn was not ready to accept the ideas of privatization. Lack of knowledge and understanding about privatization – and the private sector in general – led to inadvertent opposition on the side of the central bureaucracy and even ordinary citizens. Lack of capacity of local privatization committees, lack of coordination by the central privatization committee badly affected the speed of the privatization process. In some cases conservative local officials openly opposed or even disregarded the decisions by the government and the Privatization Commission. In other cases some individuals were using illegal methods to benefit from privatization. Many of those “supporters” of this kind of spontaneous privatization were mid-level bureaucrats with economic decision-making powers who formed the critical mass of the MPRP. The issue of privatization will be discussed in more detail in the next chapter.

The conflict around the issue of mass privatization and radical economic reforms in general put the government in a politically fragile situation. On the one hand, the government was criticized from the more conservative wing within the MPRP for being too radical, taking too much risks, and jeopardizing economic stability and the livelihood of the people. On the other hand, it was attacked by the new democratic forces for being too slow, dragging on with the reforms, thus prolonging the crisis and postponing economic recovery. Under these circumstances, there was no political force which fully backed the government and its economic reform agenda in 1990-1992. Later, Byambasuren admitted that decisions of the government often contradicted the opinions of political parties on both sides. The main challenge of the government was, on the one hand, to find a fine balance between the speedy reforms and readiness of the public to accept such radical measures. On the other hand, the government was caught between the two political camps: radical reformers demanding more speed and more cautious conservatives who criticized the government for overburdening the masses with high social costs of swift adjustment (Ardyn Erkh August 1, 1992, issue 111).

Baabar, the Chairman of the MSDP, criticized the MPRP for postponing the decisive reforms and thereby deepening the crisis (Ardyn Erkh, press conference of the MSDP, July 3, 1991, issue 106). They suggested that the two democratic parties – MDP and MNPP – withdraw their representatives from the cabinet and let the MPRP take full responsibility for the economic hardships. In a roundtable of political parties he posed a question: “Are there representatives of different political parties in the government, or is there a single unified “government party” which determines the policies?” Baabar argued

the “government party” was reflecting the ideology of neither the ruling MPRP nor other parties in the coalition. It seemed that political parties had become irrelevant in government decision making, at least at the cabinet, but perhaps also the parliament level, since the Small Khural had a full authority to make the government to resign but had not done so. Even the MPRP was in opposition to the government; at least there were some factions which were not supportive of the government policies. Some more conservative members of the MPRP observed that the coalition government was formed in a rush, without any unified agreed upon political and economic program, therefore, all parties, even those who formed the government, seemed to be critical of its actions (interview with Namjim).

In a roundtable discussion of the leaders of political parties on how to overcome the economic crisis held on July 15, 1991 (published in *Ardyn Erkh*, July 16, issue 113) leader of the MDP Bat-Uul accused the government for making “politically correct” decisions instead of pushing forward important radical measures. For instance, the government was criticized for letting the agricultural collectives to decide how privatize their assets – under the pressure of the conservative Union of Agricultural Cooperatives – instead of coordinating this important issue with the macroeconomic policies. He claimed that there were many other instances of political concessions which ultimately slowed down the reforms and deepened the crisis. Likewise, the leaders of the MPRP (B. Batkhishig in a roundtable on July 15, 1991) felt that the party was finally learning to cooperate with the State Small Khural, while the nature of the issues the government had

to deal with makes it very difficult to influence the decision-making at the executive level.

There was no clear delineation between the ruling and opposition parties (Ardyn Erkh, July 16, 1991, issue 113). The political situation which developed in the late-1991 – a ruling party becoming the opposition force to its own government – was rather unusual in a parliamentary democracy. Martin Shapiro, Professor of Law at the University of California Berkeley, observed during his visit to Mongolia in March 1991 that the MPRP was no longer a monolithic ruling party or power. There seemed to be several groups with diverging views about democratic and economic reforms. There are at least two phenomena that support this argument. First, there was consistently a significant group of lawmakers in the State Small Khural who vote against the mainstream ideas proposed by the ruling MPRP; often they side with the democratic forces. Second, the ruling party, although it received 60 percent of votes, formed a coalition government, which is highly unusual under the democratic system (interview with M. Shapiro in Ardyn Erkh, March 1, 1991, issue 43).

With deepening crisis there were more critical voices about the government policies. Since spring of 1991 – few months after its formation – active debates about motion of no confidence in the government have been heard within the State Small Khural as well as the general public. In December 1991 the parliament heard the official report by the government. The government was criticized by both sides. The campaign to dismiss the cabinet intensified under the pressure of more conservative MPRP members.

Parliament debates over the draft Constitution approaching the final stage, public opinion became more focused on the government due to expected Parliament motion of no confidence in the government.

Before the parliamentary hearing of the official report by the Cabinet, the Academy of Public and Social Research²⁸ conducted a survey among 258 deputies of the People's Great Khural²⁹. At the time of the hearing, 76.5 percent of deputies supported the dismissal of the Cabinet but about a third admitted that they might change their opinion based on further deliberations. Changing positions was rather frequent in the People's Great Khural as a result of deliberations and the general atmosphere during the sessions. Moreover, there were no firm beliefs about most of issues under discussion and partisan politics was rather weak. The two most important reasons for calling for the government resignation were, first, loss of a large sum (80 million U.S. dollars) in a foreign exchange deal by the central bank³⁰ and use of gold reserves as collateral for a credit from abroad and, second, missteps in the privatization process. It should be noted that the money was lost by some young members of the MNPP reform group led by Sukh-Erdene, who perhaps thought that they could outsmart the world financial market. The survey concluded that although the majority of the deputies were critical of the government, the likelihood was that the government would stay in power because, first, only few months were left before the next the elections and, most importantly, it would

²⁸ A public research institution

²⁹ I did not have access to raw data and the reports are from the newspaper article.

³⁰ At that time the central bank was under the direct supervision of the government. In 1992 it became independent.

be too costly to reach a new consensus on which to form a new government (Ardyn Erkh December 31, 1991, issue 232).

In light of the motion of no confidence, Prime Minister D. Byambasuren submitted a letter of resignation to the Parliament. He explained in his interview to newspaper “Unen” that he made this decision “...based on the survey results and insinuations by MPRP-affiliated newspapers” (Dashzeveg 1998, 167). By and large the parliament tried to put blame on the government for the general economic slowdown and deteriorating living standards of the people, although the economic situation was out of the control of the government due to the exogenous forces that were hurting the economy immensely. During the hearing Prime Minister Byambasuren admitted that no government could function without political support of parties and pointed out to the lack of such support from the State Small Khural and political parties (from the minutes the People’s Great Khural session, January 16, 1992, Archives of the Parliament). However, in the end 59 percent of deputies voted against the motion of no confidence. It was noted that, in spite of some serious mistakes, the coalition government’s core policies were adequate, particularly its reform efforts in transitioning to a market economic system and placing Mongolia as a new member of the international community were largely successful (Resolution 25 of January 25, 1992).

3.3. Adoption of the New Constitution

The first natural step of the newly formed parliament was start working on the new Constitution. A commission to draft the first democratic constitution was appointed by the decree of the State Small Khural on October 4, 1990. The commission was headed by President P. Ochirbat, and included Deputy Chairman of the Small Khural Dr. K. Zardykhan, member of the Small Khural B. Chimid, Prime Minister D. Byambasuren, Justice Minister J. Amarsanaa, Chairs of the Standing Committees of the Small Khural S. Bayar, T. Ochirkhuu, R. Khatanbaatar, L. Tsog, M. Enkhsaikhan, leaders of political parties B. Batbayar (MSDP), E. Bat-Uul (MDP), Z. Basandorj (Green Party), D. Ganbold (MNPP), Ch. Dul (Free Labor Party), and G. Ochirbat (MPRP).

Thus, the commission included political leaders of major parties who also were prominent lawyers and economists. Most notably, it included the most radical elements within the MPRP. The commission was to present the first draft of the Constitution to the Small Khural before March 1, 1991. However, due to the sheer amount of work required – including looking into own history, international experiences, public opinion, legal and political science etc – and the necessity to hold multiple discussions with many stakeholders, the initial draft was finalized on April 19, 1991. The process of drafting was detail-oriented and painstakingly long. Initially there were three drafts suggested by different lawyers and members of the parliament. The initial debate was around the issue of adopting a basic draft from among the three. However, the drafting commission decided to develop a new draft as they considered all three to be flawed in one aspect or

another (memoirs of Lundeejantsan 2011). The major conceptual issues of the new Constitution were: guaranteeing basic human rights including political rights, protecting private property rights, establishing the new state structure which reflects the power sharing principle (legislative, executive, and independent judiciary), establishing the rule of law as opposed to the dominance of party.

3.3.1 Public Discussion of the Constitution

The State Small Khural briefly discussed in the course of five working days the first draft and made few suggestions. It was decided that the amended draft be put for public discussion from June 10 until September 1, 1991. Following the public deliberations, the State Small Khural should make further amendments to the draft and submit it to the People's Great Khural by October 1, 1991 (from the *Decree 35 of the State Small Khural of May 25, 1991*).

Thus an extensive process of public discussion began. The government newspaper Ardyn Erkh became the main podium for public discussion, although arrangements were made for ordinary citizens to convey their opinion directly to the drafting commission. Every issue of the daily newspaper Ardyn Erkh from June to September 1991 contained several pages devoted to the discussion of the draft Constitution. They contained letters from citizens, interviews with lawyers, members of the drafting commission, deputies of the People's Great Khural, roundtable discussions of people with opposing opinions, explanations of legal terms, translations of articles

published internationally, and experiences of other countries, especially other transition countries.

As part of the public discussion, the Commission organized a widespread public awareness campaign, held numerous local, regional, and national discussions and conferences, two international conferences where international scholars and practitioners shared their experiences. Individual organizations and even enterprises held their own discussion of the draft constitution. The statistics show that total of 7,000 entities and 900,000 people participated in the discussions of the draft constitution and contributed their ideas (Ochirbat 1996, 164). This probably covers all public and business entities and the entire adult population of the country. As the commission officially reported later, out of over 220,000 suggestions made during the nationwide discussion, about 44.3 percent were reflected in some way in the draft (from the statement by President Ochirbat about the nationwide discussion of the draft constitution at the session of the State Small Khural on the outcomes of public deliberations on the draft constitution, Ardyn Erkh, November 15, 1991, issue 201). The first constitution has become a matter of national interest for every Mongolian.

In order to ensure participation of the deputies of the People's Great Khural in the early discussion process – before the formal deliberations take place and the Constitution is adopted – regional meetings of the deputies were organized in March-April 1991. Members of the drafting commission took active part in these meetings explaining the key concepts and principles. In his report about the regional meetings of the deputies and

senior local government officials, the Chairman of the People's Great Khural J. Gombojav noted that 348 deputies or 81.6 percent of all deputies, 436 senior central and local government officials, and some 600 representatives of various NGOs, political parties, SOEs, and the general public participated in the regional discussions of the draft constitution (Ardyn Erkh July 9, 1991, issue 110). The President, Vice President, Prime Minister and other members of the cabinet also participated in the discussions. Several issues were in the center of discussion: the type of the society new Mongolia is aiming to build, presidential vs. parliamentary political system, the composition of the parliament (unicameral vs. bicameral, number of the members, etc), legalizing political and other basic human rights, regional development and administrative and territorial reforms in the country. The last issue was of great importance in the rural areas as the draft proposed to combine several current local government units – *soums* – into larger jurisdictions, *khoshuus (banners)*. Rural dwellers were cautious about administrative reforms as this might lead to dislocations of people, and larger jurisdictions may lead to distancing of the local authorities – together with their services – from the people due to the sheer size of the country.

After the regional meetings, the State Small Khural decided that public discussions of the draft constitution should be conducted by the deputies during their meetings with their constituents. It was also decided to further expand the Commission on drafting the Constitution with scholars and professionals as well as representatives of ordinary citizens (Decree 53 of July 5, 1991). The Commission was extended to include historians, economists, political scientists, linguists, etc. Extensive supporting materials

were produced by numerous scholars. Members of the commission and the working group visited several other countries to look at the various political and electoral systems. Advice also came from international sources, including scholars and international organizations.

In September 1991, an international conference on “Constitution in the Process of Democratic Transition in Mongolia” took place in Ulaanbaatar. Representatives of 11 countries – including Russia, Germany, the U.S, India, Romania, Poland, France, Vietnam, and Pakistan – took part in the conference. There were lawmakers, political figures, scholars, and legal experts. Zardykhan presented a major report about the reform process in Mongolia. He – the main scholar who at the time served as the Deputy Chairman of the State Small Khural – touched upon the conceptual issues of the political system, the reform process (gradual vs. big bang), democracy vs. totalitarianism, economic reform agenda, the constitution, parliamentary vs. presidential system, etc. (Ardyn Erkh, September 11, 1991, issue 154). The second key speaker – S. Bayar, member of the drafting commission – mentioned that after year and a half of the trial-and-error experiences of adopting series of laws governing the economy and polity, and with extensive participation of the citizenry, a new constitution was being developed. This experience – the ABC of democracy and the market – was equally important for both political players and the general public (ibid).

The revised draft of the new Constitution – the fruit of 14 months of intensive work – was presented to the People’s Great Khural on November 12, 1991 for discussion.

Deliberations in the national assembly went on for over two months, much longer than initially envisaged. Factions and groups were formed within the Great Khural, for instance the faction of Independent Deputies, “Democratic Coalition” alliance, Agricultural Group, Youth for Democracy group, etc. Every faction or group had its own beliefs and promoted certain ideas. Occasionally fierce debate erupted, but ultimately compromise was reached. Groups and factions gave regular press conferences in order to explain their views and gain popular support. For instance, Dashbalbar (a prominent poet and publicist) who was heading the group of independents asserted that the dominance of a single party was replaced by the dominance of many parties and the interests of the minority deputies were largely neglected (Ardyn Erkh, November 26, 1992, issue 208).

Naturally, many important and occasionally controversial issues were raised, including changing the name of the country from the Mongolian People’s Republic to simply Mongolia and approving the new national flag and the anthem. However, the main debate focused on the key issues of the state structure and governance.

The deputies – members of the Mongolian Democratic Party – for instance, expressed their collective opinion on the following issues. First, collective decision-making would be more preferable for Mongolia. This would require limiting the proposed authorities of the President. The reasons for the democratic opposition to prefer collective decision making were at least partially conditioned by the fact as it allowed better chance for the new opposition to influence political decision making. As will be discussed below, there were other political and geopolitical reasons as well.

Furthermore, they argued that the proposed 6-9 years tenure of such high-ranking officials like the Prime Minister, members of the Parliament, cabinet ministers, and members of the Constitutional Court are too long for a democratic state and should be limited to 4-5 years. Also, aimags and soums should not have permanent khurals (assemblies) directly elected by voters; instead, governors should be responsible for the implementation of the government policies and work under the direct supervision of the Prime Minister (Archives of the MNDP, October 1991, vol. 17-19). Most of these provisions were ultimately reflected in the Constitution, with the exception of the idea of abandoning the local khurals.

3.3.2 Parliamentary vs. Presidential Regime Debate

The main debate around the Constitution was undoubtedly the debate about the presidential vs. parliamentary political system and the institutions of state governance in general. The debate broke out at the very beginning of democratic transition. However, it got more serious as the constitution was drafted and the public discussions began. Baabar, a prominent publicist and founding member of the MSDP, argued that Mongolia should adopt the parliamentary political system for several reasons: (i) Mongolia's experience with democracy is virtually nonexistent, therefore the threat of re-establishing an authoritarian rule by a single person – one similar to Choibalsan and later Tsedenbal – was real; (ii) parliamentary form was more conducive to creating the much needed national consensus and participation of the new political parties; in this sense the presidential system was politically fragile and the parliamentary one more solid; and (iii) for geopolitical reasons it would be easier for our big neighbors to capture a single person

with big powers than to deal with a collegial decision-making body such as parliament (excerpt from his new book on the recent history of Mongolia, in Ardyn Erkh, July 9, 1991, issue 110).

In Baabar's opinion, one of the reasons why some segments of the political elite and the masses in general favor the presidential system was related to the social chaos and economic hardships the country was experiencing at the time. The people might miss the "iron hand" of a ruler who can establish social and economic order and bring about some security and stability. However, such a system was not stable in the long run, as it would not be based on wide social consensus. Baabar argued that the existing system – president with limited authorities who is appointed by the parliament and the executive representing the majority in the parliament – seemed to be an appropriate model to follow. However, Baabar argued, in order to satisfy the wishes of those who desire a strong president, the latter could be publicly elected and hold more powers than the head of the state in customary parliamentary systems. This could be the compromise between the proponents of the two systems (*ibid*). This, in fact, was exactly what happened in Mongolia.

The new constitution declared Mongolia a democratic state with a parliamentary system – although it was categorized as semi-presidential system by Shugart (2005) and semi-parliamentary by Munkh-Erdene (2010) – which distinguishes Mongolia from many transition countries, and especially CIS members, which adopted presidential or semi-presidential systems with a strong president (see Table 3.4 and Table 3.5 in Chapter 5 for

comparison of political systems in transition countries and more detailed discussion of the evolution of the regime type in Mongolia).

Gonchigdorj refers to several reasons why a (predominantly) parliamentary system was ultimately adopted. First, the idea of a single person holding significant power was not very appealing to the majority of the Mongolian people and particularly the new democratic forces. The increasingly authoritarian style during the later years of Tsedenbal's reign and intensified interference from his Russian wife in government decision making were still very fresh in the memory of the people. Tsedenbal, although removed from office, was still alive and lived in Russia with his family; many of his loyalists continued to hold high positions in the party until the politburo's resignation in March of 1990. In fact, one of the main criticisms the democrats brought up against the old regime was specifically this "cult of personality" and the privileges enjoyed by the ruling class.

Second, the MPRP itself did not oppose the more collegial political system, i.e., the parliamentary system, although some elements did push for a strong president. The negative appraisal of several decades of Tsedenbal's semi-authoritarian rule and initiation of corrective measures in 1990 indicated that the MPRP no longer favored the rule of a single person. Furthermore, in 1990 there was no strong national figure among the MPRP leadership to grab power, similar in power and influence to Nazarbayev in Kazakhstan, Karimov in Uzbekistan, or Niyazov in Turkmenistan. The absence of a

strongman with vast ambitions made it easier for the MPRP leadership to support the parliamentary system.

Third, the state structure outlined in 1990 by the amendments to the old Constitution – with the office of presidency having limited powers – was largely carried on to the new democratic Constitution of 1992. This continuity also played a role in adopting a parliamentary rule. The issue of parliamentary vs. the presidential republic was – and still is – occasionally brought up by individual politicians. Although political parties never discussed the issue of changing the political system, there were undoubtedly those who would have preferred strong presidency (interview with Gonchigdorj).

Disparity of views among the deputies, and particularly among the members of the MPRP, became more profound during the discussion and approval of the draft Constitution. Some deputies of the People's Great Khural formed the so-called "Democratic Coalition" alliance within the Great Khural. The Democratic Coalition consisted the 44 deputies officially representing the new democratic movements, 32 radical members of the MPRP, 10 representatives of the youth organization, and 7 non-partisan deputies. The coalition consisted of progressive members of the parliament and was led by a prominent scientist Dr. R. Barsbold, member of the MPRP (Archives of the MNDP, October 1991, vol. 17-19). In spite of the minority in the numbers (93 members out of over 400 deputies), their influence in promoting solid democratic principles was more pronounced, at least partly because of the reputation of individual deputies. Many of them were prominent intellectuals.

“The session of a democratically elected parliament differed markedly from the previous monotonous sessions. It became a great school of democracy for all deputies as well as the general public who carefully watched them” (op ed by journalist Ts. Dashdondov in *Ardyn Erkh* 1990, Sep 20, issue 33).

3.4. Second Democratic Elections and Conservative Politics (1992-1996)

After approving the new Constitution with great effort of all parties concerned, the second elections took place in June 1992. The Election Law also changed to reflect the new Constitution. The new constitution established a unicameral parliament with 76 members which would be elected every four years. The electoral rule was driven by political reasons rather than the constitutional mandate because the Constitution did not specify how the elections should be held and organized. The new Election Law established a majority rule with multiple mandate electoral districts. In contrast, the 1990 elections were based both on the majority (forming of the People’s Great Khural) and proportional principle (forming of the State Small Khural). The outcomes of the first elections have shown that the majority rule was beneficial for the MPRP – at that time – while the proportional rule allowed the new democratic opposition to be represented to a greater extent in the permanent parliament. Therefore, it was expected that the MPRP would support the majority rule and the new democratic forces would root for the proportional representation.

The discussions of the new draft Election Law began in mid-March 1992, three months before the next elections. The debate was on the majority vs. the mixed (partly majority and partly proportional) rule. The debate was whether the proportional (and therefore the mixed) rule would contradict the direct voting principle - ‘people have a right elect the State Great Khural by direct vote’ – outlined in the constitution (Ardyn Erkh, March 12, 1992, issue 31). Ultimately, the majority rule adopted in the 1992 Election Law and became effective on April 8.

3.4.1 Second Democratic Elections

There were 76 seats in the new parliament, the State Great Khural, and 26 electoral districts with multiple mandates. This was in stark contrast to the founding elections where there was the popularly elected People’s Great Khural with 430 single-member districts and the State Small Khural, which was appointed by the People’s Great Khural $\frac{3}{4}$ from among the Great Khural members and the remaining quarter from outside of it, based on the proportional representation. Candidates (n candidates in n -member districts) who secured the largest shares of votes and passed the 25 percent threshold were elected the members of the parliament. This time only political parties were allowed to nominate candidates.

Total of 292 candidates ran in the parliamentary elections, including:

- 76 candidates from the MPRP;
- 48 from the MDP-MNPP-Green Party Coalition;

- 27 from the Mongolian Renaissance Party;
- 28 from the MSDP.

The remaining 113 people or a little over a third of the candidates were nominated by other smaller parties or were independent candidates.

The parliamentary elections took place on June 28, 1992. Overall turnout was very high ranging from 92.9 percent in Bayan-Ulgii aimag to 99.2 percent in Sukhbaatar (Ardyn Erkh, July 4, 1992, issue 97). The MPRP won the elections by a large margin securing 70 seats. The remaining 5 members represented new democratic forces and there was one independent (Table 3.2).

Table 3.2 Parliamentary Election Results (1992)

Political parties	Votes (% of total)	Mandates (number and % of total)
MPRP	57.1	70 (92.1%)
Coalition of MDP, MNPP, and Green Party	17.5	4 (5.3%)
MSDP	10.1	1 (1.3%)
Other parties and independent candidates	15.3	1 (1.3%)
Total	100	76 (100%)

Source: Prohl and Sumati 2009, 42

The landslide victory of ex-communists who ruled the country for over 70 years was totally unexpected and came as shocking news for supporters of the democratization process, both in the country and abroad (Dashzeveg 1998, 153). For instance, Prime Minister Byambasuren noted in an interview to a Belgian journalist that it was anticipated that the MPRP, a major political party which led the transition process in the country,

would win a substantial portion of seats in the new parliament. However, such a big defeat of the democratic forces was unforeseen (Ardyn Erkh, July 3, 1992, issue 96). Likewise, Dash-Yondon, leader of the MPRP, admitted that the party did not expect or even wished to have such an overwhelming majority in the parliament (interview with Dash-Yondon in Ardyn Erkh, November 11, 1992, issue 169). He was cautious that the outcome would damage the fragile political balance of power and might lead to political instability. Baabar, leader of the defeated MSDP, emphasized that the new parliament lost an important mechanism of check and balance, which may prove to be ‘tragic’ for the Mongolian politics (interview in Ardyn Erkh December 9, 1992, issue 185). Zardykhan, a former radical member of the MPRP who left the party, called for a very radical measure: the MPRP should consider changing the majority election rule, dismissing the current parliament and calling for early elections so that other fledgling political parties have a better chance of becoming parliamentary parties and the national political balance be restored. He argued that such a measure would be beneficial for the country as well as the party (MPRP) itself (interview in Ardyn Erkh, November 20, 1992, issue 174).

Prohl and Sumati (2009) argue that the decisive factor for the election outcome was “the change in the election law. While seats in the permanent parliament were previously allocated on the proportional basis, a majority system was applied in 1992. Under the new law, the MPRP was able to win 92 percent of the mandates with 57 percent of votes, leaving the democratic opposition with a parliamentary minority that was not even big enough to form a formal opposition group³¹” (41).

³¹ The law requires at least 8 members to form a group in the parliament.

Immediately following the election, the Center for Public Policy and Social Issues, a government research institution, conducted a public opinion poll of 659 residents of Ulaanbaatar City on the reasons for a major defeat by the democratic parties in the elections. No information about sampling was given. As 48.2 percent of respondents noted, the major reason for their defeat was the apparent too critical and confrontational stance of the democratic leaders. There was lack of understanding of the dominant popular sentiments and the election campaign was conducted wrongfully (37 percent of respondents). About 26.5 percent of respondents thought that the new democratic parties were not seen as a reliable political force.

The democratic forces had to accept political defeat. Immediately following the elections, they held a press conference about the election rules and how these worked in favor of the MPRP. Probably, the political situation was misread and misunderstood by a group of elite leaders, although not openly admitted at the time. However, they did not question the legitimacy of the elections or electoral rule. This was a time for the new democratic forces to reflect on their strategies and policies.

What kind of lessons did the new democratic forces learn from this major defeat? First, it was acknowledged that the various new parties with narrow political interests could not unite during the elections to stand up against the MPRP, a party with long history and political experience, both positive and negative. Although three parties formed a coalition, this coalition was only on paper. The bigger political players – the MSDP and the MRP – did not join the coalition. This multiplicity of separate smaller

parties and independent candidates did not constitute a solid counter-balancing power against the MPRP. This was probably the main reason – and lesson – for their defeat.

Second, the parties did not nominate their candidates for all districts and did not position their candidates wisely to get the benefit of the majority system. In several districts – particularly the rural ones – there were no candidates from the democratic parties, while in the urban districts multiple candidates were competing against each other thus dividing the votes between several smaller parties. Democratic forces had little election experience, and this was obvious (Dashzeveg 1998, 154-155). However, this was also true of the MPRP.

Third, the election campaign was critical of the policies of the current government and the MPRP in general. The MPRP was portrayed as the ‘public enemy’ which impeded the reforms and attempted to rule the country the old way. The campaign also focused on the mistakes made by the Byambasuren government. The MPRP also focused on the mistakes of the government for taking too radical measures and neglecting the social costs of radical reforms. However, instead of attacking the new political parties they concentrated on their new image as a changing party and trustworthy and experienced political force. Ganbold, the First Deputy Prime Minister of the coalition government, admitted in an interview that, although both parties criticized the ‘estranged’ coalition government, its mistakes were mostly associated with the reform agenda of the National Progress Party and therefore the democratic forces in general. The reform policies of the coalition government probably were seen as too radical by the majority of

the electorate. The electorate was not ready to accept the short-term costs of economic adjustment and the government did little to explain the policies to the general public. The people looked for the scapegoats for the economic hardship and the democratic forces became one. Naturally, policy preferences played a significant role in the election outcomes. The radical policies of 1990-1992 ultimately cost the democratic forces the second elections (interview with Ganbold).

A “mild conservative” P. Jasrai was appointed the Prime Minister as a result of the elections. At the onset of his premiership Jasrai pledged that he would continue the previous government’s economic reform policies including speeding up the privatization and further liberalizing prices. The most successful policy of the previous government was to establish good political and economic relationship with the international community and Jasrai admitted that his government would have to rely on external assistance for some time. The economy started to grow in 1994 after four years of decline. He formed his government from within his own party but invited six members from the previous government into his new 16-member cabinet to ‘ensure continuity of reform policies.’

It is commonly argued that Jasrai’s government action plan was relatively conservative compared to Byambasuren’s. Jasrai himself noted several times before that there was “no market without state regulation” and this was at the core of his policies. On the one hand, the government repeatedly reassured its commitment to advance market reforms. However, the conception of ‘a market economy’ may have been more

conservative. For instance, the action plan contained numerous controversial clauses such as establishing centralized provision of raw materials to the state owned enterprises which directly contradicted the principle of market competition, and heavily relying on administrative measures to improve food supply (the country was still on food rationing at the time) which suggested lack of trust in the market (the Government Action Plan approved on October 12, 1992). President Ochirbat criticized the government action plan for being too vague and frequently using the words “state regulation”. He warned that such controversial statements might give wrong impression to foreign partners and create confusion about Mongolia’s course of transition policies (Ardyn Erkh October 3, 1992, issue 147). However, despite the image and as it will be shown later, the government was rather market oriented. It continued with the privatization program; the currency was made convertible; the central bank still kept a strong anti-inflationary policy; trade was kept open; and there were no major violations of property.

The four years that followed – from 1992 to 1996 – were relatively quiet compared to the preceding turbulent and action-filled two years. Although this period was very important in terms of deepening the market reforms and advancing the fledgling democracy – and many important laws were adopted during this period – hardly any serious debate took place in the parliament. The five members of the opposition had negligible impact on the parliamentary debate. Former Prime Minister Byambasuren – at the time an elected member of the State Great Khural – left the parliament shortly after the elections for political reasons, as he considered it “meaningless to be part of such a ‘homogeneous gathering’ as the parliament was at the time” (interview with

Byambasuren). A couple of other members left too, citing health and other reasons. Elbegdorj, a leader of the Democratic Party, left the parliament amid the allegations of the exposing the 'state secret materials'. Another representative of the MDP, Enkhsaikhan, assumed a new job of the President's Chief of Staff in 1993 and also left the legislature. As one member admitted, being a member of the parliament in 1992-1996 was not a popular job.

Ganbold argued that one positive thing about the overwhelming majority in the parliament by one party was the undivided support secured by the parliament. Unlike the previous government which worked under an extreme political pressure from both camps and the general public, the Jasrai government enjoyed the full political support of the monolithic parliament. However, such political privileges – as well as the relatively good economic times with the global prices of copper and gold (major export items) hitting high in the mid-1990s – were definitely underutilized by the Prime Minister as the reforms were slowed down and opportunities lost (interview with Ganbold). The economic policies of the Jasrai government will be discussed in more detail in the next chapter.

3.4.2 Political Struggle of Democratic Opposition

Virtually ousted from the parliament, the opposition parties had limited means of political influence. The presidential elections of 1993 presented a good opportunity for the democratic forces to counter-balance the overwhelming powers of the MPRP. In accordance with law, the three parliamentary parties – the MPRP, the Mongolian

National Democratic Party (the newly united party) and the MSDP – had the right to nominate their candidates to run for the President. The candidate had to be a Mongolian citizen who reached the age of 45. This time the MNDP and the MSDP had to form a coalition given that these two parties had minority seats in the parliament, most of the key members of these two parties had not reached the age limit, and the MPRP had the full political power in the parliament and the government. L. Tudev, chief of the newspaper “Unen” – the main MPRP newspaper – was nominated as a candidate for the presidential elections by the decision of the MPRP’s plenary meeting. Incumbent President P. Ochirbat – although a former member and nominee of the MPRP – was nominated as a candidate by the democratic forces as being able to compete against the MPRP candidate. Ochirbat surrendered his membership in the MPRP and ran on behalf of the democratic coalition. Tudev – a well-known writer and journalist – was widely known as the most conservative but influential member of the MPRP.

Two observations could be made about the nominations. First, the delineation between the conservative and radical wings within the MPRP was becoming more profound, with departure of some radical members like Byambasuren and Ochirbat from the party. As a result, the conservative wing within the MPRP clearly was gathering strength compared to the previous two years, as nomination of an extreme conservative Tudev had shown. Secondly, the democratic forces started realizing the importance of political unification. Also, nomination of the incumbent President (nominated previously by the rival party) showed that the democratic coalition lacked human resources and there were not many influential senior members within the party ranks.

A Hong Kong-based magazine “Far Eastern Economic Review” noted in its April 29, 1993 issue that the political support for the structural economic reforms in Mongolia was rather lacking with the conservative parliament. Tudev’s victory in the upcoming presidential elections would create a new political challenge for the reforms. If Ochirbat who supported the private sector, won the elections, the structural reforms promoted by the IMF would get a new stimulus. This was seen as the main difference between the two political candidates by international observers.

Incumbent President Ochirbat won the elections and became the first publicly elected President of Mongolia, giving the much-needed boost to the democratic developments. The institution of the President was frequently used to veto laws and resolutions of the State Great Khural, bringing some political balance. However, the powers of the President were limited.

Deprived of major legal means of fighting against the government – the five members within the parliament were too few to even form an official parliamentary opposition group – the democratic forces opted for extreme measures and took it to the streets. Allegations of corruption scandals involving high-ranking public officials including Speaker of the State Great Khural N. Bagabandi, Prime Minister P. Jasrai, and Deputy Speaker J. Gombojav, hit the news in early 1994. The opposition intensified its anti-government campaign after the public announcement made by the officials of the State Intelligence Agency.

Amid these corruption allegations, the Democratic Union and the Student Union (the mass organizations) convened in the central square – for the third protest – at 1:00 pm, on April 13, 1994 demanding resignation of the Jasrai government. After the meeting, 17 members and supporters of the MDU and the MSU went on a hunger strike. Some observers noted that the government could not be simply dismissed as a result of street protests or demand by a small group, and only political parties would benefit from this hunger strike. Participants of the hunger strike declared on several occasions that some political parties – MNDP and MSDP – failed to achieve their common political goal, and in case of non-resignation of the government they would demand the dissolution of the parliament (Dashzeveg 1998, 192-193).

As a result of lengthy negotiations, on 21 April 1994 the parties reached an agreement. The leaders of the three main parties – the MPRP, MNDP, and MSDP – appealed to the members of the parties with the seats in the parliament with an official document named “political consensus.” It was agreed that the parliament would discuss during its spring and fall sessions of 1994 such important laws as the law on public meetings and demonstrations, and law on freedom of press initiated by the President, laws on ethical conduct of high ranking political officials, anti-corruption law, and law on general referendum. It was further agreed that the political parties would support the President’s views embedded in the draft law on freedom of press, namely the independence of the mass media and the principle of fair competition among the media.

The political hunger strike was dissolved on its twelfth day. In spite of the political consensus reached, the democratic forces did not consider the outcome to be very successful. The government did not resign. The hunger strike and its aftermath demonstrated that the times of extreme politics – such as hunger strike and street demonstrations – were probably over. The government largely neglected them and they did not receive as much popular support as in 1990. The reason – probably the main reason – for dissolving the strike was because it became obvious that Prime Minister Jasrai would not give in and change his firm position and the health of the protesters was jeopardized due to the prolonged hunger strike (Dashzeveg 1998, 192-193).

The period of 1992-1996 was generally full of frustration for the democratic forces. To better prepare for the next elections, the small minority in the State Great Khural proposed to change the Election Law to incorporate the proportional principle in electing the lawmakers. However this attempt failed (Ardyn Erkh, April 18, 1996).

In spring 1996, the leader of the MNDP Ganbold and the Leader of the MSDP Gonchigdorj signed an historical agreement forming a coalition officially named as the Democratic Coalition of the MNDP and the MSDP. Before forming this coalition the leaders of the two parties held several negotiations and reached a decision to form the coalition based on a thorough assessment of the political situation in Mongolia. It was acknowledged by the leaders that with foundation of political parties in 1990 such as the MDP, the MSDP, the MNPP, the preconditions for the multi-party political system have

been formed in principle. However, the maturation process of the newly founded parties proved to be difficult. Many mistakes were made.

After several years of political struggle and a major defeat in the previous elections, it was time for the parties to unite. A number of surveys showed the improved ranking of new parties, however, the MNDP, the MSDP or any other democratic party solely could not get higher ranking than the MPRP, and only jointly they could get more popular support. Thus, there was a vital need for the MNDP and the MSDP to form a coalition in order to participate in the parliament elections. Furthermore, the political platforms of the two major parties were close. Thus, it was argued that it would be inefficient for two parties to compete for the seats in the parliament on the same platform. Moreover, voters in general had the view that both the MNDP and the MSDP had scarce human resources in case they win the elections, which could be overcome only by combining the efforts and human resources (Dashzeveg 1998, 117).

The main election platform was embodied in the so-called “Contract with the Voters”, designed after the Contract with America, with the support of the International Republican Institute. The document had in total 183 items which covered all aspects of the societal changes the Democratic Coalition aimed to achieve: political, economic, social policies, and the national security and foreign policy.

Voters viewed the MPRP and the Democratic Coalition as the main competitors for seats in the parliament. The parliamentary elections were held on June 30, 1996

across the country. The voter turnout was again very high: 92.2 percent of all registered voters came to ballots, an indication of the strength of democracy and high importance attached by the public to elections. This time the Democratic Coalition won 50 seats, the MPRP 25 seats, while the Mongolian United Traditional Party secured one seat. Three days after the elections, the leader of the MNDP Ts. Elbegdorj stressed at the press conference that, with voters' confidence in the Democratic Coalition, "democracy has now more favorable grounds to advance in the country" (Dashzeveg 1998, 121).

U.S. Ambassador Donald Johnson observed "The election was an excellent example of how power can be challenged. ... I congratulate the former government led by Prime Minister Jasrai for the dignity with which they handled their defeat. It is not easy to be defeated in public. No one from either party that I talked to thought that the people of Mongolia would make this dramatic change, but that's democracy" (from newspaper The UB Post, No. 16, August 21, 1996).

3.5. Strategies of the Political Players and Political Compromise

The initial years of transition saw the formation of two cohesive political parties that were ongoing organizations that were stable enough to produce a continuing policy debate. What kinds of strategies were held by the major political parties and how was the political consensus reached?

3.5.1 The MPRP

The MPRP as the lead player had to adopt markedly different strategies under the emerging circumstances of democratic change. The former Minister of Finance Davaasambuu noted that starting from the 1960s the party got heavily involved in economic and social development issues, virtually replacing the state or, rather, arising above the state in the decision-making process, thus going beyond mere politics and ideology. The party leader Tsedenbal became simultaneously the head of the state in 1971 after the death of J. Sambuu, his predecessor, while before the two positions were held separately. The same was true for other top positions in the country. Only members of the politburo or the Central Committee held top government positions. All decisions – economic or otherwise – were now made by the party first and confirmed by the relevant state agency (interview with Davaasambuu). This had to change and that was where the party reforms started.

After the forced resignation of the politburo and the old government in March 1990, the MPRP took several steps to adjust to the new political situation. The new strategies of the MPRP leadership were focused on (i) surrendering its political hegemony and becoming one of the many political parties in the country; (ii) distancing itself from the old leaders and old policies of party hegemony; (iii) admitting (at least partially) some of the mistakes made in the past and making amends with regard to the politically oppressed, and (iv) identifying a new ideology to replace Marxism and thus reforming itself as a new player under the democratic political rules.

The party promptly denounced Tsedenbal's "escalated authoritarian style of leadership which was detrimental to the collective decision making, public interests, and justice ... [and which led to] increased concentration of both party and state power in a single hand during 1940-1984." As such, the Central Committee of MPRP unanimously approved the decision to expel Tsedenbal from the party at its 8th plenary meeting held on March 14, 1990 (newspaper Unen, March 16, 1990, issue 64).

Naturally, this step was an extreme measure, because many of the decision makers themselves were the former supporters of Tsedenbal. Sodnom, the former Prime Minister, admitted in his memoirs that, although openly voted for expelling the old leader from the party, many felt hesitant about their decision. It was not surprising when later the MPRP restored Tsedenbal's party membership during its 22nd Congress held on February 21, 1997, and N. Bagabandi, President of Mongolia from the MPRP, signed in November 1997 a presidential decree to restore – posthumously – Tsedenbal's previous state honors and titles. Nonetheless, reprimanding the old leadership and distancing itself from its past was one of the main strategies of survival for the MPRP.

The main political message of the MPRP in the first elections was that the party was getting rid of its past beliefs and mistakes and reforming itself under the new conditions. "Vote for the renewing MPRP!" was their main election slogan. In a major interview the newly elected chairman of the party G. Ochirbat explained that it would be a mistake to think of the MPRP as the old communist party, as the party was changing its

political platform. The main mission of the party is to build “a humane democratic society” based on the private ownership and the market principles. The breakup with its old Marxist-Leninist ideology was becoming clear (journal “Tsag Ue”, 1990, issue 8).

Shortly after expelling Tsedenbal from the party ranks, the Central Committee of the MPRP and the government established a commission to evaluate the policies of Tsedenbal. The new MPRP leadership pursued detailed investigation into the actions of the old Politburo. There were two issues in the focus of the commission. First, it was established that there were around 150 occasions (acts) of political repression of various degrees in the 1960-1980s. Most of these people were repressed for expressing critical ideas against the party leadership: removed from high positions, demoted, or, in the severe case, sent to exile in the remote areas of the country. These people needed to be identified and formally rehabilitated.

After the mass repression of Buddhist monks in the late 1930s, views diverging from the dominant hard line view pursued by the top leaders were expressed sparingly throughout the 1950-1970s. To give a few notable examples, member of the politburo D. Tumor-Ochir was accused of nationalistic sentiments for proposing to celebrate the 800th anniversary of the Chingis Khan in 1962. Ts. Lookhuuz, B. Nyambuu, and B. Surmaajav – members of the Party Central Committee – attacked the cult of personality developed by Tsedenbal as well as proposed to maintain friendly and neutral relations with both China and the USSR instead of taking orders from the Soviet Union, when the relationship between the two big countries became disagreeable in the mid-1960s. All of

them were removed from their posts, stripped of their privileges, and some were sent to exile to work as herdsmen. At the March 14, 1990 party plenary meeting a resolution was passed to rehabilitate Tumur-Ochir, Lookhuuz, Nyambuud and Surmaajav (Unen, March 16, 1990, issue 64). Two of the three who were alive in 1990 – already old men – ran successfully in the first democratic elections and contributed to the discussion and approval of the new Constitution. Later, the State Commission on the Rehabilitation of the Politically Oppressed was formally established in 1991 and substantial monetary compensation was paid to the descendants of the many who suffered for expressing their beliefs during the communist period.

The second issue in focus was that high ranking party officials received special, particularly non-pecuniary privileges in the form of free food, rent, furniture, paid vacations in the country and abroad, provision of household aid, free medical services abroad, very high (in excess of the established rule) pensions upon retirement, sale of household items at below the fixed price, privileged access to scarce goods and services, etc. These special privileges were condemned and investigation of the privileges and legal action against those who broke the rules was taken. For instance, it was discovered that one member of the politburo received in 1977-1989 the following benefits: 227,837 Togrogs in free food, discount of 23,514 Togrogs on furniture and household items, paid vacations abroad of 36,311 Togrogs, medical services abroad on total of seven occasions in the amount of 28,579 Togrogs, paid vacation in the country in the amount of 6,750 (from interview with J. Erdenebaatar, a senior official in the State Prosecutor's Office, Ardyn Erkh, August 12, 1991, issue 137). These benefits were in addition to the salary in

the amount of 2,000-2500 Togrogs. This meant that, on average, members of the politburo received twice as much non-pecuniary benefits as their nominal salary, not counting such benefits as access to the scarce goods. Average monthly salary during this period was around 450 Togrogs.

Another important step towards the political reform within the ruling MPRP was a complete change in the composition of its leadership, both party and the government. No leader, including the top and upper-level leadership, remained in his position. As the head of the interim government, Sh. Gungaadorj replaced the composition of high-ranking government officials with new younger people who were supposed to handle the transition problems better. Gungaadorj himself acknowledged that the main qualities of the new prime minister (after the elections) would be the ability to make compromises and collaborate with colleagues from different political parties, in addition to take risks and make quick decisions. He admitted (before the elections) that the new government would most likely be formed from multiple parties (interview with Gungaadorj in *Ardyn Erkh*, July 7, 1990, issue 3). The new coalition formed after the first elections was also comprised of the most radical representatives within the party, although the process was reversed in 1992 with the appointment of Jasrai as Prime Minister.

There was another round of change in the party leadership during its 20th congress in March 1991. B. Dash-Yondon – a philosopher who promoted the ‘oriental’ values of ancient Indian philosopher Nagarjuna such as moderation and “the middle way” as opposed to extremism as the new potential ideology for the MPRP – was appointed the

new party leader. Factions within the party – namely the traditional and workers’ factions – were officially acknowledged. The party approved its new program and charter. New members of the Central Committee were appointed (Ardyn Erkh, March 1, 1991, issue 42). Although officially adopted as the new party doctrine at the 21st party Congress in 1992, the Buddhist philosophical ideals of Nagarjuna did not go far within the party. They were largely alien to the former communists trained under strict atheist morale. The party members did not perceive that an eastern philosophy could serve as a guiding principle for a political party in the 21st century. Bold-Erdene et al (2011) distinguish several stages in the development of political ideologies in Mongolia:

- Early-mid-1990s – period of ideology searching – the only dominant “ideology” was to abandon the old totalitarian political and economic regime, no party had a clear vision of their political and philosophical values
- Mid-late-1990s – determination of ideologies
- Early-mid-2000s – setting in of ideologies, parties pursuing policies consistent with their ideologies
- From mid-2000s – the pragmatic period, changes in the chosen ideologies, pluralism of values (111).

In the course of political developments in the early 1990s, the ideological delineation between the two wings within the MPRP became more and more profound. The more radical members eventually left the party establishing break-off parties or joining other parties, while the more conservative ones remained. However, the

conservative wing within the party could not become a new communist party as it occurred in Russia, for instance. The new strategy was to adopt more mild leftist ideology and replenish itself with new younger members, as it happened in the second half of the 1990s and early 2000s.

Several groups took shape within the MPRP over the 1990s. Democratic observer Baabar noted that before the 1996 elections there were several factions within the ruling party. Table below (Table 3.3) summarizes the findings of Baabar.

Table 3.3 Factions and groups within the MPRP during the early transition period (1990-1996)

	Ultra-Conservative Leftist group	Conservative Group³²	Center Group	Pragmatic Group	Radical Group
Prominent members	Zenee (Member of Parliament) Tudev (presidential nominee in 1993) Ultra-nationalist and even fascist elements	Jasrai (Prime Minister 1992-1996) Ulaan (National Development Minister) Tsogt (Trade and Industry Minister)	Dash-Yondon (Party chairman) Enebish (Deputy Prime Minister 1992-1996)	Bagabandi (Speaker 1992-1996, President 1997-2005) CEOs of the largest state enterprises including Erdenet Copper, Gobi Cashmere, NIC (petroleum importer)	Byambasuren (Prime Minister 1990-1992) Zardykhan (Advisor to the Prime Minister), both separated from MPRP in 1993 Young active members, older less visible members Nyamdavaa (Health Minister 1992-1996) Gombosuren (Foreign Minister 1992-1996)

³²It should be noted that when this group came to power in 1992, it was willing to continue with the reforms and introduced more radical reforms than Gorbachev was ever able to introduce.

Political and economic platform	No clear economic program, old communist political doctrine; controls party media	Gorbachev-type gradual economic reforms (or Chinese type), limited political reforms	More economic liberalization, more democracy, criticism of Jasrai's conservative policies	Generally for more reforms, but flexible, could side with any group to protect economic interests	Radical reforms in all areas, complete abandoning of the socialist economic and political doctrine, most consistent with the democrats
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Source: Summarized based on article "Who Will Divide the Pie?" by Baabar, *Business Times*, No. 15(37), June 11-20, 1996

The center-conservative group ruled the country in 1992-1996. However, defeat in the 1996 parliamentary elections forced the MPRP to carefully revise their political platform and get rid of old conservatism as well as the indeterminate "middle way" philosophy. The MPRP struggled for quite some time with identifying a new ideology to replace Marxism before arriving at the social democratic ideals – center of the leftist ideologies – in February 1997 at its 22nd congress. It was stated that the party – now that it lost the elections – confronted multiple problems and needed a new platform. In particular, it was emphasized the need for rejuvenating the party with younger members and strengthening the bond between the younger and older generations within the parties.

The mild social democratic ideology of the MPRP became stronger in 2000 when the Mongolian Social Democratic Party – at the time the official member of the Socialist International – was united with the National Democratic Party to form the Democratic Party. With dissolution of the MSDP, the MPRP officially could become a left-wing political party with social democratic ideals, to which it holds on until today. It also became a full member of the Socialist International.

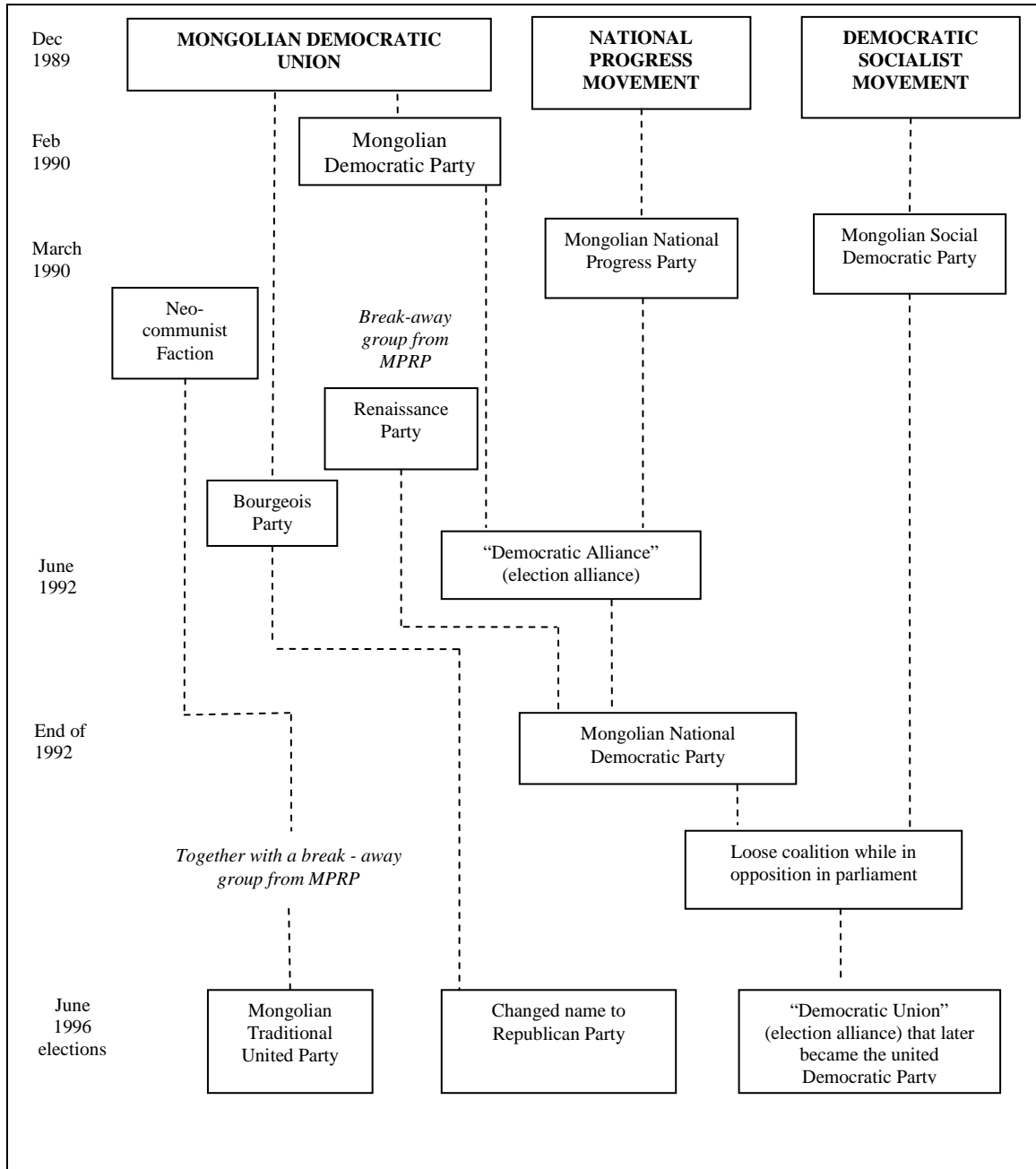
3.5.2 Democratic Forces

Democratic movements and parties emerged spontaneously at the very end of 1989 and early 1990. At the beginning of the democratization process, although united by their desire to democratize the society, there was little agreement on the peculiarities of their political platform. Therefore, young and ambitious democrats formed their own movements based on certain (usually narrow) beliefs. In spite of the diversity of their convictions, the democratic forces were divided into two wings: the extreme radicals who did not approve any compromise with the old party and pushed for a wholesale change in the society and economy and the moderate reformers who were more practical in terms of their strategies. The political extremist group included some elements within the MDU and MDP but not in other movements and parties. Economic radicals included most notably the MNPP and were generally supported by the MDP. The social democrats held moderate positions on both political and economic changes and reforms.

As shown earlier, the moderate political group dominated in the early democratization process and was able to negotiate the resignation of the politburo and the subsequent political changes. The failure of the April 27 picket and the subsequent political developments marked further devaluation of the extreme political views. The democratic opposition also agreed to be part of the coalition government and thereby push at least some of the items on their reform agenda. Many concessions had to be made along the way – e.g., delay in price liberalization and retreat in the agricultural

privatization – but the general direction of change and the overall outcome was seen as positive and largely successful (interview with Ganbold).

Figure 3.2 Evolution of democratic political parties and movements (1990-1996)



Source: Sumati and Prohl (2007)

The division among the nascent political groups was more profound in the early transition period. As journalist U. Enkhtuvshin claimed, there were almost 300 different (political or otherwise) movements, unions, and other non-government organizations by September 1991 (Ardyn Erkh September 18, 1991, issue 159), which is a very large number given the size of the country and the short period of time that has lapsed since the fall of the previous regime. The movements were not only numerous but also started experiencing conflicts among themselves. The conflict was particularly evident among the most prominent political parties and the related movements. For instance, as Baabar, the leader of the MSDP noted, the leaders of the Democratic Union movement were critical of the decision of the Democratic Party to join the coalition government. Nergui and Boshigt, the main proponents of the extreme political approach, left the MDU shortly after the failed April 27 picket. Zorig, leader of the Democratic Union – the “father” of the democratic uprising in December 1989 – left the movement to form a new political party, the United Party. Such diversity of the new movements and increasing conflict among them was probably part of the natural “growth process” of the new political forces. However, it may have created confusion among the public and contributed to their major failure in the 1992 elections. The first political group to initiate the unification process was the MSDP which merged with the Democratic Socialist Movement (DSM) in the late 1991. Party leader Baabar emphasized that the DSM had completed its historical role of initiating the democratization process in the country and from now on social democrats intended to participate in the national politics only through its party structure. Other parties followed the suit but only after their major defeat in the second parliamentary elections.

The outcomes of the 1992 elections dictated the parties to unite. Several parties with similar political platforms - MDP-MNPP-Green Party Coalition and the Mongolian Renaissance Party – formed a working group to initiate the unification process. The process of political growth and the failure in the parliamentary elections led the parties to conclude that they fell short to be cohesive in achieving the ultimate goal of political power, and this created ample room for the MPRP to survive in a new political environment. The first unification congress took place on October 25, 1992. The newly formed unified party was named the Mongolian National Democratic Party (MNDP) (MNDP archives, October 1992, Vol. 1-197).

A year after the (organizational) unification, although the MNDP leaders had more or less common views and shared common concepts, its local branches were still weak. Given some persisting differences in ex-party affiliations, limited scope of activities by party organizations, and weak impact on the public opinion, the MNDP had to redefine its vision and future goals. Thus, it was important for the MNDP to strengthen its central and local apparatus, management and organization in order to become a national party with strong foundation in aimags. Secondly, the party had to express their opinion on the government policies and find ways to impact the more conservative Jasrai government (MNDP archives, November 1993, Vol. 13-19).

Thus an extensive campaign to publicize the party platform and recruit new supporters was launched following the decision of the party congress. By 1995 the

members of the party General Council (the central decision-making apparatus) travelled in approximately 210 *soums* of all 18 *aimags* meeting with local people, recruiting new party members, and forming new party cells to boost the party activities and reputation in the rural areas and strengthen the local base. The party chairman Ganbold noted that the party was “changing itself from being a loose political movement to becoming a professional political organization active at all levels of governance and facing the challenge to strive to become a nationally recognized party. In addition to the political will, the party should have comprehensive ideology, and transparent and fair policies” (from the letter of chairman Ganbold to the local party leaders, MNDP archives November 1995, Vol. 11-88). Later, the party leaders acknowledged that they largely succeeded in becoming a strong national party (from speech of Secretary General Bat-Uul at the extraordinary congress of the MNDP in January 1996, cited in Dashzeveg 1998, 208).

As for the government policies, the party leadership turned away from extreme street measures such as hunger strike which erupted in April 1994 to more constructive criticism. Ganbold noted that the aim of the MNDP should be not only to criticize the government and the ruling party for not being able to overcome the deep economic crisis, but it should “... as a party with a comprehensive economic program and strategies ... effectively cooperate with the ruling party ... in an attempt to help the government to pursue more effective anti-crisis policies” (MNDP archives November 1995, Vol. 11-88).

The MNDP proposed the government to sign an agreement on further cooperation in order to take urgent measures to create favorable environment for the private sector, support foreign and domestic investment, create flexible taxation system, fight corruption, intensify the privatization process, and ensure law and order. Later the official proposal with thirteen clauses was submitted to Prime Minister Jasrai but did not lead to any formal cooperation or major policy changes.

Further strategy of the MNDP and MSDP was to combine their efforts in the upcoming parliamentary elections. Later the parties concluded that the formation of coalition was the major reason for success in the 1996 elections. Both parties nominated candidates to run in the elections not only from their own members but also supporters, which helped them to recruit additional cadre with good chances of being elected, particularly in the rural areas where they lacked good candidates.

Zardykhan who belonged to the radical wing of the MPRP in the early transition years and from the beginning was a big supporter of the new democratic forces, said in an interview that “seven years ago the democrats were not ready to run the country. Some of them did not even know what they were fighting for! But times have changed. ... many of them have developed political skills over the years and are ready to make big changes in this country” (UB Post Mongolia Weekly News, issue 14, August 7, 1996).

Elbegdorj, the leader of the Democratic Party stated that the “historical events in early 1990 in Mongolia were part the worldwide movement for democracy. These events

were a democratic revolution to oust communism, but they were also a national movement against the Soviet socio-political dominance and the struggle for the country's freedom and independence. ... For 300 years Mongolians depended on Beijing or Moscow – now we have gained freedom in its real sense. Since 1990 as an independent nation we are provided with an opportunity to choose our leaders, pursue an independent foreign policy. ... We were guaranteed freedom speech and religion, the right to travel abroad and be united on the basis of conviction, engage in commercial activities and live a prosperous life. Mongolian democracy has provided its people with basic human rights and freedoms” (excerpt from the speech in celebration of 7 years of democratic revolution, the *Mongol Messenger*, No. 49 (283), December 11, 1996).

3.6. Radical Political Transformation: Structural Explanations

The earlier sections described the political events in great detail. However, several issues remain puzzling. In this section I present historical and structural explanations of the events and outcomes. The questions posed and analyzed below are interrelated and reinforce each other.

- Why did not the MPRP use force against the demonstrators?

And why both the MPRP and democratic forces were committed to non-violence? After the hunger strike erupted on the main square in early March 1990, the old leaders earnestly discussed an issue of dealing with the new political situation. This was a

fundamental turning point in the history of Mongolia. A few people who could have taken military action decided not to do so. As the minutes of the meeting and memoirs of two participants reveal, the reasons for making such a decision boiled down to few factors. First, it was perceived that the police and the military did not have enough forces to secure the city and dissolve the demonstrators, as it happened in China less than a year earlier. Traditionally, the military in Mongolia was weak and the regime relied on the Soviet troops stationed in Mongolia on domestic and international security issues. Defense ministry was re-established in 1962 when the relations with China went sour, but the domestic army was small and inconsequential. The military leaders were never influential in political decision-making. The military's claim that they could not crack down the demonstrators was an important ingredient in the political decision that followed, although perhaps not the key ingredient.

Second, more importantly, it was perceived by the MPRP leadership that using force against the demonstrators and hunger strikers would further exacerbate the situation and might lead to more violent acts and get out of control. This judgment was probably a realistic one. The last thing the regime wanted was to fail in using force but being blamed for it. This would have permanently damaged the political reputation of the MPRP. The bloody events in China as well as Romania, where thousands were killed and the old leader Nicolae Ceaușescu and his wife were executed on Christmas day in 1989, provided their lessons. The military in China had enough power to suppress the demonstrations on Tiananmen Square, while the Ceaușescu regime seriously misjudged the mood and power of demonstrators in Timișoara and Bucharest. The Mongolian

leaders did not want to repeat their mistakes. Moreover, opinion of the international community did matter. Violent events in China and Romania were condemned in the international press and commented on negatively by the Soviet leader Gorbachev. It was apparent that no Soviet support was forthcoming should the leaders in Mongolia fail in militarily containing the protests.

Democratic forces, on the other hand, were also committed to non-violence. All demonstrations staged since December 1989 had a tight security organized from among the MDU members. There was a special group of people within the MDU who were responsible for the security issue. They wore ribbons on their left arm (pictures taken during these meetings disclose a substantial number of these people among the crowd). They were controlling the crowd, protecting the stage and the speakers, and maintaining overall calm. The security group was continuously reinforced when the crowds grew bigger (Amarsanaa 2012).

There were two reasons for maintaining peace. First, the democratic opposition believed that violence induced by the demonstrations would be extremely damaging for the political reputation and political future of the nascent democratic movements. This was particularly true at the initial stages of political fight, when they struggled to garner popular support. They perceived that the general public would not attend their meetings if there was a risk of violence. Although not satisfied with the existing regime, the public did not necessarily support the democracy. They were watching cautiously the new political forces and violence or call for violence would have been a huge downer. One of

the reasons the mass protests gained increasing popular support was precisely in the absence of violence (Amarsanaa 2012, 227-229).

Secondly, they believed that uproar and violence would trigger the authorities to interfere with use of force and the military. Most likely, they perceived it would have resulted in total crush of the new political movements. They did not have the support of the police or the army. They even did not have the support of the majority of the populace yet. This became most apparent when the MDU unsuccessfully staged a picket on April 27, when the crowd almost went out of control nearly leading to violence. The leaders and organizers of the picket took great effort to calm the crowd and peacefully dissolve it. Most notably, the other two major political parties – MNPP and MSDP – did not endorse this gathering and considered their demand to dismantle the current state organs and establish an extraordinary council to prosecute the old leaders going over the board.

As mentioned earlier, the MDU itself was divided on the latter issue. When the more extreme elements suggested establishment of the extraordinary people's council with prosecution rights, Zorig argued against Nergui (the main architect of the idea) that this reminded him of “the Bolshevik type of revolution” and Nergui was accused of taking a stance similar to that of Marxist (communist) doctrine of rival classes, which definitely was not a doctrine of the new democratic forces (Amarsanaa 2012, 228). Amarsanaa himself (an influential MDU member) noted that Nergui's proposal was akin to the Soviet Extraordinary Commission of the 1930-1940s which prosecuted millions

without trial and therefore could not be supported. He further reasoned that the likely defeat of the democratic forces might be used as an excuse by the rulers to postpone the upcoming elections indefinitely “until proper circumstances are in place”. Even if the elections were held, the people would not trust them and the entire idea of a democratic revolution would be buried (ibid). Thus, we observe strong commitment to non-violence which was conditioned by the fear of the democratic opposition to be discredited in the eyes of the general public and the fear of being violently suppressed.

- Why did the politburo decide to resign?

The decision of the politburo to resign was a distinctive one. The decision came quickly and peacefully, compared to many other countries in the region, where incumbent communist leaders still continue to rule in these countries to this day (or until very recently), e.g., Nazarbayev in Kazakhstan, Karimov in Uzbekistan, and Niyazov in Turkmenistan, or the clash between the political forces was so severe that it led to a prolonged civil war in Tajikistan. What kind of thinking was going on among the MPRP top leadership and what led them to make such a drastic decision? Naturally, the decision for the politburo to resign in March 1990 was not an easy one, but it was probably the best strategy for the MPRP. Batmunkh, the main decision maker, recalled that he had several considerations in mind. The politburo, although critically important in the government decision making process, nominally was the governing body of the MPRP and not of the state. As such, its resignation should not affect the legitimacy of the state and its structures. Therefore, it was relatively easy to make the current Politburo resign.

Moreover, the party could appoint a new Politburo if it wished, although this tactical point did not materialize (Batmunkh 2003, 64).

Batmunkh further recalled that the MPRP leadership thought that it could not accept dissolution of the People's Great Khural under any circumstances. They believed it represented the people and could be dissolved only at the will of the people, i.e., by referendum or other legal means. Thus, it was politically less costly for the MPRP to accept resignation of the politburo in order to save its control over the national assembly and state affairs in general (ibid). In other words, even with resignation of the politburo, the MPRP as a ruling party would still hold real political power within the state structure. Its resignation affected the party less than the individual members of the politburo, most of whom, in turn, were in power for many decades and of retirement age, including Batmunkh himself. Moreover, the decision of resignation took place within two hours after the issue of using military force against the demonstrators was discussed and ruled out. Since the regime chose peaceful means, it had to go for a compromise. Hence, there was little scope for alternative decisions.

Resignation of the politburo was a strategic move that could be traded for the stability of the state structures, at least temporarily. Indeed the MPRP used the politburo's resignation as a reason for refusing to form a new People's Temporary Khural to replace the existing assembly. The reaction of the MPRP during the April 27 picket – when the MDU continued to raise the issue of dissolving the People's Great Khural and establishing the Temporary Khural as well as a public commission to prosecute the old

leaders – was very dissimilar to their reaction to the March 7 hunger strike. The rulers did not negotiate and were firm on their position. Moreover, they condemned the new political demands of the MDU as illegal and extremist, and infringing on the rights of the people. They did not hesitate to bring in the police in case public order was needed to be restored.

- Why was the legality of changes so important for the ruling party?

Did they believe in it or were they simply buying time? Rule of law never was an important institutional constraint in socialist countries, where very few laws existed and important decisions were regulated by party resolutions. Therefore, it seems puzzling why the MPRP insisted on acting within the legal boundaries.

At the very first meeting on December 22, 1989 with the representatives of the newly announced Mongolian Democratic Union (which lasted only a few minutes), Secretary of the Presidium of the People's Great Khural Ts. Gotov declared that any political changes, including establishment of a new political movement and political party should be done in accordance with the constitution. Naturally, they could not claim that the MPRP did not approve them. The MDU representatives were left puzzled as it was not clear whether or not the authorities considered the formation of the MDU legal (Amarsanaa 2012, 84). The issue of legality of the MDU and other political parties and movements was raised consistently during the subsequent meetings with the authorities. The constitution stipulated that the people of Mongolia were free to join labor, youth,

women's, sports, science, cooperative, professional, and other civic associations. It also stated that the MPRP was a guiding force of the society and all civic organizations (Article 82). It also stipulated that the people had a right to express themselves in the press and through speech and organize demonstrations and rituals and these would be regulated by special laws and regulations (Article 87).

Article 82 was interpreted by the MDU as a right to join the existing organizations endorsed by the MPRP rather than establishing new ones, especially with political goals. No special laws and regulations existed to manage public demonstrations. At the same time, the constitution neither specifically prohibited establishing new organizations nor banned demonstrations. With the constitutional vagueness on the situation, the authorities did not suppress the demonstrations and did not forbid the new political movements. The MDU leaders opted to exploit the lack of constitutional clarity to their advantage (Amarsanaa 2012, 85-86). Perhaps the same lack of clarity prevented the MPRP from suppressing the new movements, once they themselves declared that changes should be made within legal boundaries.

The constitution was much more specific on the state structure, especially how to form and dissolve the national assembly and what were its authorities vis-à-vis the government (cabinet). The MPRP leaders were firm in their desire to adhere to these constitutional clauses and make changes only through the legal means. This perhaps was a critical way for the MPRP to control the constitutional changes, as they dominated the

national assembly, whereas establishing a Temporary Khural without elections was much riskier for them.

Views of the two opposing parties initially diverged fundamentally. The MPRP preferred the status quo (although realizing that a total status quo was impossible) while the democratic opposition favored total makeover of the state structure. As mentioned earlier, it was important for both political camps to maintain peace and national unity as their political reputations depended on it. Reputation was important because neither party believed that they could maintain their regime with force. A peaceful solution was perhaps somewhere in the middle. Amarsanaa's memoirs reveal that at least some elements within the new democratic opposition attached much significance to the legality issue. This was especially true for the more moderate leaders within the MDU/MDP, who eventually prevailed (Amarsanaa 2012). As the later actions of the MNPP and MSDP leaders show, they also preferred legal means. MSDP's call for peaceful legal changes in early May 1990 proved to be critical for drafting and approving the legal changes that allowed free elections and formation of a new assembly. The most reliable legitimate means of bringing in change was seen through constitutional changes rather than extraordinary measures.

- Why did the strategy of the MPRP change so quickly? A related question is why did the constitutional changes happen so quickly and smoothly in Mongolia?

The MPRP was able to reinvent itself in a very short period of time. It turned from a communist party into a party which admitted its past mistakes, valued national unity and was open to changes. It did not disappear as a political force as it happened in some transition countries where communist parties were banned. In fact, it effectively led the dramatic changes.

One argument is that the MPRP was guided by its drive to survive under the emerging new domestic and international political situation. The international environment was changing dramatically. The MPRP's main patron, the Soviet Union, was in chaos. The MPRP did not have good relations with the Chinese Communist Party for historical and geopolitical reasons. The masses previously disappointed by the regime but without clear vision of what they wanted, were now mobilized by the democratic opposition and turning against them.

Rossabi (2009) argues that this “transmogrification” of the MPRP's message has, in fact, contributed to its survival. The scenario of MPRP survival and indeed dominance was not predetermined. Instead, it was, in part, the product of clever “political maneuvering and compromises by its leaders and, simultaneously, its inexperienced and fragmented opposition” (Rossabi 2009, 231-232).

The newly emerged political situation contributed to the change in the relative power of different fractions within the MPRP. With resignation of the politburo, the radical wing within the MPRP took over and played a lead role in the subsequent events

and political changes. Batmunkh and his colleagues representing the old guard were wise enough to assess the emergent political situation correctly and resign. Batmunkh is justly credited for this decision, albeit the decision came in with some delay and under extreme political pressure.

However, he or most of his colleagues in the top leadership were by no means radical reformers. The protracted nature of the previous reform efforts and delay in critical decision making is evidence of the slow approach taken by the old leadership. The power of the old guard was significantly diminished with the resignation of the politburo. Together with Batmunkh, went down other influential decision makers such as Dejid, Molomjamts, Sodnom, and Namsrai, a relatively young and ambitious party apparatchik, second-in-command to Batmunkh who died in 1990 of a sudden heart attack. They have become “ordinary citizens” who now lived on their retirement pensions.

The second tier of the leaders (just below the politburo) was divided. Some favored gradual changes and did not want to give in to the democratic forces (Gungaadorj, Jasrai, Byambajav, to name a few), while the more radically minded elements led by Byambasuren, Ochirbat, and Gombosuren among others were in favor of radical political changes. This group, supported by the radically inclined academics such as Zardykhan and Davaadorj, quickly filled in the power vacuum that emerged after the resignation of the politburo. The reason for their political success was reflective of the popular atmosphere which was critical of the ruling party. Also, the MPRP now needed to continue resolving the political situation peacefully. In order to do that, those

representing the MPRP needed to be either politically very strong to impose their will or play along with the political opposition. They also had to have a workable and convincing plan of actions acceptable to all.

The more conservative wing within the MPRP did not have either. After stepping down of the politburo, they were in disarray and not cohesive enough to form a strong coalition within the party. Former Prime Minister Sodnom (2003) recalls that the party leadership was at loss and did not propose any workable solution. Batmunkh's departure left the party confused and disorganized. And this power vacuum was taken by up by the radicals, who in fact did not represent the party's predominant sentiments (as the subsequent events have proven). However, historical circumstances presented them with such an opportunity.

The dominance of the radical wing within the MPRP and disorganization among the other groups could at least partially explain why the ruling party, first, appointed Byambasuren as the new Prime Minister, and second, was so lax in giving the decision power to him to form his own government. It should be noted that the composition of his government was not entirely radical, although radical elements dominated, indicating their relative influence within the MPRP. Most notably, though, Byambasuren invited Ganbold to hold the economic portfolio, which was a critical decision. This decision might have been motivated by other considerations, such as the need for blame sharing for the looming economic hardships, lack of knowledge and therefore absence of a clear economic package among the MPRP leadership, and the need to co-opt the younger

reformers in order to retain power in the longer run. Nonetheless, the coalition government probably would have been impossible without dominance of the radical wing.

Another possible motivation for building a coalition could be that, since the economy has collapsed along with the regime's legitimacy, it would give the opposition a chance, which "of course" they would fail and then the party could come back and take over again. However, I do not find evidence to support such claim. First, the opposition was given only two positions in the government and the ultimate responsibility for failing or succeeding rested with Prime Minister Byambasuren and the MPRP which appointed him. Failure of the government would be a joint failure at best, and definitely not a sole failure of the democratic opposition. Second, the extent and severity of the economic crisis probably was not fully recognized by either party, until it hit hard in reality. The economic shock came abruptly. The MPRP could not have predicted the nature of the crisis and the imminent failure of the government that could then be blamed on the opposition. The strongest motivation of Byambasuren to form a coalition was probably the need to garner support for his reform agenda, as he was in minority within his own party.

Constitutional changes similar to the ones that took place in Mongolia by May 1990 took several years to happen in the former Soviet Union and have not happened yet in China. The quick and dramatic changes could probably be attributed to the takeover of the MPRP leadership by radical elements, as discussed above. With the political mandate

provided by the resignation of the MPRP, the more radical wing quickly made the important constitutional changes in the spring of 1990. The political fortune of this group, however, changed in 1992 when the more conservative group gathered strength and took over. These members were marginalized within the MPRP and were forced to form independent spin-off parties.

The political changes were initially proposed and supported in earnest by the new opposition. This was a crucial factor in making early changes. We observe an amazing amount of collaboration and collective action between the old and new parties in the early transition period, which ultimately made a peaceful and far-reaching political transition possible. This stands in stark contrast with some other transition countries where confrontation between the old and new proved to be fatal and led to political suppression and retaliation, loss of lives, and even civil war. This leads us to the next question.

- Why did the political forces cooperate relatively easily and were able to reach a consensus?

There are several critical instances of such collaboration. First, the Consultative Council to make critical amendments to the old Constitution was relatively easy to form and included all political players. Second, after the first elections the victorious MPRP invited the opposition into the government and offered some key positions. Third, the drafting of and the subsequent public deliberation on the new constitution turned into a huge nationwide collaborative effort. As it will be shown in Chapter 4, adoption of the

privatization program and radical economic reforms in the late 1990 was preceded by a nationwide economics conference which invited a thousand professionals from around the country. It should be noted that the above extraordinary efforts took place in 1990-1992. Indeed, this period was unusual in many respects. From 1992 on, politics as usual (i.e., partisan politics) prevailed, albeit these were now democratic politics.

The earlier discussion attempted to explain why both parties had a firm commitment to non-violence, which helped to preserve their political reputations and ultimately garner popular support. Both parties, each having at least two groups with diverging interests, were eventually prevailed by the more moderate elements. On the MPRP side, the most reformist interests took over. Within the MDU and other new political parties, more moderate elements prevailed after some critical tensions. The relative closeness in ideas of these two segments within the two camps made collaboration easier. The political interests of the parties – to retain power and share the blame for the MPRP and further promote their reform ideas for the new parties – also served as a basis for political collaboration.

However, the analysis of self-interest and motivations of the major political players does not explain the broad, occasionally nationwide, deliberation and collaboration which was evident in 1990 and beyond. One needs to look at deeper-seated cultural and anthropological aspects of the Mongolian society that may have contributed to the peaceful overthrow of the old regime. Indeed, a few scholars who analyzed the political reforms mention the cultural factors – e.g., ethnic and religious homogeneity –

that set Mongolia's transition apart from that in Central Asia and elsewhere. However, no systematic study linking the anthropological and cultural heritage of Mongolians with its democratic transition exist, apart from those of Sabloff and Kaplonski mentioned in Chapter 1.

Two cultural determinants seem to be noteworthy here: a strong sense of national identity and lack of particularistic political claims based on historical and cultural aspects, e.g., religious, ethnic, or regional.

A strong sense of national identity and pride resurfaced quickly during the political changes in the late 1989 and 1990. Nationalist and religious sentiments were brutally suppressed during the communist period, under the pressure and with the help of the Soviet Union. Thousands of monks were executed in the 1930s. Party leader Tumor-Ochir was sent to exile in the 1960s for proposing to celebrate anniversary of Chinggis Khan (Inner Mongolians in China were celebrating it at the time). However, many agree that sovereignty of the state was established and preserved with the support of the USSR.

The fact that external and domestic policies were determined by the Soviet Union further inhibited the nationalistic attitudes. As MDU leader Eldegdorj claimed, the 300-year rule of the Manchus was replaced by the Soviet rule and 1990 was the year when the Mongolians finally got to determine their own fate. Mass protests staged by the new opposition were held under the call for national independence and self-determination. A critical member of the MDU was Baasan Lama, a Buddhist monk who joined the Shine

Ue movement in 1989 and actively participated in all its political events. Most notably, some of the critical mass meetings on the main square and the hunger strike were attended by a group of lamas, led by Baasan, who performed religious rituals, indicating revival of the religion.

A growing sense of true independence and self-governance was also existent among the MPRP leaders. By the end of the communist period, encouraged by Gorbachev's ideas of glasnost, the Mongolian leaders attempted to speak against some of the disadvantageous economic arrangements made between the two countries. Usefulness of Soviet aid and efficiency of selected turnkey projects were challenged by some leaders in the mid-to-late 1980s. However, they did not openly support the newly emerging religious sentiments. Sabloff's (2002) claim that the image of Chinggis Khan and his rule was still strong among modern Mongolians and had its impact on the formation of democratic values seems to be not convincing and lacks analytical depth. However, the revival of nationalist and traditional sentiments which were suppressed during the several decades of communism, including the image of the emperor and Buddhist values, helped to forge the new sense of national identity and pride.

This is in stark contrast with Central Asia, where no strong independence sentiments and movements were registered. This has partially to do with the fact that none of the Central Asian republics had experience of nationhood before being incorporated into the Russian empire during the 18th and 19th centuries (Pomfret and Anderson 2001). It was under Soviet rule that the potential of a national identity was

developed. As part of their approach to incorporating the non-Russian parts of the Tsarist Empire into a Soviet state, the Soviets divided the lands historically comprising Central Asia into ethnonational territorial units. After Central Asia became part of the USSR in 1922, it was subdivided into the republics of Uzbekistan and Turkmenistan in 1924, and further subdivided into Kazakhstan, Kirghizia (present-day Kyrgyzstan), and Tajikistan in 1929 (Jones Luong 2002). Unlike in some parts of the Soviet Union, many argue that independence was forced on the Central Asian republics with the break-up of the Soviet Union rather than won by them (e.g., Åslund 2007). This meant that the political elites lacked the benefit of political legitimacy that they might have gained from a struggle for independence, such as in Georgia and the Baltic states. On the other hand, it also meant that the elite had to face the completely unexpected challenges of nation building.

While the revival of national identity and religion were also the phenomena that were present in other transition countries (especially members of the former Soviet Union), in Mongolia these sentiments did not lead to the emergence of strong groups with specific political claims, as it happened in Central Asia.

Ethnically, Mongolia is comprised of Khalkha Mongols (about 80 percent of the population) and other minorities including Kazakhs, Buryats, Durvud, Zakhchin, etc. All so-called ethnic minorities, with the exception of Kazakhs, are of Mongol origin and do not differ substantially from each other in terms of language and customs. Sneath (2004) claims that ethnicity in Mongolia was not built on kinship relations as elsewhere. Rather, they were groups of people joined by common administrative unit (probably with the

exception of Kazakhs who came to Mongolia relatively late). As such, ethnicity never played a critical role, especially in political mobilization. There were no political parties based on ethnicity or religious beliefs. Electoral success of politicians from ‘ethnic minorities’ suggests that they have a solid Khalkha voter base. The sense of ‘locality’ (i.e., aimag and soum) was much more important, but it attaches much less ‘moral’ weight compared to ethnicity or religion. Therefore, ethnic and religious claims were not political but rather cultural (Sneath 2012, 149).

Mongolian history provides strong evidence of unique forms of political, economic, and social organization that have been effectively suited to Mongolia for centuries. Sneath (2004) argues that, although Mongolia has its examples of strongmen, Chinggis Khan being the most prominent one, much of Mongolia’s history is dominated by decentralized type of rule and effective collaboration among the ruling aristocrats and monasteries. In fact, Sneath argues that centralized power was never popular among Mongolians. Historical records show that even during the Chinggis Khan’s reign major decisions were made collaboratively through an aristocratic council. In the pre-Chinggisid and post-Chinggisid era, territory of Mongolia was divided into administrative divisions, each ruled by a nobleman and adhered to agreed upon rules and laws (Sneath 2004, 68). During the Qing dynasty, the Mongolian aristocracy coordinated policies through the regional assemblies chaired by a rotating head. Decentralization was such a critical characteristic of political governance in Mongolia that Sneath calls this arrangement a “headless state”.

Sneath analyzes a peculiar example of a headless state which emerged in the 17th century, when, in the face of growing power by the Manchu, the traditionally rival Chinggisid princes from the central Khalkha Mongol territory and Oirat princes of Western Mongolia stopped their clashes and decided that it was time to put aside old grievances and form a new political union, which endured for forty-eight years. The union formed in 1640 had “laws – the Mongol-Oirat Code – rulers, and subjects, but it was to have no capital, no center, and no sovereign. It was a distributed, headless state formed by independent nobles and their subjects and sharing a common law code and aristocratic social order” (ibid, 181). Sneath argues that this political confederation “represents another innovation in that it had no single overlord at all. It was, of course, a unique historical outcome, just as was the Chinggisid empire, but it was not entirely without precedent” (ibid, 186).

In contrast with Mongolia, none of the Central Asian republics are mono-ethnic, with several distinct minority groups including Slavic settlers and diaspora of minorities indigenous to the region. Minorities’ loyalty to the newly established states was often doubted. The Fergana Valley is densely populated and inhabited by Uzbeks, Kyrgyz, and Tajiks, and split between the three countries, posing a danger of inter-ethnic friction and possibly violence. A substantial Russian population in the northern party of Kazakhstan provoked a fear of irredentism. The Kyrgyz in the north look down on the Uzbeks in the southern part of Kyrgyzstan as “market people” and treat them with suspicion. As a result, all countries in Central Asia drifted towards state-centric nationalism which was based on promotion of the dominant ethnic group (the titular nation) as a defining

element of the new societies (Matveeva 1999). For instance, the Kyrgyz, as the governing ethnic group in Kyrgyzstan, hold the public positions formerly held by Russians, while the Uzbek are denied such opportunity (Slaughter 2002).

Furthermore, some scholars argued that fragmentation along regional, tribal or clan lines persisted within the titular nationalities themselves, and sub-ethnic identities – the main social fabric of these societies – remain very strong and they served as a basis for political mobilization, social support, and especially for elite relations. In Turkmenistan, for instance, it may be the case that the country's tribal disunity has been one of the most influential determinants of the centralized, repressive political system (Ochs 1997, 318).

Jones Luong (2002) challenges the conventional wisdom that pre-Soviet identities (i.e., tribe, clan, or religion) emerged as the most salient sociopolitical identity in the aftermath of Soviet rule. The three of the five Central Asian republics – namely Kazakhstan, Kyrgyzstan, and Uzbekistan – managed to contain inter-ethnic conflict and this happened because, during the transition, elites embraced the political identity they adopted under Soviet rule – regionalism, rather than clan and other historical identities. This is not to say that tribal, religious, and national identities were not present. In Jones Luong's view, regional identity was much stronger than any other type of identity. The pattern of inter-ethnic cooperation and intra-ethnic conflict since independence indicates that regionalism – that is, identities based on the internal administrative-territorial

divisions established under the Soviet regime – has emerged as the most salient political cleavage in Central Asia.

To sum up, political mobilization fueled by heightened sense of national identity and self-rule was high among Mongolians. Unlike in most of Central Asia, the concept of a national people was deeply and powerfully installed in public culture (Sneath 2012, 159). On the other hand, ethnic, religious or other forms of collective identity were traditionally weak and did not lead to political mobilization. Regional divisions were not strong as in many Central Asian states due to the centralized nature of the economy and politics. Industrial regions were very weak in Mongolia. What is considered regions elsewhere, in Mongolia it is rural population, dispersed and engaged on traditional pastoral nomadic lifestyle. These factors, perhaps reinforced by historical precedents, contributed to successful broad-based collaboration not only among the old and new political forces but also lead to nationwide deliberation, which was a critical element of advancing democracy in Mongolia. Historical importance of decentralized governance might have contributed to the preference given to the parliamentary form of government.

3.7. Alternative Theoretical Explanations: Constitutional Design and Political Institutions

Conventional accounts of democratic transition in Mongolia focused on structural and historical factors. However, alternative theoretical approaches could be applied to explain why things happened the way they did in Mongolia. Scholars theorized about why certain policy choices are made, which ultimately determines why some countries

develop and others do not. The reasons are usually explained by government failure, and therefore political failure. Transition literature on political and economic performance of postcommunist countries employs the political economy factors in explaining the diverging policies and outcomes in these countries. Two groups of theories within the political economy paradigm seem to be of particular interest: first, various hypotheses about the constitutional design and the importance of political institutions and, second, theories that look at the interest groups and collective action problems.

The transition to democracy in Eastern Europe and the former Soviet Union has provided political scientists and economists an opportunity to reexamine several old institutional and other theoretical debates. Political scientists explored the impact of institutional design on the process of postcommunist democratization. Over the last decade much has been written about electoral and party systems and the regime type in Eastern Europe and the former Soviet Union. The issue of political institutions and regime type is important because in the opinion of most scholars it has an impact on the transition to and consolidation and the maintenance of democracy. The choice of regime type has generally been regarded as lying between parliamentarism and presidentialism, and until recently most political scientists argued that a parliamentary regime was more conducive to democratization (e.g., Linz 1994). In spite of some diverging empirical evidence, the argument still remains dominant. More recent studies have focused on the types of mixed (semi-presidential) systems (e.g., Roper 2002, Elgie 2011).

Electoral rules are also seen to be an important determinant of democratic transition and consolidation. They influence political parties and their behavior thus leading to strengthening or loosening of political parties. A broad consensus exists that strong disciplined political parties are a good foundation for advancing democracy, while loose parties lead to more personified politics which, in turn, tends to hinder democratic institution building (e.g., McFaul 1997, 1999). Electoral rules diverge widely among the Eastern European and former Soviet Union countries from list-based proportional regime to the first-past-the-post pluralist regime. There are a handful of countries with mixed regimes like Mongolia in 1990-1992. Åslund (2007) argues that democratic change is meaningful and democratic pressure is effective if the constitution and electoral rules allow for political representation of the new democratic forces and this is best promoted through a proportional representation.

Åslund (2007) stresses the importance of political competition in promoting far-reaching economic reforms. Just like market forces check monopoly and rent seeking, political competition and democracy restricts the political power of the elite. Similarly, EBRD (1999) argues that political competition helps to weaken the power of vested interests and therefore the possibility of state capture. It finds that “transition countries with the most competitive political systems have tended to achieve greater progress in economic reform” (EBRD 1999, 112).

Collective action and special interest theories were widely used to explain the nature, extent, and speed of economic reforms. EBRD (1999) found that the “ability of

vested interests to influence the state and modify policy to their advantage has been a primary threat to economic reform” in a significant number of transition countries (102). Initial partial reforms which created favorable conditions for arbitrage and rent-seeking for certain groups did not advance further in many countries because full removal of price and other distortions and installment of meaningful property rights and other core market institutions threatened the interests of these powerful groups (Hellman 1998). The cases of privatization provide ample evidence that the interests of entrenched groups had to be incorporated in the privatization scheme in order for the program to proceed (Boycko et al 1995).

Interest groups were important not only in adoption and rejection of some reforms and economic policies. Some argued that they were also critical in the institutional change that occurred in postcommunist countries. Authors point to the significance of the relative power of important political and economic groups in the success of institutional change (Frye 1997, McFaul 1999, Olson 2000). Institutional change in postcommunist countries reflected the relative power and interaction among these groups. Countries where pro-democratic political opposition was stronger democratic overhaul of political institutions occurred quickly and smoothly.

The two groups of theories are based on rational choice assumptions. The unit of analysis is the individual (or group of individuals). Unlike pure structural, historical, or cultural arguments which focus on the circumstances, these theories focus on individual actors, their preferences, and their power. Human agency ultimately is seen to have a

direct causal relationship with successful and unsuccessful institutional change or policy initiative. Regarding the behavior and preferences of individuals, the method of rational choice analysis assumes that individuals act rationally, pursuing their own interests and maximizing their own expected utility.

Constitutional design and institutional theories further assume that polities and economies are structured organized, and facilitated by economic and political institutions. Institutions establish norms, rules, and procedures for actors and organizations, thereby decreasing uncertainty, reducing transactions costs, and facilitating certain political and economic activity (North 1990). These institutions also stimulate the development of certain kinds of collective actors, organizations, and social groups.

Special interest and collective action theories assume that the success of interest groups will be determined by their ability to act collectively. Olson argued that large groups often fail to act collectively because of the dispersed nature of the costs or benefits of certain policies. Smaller groups, on the other hand, with concentrated costs or benefits, are usually perceived to be stronger, more organized due to the greater takes and lower organizational costs involved. As such, they are better able to exert pressure on policymakers.

The actor-centric political economy theories challenge pure cultural, historical, and structural arguments in explaining why certain countries were successful in their transition to market democracy and others not, or why certain policies were adopted. However, these theories do not necessarily disregard cultural, historical, and structural elements which influence certain policies and outcomes. These factors are brought into

analysis as determinants of the preferences of actors, constraints placed on their behavior, menu of choices of individuals, and relative strength of various individuals or groups of individuals.

3.7.1 Electoral Rules and Their Impact on Democratic Changes

McFaul (1997, 1999) argues that, although national peculiarities do matter, elections that allowed party nominations, the proportional representation rule, hurdles for representation (thresholds), and timing of a “founding election” have had the predicted great impact on democratization in postcommunist countries. Real political parties had to be built to represent a broader public interest and their formation and maturation depended greatly on whether parties were permitted in a founding election (McFaul 1997). Swift democratic transition in Mongolia was aided by favorable electoral and political institutions which were established early on.

The core element of the electoral rule was the choice between the plurality and proportional representation in the parliament. Many scholars argued that the proportional representation gives greater chance to the new democratic political parties. Furthermore, it strengthens the party system, enhances party discipline, and provides more of broad public goods. Central and Eastern European countries and the Baltic States followed the proportional rule and turned into strong democracies, with stronger political parties and less corruption. The literature on postcommunist countries tends to emphasize the advantages of the proportional representation because successful countries adopted such a

system. The less successful countries adopted plurality or mixed systems which, in the absence of strong parties, often led to personified elections. However, it should be noted that the proportional representation also leads to fragmentation of political parties and therefore does not encourage the two-party system that proved to be productive elsewhere. Installation of a threshold partially mitigates this problem, but not entirely. McFaul (1997) argues that the mixed system with a proportional representation of half of deputies in the parliamentary elections in Russia in 1993 and 1995 encouraged the proliferation of parties, stimulated fragmentation and protoparty development, and provided few incentives for party consolidation (10).

It was also suggested that more complex and divided societies similar to the ones in Central Asia need to devise more complicated electoral arrangements rather than following a simple open-candidate system, in order to incorporate diverse groups into the governance structure. Electoral systems in India, Lebanon, and Northern Ireland could present examples of such arrangements. However, the predominantly majoritarian rules of governance in Central Asia show that no institutional attempts have been made in these societies to find a meaningful role for the opposition within the political system. It could be argued that such practices led to civil war in Tajikistan, where opposition has been stronger than elsewhere or opened the road to authoritarian trends in Kazakhstan and Uzbekistan, where the initial opposition was weaker and subsequently made redundant by the dominant political institutions and practices (Matveeva 1999).

Jones Luong (2002) argues that, within Central Asia, some diversity exists in the majority electoral rules adopted by different countries. Among the three Central Asian republics where some political changes did occur, the electoral rules are most inclusive in the Kyrgyz Republics, least inclusive in Uzbekistan, and somewhere in between in Kazakhstan. She argues that this diversity depended on the degree to which the old regime and old leaders were challenged by the new political opposition. In Kyrgyzstan, where the center felt that it was losing power to a greater degree than elsewhere, the new electoral rules were designed to better represent the interests of the new opposition. In Uzbekistan, where the old elite was challenged to a much lesser degree, greater continuity of the old system persisted. In other words, the degree of institutional continuity vs. change depended on the bargaining power of the old elite – represented by the center – vs. the new elite represented by the regions. Therefore, power shifts – or rather, elite's perceptions of power shifts – determined by the strength of the political opposition is critically important in the design of the electoral rules, which, in turn, define the process of democratization (ibid, 13).

Mongolia's first elections incorporated both electoral rules: the plurality rule in the upper house and proportional rule in the lower house. Thus the situation looks similar to some CIS countries which had mixed systems. Consistent with the above arguments and experiences of transition countries, the plurality rule favored established parties with strong local representation. An overwhelming majority in the People's Great Khural – comprised of 430 single-member districts with plurality principle – was elected from the

old party, the MPRP. The new parties received only 15 percent of seats in the upper chamber.

The lower chamber, the State Small Khural, formed on a proportional rule, consisted 60 percent of the MPRP legislators and 40 percent of the democratic opposition, which was a much more favorable composition for the new political parties. The five percent threshold in the proportional representation was imposed but was not important in cutting the number of parties to be represented in the State Small Khural. From among about a dozen parties, only four parties made the threshold. However, the four parties represented 97 percent of all votes, therefore the rule did not have such a significant impact on the composition of legislature as elsewhere. The proportional rule served as a basis for the coalition government in 1990. Thus, the new democratic forces were more powerful in policy making in 1990-1992 than one would expect based on the pure election results. The situation however changed during 1992-1996, when a re-established simple majority rule gave significant advantage to the MPRP.

The reason for the relative influence of the new political parties in 1990-1992 was related to the constitutional rule which gave full legislative powers to the Small Khural, while the more conservative Great Khural had a limited power of approving the new constitution only. All other critical laws that governed economic policies and promoted the radical democratic and economic changes in 1990-1992 were approved by the Small Khural. Moreover, the Small Khural had the sole power to appoint the cabinet members (with the exception of the prime minister) and other important officials. Thus, one could

argue that on critical reform issues, the proportional representation rule dominated in Mongolia, thus empowering the new democratic forces early in the transition process. The importance of the proportional electoral rule was signified by the events in 1992, when the new parliamentary elections were held on the pure majority rule. As a result, the MPRP declared a sweeping victory over the new political parties, claimed 71 seats in a 76-seat single chamber parliament, while securing only 57 percent of all votes.

One critical institutional arrangement was that political parties were allowed in the founding elections. They emerged on the basis of popular movements. As described at the beginning of this chapter, there was no single unified front or movement in Mongolia like in some other transition countries (e.g., Solidarity in Poland). There were several such movements which, although united on the issues of overthrowing the old regime and establishing a democratic market society, had diverging agenda. The Democratic Union stressed the importance of civil liberties and political democracy, the National Progress Union focused on market economic reforms, while the Democratic Socialist Movement emphasized the importance of the “humane” nature of the new society and hence social protection. As the new movements focused on different themes of democratic and economic transition, one could argue that it was easier for them to cooperate. The agendas were not competing or conflicting. The subsequent successful cooperation in staging mass protests and negotiating with the government proved this point. However, after successfully negotiating the resignation of the Poliburo in March 1990, precisely because of diverging agendas and preferred methods of transition, the

movements could not consolidate into a single party. This happened later, in 1994. As will be shown later, electoral rules contributed to such consolidation.

Official registering of new parties in March 1990 (the MPRP was the first to be re-registered as a political party under the new Law on Political Parties) was a defining moment in the 1990 elections. About a dozen new parties were registered on the same day. However, parties were not the only subjects who could nominate candidates. Public entities, NGOs, state enterprises, movements, and even individuals could nominate candidates in the 1990 elections. The reasons for allowing non-party nominations were perhaps related to the fact that parties were officially formed only a couple of months before the founding elections took place. They still were loose associations without firm organizational structure – with the exception of the MPRP – and without firm ideology, including the MPRP. Even the MPRP itself was in the process of significant internal reshuffling, with toppling of the old leadership, diverging ideas being expressed, and new factions forming. One indication of this is that the MPRP had multiple candidates in a single district in the 1990 elections. With brand new parties virtually with zero experience on the one hand, and a crumbling old party, the Election Law specified that the nominations could be made by non-party organizations. This is reflective of a general observation that the founding elections were the most politically accommodating, as it happened in many postcommunist countries.

The dispersed nomination power and multiple candidates from the same party indicate immaturity and lack of discipline of political parties at the initial stage of

transition. However, in the next elections which took place two years later following the approval of the new constitution, the only subjects which could nominate candidates were political parties. The role of political parties increased significantly in the first two years and the shift to party-only nominations occurred in a fairly short period of time. In the 1992 elections only political parties nominated their candidates and no party nominated multiple candidates. In comparison, in Kyrgyzstan (the most democratic country in the Central Asia region), only the 1996 elections saw political parties compete in the parliamentary elections, while the previous parliament was dominated by independents, which suggests the relative importance of personalities rather than ideologies. Perhaps the critical reason why Mongolia opted to party-only nominations was that it was in the interests of all parties represented in State Small Khural – which passed the amendment – to restrict nominations to political parties. The MPRP wanted to gain full control over its members. Multiple candidates from the MPRP nominated by various non-party groups divided the MPRP votes. The new opposition parties hoped to gain new candidates who were supportive of the democratic ideas but still hesitant to join the parties and ran on non-party nominations. The State Small Khural itself was composed entirely of deputies on party nominations and was the main arena where party politics took place, whereas parties were less influential in the People’s Great Khural which did not have full legislative powers.

Thus, the first elections in Mongolia were not the ordinary party elections as in Central and Eastern European countries, but it differed from the Soviet Union in that (the fledgling) political parties were allowed and emerged from the very onset, albeit still

weak. The change in the electoral rule which permitted only party nominations was important in consolidation and strengthening of parties. The change in the rule from mixed (majority and proportional) to pure majority resulted in the defeat of new political parties in the 1992 parliamentary elections. After their massive loss, several new political parties united and strengthened their local base, particularly in the rural areas, thus becoming true national parties. In 1990, all parties with the exception of the MPRP were largely urban-based parties.

Fish (1998) observed that, following the first two elections, political parties in Mongolia were remarkably strong and the country developed a mature political party system relatively early. Successful early elections – after only three months following the resignation of the politburo – contributed to the early formation of political parties, consistent with McFaul’s argument about the importance of timing of the first founding elections.

Mixed electoral rule of 1990 elections was a real boon to the emergence and establishment of new political parties. They were better represented in the legislature through the proportional rule. However, the switch to the pure majority rule in 1992 contributed to consolidation and unification of the still fragmented parties. Since then, majority rule helped further consolidation, as the tendency has been towards greater consolidation with the (united) Democratic Party emerging as a single contestant of the MPRP.

Had pure majority rule been the case all the time, the new political parties probably would have never gained a foothold. It was the power they had from the 1990 elections that gave them an ability to survive through 1992-1996. On the other hand, had the proportional rule been the case all the time, the fledgling parties would have remained fragmented and would not be able to claim victory in 1996. Changes in the electoral rule, although perhaps not intentional, contributed to fostering competitive politics in Mongolia.

3.7.2 Regime Type and Its Evolution

Another important political institution that influences policies and outcomes is the type of constitutional regime. Scholars argued that different political systems provide different institutional arrangement that assign veto and agenda-setting power and the interaction between the legislature and the executive. The general agreement has been that a constitutional rule that gives more power to the subjects that represent broader interests produces better policies. It also discourages the rise of counterproductive strongmen like Yeltsin or Nazarbayev. Hence, parliamentary systems served better in the context of postcommunist transition, proving “the perils of presidentialism” argument of Juan Linz (1994) advanced in his influential article.

Many postcommunist countries, though, depict mixed or semi-presidential³³ systems. Semi-presidential regimes were first identified by Duverger as having three basic characteristics: “(1) the president of the republic is elected by universal suffrage; (2) he possesses quite considerable powers; (3) he has opposite him, however, a prime minister and ministers who possess executive and governmental power and can stay in office only if the parliament does not show its opposition to them” (Duverger 1980, 166).

The concept of semi-presidential regimes was further refined based on the distribution of power between the two executives, the president and the prime minister. Countries in which the prime minister exerts greater executive power are labeled premier-presidential regimes, while countries in which the president wields greater authority are known as president-parliamentary regimes. In accordance with this classification, all semi-presidential regimes in Eastern Europe except for Croatia fall into the category of premier-presidential while ‘presidential parliamentary’ regime exists in Russia and Ukraine (Shugart and Carey 2000). For instance, the Russian president has dismissed cabinet ministers, including several prime ministers, without consulting the Duma, and the Ukrainian president has also exercised the power unilaterally to dismiss cabinet ministers (Roper 2002).

Elgie (2005, 2010) provides a rigorous empirical study which evaluates the impact of the two types of semi-presidentialism on the survival and development of democracy. His sample includes (almost) all current and historical semi-presidential

³³The term "semipresidentialism" was first coined by Duverger (1980) to describe the system of government established during the French Fifth Republic and has since been used to describe a host of countries that combine presidential and parliamentary institutions.

regimes and proves Linz's original claim of the superiority of the premier-presidentialism over a system with stronger president, with regard to advancing democratic practices. Elgie's main argument is that incentives of the president and the legislature are different under the two types of regime. Under the president-parliamentary system, the president has little incentive to cooperate because of the greater power invested in him. He often tries to impose his own prime minister on the reluctant legislature. There is likely to be an ongoing conflict between the two institutions, which leads to political instability and often democratic collapse. Under the premier-presidential system, the president is likely to be more accommodating because he knows that the only way to govern is with the legislature's consent. Governments are likely to be more broadly based and democracy has a greater chance of survival (Elgie 2011, 96).

Mongolia's political system in 1990-1992 resembled that of Hungary, which opted for the parliamentary system from the very beginning. The president elected by the National Assembly every five years, has a largely ceremonial role, with nominal powers of the commander-in-chief of the armed forces and nomination of the Prime Minister who was to be appointed by a parliamentary majority. However, the new constitution of 1992 brought in some ambiguity to the presidential constitutional rule, as in some countries such as the Czech Republic, Slovakia, Bulgaria, and the Baltic States.

The 1992 constitution provided that the president would be elected by popular vote rather than by the legislature as before. The president was the head of state, commander in chief of the armed forces, and head of the national security council. The

constitution empowered the president to nominate a prime minister in consultation with the winning party in the parliament (actual appointment rests with the parliament), call for the government's dissolution (the actual dissolution also rests with the parliament), initiate legislation, veto all or parts of legislation, and issue decrees. This qualifies Mongolia as a semi-presidential republic, but its premier-presidential type (Shugart 2005).

Elgie's main argument about the superiority of the premier-presidential type over the presidential-parliamentary type was based on the premise that the president, being able to govern only through the parliament, has fewer incentives to oppose the parliament under the premier-presidential type. This would, in turn, lead to less confrontation and political stalemate and therefore potential collapse or reversal of democracy. Thus, the premier-presidential type of regime in Mongolia should accord less confrontation between the president and the parliament.

However, we observe two very different types of behavior of President Ochirbat (1993-1997) and President Bagabandi (1997-2001) under the same regime. Both presidents cohabitated with a parliamentary majority from the opposing party. There were no major conflicts during Ochirbat's presidency. The president often spoke critically of the more conservative government of Jasrai and occasionally issued vetoes on government decisions and laws, but they were customary. No significant confrontation was registered during these years.

However, the year 1998 proved to be a challenging year for the Mongolian politics. Incumbent President Ochirbat was defeated by N. Bagabandi, an MPRP nominee who secured a solid victory in 1997. The parliament, on the other hand, was dominated by the Democratic Union Coalition (DUC). When the motion of no confidence resulted in resignation of the Enkhsaikhan government in 1998, the formation of a new cabinet under President Bagabandi proved to be a big struggle, which resulted in a political stalemate and gridlock.

The constitution contained a source of such gridlock, which was not disclosed before. Article 33 of the constitution said that the president was to nominate the candidate for the prime minister upon agreement with the majority party in the parliament. The constitution was not clear who had the prevalent voice in nomination of the prime ministerial candidate and how the agreement should be reached if difference in the opinions arose. Thus, the Constitution equipped the president with the power to reject the majority's nominee for prime minister, paralyzing the State Great Khural's prerogative to form the cabinet. In 1998, the DUC nominated D. Ganbold seven times, G. Gankhuyag three times, and E. Bat-Uul once for prime minister, only to be turned down by President Bagabandi (Munkh-Erdene 2010). The president provided a short list of six candidates who he thought would be fit to serve as prime minister and whom he supported. The DUC rebuked the president's "short list" and accused him of transgressing the majority's privileges, but to no avail. Eventually, Ulaanbaatar City Mayor J. Narantsatsralt (from the short list) was proposed by the DUC and approved as the new Prime Minister.

The five months' long struggle, from which the president came out victorious, fully revealing the capacity of his "negotiating" power to form the cabinet, triggered the DUC to propose constitutional amendment. The proposal aimed at limiting the president's authority in forming the cabinet and introducing open ballots for parliamentary voting, among few other things. The party leaders were determined to take charge of the cabinet by reducing the president's involvement in it (ibid, 322-323). As a result, the presidential powers were significantly cut by the constitutional amendment which became effective in 2000. The State Great Khural can override the president's veto with a two-thirds majority, the winning party can nominate a prime minister without presidential consent, and presidential decrees become effective with the prime minister's signature.

Thus, we observe two very different types of presidential behavior under similar institutional and political circumstances. Two observations could be drawn from this case. It seems that the institutional arrangement of the premier-presidential system in Mongolia did not provide strong incentives for the behavior of the presidents. One chose cooperation, while the other opted to confront and ultimately successfully imposed on the parliament majority his own candidate for the prime minister. However, in spite of the different behavior, Mongolia is not a confounding case of Elgie's argument because democracy did not collapse in Mongolia. On the contrary, it probably became stronger with limiting some of the powers of the president. Bagabandi's exercise of his full powers exposed hidden ambiguities of the existing system and led to the changes. Thus,

the advantage of the premier-presidential system seems to be not in the incentives for cooperation but actual power limitations imposed on the president.

Munkh-Erdene (2010) argues that the above constitutional changes effectively made Mongolia a parliamentary republic. He argues that the defining feature of a semi-presidential regime is that the president controls the ultimate authority to form the cabinet. That is, if the president does not ultimately control formation of the cabinet, then it is the legislature that controls the survival of the cabinet. This makes the regime parliamentary (ibid, 332).

Classification of the regime types has not been consistent depending on the definitions of the semi-presidentialism. However, Mongolia is classified a semi-presidential republic (see two tables below), although some describe it as a parliamentary republic³⁴.

Table 3.4 Types of political system in postcommunist countries

Presidential systems (with a prime minister)	Semi-presidential systems	Parliamentary republics
Armenia	Georgia	Albania
Azerbaijan	Kyrgyzstan (until 2010)	Bulgaria
Belarus	Lithuania	Croatia
Kazakhstan	Mongolia (ambiguous)	Czech Republic
Uzbekistan	Russia	Estonia
	Romania	Hungary

³⁴ Wikipedia, for instance, has two conflicting descriptions of the government system in Mongolia. It is classified under “semi-presidential” group, but individual country description says it is a parliamentary republic.

Turkmenistan (single party government)	Tajikistan Ukraine	Latvia Macedonia Moldova Mongolia (ambiguous) Poland Slovakia Slovenia
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Source: Wikipedia “political systems in the world”, categorization based on UNDP (1994)

Elgie defines semi-presidentialism “as a situation where a constitution makes provision for both directly elected fixed-term president and a prime minister and cabinet who are collectively responsible to legislature” (Elgie 1999) and claims that this definition is now widely accepted (Elgie 2011). This definition is much broader and includes many countries which are traditionally classified as parliamentary, such as Poland and the Slovak Republic.

Table 3.5 Classification of semi-presidential systems (Elgie, as of December 2010)

President-parliamentary	Premier-presidential
Armenia (1995-2005)	Armenia (since 2006)
Azerbaijan	Bulgaria
Belarus	Croatia (since 2001)
Croatia (1991-2000)	Lithuania
Georgia	Moldova (1994-2001)
Kazakhstan	Mongolia
Kyrgyz Republic	Montenegro
Russia	Poland
Tajikistan	Romania
Ukraine (1996-2006)	Serbia
	Slovakia
	Slovenia

	Ukraine (since 2007)
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Source: Elgie (2011)

Notes: “President-parliamentarism” is a form of semi-presidentialism where the prime minister and cabinet are collectively responsible both to the legislature and the president.

“Premier-presidentialism” is a form of semi-presidentialism where the prime minister and cabinet are collectively responsible solely to the legislature.

Thus, although Mongolia and Russia both qualify under a “semi-presidential” form of government, there is significant difference in the powers of the president vis-à-vis other branches. In Russia, in addition to substantial executive powers, the president exercises even partial legislative powers by issuing decrees and directives that have full force of law without legislative review. The president appoints the Prime Minister and has a right to dissolve Duma. None of the above rights are enjoyed by the Mongolian president. In Mongolia, the parliament is among the most powerful in the world (see Table 3.6 below). When ranked based on the Parliamentary Power Index scores (higher score meaning more parliamentary power), Mongolia has one of the highest indices among the over 150 countries around the world.

Table 3.6 Parliamentary Powers Index Scores, selected countries

Country	PPI	Country	PPI
Parliament of Azerbaijan	0.44	Parliament of Poland	0.75
Chinese National People’s Congress	0.34	Parliament of Romania	0.72
Parliament of the Czech Republic	0.81	Federal Assembly of the Russian Federation	0.44
Parliament of Estonia	0.75	National Council of the Slovak Republic	0.72
Parliament of Georgia	0.59	Supreme Assembly of Tajikistan	0.31
National Assembly of Hungary	0.75	People’s Council of Turkmenistan	0.06
Parliament of Kazakhstan	0.38	Supreme Council of Ukraine	0.59

Legislative Assembly of Kyrgyzstan	0.47	Supreme Assembly of Uzbekistan	0.28
Parliament of Latvia	0.78	Parliament of the United Kingdom	0.78
Great State Assembly of Mongolia	0.84	Congress of the United States of America	0.63

Source: Fish, S. and M. Kroenig (2009) *The Handbook of National Legislatures: A Global Survey*, New York: Cambridge University Press

Notwithstanding the difference in classification, the evolution of the political system in Mongolia has been towards limiting powers of the president, a development similar to many countries in Eastern Europe. These countries, initially also with ambiguous constitutions, restricted the powers of the president to largely ceremonial. Selected CIS countries like Moldova, Armenia, Ukraine, and more recently the Kyrgyz Republic also limited the powers of the president. This is in stark contrast with some other CIS countries where presidents had significant powers from the beginning – even under a nominally semi-presidential system – and harnessed their powers even further in the course of transition.

Some argued that the parliament-dominated political system in Mongolia has been important in fostering and advancing democracy in the country (e.g., Fish 2001 and Fritz 2002 in Chapter 1), although it is seen as one of several important structural factors. Prevalence of the parliament in the policy process conditioned by the initial institutional configuration generally promoted collective deliberation and decision making. More importantly, predominance of the parliament was crucial in further expanding its powers with constitutional amendment of 2000.

3.8. Alternative Theoretical Explanations: Interest Groups and Collective Action

Most of the postcommunist countries installed regimes which are markedly different from communism. Regime change (political and economic) in postcommunist countries is often seen as a wholesale change in the governing institutions. However, for this to happen McFaul (1995) argues all major political actors must agree to reject old political institutions and accept the new rules of the game. Great diversity exists in the new rules adopted by various countries. And this diversity is often explained by interaction among political and economic groups which represent diverging interests. In other words, actors (or groups of actors) are viewed as the main factor not only in determining certain policies but also adopting new institutions.

3.8.1 Narrow Political Agenda and Successful Pact

It is commonly assumed by political economy theories that there are two groups – incumbents (the old elite) and challengers (democratic opposition) – who have diverging interests and their relative strength differs across countries.

Mongolia's configuration of political interests and groups is largely consistent with this assumption, although some subtleties do exist. The most general configuration of political interests at the onset of democratic transition consisted of two broad groups. The first group – let us call them the “conservative group” – either preferred the status quo (old regime) or some limited gradual changes that would not touch the basics of the

old regime but make some improvements upon it, such as more active involvement of the masses, limited criticism of the regime or party, permission of plurality of views, and decentralization of decision making. In other words, this group would prefer perestroika type of gradual reforms under the guidance of the communist party which would help to rejuvenate the old regime or, if the systemic transition is inevitable, the process should go slowly, without much social disruption. These preferences were incorporated in the MPRP documents and have been the main party course in the late 1980s.

The second group – the “radical group” – preferred wholesale transformation of the system, installation of a liberal democratic regime with free elections and secure human rights. No partial or gradual reforms could lead to such a regime, therefore radical and quick measures – overthrow of the old ruling elite by revolutionary means – were necessary to achieve the democratic goal. These ideas were first put forward by the Democratic Union and echoed by other new political movements and parties.

The conservative group in Mongolia was represented by some people within the top leadership of the MPRP, mid-level bureaucrats and party nomenklatura, local governors, and directors of the industrial enterprises, negdels and state farms. The radical group consisted of the leaders of the new democratic movements, intellectuals, and students. Some members of the MPRP top leadership – Byambasuren, Zardykhan, Ochirbat etc. – also belonged to this group. Industrial workers and herders were not organized. At the beginning of the democratic change the stance of these large societal groups was not clear. The general feeling was that the urban population was more pro-

democratic while the rural population was more conservative, which later was confirmed by the election results.

Thus, the two groups have a diverse composition. First, we have divided top leadership, some rooting for the preservation of the old regime, others wanting radical change. The top leadership also controlled the police and the army. But as argued earlier, these forces were relatively weak in Mongolia due to reliance on the Soviet troops in international and domestic security issues. With withdrawal of the Soviet troops, Mongolia was left without strong armed forces. Second, the group of mid-level bureaucrats and local chiefs was coherent and likely to resist the democratic change. As the results of the elections have shown, rural residents were mostly conservative and largely backed their local leaders. The strength of this group depended on the degree of power they held at the end of the communist regime. As noted earlier, in many transition countries, especially the former Soviet Union, these interests were particularly strong and greatly influenced the reform processes. Full democratization never occurred in many of these countries, at least due to resistance of these interests. Third, the leaders of the radical group belonged mostly to the intellectual elite and were supported by the general public in urban areas, as the mass demonstrations have shown.

Thus, there were two clearly defined groups of elite – old and new – who represented the two different ideologies (weak army siding with the old elite), and the working class and herders who were less organized and without strong preference.

Generally, the assumption of interest group theories about two broad groups largely holds for Mongolia.

The mode of transition that most frequently produced democracy was an imbalance of power in favor of the democratic challengers (McFaul 2010, 12). However, in Mongolia we do not observe any clear dominance of one group at the onset of changes. The situation seems to be similar to that of Russia, Ukraine, Bulgaria, Tajikistan, and Moldova. McFaul argues that under the circumstances of relatively equal balance of power between the two sides, the path of transition would be either a painful protracted fighting until one group wins or achievement of a pact. The success of reaching a pact and thus installing democratic institutions depends on two factors: narrow agenda for change and shared perceptions about power distribution between the two groups.

Agenda for democratic change in Mongolia as initially proposed by the democratic opposition was quite wide. It included toppling of the old politburo and the current government, legalizing the multiparty system, dismantling of the existing national assembly and forming a temporary khural with representatives of all political parties, establishing the so-called people's council to judge and prosecute old leaders, and calling for free elections (see the political requirements of the MDU in Appendix 1). However, as described earlier, the agenda was narrowed down to eliminate some of the more extreme demands, such as temporary assembly and people's council. Most importantly, the economic reform ideas which complicated political transitions elsewhere – for instance, Russian government's "500-day program" was launched before the political

consensus was reached which further postponed political compromise – were not put on the agenda when the pact was reached. Very general idea of a market-based economy was among the demonstrators' political demands, but they have not yet materialized into prominent agenda items.

Moreover, fortunately for Mongolia, a high degree of societal homogeneity – ethnic, religious, and cultural – and its initial sovereignty contributed to a relatively narrow range of contested issues. No specific religious, ethnic, territorial or other issues were raised. The agenda squarely focused on the regime change issues therefore it was not as complicated as in some other postcommunist countries. Further narrowing down of the reform did contribute to successfully reaching a political consensus.

What led the two sides to narrow down the agenda and go for a compromise? As McFaul (1999 and 2001) argues, the second defining factor is the balance of power and, most importantly, the shared knowledge about the balance of power. The balance of power in favor of the regime challengers depends on several factors: (i) overcoming of collective action problems within the radical group and mobilizing the masses; (ii) tipping the balance of power within the top leadership in favor of radical reformers; and (iii) eliminating or coopting mid-level bureaucracy and local governors.

3.8.2 Successful Collective Action

Collective action problems were overcome within the radical group when they decided to rise against the regime. What could have triggered the Mongolian

‘revolutionaries’ to undertake such an extreme measure? First, the costs of fighting for the new regime have been lowered when it became obvious that the old regime could not contain the popular uprising. By the time the first public demonstration was held in Mongolia, almost all authoritarian regimes in Eastern Europe were already overthrown and it was clear that the Soviet Union would not interfere with these developments. On the opposite, Gorbachev’s reforms in the Soviet Union appear to have played a key role in the changes that occurred in Eastern Europe, as well as Mongolia, as they awakened hopes of greater independence and meaningful social change, reducing the perceived risk of dissent (Kuran 1991). This lowered the level of fear – and the associated expected costs of rebellion – among the radically minded groups in Mongolia.

How were collective action problems resolved? Generally speaking almost all postcommunist countries saw a surge of political and civic activity in the late 1980s and early 1990s. Therefore, mass protests and increased civic engagement is hardly unique to Mongolia. In fact, the mass protests from December 1989 through to March 1990 were influenced to a great extent by similar developments in Eastern Europe. Nonetheless, a few factors distinguish Mongolia from other countries in Central Asia.

First, there was an advantage of small population concentrated in a few places. In 1990, Mongolia had a population of less than two million, about 60 percent of which was concentrated in few major cities. Ulaanbaatar, the capital city, housed about 40 percent of the entire population and was the cradle of mass protests. It was easier for the radical group to overcome collective action in the more densely populated urban areas.

Demonstrations took place in the capital city and Darkhan and Erdenet, the second and third largest cities in the country. It was the major industrial and political center – probably the only center – where the major political events took place and determined the course of regime change. Such concentration of small population in the capital city made it possible for the masses to organize effectively at low cost. Moreover, the elite – old and new – was small and perhaps more closely tied than elsewhere. The leaders on both sides knew each other personally, which may have facilitated faster agreement between the regime and the opposition. Although no clear evidence exists about behind-the-scenes agreement, these factors may have contributed to reaching a successful pact.

Second, the remainder of the population was comprised of more conservative rural residents. Rural nomadic dwellers were widely dispersed throughout the country and were far from the center of action, making it prohibitively costly to cooperate with each other, irrespective of their views on the regime. The only place where popular uprising took place in the rural area was the town of Murun, center of the Khuvsgul aimag, the most highly populated aimag in Mongolia. Therefore, this group – about 40 percent of the entire population – was largely isolated from vigorous political action.

Another distinctive feature of Mongolia is the fact that the groups that emerged had broader, more encompassing agenda compared to some countries, especially the CIS countries. Sneath (2012) argues that there has been very little by way of adversarial ethno-national mobilization in Mongolia. There are Kazakhs – the most distinct ethnic group in Mongolia in terms of language, culture, and religion – who are members of both

MPPR and opposition parties. There are a number of Kazakh cultural organizations, often with links to Kazakhstan and other Islamic nations. But ethnic mobilization is a cultural project, rather than a party political one (ibid, 159). There are other forms of collective identity and interestingly the most important ones are those of locality, i.e., the aimag and soum administrative districts, rather than ethnicity or religion. The importance of “roots” in local homelands is a central theme in Mongolian public life (ibid, 150). The 1990s saw a rapid growth of “local homeland councils” formed of those who lived in cities to support their home aimag or soum. However, Sneath argues, these are discursive claims rather than a series of “social building blocks” that fit neatly inside each other or next to each other. Collective identities – national, regional, ethnic, religious etc. – are context specific groupings, dependent on particular discourse or point of reference (ibid, 151).

Some scholars note that civil society in Central Asia is organized along traditional groups such as extended families, kinship associations and religious communities, which are not voluntary and are not designed to play political roles (Anderson 1999, Fish 1994). Green (2002) argues that institutional hurdles in registering and operating non-government organizations in Central Asia are much higher than elsewhere in transition countries, both CIS and non-CIS. Uzbekistan was blatant about its desire to control civil society, as it requires that groups hold a founding meeting to adopt a charter and elect officers, yet such meetings first require government approval. In most Central Asian states administrative discretion often manifested itself in rejection of registration applications if another group with a similar mission already exists (459).

An indication of successful broader collective action among the groups with broader interests was the emergence of numerous civil society groups in Mongolia, which were located almost entirely in large urban areas. As noted earlier, in 1991, there were over 300 various political and non-political movements, NGOs, associations, and groups. For a country of two million people and very early in the transition, this number was quite impressive. Fish (1998) notes the significance of a vibrant civil society in successful democratic transition. He particularly emphasizes two types of organizations: women's and free press associations.

Traditionally, unlike in many Asian cultures, women in Mongolia were strong and influential in decision making (e.g., Weatherford 2010, Humphrey 1992). Humphrey (1992), for instance, argues that the dominance of military social values and sole reliance on nomadic pastoralism meant that domestic production was not ideologically separated from the military life, but was regarded as a means towards it. "Women had to be capable of carrying out all the productive tasks because the men were often away for long periods. There is a real sense in which the major production of wealth rested on the work of women" (ibid, 180). Socialism aimed at gender equality and empowering women. In Mongolia, not only various women's associations emerged early on demanding civil and other rights for women and in general, but women also dominate in civil organizations of every type. Fish (1998) notes that one can almost speak of a matriarchal civil society in Mongolia.

McFaul (2001) warns that sustained mass mobilization usually tends to cloud the calculations about the balance of power and therefore plays an ambiguous role in reaching a pact. Mass mobilization means more players and less certainty about the preferences. “If transitions involve only elites, it is easier to know everyone’s preferences and assess everyone’s power. The power of mass movements is harder to assess, because a movement’s ability to act collectively is often unpredictable (e.g., Olson 1965). Likewise, when mass movements are involved, there is greater uncertainty about whether the leaders of representatives of these groups can control their followers” (McFaul 2001, 20).

However, mass mobilization did play a much more prominent role in bringing about regime change in Poland, Czechoslovakia, and Georgia. This was also the case in Mongolia. I argue that mass mobilization played an important role in tipping the balance of power in favor of the regime challengers. As noted earlier, the democratic opposition was in significant minority when the first demonstrations erupted in December 1989. These were almost a handful of intellectuals supported by students who initiated the change. It was crucial for the newly emerging opposition to secure mass support, as they possessed no other resources, such as military or police, or direct foreign support. The mass support which was gradually built over the following few months became a critical bargaining trump card in favor of the opposition. The old elite had the army but the new elite had the urban mass support. The rural masses potentially supportive of the old elite could not be organized.

When time came to make a decision, the power calculations of both sides were such that they decided to refrain from confrontation. McFaul argued that often both sides (falsely) believe in their superiority in terms of power which leads the parties to fight until one eventually wins, thus making a pact impossible and democracy fragile or partial. This was not the case in Mongolia. The power calculations on both sides did not necessarily coincide, however there was no overestimation of own power or underestimation that of the opponent. As the minutes of a critical meeting to the use of power reveal (see the minutes in Appendix 2) the old leadership concluded, with insistence by the top military ranks, that they could not forcefully contain the mass protests. Mongolia had limited military and economic resources to take forceful counter measures without resorting to the Soviet military and economic assistance, and the latter was not forthcoming. This was probably especially true in the long run if they wanted to sustain the old regime.

Evidence provided earlier in the chapter suggests that great uncertainty existed among the democratic opposition leaders about their relative power vis-à-vis the regime. They definitely saw mass mobilization as a means of bolstering their power. However, the fear of forceful action, arrest and imprisonment was always there. Once the mass mobilization became more pronounced, the issue of crowd control emerged as a new important issue. As the experience with the April 27 picket show, masses were ready to get out of control. Had the situation, which was on the brink of hostility that day, erupted in actual violence, the probability of a pact would have become very slim. This was the lesson learned by the democratic opposition in the course of their political struggle.

Therefore, mass mobilization was critical in tipping the balance of power in favor of the regime challengers. But, there was a point beyond which a successful pact would have become impossible. This is consistent with McFaul's argument about the ambiguous role of mass mobilization.

Another factor that contributed to the realistic calculation of relative power between the two groups was the international environment. Now that the Soviet Union and the entire socialist system were disintegrating, the country had to rely on alternative sources of support and partnership, both economically and politically. The likely new partners – non-socialist countries and international financial institutions – clearly favored democratic and market regimes. Perhaps the only potential support for the old regime could have come from China, with which Mongolia had strained relations for the past several decades. IFIs and advanced market economies would not have helped the Mongolian unless it undertook some radical changes towards democratizing the political system and marketizing the economy. Importance of external factors in the collapse of the communist regime and democratic transition is stressed in Fish (1998) and Fritz (2002). Fritz (2002) argued that the Mongolian democracy was externally induced and externally supported; hence she used the term “dependent democracy”.

However, I believe that this statement is much too strong. There is no evidence of direct foreign involvement in Mongolia's democratic transition. No country or international agency forced or explicitly supported democratization on Mongolia. The calculations of the old (and new) elite were based on the general global atmosphere rather

than interests or actions of specific international agents. McFaul (2010) stresses the importance of the international factor in all postcommunist transitions. He argues that compared to the “third wave of democratization” of the 1970s and 1980s, the postcommunist democratic transformation occurred under the new conditions of unipolarity of the international system. With the end of the Cold War, the international system was transformed from bipolar to unipolar with much greater consensus on how economies and polities should be organized.

Thus power calculations took into account the domestic situation and dominant international setting. Realizing the newly emerged situation, the communist rulers did not take any serious counter measures. Instead, they opted for a different strategy: quickly negotiating on the popular political demands, making the appropriate legal changes, and calling for and holding free elections. Thus, a pact was reached between the old and new elite.

Experiences of Central Asia demonstrate that, in the absence of mass mobilization and in the presence of patronage-style polities and the legacies of state socialism, the transition to democracy tends to be highly problematic. Not surprisingly, therefore, the Central Asian states do not meet democratic standards – although Kyrgyzstan, in the early years of transition, came much closer than its neighbors (Bunce 2003). Jones Luong (2002) argues that the Central Asian cases were pacted transitions. It is usually argued that elite pacting enhances the prospects for successful democratic transition (e.g., Gunther 1992). However, pacting, in the context of state socialism and the absence of

mass mobilization, merely meant that elites agreed to limit, not tolerate or support, political change.

3.8.3 Weak Special Interests

As the experiences of postcommunist countries have demonstrated, collapse of the old ruling elite does not necessarily mean that the democratic transition will ensure. On many occasions, the rule of the communist party was replaced by the rule of an authoritarian leader. In cases where there was no authoritarian ruler, the new political structure favored particularistic interests of entrenched groups. Therefore, collapse of communism is not sufficient for a democratic regime to emerge. In Mongolia, contrary to some countries, there was no single political figure to grab power when the old politburo resigned in March 1990. After removing Tsedenbal in 1984, no strong leader emerged. The successor, Batmunkh was known for his mild manners and his preference for (limited) changes. He successfully initiated perestroika and glasnost type of reforms in the late 1980s. This factor prevented Mongolia from becoming an authoritarian state from the very beginning. There was no strong person or strong group of people with authoritarian preferences, although these preferences were articulated during the party meetings.

Another factor that contributed to successful democratization was the relatively weak power of vested interests of the old regime, namely mid-level bureaucracy and party nomenklatura at the central and local level. I argue that the power of the old elite

was still centralized within the politburo. In contrast to many transition countries and especially the Soviet Union, little devolution (both spontaneous and intentional) has occurred in the late communist period.

The rigid planning exercise was still very much in place in the real sectors by the end of the 1980s, in spite of some experimentation with devolution of powers to enterprises and local governments in the second half of the 1980s. This includes output planning, investment and credit allocation, as well as taxation powers and public expenditure allocations. The main control of the planning agency was through the control of resources and inputs in the real sector and imposing hard budget constraints on local governments. Thus, we do not observe the type of collusion among the middle level bureaucracy and local governments against the interests of the communist party that took place in the Soviet Union (see Murrell and Olson 1991 and Olson 2000). The decentralization efforts that were undertaken in the late 1980s had only limited effect on the economy and the real powers of the center. The central planning agency in Mongolia still held much control over the industries and local governments. This argument will be developed in more detail in the next chapter where I discuss the privatization policies.

One reason for the centralization of power is related to the size of the economy and its concentrated nature. Naturally, in a large economy such as the Soviet Union, it was virtually impossible for the center to control the bureaucrats and local government, whereas the task might have been a little easier in a small economy like Mongolia. In spite of the sparsely populated huge territory, economic resources were concentrated in

the center. The bulk of industrial production was concentrated in few cities and the center controlled inflow of foreign resources. Another reason is related to the fact that Mongolia introduced decentralization reforms relatively late – in 1988 – which means that the enterprises, ministerial level bureaucrats, and local governors had limited time – about one year – to exercise their increased powers.

Thus, resistance to the democratic changes had been limited from the mid-level officials. Under these circumstances, whatever the center decides becomes the key to new policies. Once the politburo voluntarily resigned, the power of the old elite was reduced; the privileges of a leading party were abandoned by the amendment to the constitution, although it did have significant de facto influence. Democratization was under way. Centralization of power also meant that the new democratic forces were weaker too, therefore they do needed the old elite to cooperate in order to pursue their goals of democratization and marketization.

3.9. Conclusion

This chapter described in detail the process of democratic political transformation in Mongolia in the early-to-mid-1990s and presented structural and alternative theoretical explanations of the factors that contributed to fast democratic transition.

Scholars acknowledge that political events in Mongolia took a very fast and radical turn, however they often fail to explain why this was the case, which is mostly

due to the lack of evidence. This chapter brings in new evidence which helps to shed some light on the processes that took place during that period of time. Several new insights are noteworthy.

The new evidence helps to explain why did the politburo decide to resign, which was a distinctive event. The minutes of the meeting which were presented in the late leader Batmunkh's memoirs reveal the tension and the type of thinking which was going on among the old leaders. The decision to resign was ultimately made by the leader and was based, first, on the commitment to preserve peace and national unity, and second, the desire to conserve the MPRP's control within the state structure. A key aiding factor seems to be the military's disbelief that they could contain the mass protests if they decided to use force. This is reflective of the fact that Mongolia never had a strong army and always relied on external sources with its international and domestic security. With the Soviet Union pulling out its troops, the regime in Mongolia lacked military backing.

On the side of the democratic opposition, however, there was always a fear that the rulers would crash them down, if there ever was violence. This belief in each other's strength served as the basis for negotiating a pact via peaceful means, which was not the case in many other countries, where violent acts or even civil wars emerged. The government felt its weakness, the opposition realized its limits, and this allowed the parties to strike a peaceful transition. The analysis of the relative strength of the political parties, and most importantly beliefs of both parties about each other's strengths, as well as the type of thinking and reasoning that was going on within the two camps is absent in

the existing literature. Yet, these are critical to understanding the processes and outcomes that emerged in Mongolia. This, I believe, is one of the contributions of this dissertation.

Resignation of the Politburo and the government seriously undermined the old guard. This gave a unique window of opportunity for the radical elements within the MPRP to collaborate with the more moderate elements of the democratic opposition. This fact was not observed by those who studied Mongolia's transition. As a result, we observe formation of a coalition government which was implementing "no one's political platform" but its own, and which was criticized by both parties. This "triangulation" was a very unusual state of affairs, where the ruling party was not supportive of its own government, which was observed by other scholars but not explained.

In addition to the above structural and historical conditions, I provide alternative actor-centric political economy explanations of the political processes and outcomes. Some theoretical approaches have been applied to postcommunist political transitions elsewhere, but not in the case of Mongolia. These theoretical arguments provide a useful analytical tool to bring into analysis such important factors of democratic transition and consolidation as political institutions, how they shape the behavior of political players and are shaped by the interests and relative power of those players.

Electoral and political institutions in Mongolia were mixed. Most successful transition countries – in Central and Eastern Europe and the Baltics – allowed political

parties in the founding elections, had proportional electoral rules, and predominantly parliamentary systems with weak president. The institutional arrangement in most of the CIS countries was usually the opposite. Mongolia, on the other hand, had some mixture of different political institutions.

In spite of such a perplexing combination of political institutions when no straightforward conclusion could be made about the success or otherwise of democratic transition, a closer look at these institutional arrangements reveals that they were conducive to democracy rather than not. Electoral rule to empower political parties and promote party discipline was installed fairly quickly, in the second parliamentary elections, two years after the founding elections. The Small Khural with its proportional representation gave the new political parties a greater chance to participate in policymaking. Institutionally, it had more influence on agenda setting and decision making than the majority elected Great Khural, which had very limited legislative powers. The powers of the president – initially relatively strong – were gradually curtailed following a political stalemate in 1998, effectively making Mongolia a parliamentary republic.

I believe electoral rules provide a key explanation – which is overlooked in the existing literature – to the formation and consolidation of political parties, which proved to be extremely important in democratic transition and, later, consolidation. The proportional rule of the first elections gave greater chance for the fledgling new parties to take root. The majority electoral rule which dominated the politics since 1992 helped to

overcome political fragmentation and forge two large consolidated parties. Emergence of a single large democratic party on the eve of the 1996 parliamentary elections was perhaps more important in fostering political competition rather than maintaining several smaller parties (or protoparties) which could not effectively compete with the MPRP.

More or less favorable political institutions were aided by successful collective action among the broad based interest groups, which flourished in the early 1990s. It was easier for the more radically minded urban dwellers who were concentrated in few cities but most notably in the capital city to overcome collective action problems than more conservative but dispersed nomads who lived in the rural areas. Collective action and interest group arguments help to incorporate cultural and anthropological dimensions into the political process. These were previously noted by few scholars but not tied to the democratization process. Ethnic and religious homogeneity, absence of regional division, as well as greater social cohesion was at the roots of successful collective action and cooperation that contributed to the political changes. It is also one dimension where Mongolia is different from many Central Asian republics.

Chapter 4 The Politics and Economics of Privatization

By the end of the communist period, the Mongolian economy was performing better than many other centrally planned economies but facing similar problems of building inefficiency and distortions as elsewhere. There was growing sense of dissatisfaction within the MPRP leadership with the effectiveness of foreign aid and foreign economic relations in general. It was realized that the economy was highly dependent on foreign resources and markets.

Some reform steps taken by the government in 1986-1990 were slow to unfold and partially successful at best. The reforms prior to October 1990 did not aim at a quick structural adjustment of the economy to introduce a market-oriented system (ADB 1992, 82). Only the political events described in Chapter 3 forced the government to move rapidly in a wide of range of areas with the view of converting the economy to a market-oriented system. The centerpiece of the government's economic reform program was privatization of state-owned assets. Other areas of reforms included pricing, exchange rate management, financial sector reforms, fiscal reform, and improvement in trade and payments system.

4.1. Fiscal and Economic Crisis of the Early 1990s and Policy Reforms

Revenue shocks were generated both externally and internally. Externally huge disruptions came from two sources. First, trade with the CMEA region was disrupted

significantly starting from 1991. The share of the USSR/former USSR in total exports fell from almost 80 percent in 1990 down to 30 percent in 1995 and a mere 8 percent in 1997. Russians stopped buying Mongolian goods and raw materials. Mongolia had to find new trade partners and China became the first one to trade with Mongolia. Other new partners such as Japan, the U.S. and Western Europe also slowly emerged. The situation with imports had more negative repercussions on the Mongolian economy. The share of the Soviet/former Soviet imports fell from about 80 percent of total imports in 1990 down to 51 percent in 1992 and further down to 38 in 1997 (see Figure 2.1 in Chapter 2).

4.1.1 Trade Disruptions and External Shock

Import disruptions – particularly of gasoline products and intermediate inputs – were one of the major sources of decline of domestic output in the early 1990s. In addition to external shocks, other domestic factors such as uncertainties over privatization, inconsistent liberalization efforts, and overall poor macroeconomic management due to the lack of market institutions must have contributed to the economic downfall. These issues will be discussed in more detail in the following section.

Since Russia was a major oil-exporting country in the region, it could not be replaced easily by other sources. Therefore, the Mongolian government held hard negotiations with the Russian government on continuous supply of oil products, which turned out to be largely unsuccessful when the Russian government pulled back from its initial agreement not to reduce substantially petroleum export to Mongolia (interview

with former Prime Minister Byambasuren). Former First Deputy Prime Minister Ganbold admitted that the Soviet Union closing down the borders on December 31, 1990 was the biggest challenge the coalition government faced at the time (magazine *Toim*, December 12, 2012, issue 49). Eventually, the Soviets agreed to supply some amount of petroleum in exchange for hard currency but this was significantly lower than in the late communist period. Imports of diesel oil were reduced by 27 percent, gasoline by 36 percent, and lubricants by 82 percent in 1991 compared to the previous year. The amount was slashed even further in the following year, where imports of diesel oil stood at mere 40 percent and gasoline at 61 percent compared to 1990 (Statistical Yearbook 1992). Some scholars and politicians argue that the Soviet Union turned extremely unfavorable to Mongolia because its government was led by an extreme anti-Soviet leader, Byambasuren, who looked West and tried to pursue independent policies (interview with former top planner Namjim).

Byambasuren recalled in a TV interview that in April 1990 he visited Moscow on his way to the UN gathering in New York. He met with the chairman of the Soviet-Mongolia Joint Economic Commission and was warned not to disregard the Soviet Union as they could “momentarily shut the faucet” implying great economic trouble for Mongolia. Apparently the Soviets were insulted by the anti-Soviet sentiments expressed during the mass protests and the generally positive attitude shown by the ruling party towards such sentiments. The Soviet leaders hinted that they have not found a common language with Byambasuren. Byambasuren himself agrees that there were two important issues where agreement could not be reached with the Soviets. First, after announcing

and starting to withdraw its troops from Mongolia, the Soviet Union wanted to retain two major objects of intelligence in Mongolia. Second, they also wanted to keep some of the technical personnel in Mongolia. Byambasuren firmly opposed. All the troops and personnel had to leave, as agreed. He was suspicious that these tensions might have led the Soviets to think of him as an anti-Soviet figure. Which is fact, was the truth.

Byambasuren recalled that the issue of oil supply was eventually resolved with the U.S. support. Byambasuren shared the news of effective economic boycott by the Soviet Union against Mongolia during his meeting with State Secretary Baker in June 1991 in Washington DC. Shortly thereafter, Baker visited Moscow and during his meeting with Gorbachev and Soviet Foreign Minister Bessmertnykh pressured the Soviet Union to continue to supply oil to Mongolia. The embargo was lifted in summer 1991 (television interview with Byambasuren shown on Channel 25 on the occasion of the 20th anniversary of the democratic revolution, March 2010, available on youtube.com).

The chaos in the Soviet Union itself (the attempted putsch, the ensuing collapse of the USSR and subsequent political quarrel in Russian politics) probably was at the roots of trade disruption. Under the new political and economic conditions oil and intermediate goods supply could not be sustained at the previous levels. However, the evidence provided above also suggests that trade disruptions were exacerbated by the strategic decision of the Soviet Union to influence the behavior of the Mongolian leaders, especially remind Mongolians of its recent political and economic past. Abrupt closure of borders for a short period of time and subsequent relaxation of its trade strategy and

increased inflow of oil and other goods suggest some presence of a strategic component in the decision making.

Imports of intermediate inputs were slashed significantly in the 1990-1991 and almost stopped at the end of 1991. Domestic enterprises built on the Soviet or Eastern European technology – often obsolete – were highly dependent on intermediate inputs from these specific countries. With the collapse of trade regime and severe economic crisis in the partner countries, local enterprises could not find other suppliers. The loss of trade destroyed the industrial base, which was heavily reliant on Soviet technology and markets (Boone et al 1997, 124). Mongolia quickly reoriented its foreign trade to non-CMEA countries. Imports from other countries increased significantly in the early 1990s. However, these were easily replaceable foodstuff and essential consumer goods, initially mostly from China and Japan. The Japanese government was the single most important provider of food donations in the early 1990s while individual traders and small companies started importing daily consumer goods from China in a decentralized manner. No investment goods were imported yet from advanced countries. Only one excavator and two cranes were imported in 1992 into the entire country (Statistical Yearbook 1992).

Another external source of economic shock was complete withdrawal of the Soviet and CMEA aid in 1991. Foreign aid from the Soviet Union and other CMEA countries which stood well above 30 percent of GDP throughout the 1980s (36 percent in 1981, 1982, and 1986) decreased sharply in the next few years and approached zero in

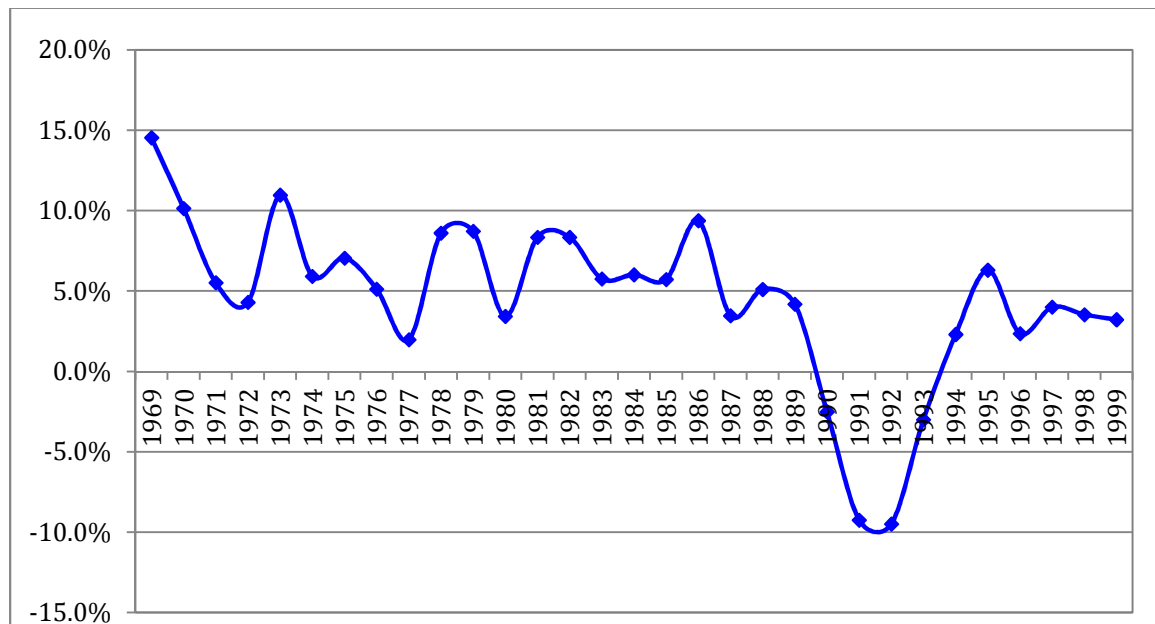
1991. Boone et al (1997) estimated that the shock due to the loss of Soviet financing equaled to approximately 37 percent of GNP prior to the reforms (124). It was partially replaced by aid from Japan and international financial institutions (IFIs) when Mongolia announced its transition to a market economy, but the amount was far less than the enormous resources pumped by the Soviet Union in the late communist period. In 1991 and 1992 the share of foreign aid stood at below 10 percent of GDP (see Figure 2.2 in Chapter 2). However, it picked up in 1993 reaching 25 percent of GDP and gradually declined since then.

Domestically, an economic downturn not experienced in the past several decades seriously jeopardized the economic tax base. Moreover, tax collection capacity was very low if not absent. Decades of sustained economic growth have been replaced by a deep economic recession in 1990, which culminated in 1991 depicting economic decline of 9.5 percent (Figure 4.1). This decline in GDP dramatically affected the tax base.

Since 1990, notwithstanding a pickup in activity from the emerging private sector, industrial and agricultural production was constrained by shortages of intermediate goods and spare parts and, in the case of agriculture, by adverse weather. Domestic investment fell sharply, reflecting in part curtailment of projects financed by the former Soviet Union. Savings also declined due to a fall in real income. Inflation accelerated to almost 300 percent by end-1992, reflecting liberalization of official prices as well as a relaxed monetary and credit policies during the first part of the year (World Bank 1996). In the first three years since breakdown in 1990, there were only two commodities the

production of which exhibited real growth – molybdenum concentrate produced by the Erdenet Mining Concern, and vodka. All other commodities on which the National Statistics Office provided annual data showed some degree of decline, and at times the decline was severe (Namjim and Itgel, 2003, 152). Figure 4.1 below depicts the dynamics of economic growth in 1969-1999.

Figure 4.1 Net Material Product and Gross Domestic Product Growth Rate, percent, 1969-1999³⁵



Source: National Statistics Office, various years, Asian Development Bank Key Indicators, 2001

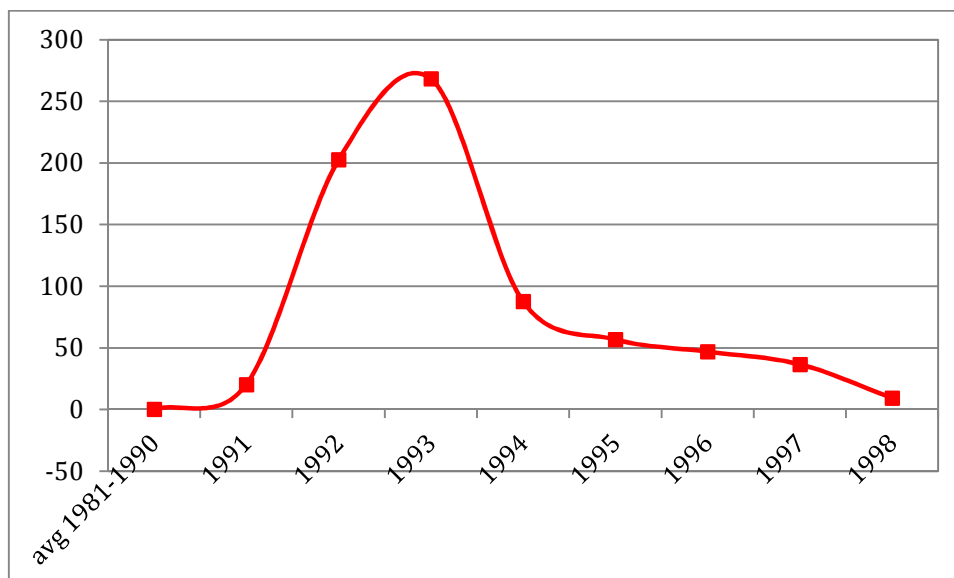
Several features of the above figure are noteworthy. First, there are only two years of very negative growth of over 9 percent in 1991 and 1992. These decline rates are actually smaller than in many transition countries. Decline slowed down in 1993 and the economy started to grow again in 1994, partially due to increased copper prices. This again stands in stark contrast to many other transition economies where economic

³⁵ Data for 1969-1980 show annual growth of Net Material Product; data for 1981-1999 show annual growth of Gross Domestic Product.

recovery was much slower (see Figure 1.1 in Chapter 1 for comparative economic performance of 26 transition economies). Some attributed relative economic performance of Mongolia to the speed and depth of reforms, because initial conditions – with a possible exception of relatively underindustrialized base – were not favorable, as discussed in Chapter 1. The coalition government of 1990-1992 introduced some critical reforms in liberalization and privatization. These policies were further advanced by the subsequent (more conservative) MPRP government led by Jasrai.

Inflation was very low throughout the entire communist period, depicting annual average of 0.2 percent in 1981-1990. The prices spiked in the early 1990s with price liberalization, shortage and economic crisis. In 1991, inflation rate was at a moderate 20 percent. However, the government could not control further price increase spiral. The annual average Consumer Price Index (CPI) peaked at 268 percent in 1993, then declined sharply thereafter reaching single digits in 1998 (Figure 4.2). Although the rates indicate hyperinflation, it was lower than in many other transition countries where inflation rate was as high as four or even five digits (see Table 1.2 in Chapter 1 for comparative inflation data in selected transition countries).

Figure 4.2 Annual Inflation Rate (1981-1998), measured as CPI in percent (annual average)



Source: IMF World Economic Outlook data (2011)

High inflation was fueled by several factors. Until 1991 the government received about 25 percent of its budget revenue ad direct financing from the Soviet Union. In addition, it earned approximately 12 percent of GNP, or one third of budget revenue, through trade and trade-related taxed (the so-called import price differentials discussed in Chapter 2). Once these major sources of budget revenue were gone, the government responded by printing money to finance its expenditure (Boone et al 1997). As noted earlier, the state bank was under legal government control until mid-1991, but still was heavily dominated by the government when it nominally shifted under the supervision of the parliament with the new Banking Law. Another important reason of price inflation was decentralization of the banking system. Two-tier banking system was established in May 1991 and newly established commercial banks (initially state banks followed by creation of private banks), in the absence of adequate supervision from the central bank, liberally gave away credits.

4.1.2 First Economic Policy Measures and Price Reforms

The very first measure taken by the coalition government was the Government Resolution 20 of January 15, 1991 on “Some Measures of Transitioning the Economy to a Market Regulation”, simply known as the “Resolution 20”. The resolution made some major changes in the wholesale prices and money scale. First, the wholesale prices of gasoline and diesel, coal, and electricity were increased by 75-100 percent, wholesale prices of agricultural products purchased as part of the state requisition system – food and raw materials for the industry – were increased by 1.2-3.8 times. The government established the ceilings of increase in wholesale prices of major manufactured goods and services, in the range of 40-80 percent depending on the product. These wholesale price changes were to reflect the world prices and were the first step of the government to amend the price distortions inherited from the previous system, as Prime Minister Byambasuren claimed in a press conference (Ardyn Erkh, January 16, 1991, issue 11). Although the measure claimed to be radical by the government and was perceived as such by the public who have not experienced price increase to this point, in fact it was not a far-reaching measure because substantial amount of price control remained.

Second, all salaries and wages, pensions and benefits were increased by two times, simultaneously all retail prices of goods and services were increased by two times. Thus, the “money scale” was changed. Some small social funds were established to support low-income families and the unemployed who were not receiving monetary

compensation or benefits. Individual savings of up to 10,000 Togrogs were increased twice but any extra savings remained at the same amount. This latter clause caused multiple criticisms and the government was later forced to compensate for all savings in excess of the established ceiling, albeit even the initial measure was generous compared to many other transition countries. Third, the government approved the list of primary goods and services where the government fixed price would prevail, at least in the initial stage of transition.

Naturally, the reform that caused most commotion among the public was the change in the scale of money. This measure was most damaging for those who held large amounts of cash on hand. Former Prime Minister Byambasuren recalled in a TV interview that there were several reasons for undertaking such measures. First, with aid withdrawal the interim government was forced to make large emissions of currency to pay for its bills and there were about 742 million Togrogs of cash in the hands of people which created inflationary pressure and, with still fixed prices on most goods, opportunities for arbitrage for those with cash (TV interview on Channel 25, March 2010, available on youtube.com).

There was another geopolitical reason that Byambasuren was in no doubt. Mongolian banknotes at the time were printed in the Soviet Union. In Byambasuren's opinion the Soviet military and technical specialists were given large amounts of the Mongolian Togrog – far greater than their salaries denominated in Togrogs – which they used to buy out the goods in the country. The Mongolian government did not have full

control over the currency being issued into the domestic economy. Byambasuren further argued that the inventory of goods in the amount of 3.3 billion Togrogs which was in place in October 1990 was sharply reduced to 1.6 billion within a matter of two months, which was far greater than the estimated cash and savings of the Mongolian citizens. This led him to suspect that the Soviets might be involved in bringing in large amounts of Mongolian cash into the country. Although many are doubtful about the Soviet covert activities – and critical of his allegations, e.g., Namjim (2003) – Byambasuren was firm in his opinion (personal interview with Byambasuren).

Box 4.1 Food shortage in Ulaanbaatar

The Candy and Confectionary Factory of Ulaanbaatar did not produce any output in May and June 1990 due to electricity blackouts. There were major disruptions of production in 1990: total of 337 hours of idleness. The situation will not improve in 1991, because no contracts have been signed with the suppliers of raw materials and technology. The factory will not produce any cookies in the first quarter due to disruptions in electricity supply and lack of ingredients. This will force the people to go without candy during the New Year and Lunar New Year.

The long line for milk which was formed at 7:00 am in city grocery stores got even longer in the afternoon. The milk was not delivered to the stores by 5:00 pm. People went without milk for the last two days, in spite of spending the whole day queuing. The majority of those lining up were 60-70 years old pensioners who had spare time to stay in the line for the whole day. The state dairy farms do not supply milk as agreed. Dairy factories also face the issue of electricity blackouts.

Source: Newspaper Ardyn Erkh, January 3, 1991, issue 2

Whatever the reasons, the policy to change the money scale was to reduce the inflationary pressure of large amount of cash in circulation and protect the living standards of the poorer strata in the society. Ganbold admitted in a recent interview that he suggested to change the money scale not by two but four times, but Prime Minister Byambasuren did not agree. He even suggested introducing entirely new money without

one or two zeroes, as did Russia, but that idea again was not supported by the State Small Khural. Hyperinflation was in full force in all other transition economies and it was anticipated that prices would increase further in Mongolia and with much higher speed. The government decision was made in anticipation of higher inflation. All in all, as Byambasuren put it, the Resolution 20 was “the small fire set by the government against the big fire of upcoming hyperinflation” in an attempt to curtail the latter (magazine *Toim*, December 12, 2012, issue 49).

There was another measure that the government took a few days earlier in order to deal with severe food shortages. Effective January 15, 1991, the Government introduced a special regime in several SOEs and public entities which were involved in food production, transportation, and distribution. The “special regime” entailed restrictions on the minimum number of hours of operation, work schedule, amount of pay, control over supplies, strict norms on the use of these supplies, minimum production levels, appointment and removal of the management, prohibition of exports, etc. In other words, all issues pertaining to the operation and production of the enterprise were now under the state control. Political parties and trade unions were prohibited from operating in these enterprises. These 20 enterprises and entities included most food processing plants such as bread and confectionery plants, flour plants, meat plants, soap plant, food distribution organizations such as state food wholesale organizations, Ulaanbaatar City food distribution agency, state auto parks which were responsible for transportation of food, etc.

Starting from January 20, 1991 (*Government Resolution 21 of January 15, 1991*) food rationing system was introduced in major cities and *aimag* (province) centers in order to ensure secure and equal distribution of essential food items and necessities to all citizens and combat incidences of food speculation and rising prices on food. The Government Commission on Implementing the Special Regime was led by the First Deputy Prime Minister D. Ganbold and comprised of several ministers and high-ranking government officials. Minutes of the Government Commission on special regime reveal problems with severe shortages of food and essential household supplies such as soap and toothpaste. For instance, it was reported that the beverage company stopped its production for 25 days due to the shortage of lemon acid. The only produce people could buy in 1991 without standing in long queues was 1 kg packages of domestically produced salt.

The special regime was removed from some entities in September 1991, but remained in eight enterprises such as meat, flour, bread producing companies and food transportation company. Food rationing lasted for about a year and a half before being abandoned in summer of 1992. Rations on flour, bread, meat, and rice were established on a per person basis while on tea, vegetable oil, loose tobacco, and vodka were established on a household basis. Tobacco and vodka and occasionally some other 'luxury' items such as milk powder from Japan and apples from China were given once in a quarter or before national holidays. Dairy products and vegetables were not rationed. Disruptions in rationed food were initially quite frequent but soon stabilized. Generally, the food rationing system was seen as the only solution to severe food shortage and the

public perceived it positively. As gas became extremely scarce because of trade disruptions with Russia, it was also rationed in May 1991. Priority was given to public transportation, delivery vehicles, and government cars. Private vehicles received very marginal amount. The above measures resembled war-time measures. They were temporary and largely effective and helped the government to handle the situation of extreme shortages.

One important stimulus to solve food and consumer goods shortage was issuance of international passports to all citizens. The resolution to issue international passports³⁶ was adopted in November 1991 (Ardyn Erkh, November 12, 1991, issue 198). People were now free to travel to other countries. Opening up the country was not only an important measure of political freedom – people were prohibited from travel under the old system – but it was also “one way to resolve the economic issues of shortage, high inflation, and even the initial accumulation of capital” (interview with Ganbold). The first destination of Mongolian traders was China where goods were abundant (but very low quality) and people could make some money by importing the much-demanded food and consumer goods to Mongolia. Many made a fortune by re-exporting Chinese goods to Russia (and even Eastern Europe) where the shortages were equally severe but the markets were much bigger. Both borders – with China and Russia – were open and Russia’s travel and trade regime was much stricter at the time which gave the Mongolian traders a significant advantage (interview with Ganbold). Many of the first Mongolian ‘capitalists’ were born in the trade sector and some – e.g., Battulga of the Genco Group

³⁶ National passports were used for identification purposes within the country. To distinguish from the national identification, international passports were introduced. They were printed in the UK.

and Batkhoo of the Shunkhlai Group – later became prominent business people. Such innovative market practices perhaps were one reason why economic recovery was quicker in Mongolia than elsewhere.

4.1.3 Fiscal and Financial Sector Reforms

Planning and budget preparation processes went through substantial changes. The plan became a much shorter document. Naturally, the difficulties caused by the external developments – disruption in trade and aid – constituted the main economic challenge. However, as the plan developers admitted, the main hurdle in developing this document in 1990 was “the clash between the need to manage the economy in accordance with the market principles and lack of knowledge and the old planning mentality that still prevailed among the top leaders” (interview with the former Prime Minister Byambasuren).

The plan had to be abandoned altogether in 1991. For the first time the main fiscal document was not an annual plan but general guidelines only. During the discussion of the General Guidelines and budget for 1991 by the State Small Khural, it was noted that this was the first guidelines in the history of the country that predicted decline in the output and was developed under the circumstances of high level of uncertainty about the future economic prospects. The budget for 1991 differed significantly from the previous years. The state changed its planned targets into the so-called “state acquisition orders” put on enterprises and state farms which produced essential products. The state acquisitions in 1991 included 12 types of agricultural

products, few industrial products, and 29 export products which generated the much-needed hard currency. These constituted only a portion of enterprises' total output, although still a substantial portion. This dual production and sales system was a characteristic of early Chinese reform and was important for stopping economic decline. It seems to have produced some positive incentives in Mongolia as well, although the origins of this policy were not clear. The economic situation worsened in 1992. The prospects became gloomier but at least clearer, reducing uncertainty. It was clearly stated that no aid would be forthcoming and the crisis would continue and may deepen, at least in the next three years.

Faced with severe fiscal shocks in the form of aid withdrawal and overall economic downturn, the newly established coalition government started devising new fiscal institutions on an *ad hoc* basis. Mongolian policymakers now accorded high priority to fiscal reform and to addressing issues of domestic resource mobilization. Several important changes were forcefully introduced in the legal framework of the tax system. A whole range of taxes that existed under the central plan lost economic rationale as the economy started to shift to a market system. Turnover taxes based on fixed prices and exchange rates had to vanish with price liberalization. The government abolished all turnover taxes in January 1991. A customs tariffs at 15 percent on all imported goods and selected export goods at the government discretion was officially introduced in June 1991 to replace the import price differentials, which were the main source of turnover taxes for decades. As for domestic turnover taxes, with poor economic performance of most state enterprises and the fledgling private sector, the

government could not raise sufficient tax revenue from this source. The arbitrary domestic turnover taxes were replaced with simple universal 10 percent sales taxes on goods and services in October 1991 (*Government Resolution 290*), to compensate for the loss of the government's price differential income due to move to free market prices on most imported goods.

Enterprise profit taxes that once accounted for over 30 percent of total revenue declined severely by 1990. At the same time, private companies started to emerge. Therefore, the individually negotiated SOE profit taxes had to be replaced by a universal income tax that applied to all types of ownership and business activities. In December 1990 the government adopted a new General Tax Law that introduced universal income taxes. Company income taxes had six tax brackets with the highest marginal tax rate of 46 percent. Personal income taxes were divided into 12 brackets and the marginal tax rate went as high as 50 percent (*General Tax Law 1990*). One significant feature of the new tax law was that, unlike tax laws under the previous system, it defined universally tax responsibilities of all entities, both of state and private ownership, and all citizens.

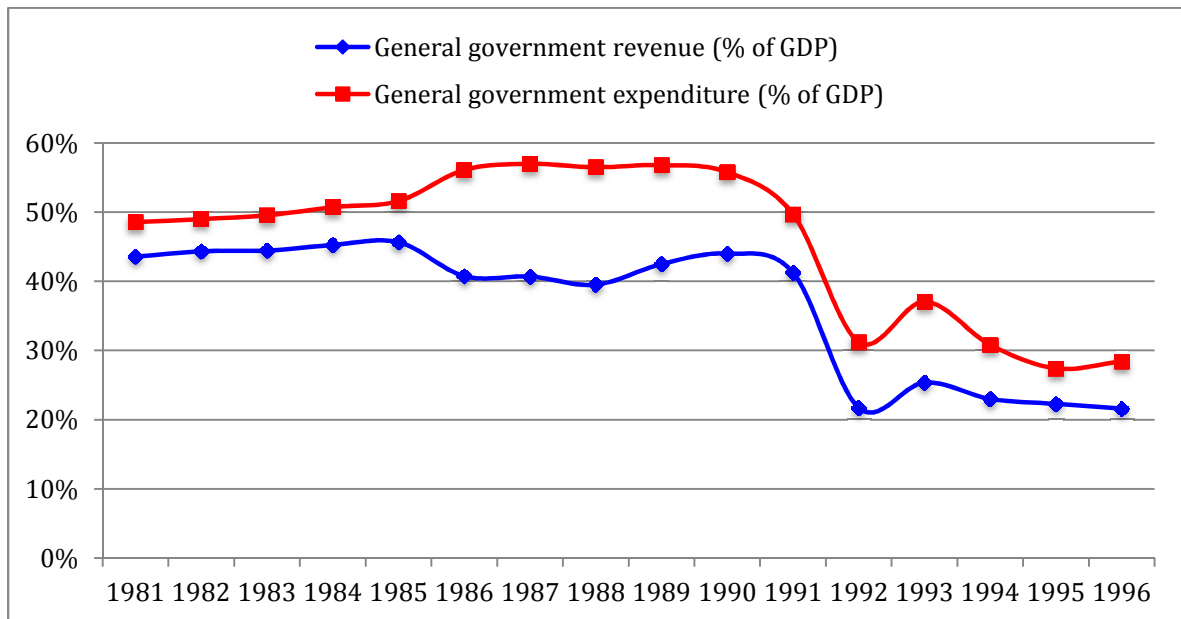
Institutional hurdles included not only the major changes in the tax laws and regulations, but also lack of the institutional capacity to collect tax revenue prescribed by new legal arrangements. Such a capacity was virtually absent in 1991 when the first changes were made. In 1991, there were 909 limited liability companies, 2,357 cooperatives, 3,826 sole proprietorships, and 610 state-owned enterprises, or total of

7,702 business entities registered with the Ministry of Finance³⁷. As opposed to about 1,100 large state-owned enterprises registered in the late 1980s, this was an unprecedented increase in the number of entities the tax office had to deal with. Therefore, at this stage, the major challenge in the implementation of the new set of fiscal statutes has become the institutional strengthening of the government's revenue-raising machinery. A tax division was set up within the Ministry of Finance and *aimag* (province) centers and city governments in December 1990. Customs administration was established in January 1991.

On the expenditure side, dismantlement of the plan as a major means of controlling the economy and budgeting, with no effective alternative system, created chaos in allocating the resources. The State Planning and Economic Committee was abolished in September 1990. A new process of budget preparation without firm planned targets was experimented with for the first time in connection with the preparation of 1991 budget. The state had to withdraw from direct economic activities and downsize its massive bureaucratic apparatus (See Figure 4.3 for the dramatic decline in the scope of the state budget). The Government Action Plan (approved in 1991) noted that sudden interruption in external financial aid pumped into the economy for several decades demonstrated the true physical and financial limitations of the domestic economy, its resources and management. As Mongolians say, time has come “to stretch the legs to the length of the blanket.”

³⁷ As of 2011, there were over 56,500 business entities registered with the Tax Office (census of business entities).

Figure 4.3 Share of government revenue and expenditure in GDP, 1981-1996 (percent)



Source: IMF, World Economic Outlook Database

The financial sector underwent major and rapid changes. As in the public finance, some major changes occurred within the first two years of the reforms. The core of the financial sector reforms was establishment of the two-tiered banking system. As described earlier, the banking sector was dominated by a state-owned mono-bank which simultaneously issued banknotes, held foreign reserves, collected deposit, gave commercial loans, as well as collected taxes and controlled state enterprises. There were no money or capital markets. Monetary policy, like the fiscal policy, was not an important policy instrument and was subject to the plan.

The two-tiered banking system – the central bank and commercial banks – and separation of functions between the two was introduced in August 1990 by the decision

of the government. The central bank – the Bank of Mongolia – started its operations in May 1991. The first two commercial banks – the State Bank of Mongolia and the Bank for Investment and Technological Renovation – started working in February 1991. Several other commercial banks – all state owned – were established between September 1990 and May 1991 as spin-offs from the old state bank. The new banking system with separate central and commercial banking was legalized by the Banking Law of May 1, 1991. Commercial banks started taking deposits and advancing loans to enterprises. Following the establishment of commercial banks, in 1991 the central bank introduced the some sound management and regulatory system for commercial banks, such as monthly reporting requirements, licensing of commercial banks, etc. However, supervisory functions were weak in the early 1990s, which fueled hyperinflation in 1991-1992 and ultimately led to several banking crises in 1996-1997. The central bank initially was under the direct supervision of the government but with the new Banking Law it legally became accountable to the State Small Khural, the parliament, which somewhat restricted the money printing powers of the government, although the central bank continued to finance the budget deficit in 1991 and 1992 (ADB 1992, 35). The Bank of Mongolia pursued serious monetary tightening by the end of 1992, in response to hyperinflation. It also introduced reserve requirements in 1992 to limit commercial credit issue and used open-market operations since 1993 to supplement its efforts to control the money supply (Boone et al 1997).

The Mongolian Stock Exchange was established on paper in 1990 but became operational in February 1992. The main function of the stock exchange was to privatize the state assets through vouchers. This issue will be discussed in more detail later.

4.1.4 (Cautious) Continuation of Economic Reforms (1992-1996)

The first two years of transition witnessed some bold changes both in the political and economic spheres. The country was totally transformed during this short period of time. With the victory of a more conservative MPRP government, new Prime Minister Jasrai took economic reforms more cautiously, although no significant slow down was registered, as many believed to be the case. Jasrai, leader of the conservative group within the MPRP, included in his cabinet several representatives of other factions within the party, but not radicals (see Table 3.3 for description of various factions within the MPRP). The radicals were ousted together with the democrats.

Ch. Ulaan, a mild conservative, was the National Development Minister. Purevdorj, Deputy Prime Minister, was an experienced technocrat reappointed from the previous government. He was largely responsible for rebuilding energy and infrastructure sectors. Davaasambuu, Finance Minister, was among the economists who developed a blueprint of transitioning to the market economy in June 1990 and was the only person who spoke English and could directly communicate with the IFIs and bilateral donors. “He was the most outspoken one but on many occasions was in the minority” (interview with D. Baasankhuu, senior Ministry of Finance and World Bank official who worked with Ulaan during this period). Davaasambuu’s term finished early

(in 1995) due to health reasons. A strong conservative Byambajav, who previously served as Finance Minister and who strongly believed in gradual reforms (as admitted by himself in interview) took over the Finance Ministry.

Thus, the economic package was led by a rather conservative team, especially if you compare it to Ganbold's. Moreover, "Prime Minister Jasrai ultimately was the person who made key economic decisions. Compared to the previous government (and the ones which came later), the Jasrai government adhered to the principles of strong hierarchy. The norms of party chain of command seemed to be still strong in the early 1990s among the prominent party members who largely composed the government" (interview with Baasankhuu).

The Jasrai government "formally stated its fidelity to the reform policy" (Ganbold in UNDP 1992) but its actual steps were more cautious. The Government Action Plan, approved by the State Great Khural on October 8, 1992 (Resolution 27), noted that the country underwent major political and economic changes and the previous government undertook some 'courageous measures' to reform the economy. Democracy and markets were declared to be irreversible now. At the same time, it was emphasized that many issues such as deep economic decline and poverty emerged and insufficient attention has been paid to the negative consequences of speedy reforms (newspaper *Zasgiin Gazryn Medee*³⁸, third week of October 1992, issue 38).

³⁸ Newly established official government paper

The government aimed at “correcting the mistakes made by the previous government with privatization” and simultaneously at completing the large privatization by the end of 1993. Different privatization methods – other than vouchers – were proposed in order to raise budget revenue and improve efficiency of privatized enterprises. The government also proposed to privatize land for those who wish to engage in farming. Housing privatization was another important issue on the agenda. It was also stated that subsidies to state enterprises would be reduced substantially in 1993 and terminated thereafter (ibid). These were ambitious goals and it was not surprising that most of them were not achieved. Housing privatization was completed in 1997 by the next government while land privatization issue was not resolved until the early 2000s. However, meaningful progress has been made towards these goals.

Jasrai’s policies were focused on two issues. First, as noted earlier, it aimed at correcting the mistakes of the previous government which often meant more cautious step-by-step reforms, particularly in privatization. Unfortunately, no notable positive change occurred with regard to the newly emerged poverty and other social issues as a result of more cautious policies. Second, the government wanted to contain the economic decline. The economy has been declining in the past two years and it was the government’s mission to stop the decline and bring about economic recovery. In order to achieve this goal, the government opted for direct state intervention measures, a customary step taken not only by Jasrai, but also by the previous government.

The government pursued policies of supporting state enterprises by providing them with loans and direct subsidies. For instance, funds provided in 1993 by the Asian Development Bank in the amount of US\$100 million were distributed to the state enterprises as loans. The German development agency GTZ also provided funds to the government to support small and medium enterprises. The loans and subsidy policy of the government largely failed and the government ultimately had to withdraw from direct state intervention (interview with Davaasambuu). Unsurprisingly, there were occasional allegations of corruption in distributing the loans. While subsidies were reduced, budgetary capital grants increased substantially during these years (Table 4.1 below).

Table 4.1 Subsidies and Grants to Public Enterprises (1993-1995), in million Togrogs

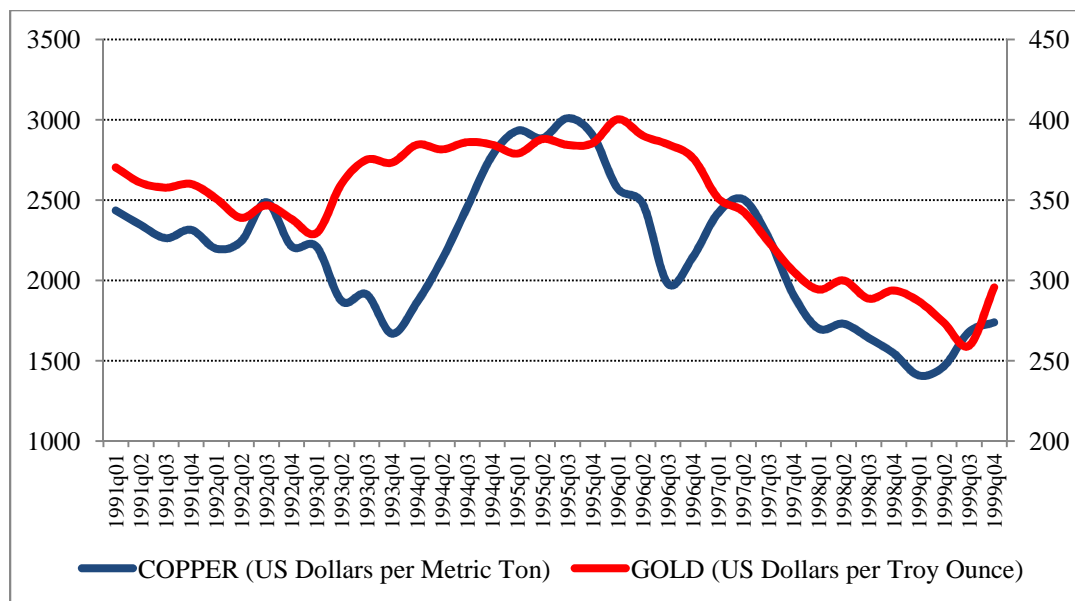
	1993	1994	1995
Current subsidies	3,482	5,418	3,607
Capital grants	1,000 (est.)	2,759	9,676
Total subsidies and grants	4,482	8,177	13,283
Total subsidies and grants as % of GDP	2.7	2.9	3.5

Source: World Bank 1996

Economic decline was contained in 1994, when the economy started growing after four continuous years of decline. Prime Minister Jasrai’s famous phrase “we have seen a light at the end of the tunnel” reflected the popular weariness about the economic situation and public anticipation. Even though the government attempted to take credit for the positive macroeconomic change, it was at least partially attributable to the favorable global environment in the mid-1990s. By this time, Mongolia was trading with China and other partners and used the world market prices in all of its transactions. The

prices on copper – the major export commodity – were high during 1994-1995, before going down in 1996-1997 and hitting the bottom in the first half of 1999 (see Figure 4.4 below). Gold prices performed very well throughout 1993-1996 before steadily dropping from the first quarter of 1997 until the last quarter of 1999.

Figure 4.4 Copper and gold prices (1991-1999, quarterly), gold (right axis)



Source: International Monetary Fund (2011): International Financial Statistics (Edition: September 2011)

Increase in global commodity prices also served the basis for a moderate economic growth in 1994 and very high growth – 6.3 percent – in the following year (see Figure 4.1). Naturally, the growth rate was not sustainable as it was conditioned by the high commodity prices and exposed the vulnerability of the economy to the global environment.

On the other hand, world prices of petroleum – the major import item – were relatively low in 1993-1995, before increasing sharply and spiking in the last quarter of

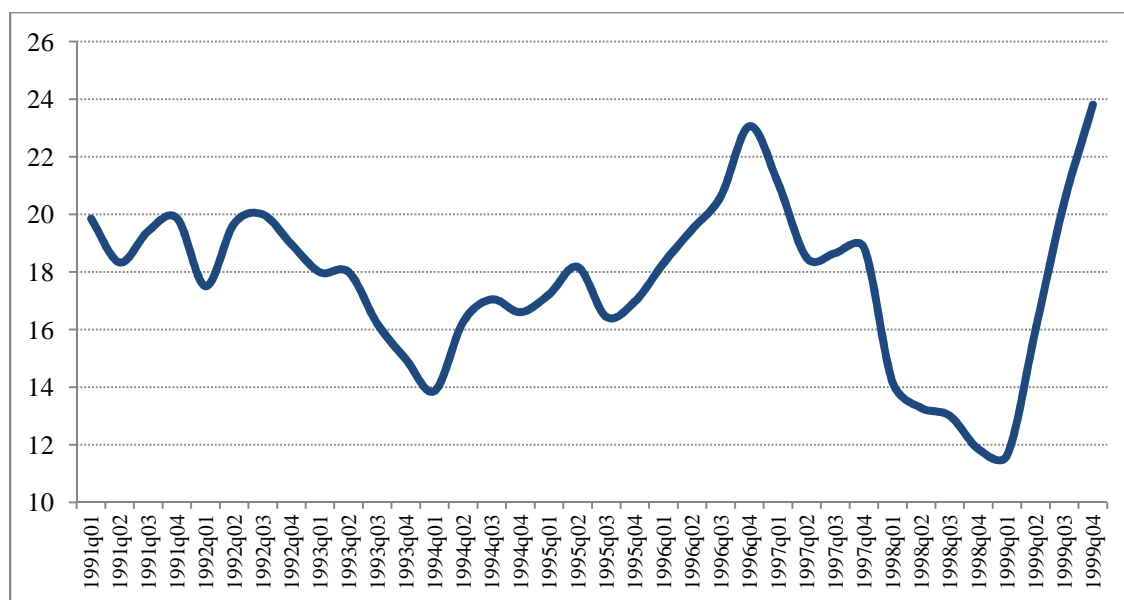
1996 (see Figure 4.5 below). Thus, terms of trade were mostly positive in the second half of Jasrai’s premiership when real growth occurred.

Table 4.2 Terms of trade, percentage change

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	-0.2	-6.2	17.9	13.4	-23.6	12.2	-23.3	-6.8

Source: World Bank 1991, IMF 1997 at <http://www.imf.org/external/np/sec/pn/1997/pn9725.htm> and IMF 1999 at <http://www.imf.org/external/pubs/cat/longres.aspx?sk=2872.0>
 Note: .. – missing data

Figure 4.5 Petroleum price (average crude price US\$ per barrel, quarterly 1991-1999)



Source: International Monetary Fund (2011): International Financial Statistics (Edition: September 2011)

Many criticized the period of 1992-1996 as the “lost four years” in terms of deepening the radical market reforms initiated in the previous two years. Ganbold claimed in a personal interview that no radical reforms were implemented. Reforms that

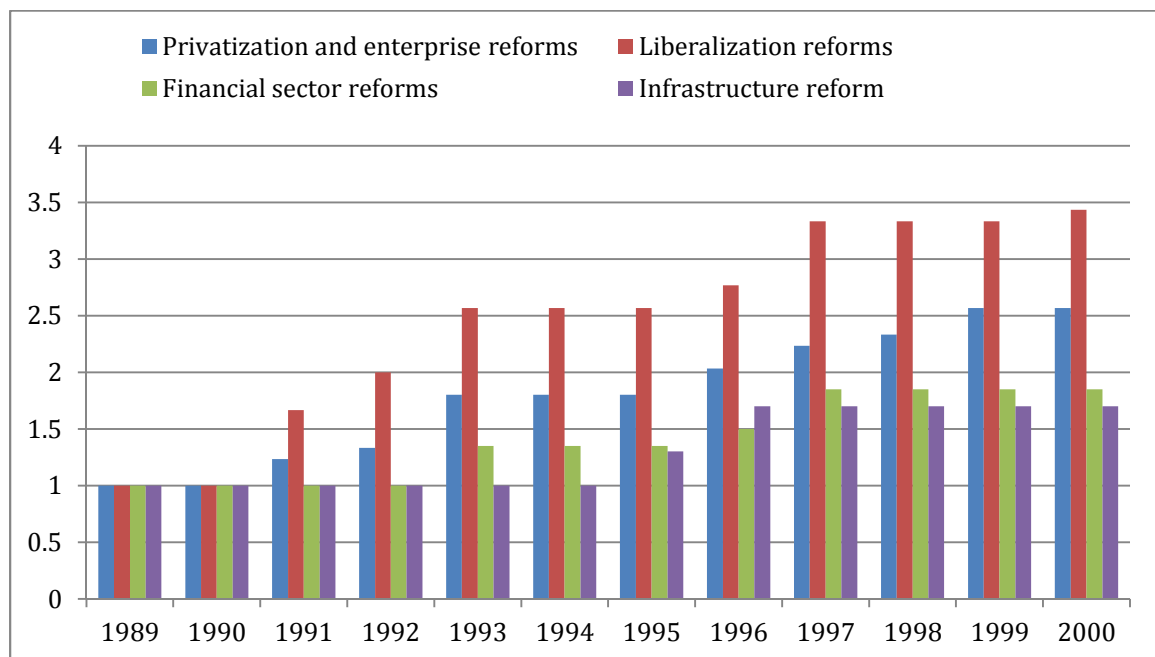
did take place were implemented rather slowly. The favorable global market conditions created significant fiscal room for implementing more radical reforms, which in fact were not taken advantage of (interview with Ganbold).

Summarizing the government policies in 1992-1996, the World Bank emphasized that "... after a quick start, Mongolia's reforms have lagged behind the rapid reforms of Eastern European and Baltic countries. Mongolia announced a strong reform program in 1990, privatized most small enterprises by voucher, and initiated price liberalization measures. But price liberalization was less rapidly implemented than in Eastern European countries. Moreover, delayed price adjustment necessitated continued subsidies to energy and food, which increased fiscal pressures on prices, and weakened the banking sector." (World Bank 1997, 10)

The report further criticized the government's lack of enterprise restructuring policies. "Large state enterprises continued to benefit from subsidies, capital grants and subsidized loans, which amounted to an annual 6.5 percent of GDP over 1993-95, much larger than the 1 percent of GDP or less in rapid Eastern European and Baltic reformers. Financing these loss-making enterprises prevented resource allocation from low- to high-productivity sectors: during most of the transition period, services, which led growth in rapid reformers, actually declined or stagnated in Mongolia, indicating limited resource reallocation. Moreover, the continued subsidies undermined the credibility of the Government's stabilization efforts, because fiscal demands threatened to derail monetary policy, and did so in 1996, when copper revenues fell short of expectations" (ibid, 11).

However, the EBRD transition index data do not support such claims (see Figure 4.6 below). First, we do not observe any reversal of the reforms. We observe substantial advances in price and trade liberalization, sustained privatization efforts, and some gains in financial sector and infrastructure reforms in the later period. Although marginal achievements seem to be slightly smaller than in the previous and the subsequent periods, the Jasrai government's performance does not seem to be noticeably poorer compared to other governments.

Figure 4.6 EBRD Transition Index averages, 1989-2000



Source: EBRD transition index dataset

Notes: The indices are cumulative and are averages of several indices: privatization index – 3, liberalization – 3, financial sector – 2 indices, and infrastructure index is a single composite index.

Secondly, there was no substantial change in the reform approach. Many observers of the Mongolian reforms mistakenly describe the reforms in 1990-1992 as

shock therapy, or big bang (see Chapter 1 for literature review). The Jasrai government policies, on other hand, are commonly considered to have taken a more gradual approach, which is probably justified. However, a more careful analysis of the initial reforms reveals that these were also gradual, rather than big bang.

Price liberalization was gradual. The first measure was Resolution 20 of January 1991 which introduced partial price liberalization but left many areas of the economy under state control. The resolution freed all prices except for 35 categories of goods, which still constituted about 50 percent of the CPI. The second set of price liberalization measures was adopted in October 1991 as part of an IMF agreement when the number of controlled prices was cut from 35 to 17. The share of controlled prices in consumer basket fell down to 20 percent. The third set of measures was adopted in March 1992, on the eve of donor's meeting, with all prices except for flour, bread, and vodka which were rationed being freed. The real money balances also provide evidence of gradual erosion until the first quarter of 1993 (Boone et al 1997). Together with price liberalization, state acquisition orders gradually diminished and were abolished by the end of 1993. The same gradual approach is true for exchange rate reforms, where separate exchange rates existed simultaneously for state transactions, barter trade, and black market both in 1991 and 1992. These were unified and freed in June 1993. Thus, the Jasrai government continued and in many cases completed the core liberalization reforms.

Another important continuation of the policies was further strengthening of the institutional environment. Some 27 laws governing the new tax, customs, banking,

pension and social security, and social insurance systems as well as ownership, privatization, and company governance were approved or under discussion in the first nine months of the very first parliament. Many of these laws were amended (mostly improved) and some new laws were introduced in 1992-1996, at the initiative of the government.

Table below summarizes the major reform efforts undertaken during the two election periods: coalition government of 1990-1992 and MPRP government of 1992-1996.

Table 4.3 Economic reform measures in 1990-1992 and 1992-1996

Reform measures	Major reforms Sep 1990- Jun 1992	Major reforms Jul 1992- Jun 1996
Price and foreign exchange liberalization	<p>Gradual liberalization of retail prices, but retaining of price controls on foodstuff, medicine, utilities, and selected services; partial exchange rate liberalization in 1992 (devaluation of Togrog for commercial transactions)</p> <p>Adjustments to wages, pension benefits, and private savings deposits to soften impact of price increase; consumer rationing (Resolution 20 of 1991)</p>	<p>Further price liberalization of essential foodstuff</p> <p>Full exchange rate liberalization in June 1993;</p> <p>Fare increase in gas, major utilities and public services;</p> <p>Elimination of consumer rationing (1992)</p>
Trade liberalization	<p>Negotiation of most-favored-nation trade agreements with countries in the convertible currency area; new Foreign Investment Law;</p> <p>Direct export rights granted to selected manufacturers, eliminated mandatory state orders for exports;</p>	<p>Refraining from introducing export licensing and quotas;</p> <p>Revised trade policy regulations</p>

	partial liberalization of issue of foreign trading licenses	
Fiscal reforms	Dismantlement of plan, first major laws on taxation, social security, pensions, establishment of customs and tax offices; Rationalization of government ministries; elimination of the State Planning Commission	Further revision of tax and customs laws, e.g., introduction of sales tax and excise tax on petroleum products; Establishment of treasury function in the Ministry of Finance
Banking and financial sector reforms	Establishment of two-tiered banking system, passage of Banking Law, some commercial bank control measures; Establishment of the stock exchange	Adoption of Securities Law (1995); Establishment of prudential guidelines for banks; termination of central bank lending to public enterprises
Privatization and enterprise reforms	Removal of restrictions on private ownership of herds; Adoption of Privatization Law; Completion of small-scale privatization and agricultural privatization, initiation of large privatization with vouchers; Substantial reduction of budgetary subsidy for imported goods and to loss-making enterprises; Adoption of Bankruptcy Law	Completion of voucher privatization (end of 1994); opening of secondary stock market (Feb 1995); New program for cash privatization; Elimination of remaining mandatory state orders (end of 1993); establishment of new procedures of corporate governance for remaining state-owned enterprises

Source: Author's summary from various courses

However, it should be noted that the two governments operated under very different political and global economic situations. The Byambasuren government worked under extreme conditions and great uncertainty, both economically and politically as well as domestically and internationally. Yet, it was able to introduce some major reforms. The Jasrai government functioned under much more certain and favorable conditions. It maintained the reforms and introduced some more. Table 4.4 below summarizes these points.

Table 4.4 Political and economic circumstances of the two governments (1990-1992 and 1992-1996)

	Byambasuren Government (Sep 1990-Jun 1992)	Jasrai Government (Jul 1992-Jun 1996)
Duration	1 year 9 months (Sep 1990-Jun 1992)	4 years (Jul 1992-Jun 1996)
General political situation	Uncertain, too many changes going on simultaneously, interim rules	New constitution was approved setting a new framework, more stability and less uncertainty
Partisan politics	No support on either side of the political spectrum, political isolation	Full support of the MPRP-dominated parliament, no opposition
Domestic economic situation	Sharp output decline, hyperinflation, huge shock, a lot of uncertainty, many ad hoc measures, little knowledge of how things work under the market	Initially decline but first growth in 1994, no reversal of growth, continued hyperinflation which subsided later, more knowledge and experience, much less uncertainty
Global economic outlook	Mostly neutral, Mongolia was only starting to trade on global terms	Positive, high prices on copper and gold, positive terms of trade in the second half of the period
Relations with the outside world	Collapse of CMEA, huge trade disruptions, abrupt withdrawal of Soviet aid, search for new donors, membership in IFIs, first emergency aid	New trade partners found, steady inflow of aid

Source: Author's summary and judgment

4.2. The Politics of Economic Reform

Political parties differed in their perception of the new economic system. This section reviews the economic agenda of political parties and the role played by various political players such as the parliament, government, IFIs and the general public in determining the reform agenda.

4.2.1 Economic Agenda of Political Parties

The distinction of political parties in terms of their economic platform roughly reflected the major divide in the transition debate: radical vs. gradual approach. The more conservative and even the center wing within the MPRP were cautious about proceeding with swift reforms and favored the gradual approach.

Former top planner Namjim – who later became an academic – was an open critic of the radical reforms proposed and undertaken by the government in 1990-1992. He was also the most industrious and serious critic of shock therapy. Namjim wrote series of newspaper articles, and made presentations at academic and policy conferences in 1990-1992 about a gradual transition approach. For instance, his main podium became the conservative MPRP newspaper “Unen” where he published several articles on economic transition. In his early book “Mongolia at the Crossroads of the Market Economy” (1991), Namjim argued that certain important prerequisites were needed before the country should embark on full-fledged market reforms.

Namjim argued that the government embarked on radical reforms without proper analysis of the consequences, particularly the potential negative effect on the output and living standards of the people. Namjim further argued that the transition process was mismanaged and done haphazardly without much thought about the consequences. The reason for economic crisis in the early 1990s was related, in Namjim’s opinion, to the inability of the economy to sustain itself without foreign assistance and, most importantly, mismanagement of the transition process, for instance, lack of state

regulation, discipline, and rule of law. The mismanagement led to abrupt disruption of economic ties among the suppliers and buyers, and the economic chaos that ensued as a result of the tearing the fabric of old economic institutions (Namjim and Itgel 2003, 154). The government leadership overestimated the possibility for success just by leaving the economy on its own without government intervention. It was naïve to expect that an economy which was micromanaged under the central plan to spontaneously prosper just by withdrawing the state from all its economic activities. More successful and less painful transition should have been managed gradually and cautiously, but Prime Minister Byambasuren failed to do so (ibid, 156).

Namjim even argued that “Prime Minister Byambasuren’s anti-Soviet sentiments were the main reason the Soviet Union (and later Russia) closed their borders and stopped supplying oil in 1991” (interview with Namjim). He was also critical of Byambasuren’s handling of the public. He argued that Byambasuren was not open about the real economic hardships the country was facing, a criticism shared by conservative members of the MPRP which became one of the reasons for calling Byambasuren to resign in 1992.

He was the most outspoken conservative representative of the MPRP whose opinion, as he himself admitted, was largely ignored by the government (Namjim and Itgel 2003, 173-177). Namjim’s sentiments were shared by the MPRP leadership, as evident from the roundtable of leaders of political parties in July 1991. Batkhishig, Secretary of the MPRP Central Committee emphasized the importance of not rushing

with market reforms as this may deepen the economic crisis. In his view, it was important to sustain the existing state enterprises viable so that people are not deprived of the essential goods and this could largely be achieved by (at least temporary) state regulation and gradual introduction of the reforms. Batkhishig noted that the MPRP “is now learning how to work with the State Small Khural. However, due to the nature of its duties, it would be very difficult for the party to influence the policies of the government” (Ardyn Erkh, July 16, 1991, issue 113). By the latter, Batkhishig mostly likely meant the relative insulation of the government from the popular pressure and pressure from the political parties, and greater powers vis-à-vis the parliament. Korsun and Murrell (1995) noted that the Government Privatization Commission was in effect a subcommittee of the cabinet, headed by Ganbold, and commission staff “gained enormous powers deciding which enterprises would be privatized first and how large would be the residual government share in privatized enterprises” (476).

However, the radical wing within the MPRP had a decisive voice during 1990-1992. The economic platform of the MPRP was largely determined by this radical wing, comprised of some scholars and policymakers with vast experience in perestroika-type of reforms. Core ideas of the radical faction within the MPRP were expressed in the famous “open letter of the 15 scholars to the Central Committee of the MPRP” published in the MPRP newspaper “Unen” on February 23, 1990. Shortly after, a group of radical economists which included several of the above 15 scholars developed “a concept of transitioning to a market economy.” Most notably, Davaasambuu (Finance Minister of Jasrai’s government in 1992-1995), radical democratic reformer Enkhsaikhan (not a

member of the MPRP, he joined the Democratic Party and served as the Prime Minister in 1996-1998), and MPRP Secretary of the Central Committee Batkhishig were among the 12 economists who developed the blueprint. The concept document was published in the MPRP newspaper “Unen” on June 6, 1990. The key concepts included gradual privatization of selected entities, which should start with lease of state property to the work collectives; partial price liberalization with state control over prices on the essential goods including basic foodstuff and electricity; establishment of a general tax system; reduction of budget revenue down to 50 percent of the national income; termination of subsidies to state enterprises; introduction of two-tier banking system and provision of credits based only on efficiency considerations; abandonment of the centralized state supply system, and adoption of a dozen of key economic laws (Unen, June 6, 1990, issue 134). All in all, this was a comprehensive and radical proposal, although not as radical as proposed by the MNPP. Several ways of transitioning to a market economy were proposed (from fast to slow) and a slower path was suggested as most preferred.

However, the proposed concepts were not officially adopted by the MPRP. Rather, it served as the basis for (limited) public discussion and public education. It also gave some ideas about the market and economic transition to fledgling new political parties which had little idea about the economic system other than they wanted a market economy (interview with Davaasambuu). Thus, in 1990 there were at least two competing ideas – one for very slow and cautious transition and another more rapid but still cautious – about transitioning to a market system within the MPRP, but these ideas were still general and contained a heavy dose of old thinking as, in fact, did the ‘radical’

ideas of the MNPP. Neither idea was officially adopted by the party. In fact, the MPRP had not formulated yet its economic platform in 1990.

One distinctive feature of the first free elections of 1990 was that political parties had no official election platform, neither political nor economic. The old party just started reforming itself while new parties were just emerging. The relatively “loose” ideologies of the parties were expressed in their new party documents – party programs or so-called party proclamations – which were very general and often vague documents. As Bold-Erdene et al (2011) argue, the period from 1990 till mid-1990s was the period of active search for the new ideologies for all parties. The MPRP, for instance, adopted the democratic socialist (center of the left) ideology only in 1997 (111). Thus, although every party claimed to be committed to the principles of democracy, no clear delineation was visible, especially during the first two elections.

The economic platform of the political parties was even more vague. Parties noted that they wanted to build ‘a free competitive market economy’, but very few knew what this entailed and what kind of policy actions were needed. During the 1990 elections the MPRP did not propose any official economic agenda, other than general claims of building a market economy. Under these circumstances, the economic platform of the new government (1990-1992) had to rely on the ideas of the new political forces. Prime Minister Byambasuren had experience of dealing the perestroika reforms; he was the deputy head of the State Planning Commission and was the main implementer of the economic perestroika in Mongolia. He knew firsthand that the reforms were not going

very far and understood that more solid basis was needed. However, his party did not have a full-developed meaningful economic reform package.

The initial economic platforms of some democratic parties were equally ambiguous. The MDP, the first democratic movement and party, had very vague ideas about the economic reforms. It was comprised largely of artists and journalists. Dr. Nergui and Boshigt – the two economists among them – were the ones who compiled together the economic aspects of the reforms. They aspired to build the “true socialism envisaged by Marx and Lenin.” They believed that the socialist ideal was workable however it was implemented wrongly by the MPRP leaders. The communist leaders built what they called “a barrack-style socialism” which relied too heavily on the common property and common activities. Their socialist economic system would rely on private initiative and incentives. In a way, Nergui’s ideas were similar to the perestroika reforms pursued by the MPRP. The contract system and cost accounting principle were seen as workable alternatives to improve economic efficiency. “Such outlook of the leading economists within the MDU forced other economists, namely those in the National Progress Party, to form a separate party instead of joining the MDU. The radically minded young economists had a very different outlook which could not be reconciled with those of Boshigt and Nergui” (interview with Ganbold). The focus of the MDU and MDP was the democratic political transition rather than economic transition.

Social democratic movement rooted for the Western-European-style welfare state, with great economic redistribution and social benefits. They did not have a solid

economic platform either. The main policy document approved at the first congress of the MSDP (March 31, 1990) stated that no type of ownership (including private ownership) should dominate the economy (clause 13 of the Proclamation of the MSDP) and there should be a balance between the state and private ownership; market economic relations should be introduced gradually (clause 16); and securing the minimum living standards of the people should be the highest priority of the economic and social policy (clause 20) (from brochure “The First Congress of the Mongolian Social Democratic Party” issued by the MSDP, 1990, 29-30).

The Mongolian National Progress Party had the most comprehensive economic plan. They demanded liberalization of foreign trade and prices, privatization of all assets, two-tier banking system, etc. Their economic program was very detailed and comprehensive. The economic platform was adopted during the party’s first congress which took place on May 13, 1990. The foundation of the economic platform was “complete and decisive rejection of the central plan” and “swift transition to market relations” (from brochure “The First Congress of the Mongolian National Progress Party” issued by the MNPP, 1990, 20-21). The transition plan was very radical and even extreme: “Market transition is not something which could be learnt by observation from the sideways: it needed to be experienced firsthand. At the same time, it would be wrong to perceive that every step towards markets should be well thought and correct. We need to learn about markets by trial and error. Experimenting with some elements of market in selected areas – as some political players suggested – is not the way to go. Either we adopt market on a wholesale basis or we do not. There is no third way” (ibid, 21).

With regard to ownership structure, the MNPP also had a clear and diverging view. While some parties stood for the dominance of state ownership, at least for the time being (MPRP), or at most “equal treatment of all types of ownership” (MSDP), the MNPP claimed that the fledgling private property and the associated ownership rights should be given greater privilege and nurturing, so that it could take root and develop into a dominant form of ownership (ibid, 38). Although most political players shared the sentiment of rejecting the old economic system, the transition strategy was not yet clear or agreed upon by the parties. The MPRP and MSDP were leaning towards gradual reforms and even some experiments with markets. Thus, the MNPP was in fact the only party in 1990 which proposed a radical reform route. The MDP later followed the MNPP, but at the onset of the transition it did not have a meaningful reform package. It should be noted that the MNPP was probably in great advantage compared to others, by gaining due to their family, educational and language background and therefore access to the information otherwise not available. At least they were able to convey to the others that they knew more about how to proceed. However, their real understanding of economics and the realities of transition were poor (observation made by Peter Murrell who taught a seminar for high-ranking officials in early 1991 and first-hand observed policymaking in the early 1990s).

Byambasuren saw that a meaningful economic package could only come from the National Progress Party as no other party had any clear ideas about how to proceed to the market. The initiative to form the coalition government with new democratic forces and

later adopt the economic reform package based on the market economy ideas of the National Progress Party came from Prime Minister Byambasuren. Naturally there were debate and arguments within the ranks of the MPRP about forming the government, however Byambasuren – the radical reformer within the party – had a key influence in forming the coalition government. There was general understanding among the MPRP members that the new government should be based on coalition in order to legitimize itself and keep the balance of powers and be a lasting institution. The democratic forces, on the other hand, saw Byambasuren as a reasonable person to work with. They valued his reformist outlook and ability to make compromises (interview with Ganbold).

There was no written agreement (contract) between the parties about the conditions of forming the coalition. This was an “early romantic period” where agreements among political forces were implicit and more of a “gentlemen’s agreement” rather than detailed written document. The main document of forming the coalition was the minutes of meeting of Byambasuren with the leaders of the democratic parties (interview with Ganbold). This shows a large degree of ability to cooperate in the political sphere discussed in more detail in Chapter 3, because the agreement was essentially carried out.

Later the Democratic Party developed its Economic Reform Policy and published it in a newspaper (Ardyn Erkh June 26, 1991, issue 101). It was very much in line with the National Progress Party’s economic package. The Democratic Party criticized the State Small Khural and the government for not taking decisive speedy steps towards the

market economy. The party document claimed that it seems that both the parliament and the government are still in doubt in rapid transition to the market economy. The party advocated fast reforms, as it was convinced that gradual transitioning would eventually destroy the economy.

Democratic forces saw economic reforms and transitioning to the market economy as a guarantee for democratic political changes. In its Economic Reform Policy (Arдын Erkh, June 26, 1991, issue 101), MDP Chairman E. Bat-Uul claimed that making one government official to resign without changing the economic system would only result in appointment of another bureaucrat. “The main purpose of democratic changes was thus to secure private property rights and through this secure individual political rights. Economic freedom was the foundation of political freedom.” Thus, the economic platform of the democratic forces consolidated in a very short period of time around the ideas proposed by the MNPP and gained political support of other democratic movements and parties. The radical economic reforms were further promoted as the basis for the 1992 parliamentary election platform. However, the democratic forces faced a major defeat because the general public grew weary of the substantial short-term social costs imposed on by the radical measures.

As a result, the MPRP’s was able to win the 1992 elections without a comprehensive economic platform. The platform did not contain any structural reform proposals, other than one sentence stating that the party would continue the privatization program launched by the previous government (Election Platform of the MPRP in the

1992 parliamentary elections approved by the 2nd plenary meeting of the Central Committee, brochure 1992, 7). Other reform proposals such as revising the tax law, promoting small and medium-size businesses, and supporting the agricultural sector and free trade were general and unclear. The Mongolian Renaissance Party (MRP), a spin-off party of the radical wing within the MPRP, was established in February 1992 (newspaper Tenger, February 20-29, 1992, issue 1). With more radical elements leaving the party, the MPRP became dominated by more conservative members.

The core of the economic platform – it should be noted that this portion of the document was very brief – was focused on promoting economic recovery at any cost. The MPRP's main trump was the economic decline allegedly caused by the too radical and not-well-thought-through reform agenda of the coalition government and the MPRP's main intent was to amend the situation by slowing down the reforms and taking more aggressive direct state measures to ensure the economic growth. It was claimed that the “shock therapy employed by the reformers in an attempt to save the economy was a distorted policy” (ibid, 2). Therefore, the MPRP strived to bring about the economic recovery by employing direct state intervention. The bulk of the economic measures proposed by the MPRP were to provide direct financing and other state intervention to secure economic self-sufficiency and economic security of the country by promoting technical innovation in selected industries, production levels in selected sectors such as agriculture, energy, and some import-substitution sectors as machinery and chemical production (ibid, 6-7). A special attention was given to the livestock which was pronounced to be under the state protection, whatever that entailed (ibid, 3).

Following the four years of cautious reform, the people's perceptions have changed. There was growing realization that faster reforms were needed and the MPRP lacked a comprehensive reform package. Jasrai's government was seen as having procrastinated and becoming dependent on foreign aid rather than people's initiative and entrepreneurship. The government was also perceived to be dishonest about the economic hardships and did not call for patience required to overcome the painful social and economic costs of transition (S. Amarjargal, sociologist, the Academy of Sciences of Mongolia, on public opinion survey, newspaper the Mongol Messenger, issue 36, September 11, 1996).

To sum up, as the IMF noted, "the MPRP's policies have favored market reforms, but with a strong role for the state sector. The main opposition party has been the Democratic Party, which also favors market reforms, but has closer links to the private sector" (IMF 2005, 5).

4.2.2 Membership in IFIs and the Role of International Players

When the reform program was launched in 1990, there were no international advisors or influential international players. Mongolia was not yet a member of the IFIs, and had virtually no contact with other countries. It was described as one of the most isolated – "certainly geographically, and possibly also in terms of trade and intellectual interactions outside the Soviet bloc" – countries in the world (Denizer and Gelb 1992, 1).

The very first talks of the Mongolian government with the World Bank and the IMF about potential membership took place on May 2-4, 1990 in Washington DC. Byambasuren – at the time the first Deputy Prime Minister of the interim government – held the talks. He admitted that he probably was the first Mongolian to ever meet the representatives of these major multilateral organizations. Byambasuren recalled that the initial reaction of the IMF senior official during a very brief 5-minute meeting was that “communist Mongolia needed to change its political and economic system and secure support of a handful of advanced countries in order to consider membership in the IMF and the World Bank”. Two days later, the senior official apologized for not being up to date about the events that already took place in Mongolia and ensured that membership issue was open for discussion (TV interview with Byambasuren, Channel 25, March 2010, available on youtube.com).

However, the actual action on the membership did not take place until the free elections and formation of the government. Immediately following the formation of the new coalition government, Prime Minister Byambasuren started searching for “new friends” – new investors, trader partners, and markets – for Mongolia under the new political and economic circumstances. His first place of visit – in October 1990 – was Washington DC, partially because he was seeking support of the United States in pushing the Soviet Union to continue supply petroleum to Mongolia (which was almost stopped at the time), and secondly, he also wanted to renew talks with the IMF and the World Bank about Mongolia’s membership. These issues were resolved successfully shortly after.

During his visit to Moscow in June 1991, State Secretary James Baker³⁹ effectively pressured the Soviet Union to increase its supply of petroleum to Mongolia. During Byambasuren's visit to Washington DC, Mongolia officially applied for a membership and it was granted a few months later, a record short period of time (TV interview with Byambasuren). Another important visit was of President Ochirbat to the U.S. on January 22-24, 1991. President Ochirbat's visit also accelerated processing of the membership in the IFIs and garnering support of bilateral donors (Ardyn Erkh, January 26, 1991, issue 19). On February 18, following President Ochirbat's visit to Washington DC, Mongolia became a member of the World Bank and the International Monetary Fund. This membership marked a new economic and political era in the country's development. The membership opened doors to new sources of financial and technical resources.

Shortly after forming the new coalition government, First Deputy Prime Minister Ganbold led the first delegation of the Mongolian government to attend the annual meeting of the World Economic Forum in Davos in February 1991. The delegation consisted of two more people, the newly appointed director of the Mongolian Stock Exchange N. Zoljargal and banker D. Sukh-Erdene, both with some knowledge of the market economy and fluent in English. Ganbold made a presentation introducing Mongolia as a new emerging country in the global economic community. It was the time when the government had only one major document approved, the Action Plan. All ideas presented by the Mongolian delegation in Davos – with regard to privatization and liberalization – were government plans only. In Davos, Ganbold and his team met with

³⁹ State Secretary Baker visited Mongolia several times in 1990-1992 and later as a private citizen. His first official visit to Mongolia was during the first free elections. Baker developed good personal relations with the Mongolian leaders and particularly Prime Minister Byambasuren and President Ochirbat.

Jeffrey Sachs and Stanley Fischer. Sachs proposed his colleague from Harvard Peter Boone to help the new government to formulate the reform policies, which he later did (interview with Ganbold). This probably was one of the first meetings where prominent academics got first exposed to and became interested in Mongolia's political and economic transition. By this time, a group of academics from the University of Maryland was giving their first seminar on market economy, which was financed by the USAID.

The support of the international community was crucial during the early transition period. The process of organizing support to Mongolia during these crucial years was championed by Japan. Japan was among the first advanced countries to establish diplomatic relations with Mongolia February 1972. The Japanese Embassy opened in June 1973 with only two staff members who operated from a hotel room in Ulaanbaatar. During the early years of diplomatic relations Japan's support was limited, e.g., in 1975 they helped with ambulance cars. The most significant project was Gobi cashmere factory: economic cooperation agreement was signed in 1977 and the factory was completed in 1981. Most notably, in February 1990 Prime Minister Sodnom was on a trip to Japan, his first visit of a western country. As the Japanese Ambassador Mr. Kubota noted, with democratic changes looming large, "this visit marked the beginning of a new era in the relationship between the two countries" (quoted in Business Times, issue 14(36), June 1-10, 1996).

In 1991, Japan was not only a major donor herself – the largest bilateral donor and the second largest after the Asian Development Bank – but also managed to organize together several important donors. These included major developed countries such as the U.S., several European countries as well as bigger players in the region such as Korea. Byambasuren recalled in a TV interview that in June 1991 in New York, after meeting the UN officials, there was an informal gathering of representatives of countries willing to help the “new democratic” Mongolia organized by the UNDP head office. Representatives of about a dozen advanced countries met with the Mongolian Premier and expressed their interest in helping Mongolia. Notably, the representatives of the Soviet Union and China were not among the attendees (TV interview, Channel 25, March 2010, available on youtube.com). Formal support of advanced western countries was expressed in July 1991 during the G7 London Summit.

The first consultative meeting of donors of Mongolia took place in Tokyo in September 1991 and was hosted by Japanese Foreign Minister Taro Nakayama and the World Bank China and Mongolia country director Mr. Burki (Ardyn Erkh September 20, 1991, issue 161). Representatives of 14 countries – including Japan, the U.S., Germany, UK, France, South Korea – and major multilateral organizations – the World Bank, UNDP, IMF, and the Asian Development Bank – participated in the meeting. Mongolia was exemplified as a country with the highest level of dependence on the CMEA arrangement nonetheless attempting unprecedented reforms, which was commendable and at the same time required substantial support from the international community (from speech of Burki, *ibid*).

Byambasuren recalled that financial support of international and bilateral donors was crucial in the early transition period. It helped to offset abrupt withdrawal of the Soviet financial assistance and deal with severe shortage of foreign reserves to finance critical imports. However, the actual amount of multilateral and bilateral assistance was never as high as that of the old Soviet Union (see Figure 2.2 in Chapter 2).

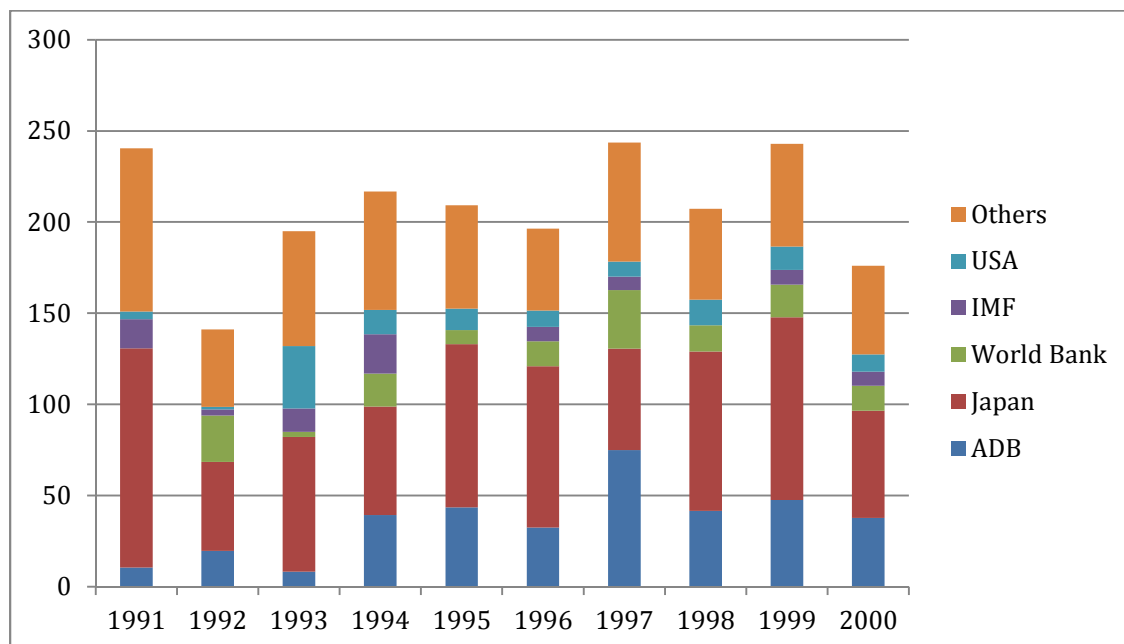
Foreign assistance differed in their emphasis, in line with the evolving stages of transition, the need to address emerging challenges, and priorities of different governments. International community provided with three main types of support: (i) emergency assistance (balance of payment support) to tide the country over the immediate problems and assure basic needs to the urban population; (ii) provision of technical assistance to establish institutions for managing a modern economy; (iii) assistance in realizing the long term economic potential of the country (project financing). The very first assistance (1991-1992) came in the form of balance of payment support and emergency food assistance. Simultaneously, IFIs initiated technical assistance in institution building and structural reforms. Project financing materialized later, the first projects being developed in 1993 and 1994 in the energy sector and infrastructure development.

The international community reacted promptly to the initial crisis in 1990. The continued and increased assistance by the international community ameliorated the impact of the crisis and prevented a major collapse of the institutional fabric of Mongolia.

Immediately following the membership in IFIs, in April 1991 Mongolia requested emergency food aid and balance-of-payment support to finance critical imports. In 1991 Mongolia received total of \$240 million equivalent in financial aid. In 1992-1993, 17 countries and five international organizations agreed to provide \$320 million equivalent in aid (Hulan 1992, 6). Subsequent years of cooperation saw steady financing, particularly long-term project financing. Japan has been the single most important bilateral donor throughout the 1990s and beyond (see Figure 4.7 and Figure 4.8 for more details).

The IMF has played a leading role in the stabilization and reform process of Mongolia while the role of the World Bank and Asian Development Bank was more focused on the sectoral development and poverty alleviation. Role of the IMF was particularly important in securing funds from other multi and bilateral donors. Reaching an agreement with the IMF sent a signal that the government was committed to market reforms and was ready to take the necessary reform measures. In fact, many donors required that the government entered into such an agreement (interview with Davaasambuu). Therefore, it was important for the government to fulfill, at least partially, the conditionalities under the IMF programs (please see Appendix 6 for the quantitative and structural conditionalities imposed by the IMF).

Figure 4.7 Official development aid (including grants and soft loans) by source, in million US\$



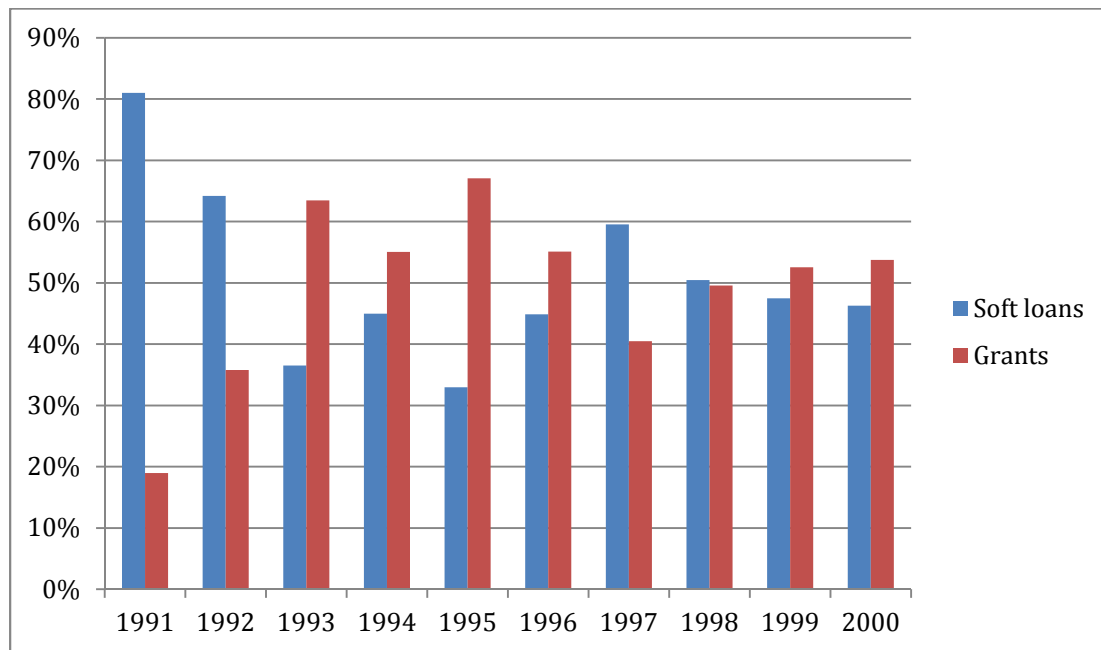
Source: Ministry of Finance

Note: Among “Others”, most notable donors include Germany, the Nordic Fund, South Korea, and Sweden

Mongolia entered with the IMF into a Standby Agreement (SBA) for 1991-1992 and an Enhanced Structural Adjustment Facility (ESAF) for 1993-1996 both aimed to assist the transition from a centrally planned command system closely linked to the Soviet Union to a market-based economy. In the immediate aftermath of the early reforms and the withdrawal of Soviet assistance, the focus was on macroeconomic stabilization, namely containing the decline of output and bringing down inflation. Economic growth was broadly in line with projections, but inflation was difficult to contain because of monetary expansion needed to support the ailing state enterprises. The IMF concluded that by the end of the arrangement in December 1992, the program

was severely off track, while also because some structural measures were delayed due to a change in government (IMF 2005, 10).

Figure 4.8 Soft loans and grants as a share of official development aid, in percent



Source: Ministry of Finance

The second program – ESAF – also depicted mixed performance. After an auspicious start, implementation ran into difficulties as financial restraint weakened in 1995 for reforms. Buoyant copper prices eased financing constraints which helped to restore the output levels. However, the envisaged reduction of inflation to single digits again was not achieved due to subsidies and credit expansion to state enterprises (ibid, 11).

Overall, involvement of the IFIs has been an important element in assisting the authorities’ reform efforts. IFIs provided not only the much-needed financial resources

but also key structure for reform as well as technical expertise that was not otherwise available. As Davaasambuu admitted, in the early transition period very few had knowledge of the market economy and its institutions. The knowledge and expertise gap was filled by the technical assistance from the donors.

There is a popular claim in the international academia and policymaking that the IFIs, particularly those located in Washington DC, often impose policies that are ill-suited for the (usually developing) recipient countries. Along this line, Rossabi (2004) argues that the agencies providing grants and loans insisted on Mongolia's adherence to a set of policies that did not generally take into account the country's unique heritage and society. Though the sale of state assets, minimalist government, liberalization of trade and prices, a balanced budget, and austerity were supposed to yield marked economic growth, Mongolia did not recover as expected. The new policies have led to greater political freedom but also to unemployment, poverty, inequality, and deterioration in the education, health, and wellbeing of Mongolian society.

How important were the international players in policymaking in Mongolia? How closely did the Mongolian authorities follow the advice of the international players?

There is no doubt that the IFIs and bilateral agents played an important role in determining the reform steps in Mongolia. Lack of expertise and the dire need for resources contributed to the receptiveness of the government to follow the policy guidance provided by the IMF and other donors. Moreover, one could argue that

Mongolia's previous experience of following "the big brother" – the Soviet Union – in terms of policies (and financial aid) may have been conducive to being more responsive to the policies advocated by the IFIs.

However, it could be argued that the policy choices were constrained not only by the international players but mostly domestic politics. For instance, the very first radical reform agenda was formulated by the coalition government without external support. In fact, the IFIs were cautious about the very radical steps taken by the government, e.g., some of them were warning against pursuing privatization without installing proper institutions such as securing property rights, etc. They have favored quick price liberalization over too fast privatization, as the latter required significant institution building. The IMF, for instance, noted that "there was much initial enthusiasm for reform on the part of the authorities, with the Fund at times even trying to slow the process so as to allow institution building to catch up" (IMF 2005, 5). Likewise, the conservative policies of the Jasrai government and particularly its policies of direct state intervention were also adopted based on the domestic constraints and beliefs. The government also stalled unpopular policies. For instance, the IMF and the World Bank long pressured the government to free prices on electricity and fuel. The price reform was stalled until the new democratic government led by Enkhsaikhan finally liberalized the prices in September 1996 (UB Post, September 11, 1996, issue 19). As senior economic advisor to the Prime Minister Ts. Batbold put it, "this harsh but necessary measure was long overdue ... the previous low prices were distorted and causing more overall damage to the economy than they were actually assisting businesses" (ibid).

As noted earlier, performance of the government under the first two IMF programs was mixed at best, oftentimes going off-track and being delayed. In many cases, it was difficult for the government to maintain policy discipline, e.g., in the face of revenue windfalls or electoral cycles, due to the lack of institutional capacity and partial commitment to a policy course (IMF 2005, 23).

Overall, international players provided a general policy framework and attempted measures to bring the policies back on track, once the policies went off-track. The IMF concluded that in order “to avoid too strong strains on the nascent political system, a cautious approach to economic liberalization was chosen. The decision to proceed gradually, while contributing to a relatively smooth adjustment, foreshadowed later lapses in performance, often associated with elections and frequent government changes” (IMF 2005, 5). Thus, conditionalities imposed by the IFIs were not the only constraints in policy choices. Oftentimes, the authorities pursued policies that were the result of their conviction and domestic political constraints.

4.2.3 Popular Support of the Reform Agenda

The period of 1990-1992 in Mongolia could be defined as a period of ‘extraordinary politics’, to use the expression coined by Polish Finance Minister Leszek Balcerowicz to describe the situation in Poland in 1989-1990. Balcerowicz (1995) argued that politicians should choose rapid economic reform at the beginning of the

transition because of the period of 'extraordinary politics'. He assumes that after liberation from external powers or internal liberalization, there is a "special state of mass psychology" which creates more political capital – a higher level of support for reform. This period will end gradually and, he argues, is "probably a non-renewable resource granted by history" (265). If reformers do not reform at all or do not reform quickly during this period, they are not taking advantage of the period of extraordinary politics.

Like in Poland and other countries in Central and Eastern Europe, the general public in Mongolia has been quite supportive of the initial reform effort of the government. A public opinion poll was conducted on January 12 and 13, 1991 by the government Center of Public Policy and Social Issues about the reforms (a few days before the reforms began with Resolution 20). The results of the survey were published in a daily newspaper. The sample consisted of about 500 respondents; however, no information about sampling was available. Overwhelming majority of the sample – 87.6 percent – was supportive of the government reform agenda. The main issue of concern among the people was shortage of essential goods. About 82 percent complained that supply of goods and services was poor. About 29.5 percent of suggested to increase prices (with simultaneous increase in wages), another 29 percent suggested to introduce rationing system, while 23 percent suggested to tighten state control of supply of goods and services and introduce extraordinary regime in some enterprises. In terms of the urgent economic reforms, high priority was given to price and wage reforms (24.2 percent), privatization of state assets (22.2), educating the public about the market system (20.0), and increase imports of essential goods (19.4). About 80 percent of respondents

agreed that the government is trying hard to implement reforms; 36.7 of respondents supported the reform efforts, 61 percent were critical but supportive, while 2.2 percent did not support the government actions (Ardyn Erkh, January 17, 1991, issue 12).

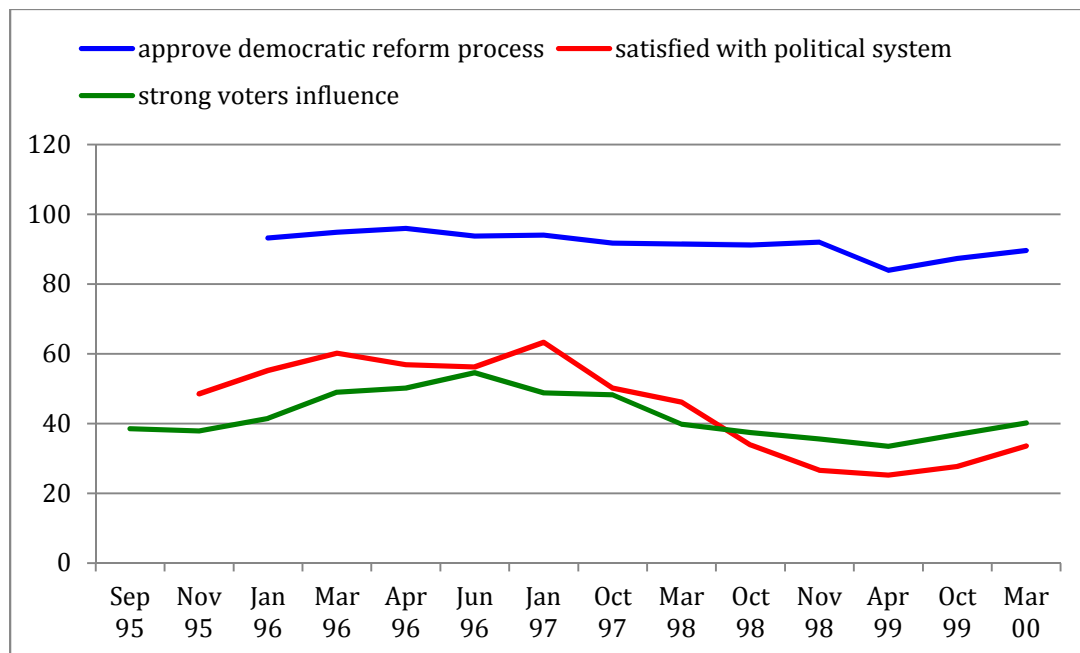
Popular support still was high for the more drastic measure to increase wholesale prices of energy and agricultural products, increase interest rate on savings, and change the scale of money. Public opinion was again investigated by the government research center after the issuance of Government Resolution 20. Of almost 700 respondents in the capital city (again, no information was provided about sampling), about 21 percent were highly approving of the measure, two thirds approved, and only 7.8 percent of respondents thought the government action was wrong. Although majority approved the government decision, they did not expect that the measure would positively affect the living standards of the people. In fact, share of those who thought the decision would positively affect the livelihood of people (14.6 percent) was lower than those who considered the measure would have a negative impact on the livelihood. This indicates that, in spite of its negative consequences, the people initially were ready to bear the hardship as long as the policies were perceived right (Ardyn Erkh, January 22, 1991, issue 15).

Unfortunately, there is no data available on public opinion of the reform efforts during the later years of (early) transition, particularly during 1992-1994. Regular polling resumed with the establishment of the Sant Maral Foundation in 1995, a major independent polling agency. Sant Maral's polls offer longitudinal data on general

attitude of the public towards democracy and market economy, including confidence in the government institutions and political party preferences. However, no data is available on specific policy issues.

Longitudinal polling data show that the overwhelming majority of the people – over 90 percent most of the time – consistently approved the transition to a democratic political system and market economy (Figure 4.9 and Figure 4.10 below).

Figure 4.9 Public opinion on the democratic reform process and satisfaction with the political system (Sep 1995-Jan 2000, in percent)



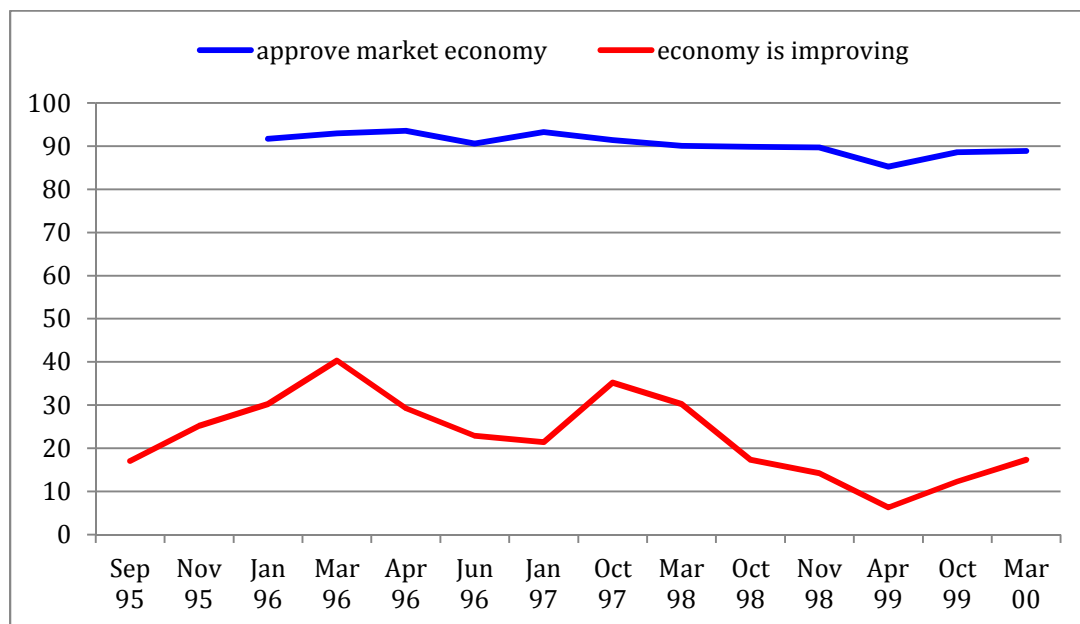
Source: Data from Prohl and Sumati 2009, 95-112

Notes:

- “Approve democratic reform process” - share of those who agree that introducing democratic system in 1990 was correct
- “Satisfied with political system” - share of those who are very satisfied or satisfied with the current political system
- “Strong voters influence” - share of those who believe that voters' influence is very strong or rather strong

However, this categorical approval of the transition did not necessarily mean that they were satisfied with the political system as it existed and economic performance. People felt more satisfied with the political system during the times of elections (e.g., 1996), which also coincides with their positive opinion on the strong voters' influence (Figure 4.9 above).

Figure 4.10 Public approval of the market economy and perception about economic performance (Sep 1995-Jan 2000, in percent)



Source: Data from Prohl and Sumati 2009, 155-162

Notes:

- "Approve market economy" – share of those who agree that transition to a market economy in 1990 was correct
- "Economy is improving" – share of those who believe that economy is improving as opposed to stagnating or declining

Similarly, in spite of the almost universal approval of the transition to a market economy, the public held generally low opinion about the economic performance (Figure 4.10 above). What is remarkable is that, firstly, these were good judgments as the

economy was doing poorly, but, secondly, most people did not reject the transition to the market economy.

Confidence in the Jasrai government was eroded by 1995 (the year where data is available). In series of public opinion polls conducted by Sant Maral during September 1995 – June 1996 (right before the elections of 1996), the public considered the (now united) Democratic Party and its predecessors to be better in solving major economic issues such as living standards and unemployment. The percentage point disparity between those who considered the DP to be the best party to solve various economic and social issues and those who had more faith in the MPRP ranged from 7 to 22 percentage points. In particular, the DP was considered especially strong in improving business (22 percentage points more people favored the DP over the MPRP) and unemployment issues (20.8 percentage points) (data from Prohl and Sumati 2009, 234-246). The data on the subsequent governments show similar trend: the electorate was less supportive of the government policies and had less trust in government institutions.

It appears that the period of 1990-1992 was a special period in the reform politics. The data imply that the government generally enjoyed substantial popular support (please note that no comparable data exist for the periods of 1990-1992 and 1992-1996). As Balcerowicz argued, radical reforms need to be forcefully implemented during this period, even though rapid reform appears to be political suicide at the time. Regime transition in 1990 provided a unique opportunity for the coalition government to reform – the public was more likely to grant the government room to reform (or at least was not

organized enough or cognizant that it should block reform policies). If the public was more likely to give politicians this window of opportunity to reform, politicians should implement far-reaching changes during that period. This was largely what happened in Mongolia in 1990-1992. Former Finance Minister Davaasambuu noted that “people went for months without salaries in the early 1990s, something which is unimaginable these days” (interview with Davaasambuu). During the Jasrai government (1992-1996) the window of opportunity probably closed.

4.3. Core Economic Reform: The Privatization Program

The Action Plan of the coalition government was developed by the MPRP as well as other coalition government parties. As discussed in more detail earlier, the economic package was mostly developed by the MNPP. The government apparatus – inherited from the old system and the only administrative resource available to the government at the time – initially developed a ‘traditional’ plan to incrementally increase production levels and improve productivity. However, this plan was dismissed and criticized by the newly appointed First Deputy Prime Minister Ganbold. He argued that “the issue of transitioning to the market economy is not a matter of setting incremental numerical targets but rather a systemic change that oftentimes could not be embodied in numbers.” The plan had to be reshuffled completely. Although developed for the next four years, the new Action Plan was a rather short document compared to the previous plans, for two reasons: first, it did not contain the imperative production increase data and, second, it was a general document because no details on functioning of the new market system were

known at the time, even to the radical-minded economist group within the MNPP (interview with Ganbold).

The economic part of the government program consisted of the price, taxation, credit and investment policies, as well as external economic relations. However, the core of the program was its privatization agenda (Ardyn Erkh December 20, 1990, issue 68). In spite of the generality of the government agenda, the privatization program was unmistakable and fairly detailed.

4.3.1 Privatization Program: The Debate and Launch (1990-1991)

The idea of privatization first emerged in 1990, following the first free elections in July and the decision to form a coalition government. The authors of the privatization idea were young economists, members of the National Progress Party led by D. Ganbold who later became the First Deputy Prime Minister of the new coalition government. The private sector in the early 1990 was negligible. There was limited private livestock in hands of the herders but it was largely non-commercial, and the cooperatives which were allowed in 1988 by the new Cooperatives Law, were just emerging. The radical reformers figured that a new market economy could not be built with such a small private sector and it would take years before it took root and became the driving force of the new economy. Therefore, the only way to transition swiftly to the new economic system was to privatize the existing state assets (interview with Ganbold).

In mid-1990, following the elections, the government declared that Mongolia would have a private sector but privatization was not yet a matter of public debate. Before the new coalition government was officially formed in September 1990, young reformists privately debated the nature of privatization, its procedures, and developments in Eastern Europe. When Ganbold was appointed second in the rank in the new government, he took the debate to the national level (Korsun and Murrell 1995, 475).

A working group in charge of developing privatization concept was formed by the Government decision and it started functioning from November 1990. The working group had 14 members in total all appointed from within the government agencies. Since the notion of privatization was totally new, discussions went on for long hours, often fruitlessly. Fewer and fewer members attended its meetings. Some of the members left due to conceptual disagreement, as the idea of privatization unraveled. Only a handful of reformers remained, mainly members of the National Progress Party. English-speaking younger members of the working group collected relevant information and materials from international press (extremely scarcely available at that time), getting in touch with international experts in this field, while Russian speaking members were using Russian sources and some translated material available from the Ministry of Foreign Affairs and working mostly on financial calculations. The working group used valuable information and materials available at the Bank of Mongolia through its dealership networks. Based on information gathered in this way and the calculations and projections made, the working group developed the voucher-based privatization concept. The idea was to distribute equal number of blue and pink vouchers (with nominal value of 10,000

Togrogs) to every citizen, and the privatization itself would be in form of large and small privations. Zoljargal, a banker in the Bank of Mongolia, played the major role in promoting this idea (interview with Bailiikhuu). Thus, a privatization program was drafted in a matter of two weeks and soon thereafter the economists persuaded the Prime Minister to adopt it as a government program.

Privatization of state assets was seen as a major structural and institutional reform. The first ideas of privatization were presented by Prime Minister Byambasuren in his speech to the State Small Khural where he sought approval of the government's action plan. The objectives of the privatization were declared to be reducing the role of the state in the economy and building the ownership foundations of a market economy. The other political objective to permanently change the balance of political power was not mentioned, although discussed among the reformers as being one of the most important goals.

The government proposed to proceed on the following privatization principles:

- All citizens of Mongolia were entitled to receive their share of state assets, because all of them contributed to creation of wealth in the country; this would ensure social justice and equality;
- The main method of privatization would be distributing vouchers to all citizens;
- About two thirds of all state assets could be privatized;

- Employees of state enterprises would have a privileged access to the assets of their enterprise; employees were encouraged to collectively own the enterprise and participate in its governance and management;
- Privatization should start with medium-level (in terms of size, performance, and assets) enterprises;
- Such important sectors as energy, railway, air transport, communication, mass media (radio and television) would remain in the state ownership; the state would continue to finance education, health, science, and cultural organizations;
- Land, except for urban and arable land, and natural resources would remain in the state ownership;
- Agricultural collectives should decide on their own ways of privatizing livestock and other agricultural assets (but not pasture land) (*from the speech of Byambasuren at the session of the State Small Khural, Ardyn Erkh, November 12, 1990, issue 48*)

There was a very brief article by economists (8 researchers at the National Academy of Sciences) on the privatization methods (Ardyn Erkh, December 22, 1990, issue 69). The main idea of the article was to use differing methods of privatization depending on the size of the enterprise, its financial viability, industry, market potential, technological level, etc. The article outlined several methods of privatization, such as direct sale to outsiders, foreign or domestic, for cash; sale to the management and

employees through long-term loans; initial lease of state assets by employees or outsiders and gradual buyout by the lessees; partial privatization with gradual transfer (sale) of state shares. The method should facilitate the efficiency of the enterprise after its privatization. Current management and employees should have a priority in ownership.

Dr. G. Purevbaatar, a prominent economist, was one of the very few scholars who frequently expressed his opinion about the economic reforms. In particular, he opposed the government plan to use mass privatization where every citizen gets some portion of state assets. His main concern was the efficiency of privatized enterprises and corporate governance issues. Purevbaatar claims that making numerous citizens who have little idea about the enterprise will not improve efficiency of enterprises. In fact, it will be little different from the state ownership under socialism where the nominal “owners” – the people – were separated from their assets and did not have any control over the management of the enterprise. Dispersed ownership will not resolve the issue of efficiency and performance. Purevbaatar proposed alternative privatization methods including direct sale, foreign ownership, and management and employee buyouts. He argues that only few knowledgeable owners will be genuinely interested and able to make the management deliver good performance (Ardyn Erkh, January 5, 1991, issue 4), an argument commonly made in the West.

Apart from few newspaper articles, no significant debate went on about the privatization. Academia was largely silent in this issue, most likely due to the lack of knowledge. Political players – parties and movements, lawmakers – played a marginal

role. Other players such as workers managers of the state enterprises, professional associations, and the trade unions were more active, particularly the Union of Agricultural Cooperatives. It pushed for special treatment of agricultural collectives, *negdels*, and was largely successful. However, the main player was the government, in particular a group led by Ganbold and his National Progress Party. Ultimately they determined the path of privatization, although a few concessions had to be made. These will be discussed in more detail in the next section.

In order to promote the idea of privatization among the general public, gain its support, and obtain the “intellectual mandate”, the government organized a national convention of economists in November 1990. About 1,000 economists, finance specialists, and accountants from around the country gathered in Ulaanbaatar and in the course of three days discussed the various issues of transition to a market economy. This remarkable degree of openness about a controversial program so early in its formation was possible due to the ability to cooperate on a broad basis which was discussed in the previous chapter. Prime Minister Byambasuren, the First Deputy Prime Minister Ganbold delivered lengthy speeches on the current economic situation and the model of transitioning to a market economy during the convention (Ardyn Erkh November 29, 1990, issue 59). Naturally these new ideas attracted high attention and kicked off strong debate among the participants. The convention was icebreaking in the sense it put on the official agenda the need for transition from planned to market economy to support the political transformation. Indeed, the main objectives of privatization were proclaimed to be political.

The national economic convention was organized to promote the privatization idea and economic reforms in general. Initially, the idea of privatization came under fierce attack. Some more conservative professionals did not believe that the private property and markets could solve the economic issues. “Herders would kill privatized livestock and the country would starve”, they argued. “Privatized housing would soon turn into ruins”, they argued further (memoirs of Yo. Gerelchuluun in Government Privatization Commission 2011, 111). This little trust was understandable given the absence of experience of markets. Others criticized the methods and other peculiarities of the design. They opposed vouchers as the dominant method of privatization (Ardyn Erkh, *ibid*).

In spite of fierce criticism and heated debate, no viable alternative was offered. There were numerous other ideas expressed in the course of the debate – often opposing and contradicting –however, they all came under severe attack from fellow professionals, and eventually were mostly dismissed. In the end, the government’s idea was formally approved by the convention. This “intellectual mandate” made it easier to defend the law and concepts at the State Small Khural (interview with Ganbold).

The economics convention was largely an effort of the National Progress Party which was responsible for the economic package. The main presentations about the privatization and discussions were led by active members of the MNPP. The MNPP largely succeeded in advancing its reform agenda. The national economics convention

was important not only in terms of hearing what the people had to say about the reforms, reflecting their ideas, and harnessing their support. It also showed a new direction for the key economic and financial professionals, particularly from the rural areas, where the country was headed. Information and knowledge about the market economy and reforms was extremely scarce and the convention exposed them to the new ideas. It was fundamentally an “enlightening experience” for many. Brand new words like privatization, voucher, and shares were forcefully introduced into the vocabulary of Mongolians (memoirs of S. Tsogsuren in Government Privatization Commission 2011, 124-125)

After the parliamentary approval of the action program, government immediately started the organizational measures. On January 15, 1991, the government established a special Government Privatization Commission (GPC) and the stock exchange. The Commission was headed by the First Deputy Prime Minister Ganbold and included several other cabinet members and mayor of Ulaanbaatar. On the same day, the Mongolian Stock Exchange was officially established – on a paper – and Zoljargal, a Hungarian trained young economist, was appointed the new director. Yo. Gerelchuluun, the newly appointed Secretary of the Privatization Commission, and Zoljargal were to champion the privatization agenda of the government. Before being appointed as a key figure at the GPC, Gerelchuluun gained his PhD in the Soviet Union and held a high-ranking technocratic position in the Council of Ministers. His doctoral research was on the new methods of contracting and cost accounting of the SOEs, which were implemented as part Gorbachev’s perestroika and tried in Mongolia as well. As

Gerelchuluun admitted, the topic was definitely of high interest at the time and allowed the author to gain insight into the core property issues under the central plan and recognize the limitations of the perestroika-type of reforms.

It was agreed that the Commission should have extraordinary powers in order to proceed with privatization without delay or other administrative or legal hurdles. All the decisions of the Commission had to be implemented by all central and local level organizations, officials. The Commission also established its branches in the capital city, all *aimags*, *soums*, and city districts. Prime Minister Jasrai later called it “a government within the government” because of its comprehensive structure and extraordinary powers.

There were even different views and debates about the need of a legislation regulating privatization issues, some argued for rapid privatization without waiting for a law to be passed. However, as Gerelchuluun argued, it was extremely important to have a legal mandate to put the process on a solid ground and make it irreversible. Secondly, it proved invaluable when the successor Jasrai government, based on allegations of fraud and mistakes, initiated inquiries into the privatization decisions and actions. Thus, a draft law was prepared swiftly and later passed by the parliament (interview with Gerelchuluun). Another important legal provision was amendment to the Civil Code. Private ownership was prohibited by law. However, pertaining to establishing a market economy and privatization in particular, it was crucial that private ownership was legalized and protected by law. Thus, in December 1990 the State Small Khural passed an amendment to the Civil Code. Now Article 59 of the Civil Code read as follows:

“Ownership of assets could be public or private. The state shall ensure that all types of property are treated equally and property rights are protected by law.” “Although a one-sentence change, it proved to be historical in developing private ownership and the private sector. It also provided the legal base for the privatization program of the government” (interview with Bailiikhhuu).

The government was planning to start the privatization process itself in April 1991, but the Law on Privatization was not approved yet. In his meeting with the leaders of political parties on April 10, Prime Minister Byambasuren urged them to express their political support for the privatization program and push their respective members in the parliament approve the law and make amendments to other related laws so that the process can begin. There was a sense of urgency and frustration in the remarks of the Prime Minister (Ardyn Erkh, March 12, 1991, issue 69).

The Privatization Law was initially rejected when voted on May 18, 1991 in the State Small Khural. The main reasons for rejection were related to objection to some specific clauses rather than the privatization concept itself. For instance, some lawmakers objected to singling out vouchers as the only method of privatization. Ganbold firmly protected vouchers but eventually a more general clause on potential other forms of privatization was suggested by the Prime Minister and accepted by the parliament. Further, another heated issue related to distributing vouchers to all citizens including children. The debate went around the property rights of certain groups of people, such as convicted criminals, citizens under the age of 18 who do not know how to

manage the property, family members and political followers of Tsendenbal (the last communist ruler), etc. Eventually, all citizens born on or before May 31, 1991 were entitled to receive vouchers. The next issue was the right to sell or transfer the vouchers to others. The law proposed that the small privatization voucher (the so-called pink vouchers) could be sold while the large-scale privatization vouchers (the blue vouchers) could not be sold or transferred. It was argued that no vouchers could be sold or transferred to others, on the assumption that such sale or transfer will lead to accumulation of assets in the hands of the more wealthy – as cash-desperate poor families would likely sell their vouchers for very low price – and the principle of social justice would be jeopardized. However, the initial proposal was retained.

The Privatization Law specified that agricultural collectives and state farms should decide on their own method of privatizing livestock and other assets. Fee for vouchers and exemption for some citizens were to be determined by the government resolution. Employees of enterprises were to receive a 10 percent discount on the auction price to be paid for assets under the small-scale privatization. However, all shares of state enterprises under the large-scale privatization were to be sold through stock exchange and employees of enterprises had a privilege to buy the shares at the nominal (or issue) price (before the public bidding on the stock exchange).

A few days after adoption of the Privatization Law, the government approved series of resolutions on such practical issues as establishing local privatization commissions, distributing and using vouchers, estimating the value of state assets,

establishing the privatization revenue funds and spending, and conducting auctions. The local privatization commissions were to have privatization strategies (plans) and organize all administrative issues such as registration of state assets, evaluating assets, creating privatization infrastructure such as brokerage and consulting firms, creating databases, conducting training on privatization and market mechanisms, and providing overall guidance in the entire corporatization and privatization process (Ardyn Erkh June 11, 1991, issue 90). The government decided that the vouchers would be distributed for a fee of 200 Togrogs per person. Low-income families and pensioners were exempt from this rule. Under the pressure of conservatives, the government also approved the list of enterprises which would remain under the state property or predominantly state-owned. The list included over 120 enterprises which would be state-owned – the railway, Mongolian Airlines, pharmaceutical company, gold mines, roads, etc – and some more which would be predominantly state-owned (*Government Resolution 170* of June 7, 1991).

4.3.2 Privatization Methods

The privatization program was not controversial in the sense that few opposed it openly. Even the conservative members of the old party could not oppose it because, first, they needed to demonstrate that they were changing, and, second, they did not have a viable alternative, while the desire for significant market reforms was widespread both within the political parties and the society. Thus, there was a broad consensus, both among the politicians and the general public that state assets should be privatized. However, the debate went about the privatization methods. In terms of the methods the

first distinction was between the mass privatization or case-by-case privatization. Mass privatization was a new phenomenon in transition economies. Further, within the mass privatization more specific methods included the direct sale to the outsiders (the traditional method used in advanced market economies), preferential treatment of the managers and employees where they can buyout “their” enterprise for a (low) cost or even free of charge, and the voucher privatization. Discussions in the general literature led to an agreement that the speed and methods depended on primary objective of the privatization and the constraints placed by the initial conditions that the policymakers faced.

Table 4.5 Tradeoffs among privatization routes for large firms

Methods	Objective				
	Better corporate governance	Speed and feasibility	Better access to capital and skills	More government revenue	Greater fairness
Sale to outside owners	+	-	+	+	-
Management-employee buyout	-	+	-	-	-
Equal access voucher privatization	?	+	?	-	+
Spontaneous privatization	?	?	-	-	-

Source: the World Bank (1996) “World Development Report 1996: From Market to Plan”, p. 52

Although objectives were multiple, they can generally be classified into two groups: political and economic. Political objectives could include depoliticizing the economy (e.g., Boycko et al 1995), gaining popular support for the political reforms of democratization, thus strengthening the foundation of democracy and pluralism. The political objectives also included issues of justice, particularly with regard to who should

become the new owners of the enterprises. The fundamental economic objective of privatization was to build the foundation of a market economy, which requires private property. Other important economic objectives included raising government revenue through sale of state assets, improving the economic efficiency by restructuring the enterprises and building good corporate governance.

In addition to the differing objectives, the choice of privatization strategy was subject to several constraints. The people – the potential new owners – lacked resources to buy the SOEs, i.e., there was an important financial or economic constraint. State assets had to be sold to foreign owners or the financial constraint had to be resolved if domestic ownership was preferred. Secondly, various groups – usually employees and managers of the SOEs – had initial claims to ownership and actual control over the enterprises. These vested interests pressured for their own preferential treatment. Naturally, political and economic objectives could not be achieved simultaneously. Objectives themselves contradict each other and certain tradeoffs were necessary as the countries opted for one method or another. The table above (Table 4.5) shows the tradeoffs of the various privatization strategies.

Different countries had differing priorities and some wanted to proceed more quickly than others. “Hungary, with its large foreign debt, has always viewed revenues as critical, the Czechs and the Romanians less so. To Russian reformers a speedy break with the past was paramount, while the Poles have forgone speed and entered into long debates over fairness. The Czechs have consistently stressed privatization’s depoliticizing role, while Estonia’s privatization program sought out “real” owners capable of bringing new money and management skills to bear” (World Bank 1996, 52).

The government of Mongolia had to set its priorities and choose the most feasible methods of privatization. Naturally, both political and economic objectives were claimed to be important for the reformers. They wanted to ensure that the initial political gains of the democratic revolution – multi-party system and free elections – were supported and sustained by the economic system. There was a need to “deprive the ruling elite of the resources” as they were still holding much of the power after the elections (interview with Gerelchuluun, former Secretary of the GPC).

The need to harness the fledgling democracy with robust economic reforms was repeatedly stated by the new democratic parties. Economic reforms were seen as the major insurance against the reversal of the democratic processes. The people had to be turned from the “proletariat with nothing to lose” to the owners with a stake in a new political and economic system (interview with Ganbold). Another important political issue was to gain popular support for the privatization. The majority of the people had to gain from privatization and the methods had to ensure this outcome. Fairness was another important objective. The reformers continuously stressed the egalitarian aspects of the privatization program (Korsun and Murrell 1995, 474).

In terms of the economic objectives, because the market could not function without a sizeable private sector, the Mongolian reformers considered privatization as the dominant means of creating the private sector. Mongolia was the only communist country in 1989 with (almost) no private sector. The highest share of the private sector in

GDP was in Poland (30 percent), followed by 20 percent in Hungary, 15 percent in Romania, 10 percent in Bulgaria, Ukraine, and Uzbekistan, 5 percent in Russia, the Czech Republic, Kazakhstan, and Kyrgyzstan (EBRD estimates). The reformers seemed to have been less concerned with the pure economic objectives of raising revenue or even enhancing the efficiency of the SOEs. The issue of corporate governance and access to outside resources was scarcely discussed at all at the level of policymakers (interview with Ganbold). Thus, the objectives were largely political and social rather than economic.

In addition to the objectives, there were severe constraints on the methods to be chosen. Direct sale for cash to domestic outsiders was virtually out of question, as the income levels of Mongolians were extremely low. Propensity to save in socialist economies was generally low because of the high implicit taxes and the generous social safety net and free provision of education and health services. Mongolians were equally poor across the board. As the Government Privatization Commission estimated, savings of the Mongolian citizens were sufficient to buy only about 3 percent of all state assets (interview with Bailiikhuu). The only outsiders who could potentially buy state assets in Mongolia were foreign investors. However, due to the long closedness of the economy and extremely limited relations with non-socialist economic partners, it was doubtful that a meaningful number of foreign investors would be interested in buying the (largely obsolete) state enterprises. Also, the institutional environment – the legal framework to protect property rights – as well as infrastructure was virtually nonexistent to lure foreign investors. “The government itself did not have a preference to sell assets to foreigners”

(interview with Ganbold). Although economically most preferred, the sale to outsiders method was not really feasible in Mongolia.

Frydman and Rapaczynski were among the first who proposed the mass voucher scheme. The authors, however, quickly realized that the type of ownership this would bring would not produce growth in the private sector (Frydman and Rapaczynski 1993, 1994). Nonetheless, the idea was advanced among policymakers in some transition countries, notably Czechoslovakia and Russia. The idea of voucher privatization was first gleaned by the Mongolian reformers from the media and policy discussions in Russia and some Eastern European countries like Hungary. It became highly popular among the reformers and was promoted as the most preferred method.

Equal access voucher privatization principle had to be jeopardized to some extent because of the pressure exerted by the management and workers of the state enterprises and especially the agricultural collectives. Thus, voucher privatization had to be combined with some elements of preferential treatment for the managers and employees of SOEs. Privatization of agricultural collectives and state farms was the largest sector where the insiders received huge preferential treatment, as it will be shown later.

4.3.3 Privatization: The Process (1991-1996)

Immediately following the approval of the law and related rules, the Privatization Commission started the privatization process. The process started with extensive training programs and workshops on technical issues for the management and employees

of the newly established Stock Exchange; members of the *aimag* and local privatization commissions; directors, economists, and accountants of SOEs. Many international experts were involved in the training, particularly at the Mongolian Stock Exchange. It was admitted that the public knowledge about privatization and private property in general was low. However, “the government did not have the luxury of educating the people first and then privatizing. The two processes had to go together” from interview with Gerelchuluun, Secretary of the Government Privatization Commission, on the launch of privatization in *Ardyn Erkh*, July 4, 1991, issue 107). The local privatization commissions initiated a nationwide public awareness campaign. It was also suggested that the economic incentives of citizens taking active interest in the privatization should be high, as it touches upon the basic right of ownership (ibid).

A comprehensive list of all state enterprises as well as state and collective farms together with the total amount of assets was compiled. The valuation of assets was based on the book value, which was highly distorted and did not reflect the market value. However, this was the best information available to the government. The first privatization program envisaged to privatize over 22 billion Togrogs worth of state assets, which constituted about 44.2 percent of all state assets (see Table 4.6 for detailed data on the assets to be privatized by sectors⁴⁰).

Table 4.6 Valuation of state assets (total and to be privatized) as of January 1, 1990

⁴⁰ Note the discrepancy in the numbers, e.g., 22 billion vs. 20.4 billion in the table. Later some minor adjustments were made to the initial calculations provided in the table.

Sectors	Fixed assets, million MNT ⁴¹			To be privatized	
	Initial book value	Depreciation	Current book value	mln MNT	Percent
Industry	17,783.4	4,931.25	12,852.1	5,530.4	43.0
Construction	3,021.9	654.2	2,367.7	2,342.3	98.9
Auto transport	983.0	522.6	460.4	220.4	47.9
Mongolian Airlines	429.6	170.1	259.4	15.4	5.9
Railway	4,264.0	839.7	3,424.3	-	-
Roads	894.3	38.7	855.5	246.9	28.9
Communication	827.8	304.9	522.0	419.2	80.2
Trade and state supply system	2,104.9	644.0	1,460.2	1,320.0	90.4
Housing and utilities	7,772.7	516.0	7,256.2	4,353.7	60.0
Agriculture	8,274.8	2,346.9	5,927.9	5,927.9	100.0
Non-material sector ^a	11,447.6	0.6	11,370.0	-	-
Total	57,803.2	10,968.95	46,755.7	20,376.2	44.0
State assets per citizen (in MNT)					10,254

Source: Calculations provided by Bailiikhuu, Advisor to the State Property Committee who was responsible for making calculations in 1990.

^a Note: Non-material sector includes education, health, social insurance, culture, etc.

As noted earlier, the primary method of privatization was issuing vouchers to all citizens born on or before May 31, 1991. Every citizen was entitled on payment of the fee to receive 10,000 Togrogs worth of state assets, which were distributed in the form of vouchers and were of two types: blue vouchers worth 7,000 Togrogs to purchase assets of large enterprise and pink vouchers of 3,000 Togrogs for purchasing small-size assets. The amount of 10,000 Togrogs was estimated on a simple rule: roughly dividing the value of assets to be privatized (some 20 billion) by the population, approximately 2

⁴¹ MNT stands for the Mongolian Togrog. This is a commonly used abbreviation.

million at the time. Table 4.6 above also shows how the voucher value of 10,000 Tog per citizen has emerged (see last row of the table).

The privatization program itself consisted of three major elements: (i) small enterprises, usually in retail and services sector; (ii) big enterprises in the industrial sector and manufacturing; and (iii) agricultural sector, namely state farms and agricultural collectives.

4.3.3.1 Privatization of small enterprises

Small-scale enterprise was defined as a unit with assets less than three million Togrogs (equivalent of \$50,000). Auctioning with pink vouchers (and cash in cases where the small property was sold for) was the main privatization method with ownership rights going to the highest bidder. The small-scale privatization was the least controversial and least difficult due to the sheer nature of the sectors involved. The assets were small and usually a single owner (individual or family) could buy the retail shops, grocery stores, or repair shops. Some of the small privatization was done using the pink vouchers while others were sold for cash (Table 4.7 below).

The list of enterprises to be privatized in a particular year, both small and large, was prepared by the Government Privatization Commission and approved by the government (until 1997, when the rules have changed and the list was approved by the

parliament). The decision on the methods of privatization for small enterprises – vouchers or cash – was made by the GPC.

Table 4.7 Privatized assets, small-scale privatization, by method (as of July 1, 1996)

	Vouchers	Cash	Loans	Total
Total assets(million MNT)	4,446.8	3,493.4	268.1	8,208.3
% in total	54.2	42.6	3.3	100.0

Source: State Property Committee 2011

The specific feature of the pink vouchers was that they could be transferred or sold to others who could use them to purchase assets of a small enterprise. The price turned out to be equal to a bottle of vodka. Many families pooled together their pink vouchers to obtain shops or service units. As noted earlier, the Privatization Law prescribed that employees of small enterprises had a privilege to buy the enterprise at the initial book price without outside bidders if the employees had a “lease agreement” prior to the privatization (clause 15.2). The “lease agreement” was an experiment tested with small enterprises during the late communist period as part of perestroika reforms. ‘Work collectives’ – the management and employees – entered into agreement with the line ministry or supervising government agency where they were given discretionary powers in terms of determining output levels, input use and partially pricing, and become residual claimants of the profits the enterprise made. The collectives on lease agreement paid a fixed fee for using the state assets. The notion was that the collective was leasing state assets to make profits and paid a fee for using the assets. Those enterprises which had lease agreements had a privilege of buying off the enterprise without competition. Another privilege the management and employees of small enterprises enjoyed was that

they could receive a 10 percent discount on the final auction price, where assets were auctioned, i.e., where there was no lease agreement and the management did not want to buy the assets. A significant share of the small-scale enterprises was privatized on a preferential treatment to the employees. In the capital city, about 60 percent of small enterprises were sold to their employees. In the countryside, the number is even higher (Korsun and Murrell 1995, 485).

The Government Privatization Commission later concluded that (Report of the Government Privatization Commission to the State Great Khural, February 26, 1994) the preferential treatment of work collectives ended in many cases in poor governance and poor performance of the privatized entities. Although without significant analytical part, this government study attempted to identify in a fair manner both achievements and drawbacks of the privatization process thus far and draw some lessons. It was further noted that many entities were closed down and privatized assets divided among the new owners and sold off. Because the assets were privatized at lower than the market price, apparently many considered it more profitable – in the short run – just to sell them at the market price for cash instead of continuing to run the business. Many shops and transport services just disappeared with privatization. This naturally exacerbated the already dire situation with shortage of goods and services as well as employment. To mitigate the issue of shortage, the government issued a resolution (Resolution 5 of 1992) for the local government and local privatization commissions to establish an agreement with the newly privatized entities on continuous supply of goods and services and maintaining employment. The new private owners were temporarily prohibited from selling the

assets and discontinuing the production process. Moreover, they were obliged to produce certain level and quality of output. However, the owners argued that the government decision unlawfully restricted ownership rights and therefore the resolution could not be enforced (from the Report of the Government Privatization Commission to the State Great Khural, February 26, 1994). Ultimately, this clause could not be enforced because of the conflict with the law and was withdrawn by the government (interview with Bailiikhuu).

Box 4.2 Two cases of small-scale privatization (cash bids)

Two shops – a large supermarket in a busy district and smaller shop on the outskirts of the city – were auctioned on July 2, 1991. The initial bidding price of the larger shop was 1.2 million Togrogs. There were six business entities participating in the bidding. After 92 price bids and fierce competition between two companies, within 30 minutes the shop was sold for 7.4 million to the firm “Jaran”. Owner of “Jaran” told in an interview that he was ready to offer 10 million, which, in his estimates, will be fully recovered within 2.5 years. With price liberalization, the new owner saw a great potential in retail. He planned to import goods from China.

Another shop, a small shopping center in a remote area, was offered initially for 250,000 Togrogs. A private company “Baishir” was the only bidder and became a new owner by paying the initial price.

Source: Newspaper Ardyn Erkh, July 4, 1991, issue 107

Although extremely ambitious, it was decided to complete small-scale privatization within two years and the target was mostly achieved. About 45 percent of small-size assets were privatized within a year from the launch of the privatization program (see Table 4.9). The remaining 55 percent were privatized the following year.

4.3.3.2 Privatization of large enterprises

Privatization of large-scale enterprises was significantly more difficult. The voucher privatization program was the first program and was designed to be implemented within three years. The privatization process consisted of several stages: preparation of a plan, corporatization, and the sale of shares for the vouchers. In order to sell shares, some institutional reforms were needed. Stock exchange and broker firms were the main infrastructure to be used in large privatization. The first glimpse at how stock exchange operates was taken by some critical members of the newly established privatization commission and the stock exchange when they visited stock exchanges in Budapest and Vienna in January 1991 and got acquainted with the privatization that was taking place in Hungary (Ardyn Erkh, January 11, 1991, issue 8). This was an eye-opening experience for many and helped to realize the amount of work that was necessary to accomplish in Mongolia before mass privatization could begin (interviews with Gerelchuluun and Bailikhuu).

The first trading through the Mongolian State Exchange – with the public offering of 3 large enterprises for vouchers – took place in February 1992, only several months after passing the Privatization Law. “After it’s opening, the stock exchange continuously increased trading volume. ... Within four months there were 34 companies listed on the exchange and their privatization was moving as planned. As of June 2, 21 of these were fully privatized. The list included some prominent establishments such as Ulaanbaatar Hotel and Mongol Ceramics (Denizer and Gelb 1992, 16).

Korsun and Murrell (1995) note the remarkable organizational alacrity with which the stock exchange and countrywide network of brokerage houses were established in Mongolia in 1991. This organizational success, combined with no limited technical problems and little allegations of corruption, contributed to the fact that privatization program was kept close to schedule and raised little political opposition (476).

The management and employees of large enterprises enjoyed some privileges: they could buy off their shares (equal to the allocated value of vouchers) at the nominal price prior being sold on stock exchange (Article 20 of Privatization Law). Alternatively, they could gamble on the stock exchange if they believed the actual price of shares is going to be lower than the nominal. Many managers and employees took advantage of this clause. “Markets, in which vouchers were exchanged for shares, determined the structure of an enterprise’s ownership. Thus, although insiders and their families own 34 percent of the average enterprise, this insider ownership was not a result of concessions – as in Russia, for example – but rather a consequence of the choices individual citizens made during the sale of shares for vouchers” (Anderson et al 2000, 530).

Outside ownership was dispersed. Because the blue (large-scale) vouchers were nontradeable, mechanisms for outsider ownership concentration were almost absent, at least until August 1995 when the secondary trading of shares began. The mutual funds used for instance in Russia and Czechoslovakia, although formally created by the Government Privatization Commission, were little used and did not play a significant role. These funds were “little favored by the reformers, who wanted to involve the

citizenry more directly in the people's capitalism. Free entry of mutual funds was not possible during the privatization process, in contrast to the situation in Russia or Czechoslovakia, for example" (ibid).

Voucher privatization was the dominant method used in large privatization. As of 1 July, 1996, assets worth 24.9 billion Togrogs were privatized, out of which assets worth 15.3 billion were privatized by blue vouchers (Table 4.7).

Table 4.8 The structure of privatized assets, large-scale privatization, by sector and method (as of July 1, 1996)

	Agriculture	Industry (non-agriculture sector)	Total	<i>of which</i>		
				Vouchers	Cash	Loans
Assets (in million MNT)	4,044.6	12,615.3	16,659.9	15,252.3	1,352.0	55.6
% of total	24.3	75.7	100.0	91.6	8.1	0.3

Source: State Property Committee 2011

Voucher privatization was designed to make every citizen owner of assets. It largely succeeded in this aspect. In January 1995, the government reported that 1.9 million citizens received their voucher books and 1.1 million citizens have become new owners of formerly state assets. For unidentified reasons, 113 thousand people did not receive their voucher books. About 17.4 billion Togrogs worth of state assets were privatized leading to establishment of 466 joint stock companies, 1,297 limited liability companies, 1,907 cooperatives, and 850 sole proprietorships. The initial phase of

privatization – using vouchers – was completed by the end of 1994 (from the Report of the Government Privatization Commission to the State Great Khural, January 15, 1995).

The second phase in privatization started in August 1995 with the official launch of secondary trading of shares as well as the remaining blue vouchers. This was far behind the initial schedule. Many blamed the Jasrai government for stalling the privatization reforms. The free trading of vouchers and shares accelerated the process of accumulation of majority of shares in the hands of fewer owners. Post-1995 privatization saw some positive changes in the performance of privatized enterprises: improved management, increased investment, introduction of new technologies, increased industrial output, and improved quality of goods. Cash privatization became the dominant method of privatization since the second half of 1995. The legislative framework was improved by adoption of Anti-Trust Law, Law on Securities and the Law on State and Local Property (new law to replace the Privatization Law). The Government Privatization Committee was enlarged into a State Property Committee (SPC) in line with the new law. A new Center of Asset Evaluation – with newly trained staff – was established in 1995 within the SPC, with the technical support by the World Bank. Its main objective was to establish market values of state enterprises to be privatized for cash.

4.3.3.3 Privatization in the agricultural sector

Among the three components, privatization in the agricultural sector was probably most controversial and politically charged. In 1990, there were 255 agricultural cooperatives, the *negdels*, mostly engaged in animal husbandry, and almost a hundred state farms, which supplied grains, vegetables, and fodder. A little below half of the population lived in the *negdels* and state farms, which employed approximately 40 percent of total workforce. The agricultural sector owned a third of total production assets in the country and produced almost a quarter of national income. The main asset of the *negdels* was livestock, while state farms owned land and machinery. In other words, this was a large core sector which touched upon the livelihood of a million people.

There were many stakeholders in the process of privatization. First, there were agricultural collectives and state farms themselves, and their member families. They largely supported privatization because they were likely to become the new owners of the livestock and probably arable land. Directors of the *negdels* opposed agricultural privatization, as their powers would virtually disappear with dismantlement of the collective farms. They definitely opposed equal access privatization in the agriculture sector. However, if privatization was to proceed, they wanted to receive not only preferential treatment with regard to collective property but themselves determine the privatization methods. Although formally under a cooperative ownership of the members, “the *negdels* have become de facto state entities ruled by the party nomenklatura” (interview with Bailiikhuu). The interests of the directors of the *negdels*

were represented by the Union of Agricultural Cooperatives (*Negdels*). The Union was the major organizing force of the ruling elite of the collective farms.

There were enterprises in the industrial sector that used agricultural raw materials. These enterprises had little trust that newly privatized agricultural farms would continue to supply raw materials. The expectation was that prices of raw materials would rise. Even with increased prices, enterprises expected that with decentralized supply system the transaction costs of collecting the necessary raw materials would be much higher.

However, the most controversial issue was the shortage of foodstuff. It was feared that with privatization of state farms and herds, supply of food would reduce even further and the prices would increase jeopardizing the already very low living standards of city dwellers. These concerns were expressed in an article by A. Bolat, member of the State Small Khural, on livestock and agricultural privatization (*Ardyn Erkh* April 3, 1991, issue 62). There was lack of confidence in the market in general, and agricultural supply in particular. It was argued that once abolished, agricultural collectives which were the main suppliers of food and agricultural raw materials could not be replaced by decentralized individual herder families. There would be disruptions of food supply and price increase. Meat supplied to the state per head of private herds was four times lower than per head of collective herds. Therefore, it was estimated that 180 tons of meat annually procured by the state would be reduced down to 70 tons. Private herders had little stimulus to supply meat and dairy and other agricultural products to the state. It was

doubtful that individual families would totally replace the collectives and become obedient suppliers of cheap goods.

Bolat justly raised the issue of suppressed prices on agricultural products under the central plan. The general policy has been to suppress the wholesale prices of foodstuff and agricultural products in order to promote industrialization and urbanization. Agricultural sector remained the most underprivileged sector in the old system. Scholars argued that the socialist industrialization in Mongolia was achieved at the expense of agriculture (Namjim 2004). The policy has been criticized and partially revised during the late communist period when a major price reform took place in 1988, which increased by ... percent agricultural wholesale prices.

Another concern expressed was that individual herders would not have advantage of economies of scale in some collective activities such as preparation of fodder, vaccination and veterinary services, repair of winter shelters for animals, etc. However, the argument was not strong in the sense that these were all activities which did not benefit from economies of scale. For many, herders' collectives served as an insurance against harsh weather, such as blizzards and draught. It was argued that families with few herds faced with severe weather would fall into poverty. These arguments were used intensely by the agricultural lobby.

Law on Privatization provided the legal framework for privatization of cooperative farms. They were exempt from the general Privatization Law. In fact, the

law specified that individual *negdels* themselves would decide how to privatize their own assets (Article 21). With this new legal mandate, multitude of organizations, government or otherwise, issued their recommendations on the ways to proceed with privatization. Naturally, in many cases these recommendations and rules were inconsistent and tended to express divided interests. Concepts papers, regulations, and recommendations developed during the national economics convention held in November 1990 as well as by the Ministry of Agriculture, the Union of Agricultural Cooperatives, the Mongolian Union of Herders and Farmers were among the different documents adopted in 1990 and 1991. The Government Privatization Commission issued its own set of recommendations and political parties also had their own views.

The Union of Agricultural Cooperatives held the most conservative views which could be summarized in three major points. First, livestock should be transferred to the herders based on contracts or lease agreements. In other words, initially there would be no direct private ownership of livestock. Second, if privatization were to proceed, it was proposed to exclude from it some groups of rural people such as non-residents, non-members of *negdels*, and even administrative staff and professionals such as teachers and doctors, etc. Thus it was proposed to privatize cooperative assets within a closed circle with preferential treatment of cooperative management and members. Third, it was suggested to transfer livestock to herders without using vouchers, which could be used by rural dwellers in purchasing other state assets (from the concept of transferring the agricultural collectives to the market economy, approved by the 8th Congress of the

Union of Agricultural Cooperatives on June 14, in Ardyn Erkh, June 25, 1991, issue 100).

The agricultural lobby – which was organized under the slogan “Do not attack the *negdels*” – was very strong. They had big influence in the People’s Great Khural as well as the State Small Khural. It was not surprising given that about 40 percent of the Great Khural was comprised of local directors of collective farms and local governors and the rural areas were overrepresented in the national assembly. Within the State Small Khural, their influence was less profound but still significant.

The Democratic Party called for selling the state assets to foreign companies and individuals, as this will be beneficial in gaining foreign exchange and financing the much-needed essential imported goods as well as gaining access to foreign markets and technology. The party was most critical about the government policy to allow individual agricultural cooperatives to choose their own methods of privatizing livestock and other assets. They claimed that assets of the *negdels* (agricultural cooperatives) are not collective assets but de facto state assets and therefore they should be privatized by the government, just like the state-owned enterprises. Likewise, the Democratic Union – the mass democratic organization – was of the view to dismantle the *negdels* altogether; involve all interested parties – the *negdel* members and non-members – in agriculture privatization process (i.e., use an open process); use vouchers in the agricultural privatization and create voluntary cooperative unions after the full privatization of agricultural assets. Zorig, leader of the DU called for urgent privatization of livestock

and dismantling of the Supreme Council of the Union of Agricultural Cooperatives for being the main obstacle in pursuing market reforms and privatization (Ardyn Erkh, March 12, 1991, issue 69).

The Government Privatization Commission had a legal mandate to “provide guidance and advice” in agricultural privatization issues. As such, they promoted the basic principles it used in the industrial sector. First, vouchers issued to farm members could be used to acquire collective property, which would be valued at the book values rather than market values of assets and herds when privatizing. It also suggested that local privatization commissions evaluate all assets of agricultural collectives and state farms before they are privatized. Winter shelters should be included in the assets and transferred to the herders; while such common resources as pastures and wells could be based on contractual arrangements (Government Privatization Commission 2011, 140). However, these proposals were advisory only.

The privatization process took place amid this diversity of interests and organizational pressures. In the end, agricultural collectives decided themselves which method to employ and how to divide the assets among its members. Naturally, there was big discrepancy in the methods. These depended on the general wealth – both in terms of amount and type of assets – of individual collectives, the powers exerted by the local governors and engagement of the members of the collectives. All negdels used pink and blue vouchers in their privatization. In some negdels professionals were excluded from livestock privatization, while included in others. The years of membership in the

collective (senior people being members for longer period of time), initial contribution to the collective assets by the family (historical records from the late 1950s when the *negdels* were established were pulled out in some cases), position held by members (managers vs. herders), performance (good herders vs. bad herders), household size, and others were among the factors considered by the *negdels* in deciding who gets what. Because of the multiplicity of the players and diverging outcomes, there was certain level dissatisfaction among the rural citizens (interview with Bailiikhuu).

“About 70-80 percent of complaints submitted to the Government Privatization Commission were related to agricultural collectives” (memoirs of S. Tsogsuren in Government Privatization Commission 2011, 126). There were mostly related to the perceived incidences of injustice or breach of law in the agricultural privatization. Korsun and Murrell (1995) note that “in many cooperatives, the process deviated from the guidelines. As a result, there have been persistent allegations of corruption, focusing on local officials’ control of decision-making. This brought the privatization process in disrepute in some rural areas, specially among rural professionals who were unable to secure ownership stakes since they were not *negdel* members” (481).

The directors and top management of the *negdels* had an obvious advantage compared to the ordinary members of the collectives and took advantage of such privileges. “Something similar to the Russian privatization where the management and employees of state enterprises had a clear advantage in privatizing their own enterprises happened in the agricultural privatization in Mongolia. Livestock was privatized

relatively fairly: they were mostly divided equally among the members of the collective. However, other assets, such as shelters, equipment, inventory, were not privatized in a very fair manner. Also, the collective farms themselves differed in their assets. There were relatively rich collective farms and relatively poor. Therefore, members of different collectives received different number of livestock and other assets. In this sense, privatization in the agricultural sector differed quite substantially from the more or less egalitarian approach which was implemented in other sectors. However, the final outcome of agricultural privatization, especially livestock proved to be positive” (interview with Ganbold).

To resolve these controversies, the GPC had to interfere and take the lead in privatization of cooperative farms. In April 1992, the Government issued a resolution to undertake some corrective actions at local levels and develop across-the-board understanding and more or less uniform approach to privatization of the *negdels*. Privatization of state-owned farms and fodder farms went relatively smoothly with less controversies and debates mainly due to the consistency of approaches by the Ministry of Agriculture and the State Privatization Commission (memoirs of D. Ganjuur in Government Privatization Commission 2011, 142).

Overall, the bulk of privatization – especially its initial phase – was complete by 1996. President Ochirbat (1996) noted that the Byambasuren government completed about 44 percent of the bulk of privatization work – including developing the program itself and passing the necessary laws on privatization, economic entities, taxation, etc, as

well as enormous organizational efforts setting up the commission and the stock exchange – in a matter of a single year. The remaining 55 percent of accomplishments was completed in two and a half years by the Jasrai government, indicating some slowdown in the privatization process. Ochirbat argues that this slowdown led to the postponement of opening the secondary trading market for shares.

Table 4.9 below summarizes the privatization efforts for 1991-1996.

Table 4.9 Assets of privatized companies, as of July 1, 1996

	May 1991- July 1992		July 1992 – July 1996		TOTAL	
	Number of companies created	Assets (in million MNT)	Number of companies created	Assets (in million MNT)	Number of companies created	Assets (in million MNT)
Large privatization	281	3,275.8	638	9,339.5	919	12,615.3
Small privatization	1,310	3,670.2	1,899	4,538.0	3,209	8,208.3
Agriculture entities		4,044.6				4,044.6
TOTAL	1,591	10,990.6	2,537	13,877.4	4,128	24,868.1

Source: State Property Committee 2011

4.3.4 Outcomes and Lessons of Mongolia’s Privatization

Privatization was the cornerstone of the reform efforts of the Mongolian government. It largely met its political and social objectives of dismantling the state sector and achieving more or less fair distribution of state assets to the general populace. Well over a million people became the new owners of the previously state-owned assets

during 1991-1996. Since, 1996, the focus of privatization shifted from political objectives of dismantling the old system to more economic and efficiency-oriented ones, as raising government revenue, improving efficiency and governance. Simultaneously, non-voucher methods were used to for privatizing the remaining state enterprises, particularly the so-called most valuable enterprises such as the Gobi Cashmere Factory and Trade and Development Bank, among many others. “From 1996 to 2000, 942 enterprises and assets were privatized through sealed bid auctions, English auctions, sales of shares through the Mongolian Stock Exchange and other methods, raising approximately 48 billion Togrogs (US\$65 million) in revenue” (Marshall, Nixon, and Walters 2004, 10).

Opinions vary as to the success or otherwise of the early privatization program. Supporters claimed that its results have been “impressive” and that Mongolia has implemented the “most successful privatization program” compared to all the republics of the former Soviet Union (quotations from Griffin, 1994, 9). [There will be more quotations from other sources, e.g., EBRD, World Bank, Sachs, etc in Chapter 1; I will refer to them here.]

Critics argued that its role in the transition to a market economy has been “greatly exaggerated” and that, in the specific context of Mongolia, it should have been given a lower priority (Griffin 1994, 10). Stubbs et al (2000) argue that, with hindsight, the program “was hastily executed and seriously flawed, leaving it seriously discredited in the eyes of the public” (143). Similarly, Marshall, Nixon, and Walters 2004 argue that

“Although a partial administrative success, privatization did little to assist Mongolia through its transition difficulties” (9).

However, diverging opinions could be reconciled and the privatization process and outcomes could be summarized as follows.

First, privatization (especially the early privatization program) in Mongolia had important political objectives, and it undoubtedly led to a shift in productive assets from the state to the private sector and was important in the development of that sector. The objectives of speed as well as political goals were mostly achieved. In this respect, swift – and universal and more just compared to some other countries – privatization in Mongolia could be considered success. There was preferential treatment of the management and employees but this did not result in management and employee buyouts like in Russia, where the employees enjoyed much greater privileges: insiders could choose between receiving a minority of shares at no cost and purchasing a majority of shares at a large discount. In the end, during 1992-1994 insiders acquired about two-thirds of the shares in the 15,000 privatized firms in Russia (World Bank 1996, 55).

Second, in spite of succeeding in achieving its primary political goals, many interrelated issues were pending. The report of the Government Privatization Commission “Privatization: Processes, Outcomes, and Prospects (1991-1994)” dated February 26, 1994 to the parliament noted that one of the lessons learned was that “privatization for its own sake does not solve all problems”. After the formal

redistribution of state assets to the people, there was still “a vital need to restructure these companies (i.e., privatized enterprises), which was even more important than privatization as per se. There was also a need to revise and improve laws regulating the operations of the private companies, including laws on securities, company, bankruptcy, anti-monopoly law etc.”

One main issue was institution building. Korsun and Murrell (1995) and other international observers (e.g., Denizer and Gelb 1992) noted that the progress on privatization stood in a stark contrast to developments on other aspects of reforms that were complementary to privatization:

“Mongolia provides a fascinating example of postsocialist reforms for a number of reasons. The speed of privatization is puzzling, given that it occurred in the face of opposition from important elements of the party that controlled the government. The degree of divergence between the progress on privatization and on other reforms is greater in Mongolia than in other countries, with Russia a possible exception. In the future, Mongolia’s economy will provide interesting lessons on the patterns of development that result when there is great discrepancy between formal private ownership and the institutional underpinnings that give substance to formal rights” (Korsun and Murrell 1995, 473).

Similarly, as noted earlier, the IMF warned the government against too speedy privatization without establishing proper institutional framework. At the same time, it criticized the government for being too slow in liberalization efforts (IMF 2005). The institutional and legal environment had to catch up with the actual privatization.

Third, although proper institutional and legal environment was absent or lagged at the initial phases of privatization, competitive business environment did exist and contributed to improving performance of privatized firms. Anderson, Lee, and Murrell (2000) note that there are at least two benevolent forces that work to improve the efficiency of privatized enterprises, compared to the previous state ownership under the command economy: one is competition among the now private companies and the second one is the higher pressure from private owners to make profits (528). However, as noted before, the ownership factor was rather weak in Mongolia. Based on a mid-1996 survey of half of all privatized large enterprises, Anderson et al (2000) found that, in an environment of virtual absence of formal market institutions, enterprises with residual state ownership performed better than those with insider (management and employee) or dispersed outsider ownership, because the state was the only effective owner who could pressure the enterprise management (547). It was also found that most enterprises face competition – 77 percent face domestic competition and 73 percent face import competition, with only 3 percent admitting no competition – and competition had the strongest effect on the efficiency of enterprises (ibid, 529 and 545).

Fourth, the very success in the speed and achieving its political goal also meant the goals of improving corporate governance issues were not met. The government report of 1994 emphasized that “One of the main pitfalls was diffused ownership, and in some cases even what could be qualified as absence of an owner. The former state assets now were owned by thousands of small diffused owners, so it often became unclear who was the real owner. This situation might be no different from the state ownership where

there was no specific owner. Now one can admit that the economic failure of the privatization process was the failure to concentrate majority shares by one or a group of owners. To address this, the law on securities needs to be adopted in order to promote secondary market” (from the report of the Government Privatization Commission of February 26, 1994). To give an example, “in the case of Ulaanbaatar Hotel, 12,000 people obtained shares and the largest individual owner held only 0.07 percent of the total” (Denizer and Gelb 1992, 16).

Diffused ownership inevitably lead to weak governance. Subsequent consolidation of shares – which took place rather rapidly in the Czech Republic and Slovakia, for instance, which also adopted mass voucher privatization – was slow partly due to the delay in opening the secondary market.

“A survey of over 200 enterprises in 1996 shows that ownership consolidation is proceeding only slowly, with 51 percent of enterprises surveyed reporting no net changes since 1993. As a result, shareholder authority is nominal, and diffused ownership prevents outsiders from exercising effective control. Good governance conditions such as regular shareholder meetings and exclusion of general directors from board membership are regularly violated. Privatized enterprises continue to seek government, particularly local government, intermediation in commercial transactions and dispute resolution, and local government officials frequently sit on privatized enterprise boards of auditors” (Anderson et al 2000).

Other technical issues such as asset evaluation and the need for sector specific approaches – instead of one-fits-all approach taken by the government – were mentioned by the authorities among the lessons learned. For instance, it was noted that asset

evaluation was inadequate mostly due to the lack of reliable financial information and inadequate accounting records of former state owned enterprises. Detailed records were there, to be sure, but they were distorted and had very little to do with the market values. However, the quality of asset evaluation was not of much significance during the early privatization, given the bidding with vouchers on the stock exchange. In many cases, no restructuring policies preceded the privatization. Relative success of privatization in some sectors and failure in others suggested that taking into sector specific structural changes and conducting feasibility studies would have resulted in more positive outcomes from the privatization process (interview with Gerelchuluun).

4.4. Alternative Theoretical Explanations of Privatization: Special Interests and Collective Action

Privatization of state assets has been the cornerstone of the economic and political program of the National Progress Party (MNPP). It was supported in principle by other new democratic parties such as the Mongolian Democratic Party, but not especially emphasized by social democrats or the now reforming MPRP. The MNPP's privatization design has been quite radical both in terms of scope, comprising almost all economic activities, and methods, suggesting mass voucher privatization. Although not widely supported by the MPRP, this radical plan found its way into the MPRP-led government reform policy in 1991.

Political institutions argument provides only a vague insight into the economic policies and privatization. Mass privatization was made possible because of the

establishment of a coalition government where a key economic policy position was given to a representative of the MNPP. Formation of a coalition government was not a particular result of a given institutional arrangement; rather, it was conditioned by unique historical circumstances. It was proposed individually by Prime Minister Byambasuren (although the spirit of power sharing did exist among the MPRP ranks) and accepted by the new political parties.

Another interesting fact was that the MPRP gave substantial powers to the Prime Minister and the cabinet on economic policy issues. Indeed, the role of political parties – both MPRP and democratic opposition – was limited in the government agenda setting, which was a great departure from the very recent party-dominated policymaking. The government was implementing no one's political platform, it had its own program which was a mixture of various ideas and proposals and an ambitious mass privatization program was part of it.

The high level of uncertainty – economic, institutional as well as external – may have contributed to the minimal influence exerted by the political parties and especially the ruling majority. Extreme economic conditions dictated by the collapse of the old economic regime forced the government to improvise policies that were thought to be the best response. Introduction of food rationing is an example of one such policy. The MPRP high level official admitted that, due to the nature of the issues the government is dealing with, it was difficult for the MPRP to influence its policies, thus alluding to the ad hoc nature of the problems and the need for fast policy responses.

In an established parliamentary system with strong party discipline, the electoral competition among the parties would be fierce and the Prime Minister would implement the winning party's electoral platform. However, such a system was not in place in 1990, following the first parliamentary elections. The political parties were still weak. Even the MPRP with its 70 years of ruling experience was in disarray. There was no dominant ideology, multiple factions emerged, and the party was disintegrating, with some prominent members initially criticizing the party leadership and later leaving the party. With appointment of a reformist Prime Minister and without internal cohesion, the party could not enforce its more moderate policies, because there was no united policy as such.

The point about the weakness of political parties is consistent with earlier evidence when multiple candidates were nominated from the same party and non-partisan entities could also nominate candidates in the 1990 elections. As also noted earlier, the situation has changed in 1992, when political parties became more disciplined and better organized due to the change in the electoral rule, which is also evident from the policies of the Jasrai government of 1992-1996, which basically implemented the MPRP election platform. The electoral rule and political institution theories, thus, provide some vague insight into the economic policy choices in Mongolia. The key reasons seem to be related to the individuals and political and economic groups that dominated the Mongolian politics at the time.

One area where the electoral rule proved to be important was privatization of agricultural collectives. I mentioned in Chapter 3 that about 40 percent of the People's Great Khural elected in 1990 were directors and top managers of collectives and state farms. Their influence was weaker in the Small Khural but still relatively strong. This became possible because of the electoral rule which was based on a simple majority principle and required that every one of the over 350 soums be represented in the People's Great Khural, which led to overrepresentation of rural constituents. As noted earlier, the average population of a soum was about 3,000. There were remote soums with about 1000 people. In the cities and urban centers, the electoral rule said that one deputy should represent about 10,000 residents, thus leading to disproportionately low representation. The overrepresentation of rural interests in the parliament contributed to the strength of the agricultural lobby thus resulting in a greater concessions given to the negdels (agricultural collectives) in privatizing livestock.

Collective action and special interest theories are most commonly used in explaining economic policy choices. It is argued that government policies oftentimes are determined by the pressure exerted by some economic interests who are better able to impose their preferences on the government. In the context of transition economies, "the ability of vested interests to influence the state and modify policy to their advantage has been a primary threat to economic reform" (EBRD 1999, 102). Moreover, the nature of the early reforms has a significant effect on the distribution of power among interest groups at a later stage of reform. Most notably, some social groups – e.g., parts of the former nomenklatura and workers of SOEs – that are made powerful in the initial stages

of transition can create significant barriers to later reforms (ibid, 108). The following subsections deal with these and other specific arguments and use them in explaining Mongolia's economic reforms and privatization.

4.4.1 Interest Groups and Gradual Economic Reforms

Hellman (1998) and others argued that persistence of partial economic reforms in many postcommunist countries was often a result of vested interests who benefited from the initial partial reforms and attempted to lock them in so that further reforms are stalled. In many postcommunist countries, opposition to comprehensive market reforms came not from traditional short-term losers – unemployed, pensioners, displaced bureaucrats and the like – but from enterprise insiders, commercial bankers, local officials who benefited enormously from initial reforms and (temporary) distortions which were still in place. These actors were the earliest and biggest winners of the initial reforms. They “did not oppose the initiation of the reform process, nor have they sought a full-scale reversal of reform. Instead, they have frequently attempted to block specific advances in the reform process that threaten to eliminate the special advantages and market distortions upon which their own early reform gains were based (Hellman 1998, 204-205).

Although Mongolia is often pictured to have implemented shock therapy, close evidence provided in this chapter suggests that this was not the case. “In the transition literature, top-level official pronouncements often become accepted as fact, while the underlying reality of policy is hardly observed” (Murrell et al 1996). It pursued gradual

liberalization reforms, although privatization was more swift. Price, trade, and exchange rate liberalization was implemented in several stages in the course of 2-3 years. For instance, the data show that 70 percent of officially decontrolled prices did not change in the first eight months after decontrol, despite the severe macroeconomic disequilibrium (Murrell et al 1996). It is commonly argued that the protracted nature of liberalization efforts is generally bad for the economy and is often a result of interest groups who benefit from the opportunities of arbitrage between the reformed and non-reformed sectors that are provided by such reforms. Do we observe the influence of interest groups on the gradual economic liberalization in Mongolia?

Murrell et al (1996) argue that the gradual nature of liberalization efforts is conditioned more by the inherited cultural aspects of policymaking rather than rent seeking and other motivations. Evidence shows that price control was advocated and practiced by a variety of agents – and not only by those who would obviously benefited from such controls – including political parties, the central government, individual politicians, local governors, ministries, and even newly established commodity exchanges. In fact, it was difficult to find a Mongolian who opposed price control entirely, even among the ranks of the most radically minded elements. Some form of control was always desirable. This homogeneity is indicative of the underlying deeper commonality which is likely to be conditioned by the history of policymaking in the countries, rather than self-interest of certain groups (ibid, 187-190).

Another evidence to support the lack of influence of vested interests is relatively quick passage of laws that established private property rights (although initially very underdeveloped) and other incentives that encouraged private initiative. It is commonly argued that property rights usually encourage the fledgling private sector (and therefore market competition) and are slow to develop in countries with strong vested interests.

As the records show, the State Small Khural passed an unprecedented number of economic laws in a very short period of time. In the first nine months, it approved or presented 27 brand new laws governing the private sector activities as well as the government economic policies. Although the actual implementation and interpretation of these laws fell far behind the intentions of the parliament – an expected outcome in a situation of institutional collapse and void – these laws signaled the extent of economic and political change in the country more than anything else.

Boone et al (1997) argue that early parliamentary elections proved instrumental in ensuring macroeconomic reforms. “In a wave of euphoria after the elections, the new Parliament passed a long list of laws guaranteeing property rights, allowing free trade, and generally providing the legal basis for reforms and sending a clear signal that market reforms had begun. The number of private enterprises skyrocketed in 1991 and 1992; many of these were small traders and commercial businesses. These businesses played the important role of arbitrating prices and providing an outlet other than the state system for sales of agricultural and manufactured products” (Boone et al 1997, 105).

As the failed attempt of the government to impose some government price and output restrictions in 1992 on the newly privatized enterprises show, the sense of private property and the associated rights was taking root very quickly. In addition, there were no barriers to enter the private sector. Individuals and business establishments were free to engage in economic activities. Swift issuance of international passports to all citizens contributed to increased border trade and burgeoning private sector activities. In the 1990s, there was virtually no household in the urban areas where at least one member was not engaged in border trade.

Boone et al (1997) further argue as the number of traders grew the ability of the state to control prices and enforce state orders declined accordingly. To some extent, the gradual pattern of reform reflects a de facto loss of the officials' ability to enforce regulations. "Without strict control on trading and private activities in place, the Mongolian example suggests that large-scale reform becomes inevitable" (ibid, 109). This implies that the gradual nature of reforms was conditioned by the desire of the state to control the prices – in a hope to secure some minimum subsistence for the populace, restrict monopoly power and the associated windfall gains, and also due to the inherited culture of policymaking in the country, rather than influence of entrenched interests to keep their rents. Although reforms unraveled gradually, they were not postponed for long. Most liberalization efforts were completed by 1994, while economic reforms were speeded up significantly in Russia and some other CIS countries in the wake of the financial crisis in Asia and Russia in 1997 and its aftermath (Åslund 2007).

4.4.2 Political and Other Interest Groups and Their Stake in Privatization

There were multiple players that had some stake in the privatization program. First, there were political parties that had diverging views on privation and private sector in general. The MPRP preferred gradual and selected privatization. The anti-privatization sentiment was voiced by the more conservative elements within the MPRP. As discussed in Chapter 3, the MSDP did not prefer one type of ownership over the other and therefore did not push for mass privatization. The MNPP had a very radical mass privatization scheme. The MDP had no specific economic platform at the very beginning but eventually supported the MNPP's radical plan.

Second, there were mid-level bureaucrats at the central and local level that administered the old plan. They largely opposed the rapid privatization as this would jeopardize their administrative powers in determining the prices and subsidies and loans to the SOEs. Third, the management and employees of the SOEs feared that they would be displaced and wanted to secure their management and employment privileges. Fourth, professional associations – most notably trade unions and the Union of Agricultural Cooperatives – wanted to secure their own privileges and opposed equal access mass privatization. International players did not play a direct role in the design and launch of the privatization scheme. Their influence was more subtle, through providing the needed infrastructure and information. For instance, the MNPP members were most urbane and had access to the information through their knowledge of English. Study tours were organized in January 1991 for the core privatization group to Hungary and Austria with

the support of some international organizations. USAID was quite supportive of the privatization while keeping their distance for political reasons.

Thus we have divided political parties and divided leadership within the MPRP. The MSDP did not oppose the privatization program although it did not support it actively either. The MDP fully backed the privatization. The one political force which opposed the radical privatization program was the conservative group within the MPRP. Lengthy newspaper articles by Namjim, the former top planner, about the perils of too quick privatization were the public voice of this group. However, in 1990-1992 the radical wing within the MPRP led by Prime Minister Byambasuren was strong and dominated the reform agenda. As argued earlier, the party's influence – especially of the conservative group – over the government policies was limited but not absent. One major concession the government had to make to the political pressure of the more conservative group within the MPRP was the list of state enterprises not to be privatized or to be privatized only partially during the first stage. The initial list that was proposed by the Government Privatization Commission included relatively few SOEs, mostly in the utilities and infrastructure which traditionally are run by governments in market economies (interview with Ganbold). However, the list was significantly expanded at the government meeting to include about 120 enterprises such as the pharmaceutical company, gold mines, cashmere factory, etc., where the state would retain full or partial ownership, at least for the time being. Nonetheless, a decision to privatize about 44 percent of all state assets at the very initial stage of transition was quite ambitious.

Political will at the top level, as mentioned before, is usually not enough for successful privatization or any radical reforms. There is ample evidence from transition and developing countries that even with strong political commitment, reforms can easily get stalled or diverted to reflect the interests of entrenched groups. The groups that could potentially oppose privatization reforms were the mid-level bureaucrats, managers and workers of state enterprises, local governments, and professional associations. In selected transition countries these groups were very strong and influenced privatization design and method to their advantage. However, I argue that these groups in Mongolia were relatively weak due the centralized control of the MPRP and limited devolution of power to the lower levels of bureaucracy, notably SOEs and local governments. We observe little collusion among the mid-level bureaucrats and managers of the state enterprises against the center and this is related to the peculiarities of the economic system in Mongolia.

4.4.3 Small and Large Privatization: Centralized Power Structure and Relative Weakness of Lower Level Bureaucracy

Mid-level bureaucrats and local governments received increased powers towards the end of the central plan. In accordance with the newly proclaimed principle of ‘democratic centralism’ within the MPRP and in order to boost the initiative of the lower level bureaucracy, some decisions were now devolved to the lower levels. Evidence below shows that the devolution occurred to a lesser extent to the ministerial bureaucracy and somewhat greater extent to local governments.

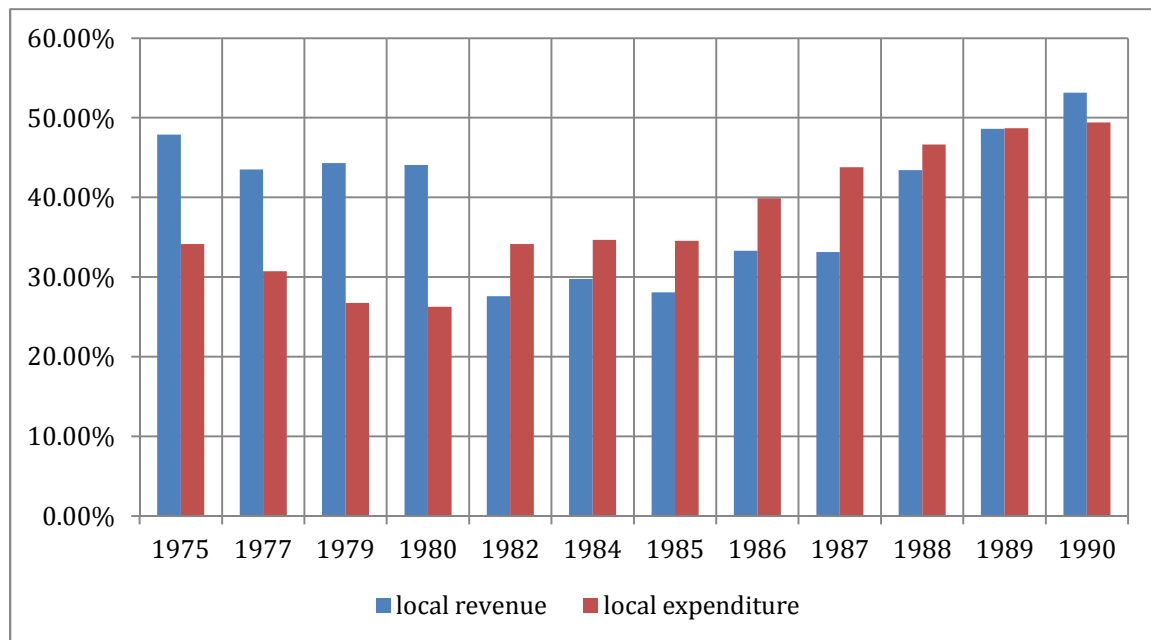
The planning process was still very much a centralized process. The State Planning Commission fully controlled all investment allocations and subsidies to individual enterprises and local governments. The reforms of the late 1980s relaxed somewhat the credit policies and gave greater autonomy to the enterprises and the bank. In 1988, sectoral credit ceilings were replaced by the global credit ceilings and the state bank managers received a greater autonomy in distributing the credit, within this global ceiling. “However, the basic principles and procedures remained the same and credit planning continued to be the major instrument of monetary control until September 1990 when the credit planning practice was abandoned” (ADB 1992, 38).

Local governments started exercising a greater fiscal role, steadily improving their share of total revenue and expenditure since 1985, reflecting the policy of the government to devolve more responsibilities to local governments, particularly in social development areas such as education and health. The share of local governments in total revenue rose from 28 percent in 1985 to 53 percent in 1990 (see Figure 4.11 below). This increase was the result of the government’s new policy permitting local governments to retain greater portion of profit taxes generated by state enterprises within their districts. This meant that the local officials would have wanted to protect their enterprises, but the fact that they had little power was crucial.

Fiscal decentralization was more noticeable in increased spending powers at the local level. The share of local governments in total budgetary spending has increased, from average of 35.5 percent in the first half of the 1980s to 50 percent in 1990. Most of

this increased spending financed investments in schools, hospitals, and local infrastructure (World Bank 1992, 15-16).

Figure 4.11 Share of local government revenue and expenditure in total



Source: Ministry of Finance

Note: Total revenue does not include foreign borrowing.

Influence of local governments over the policies was rather limited. Although local governments have been given increasing responsibility for collecting and using taxes, the central government still held all powers of taxation including scope of the tax, the tax base and tax rates. There was no tax law per se, but taxation decisions were made by the cabinet at the recommendation of the Central Planning Commission. Although we observe increased powers of local governments with regard to budget revenue and spending, total revenue and spending was subject to hard budget constraint. All aimags, except for the capital city, received subsidies from the center. Once approved, the central government did not revise *ex post* the amount of transfers (interview with Bazarkhuu).

State enterprises also had their own interests and wished to incorporate them into the privatization scheme. In 1988, the government adopted the Law on State Enterprises. The new law reflected the spirit of the reforms to improve the economic incentives for the SOEs by giving greater discretion to draw the plans, find the markets, employ and reward the workers. Law on State Enterprises became effective in 1989. The central principle that was promulgated by the new law was one of self-governance and self-viability of the state enterprises, which echoed similar reforms in Eastern Europe and the Soviet Union. The new governance principles were introduced in an attempt to deal with lack of incentives and low efficiency.

The management of the state enterprise – including the director (CEO) and managers of the sub-units – was now to be elected by the workers’ meeting instead of the previous practice of direct appointment by the ministry or planning commission. The workers’ council – also elected by the general meeting of all workers – became the governing body of the enterprise in-between the general meetings and was responsible for making important decisions regarding the operation the enterprise. These new governing bodies made important decisions about the plan and running the entire enterprise. The law resulted in reduced power of the state vis-à-vis the managers and workers of the SOEs. As Bailiikhuu argues, before the passage of the Law on State Enterprises, the state or the principal exercised significant control over the behavior of the managers of the SOEs, removal being the ultimate measure. The new law gave many powers without installing proper controls.

Nonetheless, the devolution reforms were in fact half-hearted. The newly legalized powers of SOEs were carefully constricted by compulsory state orders, expenditure normatives, wage and bonus ceilings, fixed prices, and investment decisions imposed by the central planners. At the same time, hard budget constraints were never imposed on the enterprises. The objective of the SOE was still to fulfill the plan at any cost, without worrying about the losses or efficiency. The plan, as the bottom line of the enterprise performance was still there. In the essence, the new management system was a slightly modified old system. Even though the legal framework was more far-reaching, its actual implementation was limited. Denizer and Gelb (1992) characterized the reform attempts during the late communist period as cautious and limited.

So, why the bureaucracy and SOEs in Mongolia may not be as powerful as in the Soviet Union? All in all, we observe highly centralized economic decision making in Mongolia, even during the last years of communism. The reasons could be related to several peculiarities of the Mongolian economy. First, the sheer size of the economy was significantly smaller than in almost all centrally planned economies, not to mention the Soviet Union. This means that coordination and resource allocation as well as state control problems were less severe and less daunting. As Anderson et al (2000) note, in a small country such as Mongolia the communication between enterprise and government is easy and information flows relatively freely.

Second, the economy relied heavily on the external financial and technological resources and the Communist Party tightly controlled them. The subordinate managers of the SOEs had little relative power not only in terms of acquiring the necessary inputs but also access to markets. The markets for many raw materials and inputs as well as some outputs were foreign. Most of the state enterprises depended on equipment, spare parts and critical inputs imported from the Soviet Union. The state foreign trade companies were responsible for all exports and were the sole import purchasing agents. The entire foreign trade of the country was handled only by seven such companies⁴².

State enterprises were allowed to establish cooperatives attached to them. McFaul (1995) noted that cooperatives attached to the SOEs became a major way of diverging public resources to the private hands of the enterprise directors in the Soviet Union. However, in stark contrast with the Soviet Union, there were (almost) no such cooperatives established. Following the adoption of Law on Cooperatives, only about 180 private mostly family cooperatives were established in 1988 and their number grew fast reaching 3000 in 1990, marking the emergence of the nascent private sector. As Denizer and Gelb (1992) note, the main barrier to greater private activity was “almost total lack of access to goods and foreign exchange due to the combination of a continued state distribution system and the shrinking economy-wide resource envelope.” In other words, SOEs struggled to get the minimal resources from the state distribution system

⁴²*Mongolexport* handled all exports; *Tekhnikimport* handled machinery and equipment; *Materialimex* handled construction-related trade; *Avtoneftimport* handled all imports of vehicles and petroleum products; and *Raznoimpex* handled consumer goods. Further, *Compleximport* supervised trade related to turnkey projects from the Soviet Union, while trade with convertible currencies was handled exclusively by *Mongolimpex*. (Hahm 1993, 31).

necessary for fulfillment of the state orders and there was very limited scope for any other activity.

Third, the reforms which gave more power to the local governments and state enterprises were not only limited in scope but also implementation timeframe. Mongolia embarked on the reform path a few years later than most Eastern and Central European countries and the Soviet Union. Gorbachev formally announced his devolution policies in 1985, while Murrell and Olson (1991) agree that de facto devolution started much earlier. The reforms in Mongolia were partial and cautious and aimed at improving the system within the old framework. Batmunkh's slow steps and his desire to design a reform which suited the size and structure of the Mongolian economy were criticized by some members among the top party leadership. As shown in Chapter 2, the experimental stage took about two years. The economy-wide reforms were experimented for only one full year (1989) meaning that the decentralization trend did not go very far and local governments and enterprises did not get to experience a full-scale freedom in decision making. One could expect that, allowed more time with the new system, enterprises could have adjusted their behavior further by engaging in more opportunistic activities, given that the proper incentives and control systems were not in place.

The general trend of decentralized decision making was long observed in the Soviet Union even before the Gorbachev's perestroika and the eventual collapse. For example, Winiecki (1990) argued that the *apparatchiks* and economic bureaucrats gain most from maintaining the institutional status quo, they are also the groups which resist

the change most strongly. Given the key positions of these groups in the Soviet-type economic system, Winiecki predicted a very high probability of failure of decentralizing, market-oriented, efficiency-increasing reforms (Winiecki 1990, 203). And the reform process proved to be extremely difficult in Russia. Due to some specific characteristics of the Mongolian economy, we do not detect the bureaucratic collusion on such a grand scale as in the Soviet Union.

When the mass privatization program was announced, it was not easily accepted by the mid-level bureaucracy at the center as well as localities. This is evident from the national economic conference held in November 1990. In fact, it could be argued that this conference played a crucial role in neutralizing, enlightening and pacifying the bureaucracy. The conference gathered about 1000 representatives of bureaucracy from around the country, which included accountants, financial analysts, and economists from the central ministries, agencies, state enterprises, and local governments. Their very first reaction was to harshly criticize and oppose the entire program. However, it became clear that the government would not back off and the bureaucracy did not have a viable alternative – the spirit of change was widespread and status quo could not be a solution – so that they had to accept the government decision. Since the center still had power, the decision made by the center eventually was accepted by the bureaucrats, especially at the ministerial level.

In many Central Asian countries regional and other centrifugal forces were rather strong thus affecting the economic policies. Olcott (1998) argues that Kazakhstan's

economic restructuring policies were oriented towards developing the country's hydrocarbon resources while the traditionally strong old Soviet industrial base was deprived of resources and left to die 'of natural causes'. This, in turn, allowed marginalizing the former Soviet economic nomenklatura in the republic thereby depriving the Kazakhstani Russian of their previous privileged positions and their status of elite which was derived from the former industrial role. Throughout the region, economic resources were widely used for political purposes, where the threatened leaders (ethnically, regionally or otherwise) distributed valuable resources – mostly via privatization – to secure personal loyalties or coopt the opposition and other sub-national interests. The oligarchy which emerged out these processes, with powerful vested interests and the money to protect them, gained new prominence in the shadow of formal political institutions (Matveeva 1999, 28).

In contrast with these countries, in Mongolia there were no ethnic, regional or sectoral conflicts that hobbled the relatively quick realignment of property rights and political power during the reforms. As noted in the previous chapter, ethnic homogeneity meant that no separatist groups mobilized politically and economically. In terms of regional development, there were three major industrial centers in the country: around Darkhan and Erdenet in the northern part, the city of Choibalsan in the southeastern part of the country and Ulaanbaatar, the capital city. The Erdenet copper mine was partly controlled by the Soviet Union because of the ownership and was never on the privatization list. Darkhan had several factories built with the CMEA investment and was highly dependent on the intermediate goods which were controlled by the center. In

terms of political preferences, both towns were supportive of the democratic opposition. Choibalsan's size was insignificant in terms of economic input. Therefore, we do not observe strong regions and regional interests as in the former Soviet Union. The centralized nature of the economy prohibited regions from becoming self-sufficient and economically powerful.

We do not observe any serious obstruction of the reforms at the sectoral and ministerial level bureaucracy. Another important organizational factor was that, instead of relying on the old administrative structures, the Government Privatization Commission established its branches in all aimags and even soums. Moreover, the GPC and its branches included some key bureaucrats from the central and local agencies, one organizational element which helped to subside the bureaucracy. For instance, both Gerelchuluun and Bailiikhuu – two key figures in the GPC – were high-ranking bureaucrats. They had elevated mandate from the center and operated independently of the local governments. On many occasions, there were clashes between the local privatization commission and local authorities and the issues had to be resolved with intervention from the Government Privatization Commission. Thus, narrow interests of the bureaucracy were not strong to start with and they were successfully mitigated by clever organizational measures. The interests and wellbeing of the bureaucrats who were now working for the GPC did not depend on the powers of line ministries and government agencies. They were drawn from the powers of the commission, thus there was no issue of divided loyalty.

State-owned enterprises and especially trade unions exerted some pressure on privatization methods. The pure equal access mass privatization was not acceptable to them. The interests of managers and workers of state enterprises were incorporated by providing a few privileges. Employees of small enterprises enjoyed two privileges. Those small enterprises (often small shops) which were on lease agreement – a late communist period experiment attempting to improve efficiency by making the employees residual claimants of the enterprises' performance – were entitled to buyoff the enterprises without external competition. The share of these enterprises was rather low. In those enterprises which were auctioned, employees could enjoy a 10-percent discount on the final auction price. The bulk of small enterprises – 60 percent in the city and even more in the countryside – was sold to the insiders.

Employees of large enterprises were granted one privilege. They could buy off the shares at the nominal price before the shares being sold at the stock exchange. For many enterprises this was a risky adventure as the actual price of shares turned out to be lower than the nominal and the employees did gamble on the stock markets. However, many employees took advantage of this clause. In the end, about a third of shares of privatized large enterprises ended up in the hands of the insiders and their families. But this occurred not because the insiders were given massive advantage of primary buyouts at a low or even no cost as it happened in Russia – after all, the purchasing power of the employees was limited with the value of the blue voucher they held – but through a market mechanism where individuals made their own choices as to which shares to purchase. Oftentimes, the family members of employees purchased purchases the shares

of their enterprises, thus showing immense collective action, both among the employees as well as their extended families.

World Bank (1997) classified the Mongolian privatization as equal access voucher privatization, although it was not. However, the privileges given to the managers and employees were modest compared to other countries in transition, where management-employee buyouts (MEBOs) became the dominant privatization method. This could be attributed to the significant pressure these interest groups were able to exert on the privatization policies, which was not the case in Mongolia. The very small concessions given to the managers and workers are evidence of their lack of political power. Moreover, the initial stage of voucher privatization excluded the most valuable enterprises – for instance, in the mining and cashmere sector – and therefore reduced the stakes involved in the privatization process.

4.4.4 Agricultural Privatization: Strong Vested Interests

One area where organized special interests were particularly strong in Mongolia was privatization of agricultural collectives. The directors of the negdels were able to successfully mobilize through the Union of Agricultural Collectives, a professional organization with a long history and experience. The Union of Agricultural Collectives opposed privatization of negdels at all. They wanted to give livestock to herder families on lease agreements, and thus retain control over the collective assets. However, under the pressure of herders, they had to give in and agree to privatization. As noted earlier, herders were not organized at the national level due to the prohibitively high collective

action problems. However, they were more successful at the negdel level. Since the negdels – neither the central government nor even aimags – were officially the level where privatization decisions were made, it was much easier for the herders to pressure their local rulers. Some negdels had only few hundred households. It was definitely in their interest to push for privatization rather than lease agreements. Once the negdel managers could not retain the old power, they wanted to at least control the privatization process itself.

First, they wanted to privatize livestock and other assets free of charge, even without using vouchers. Their main argument was that the livestock and other assets were the property of the collectives and not of the state, although the more radically minded groups argued that negdel were de facto state entities ruled by the party nomenklatura rather than by the members of the collectives. It was argued that as collective members, herders were entitled to collective assets and, as citizens, they were entitled to state assets, as everyone else. However, this argument did not proceed very far.

Second, for the same reason, they opposed open access privatization (as in the industry and services sector) where everyone including city dwellers would have an access to the livestock, the main asset. Moreover, they wanted to exclude non-member rural dwellers such as professionals and administrative staff. They also opposed uniform method of (closed) privatization for all negdels, as this would likely to be equal access for all collective members. The directors wanted to exercise individual control over the privatization of assets in their own negdels. Therefore, they pushed for exclusion of

agricultural privatization from the general Privatization Law. Moreover, they wanted to control the method of privatization in individual negdels. And they largely succeeded in this argument. The government could not dismiss the directors of the negdels because now their appointment was decided by the collective itself rather than the Ministry of Agriculture, as under the old regime.

The Union of Agricultural Collectives included directors of all 255 negdels, a fairly small group compared to thousands of small and large state enterprises, not to mention almost a million of dispersed herders that were members of the collectives. Collective action problem was much easier to overcome within such a small group. Secondly, as noted before, the union was backed by the members of parliament, especially deputies of the People's Great Khural.

As expected, numerous allegations of corruption and unequal treatment of herder families were reported in the agricultural privatization. In the end, because of the numerous complaints from rural dwellers, the Government Privatization Commission had to step in and the government proposed some general rules for all negdels to follow. Because of their legal mandate to provide general guidance and advice only, the GPC had only some partial success in influencing livestock privatization.

To sum up, privatization methods and outcomes differ significantly in different sectors. In the sectors where special interests were weak or nonexistent, privatization was implemented with little resistance and in a more egalitarian manner. More universal

and open methods dominated. This was largely the case in small privatization and to some extent large privatization, where relatively small privileges were given to the insiders and little corruption was registered. However, in the agricultural sector where vested interests were strong and better organized, privatization led to domination of a small group of local authorities over the privatization practices, less equal distribution of assets, and more cases of corruption.

4.5. Conclusion: Relative Success of Early Economic Reforms

This chapter provided much greater detail about the economic reforms during the initial phase of Mongolia's transition than any previous studies. The new quantitative and qualitative evidence grants several observations which were previously overlooked.

There are two dominant orthodoxies that describe Mongolia's economic reforms. It is often argued that the period of 1990-1992 was a period of shock therapy and 1992-1996 was a period of slowing down of economic reforms. There were some who argued that Mongolia took gradual reforms, most notably Murrell and Boone. However, they were in the minority. The new evidence I bring in weakens this orthodoxy. One piece of critical evidence is the EBRD transition indices, which were not available until 2004 when Mongolia became a member of the EBRD and the indices were backdated to 1989 which gives an opportunity for comparative analysis. These indices are usually considered more reliable than the CLI produced by the World Bank study by de Melo et al. The data reveal that reforms were slower than believed during 1990-1992 and faster than believed during the more conservative government of 1992-1996. Additionally, a

more careful analysis of reform measures proves that the pace of reforms was maintained throughout the more conservative government of Jasrai. Moreover, many reforms initiated by the previous government were sustained or completed during this period. For instance, foreign exchange rates were fully liberalized in 1993, prices were continued to be liberalized during this period, fiscal and monetary policies were tightened leading to lower inflation, institutional reforms were further advanced, etc.

Second important observation is that the policies pursued in the first six years of economic transition – and especially their random nature – were very much reflective of the huge economic uncertainty, the configuration of political forces, and the overall culture of policymaking. The policies represent a peculiar *mélange* where rapid privatization was combined with gradual liberalization and series of war-like measures. This was especially true of the coalition government policies of 1990-1992, and the peculiar state of “triangulation” I mentioned earlier. The radical elements dominated the policy agenda and were able to push forward an ambitious privatization program perhaps without fully realizing its repercussions and impact on the economy, politics and the society. However, the ambitions of the radical elements were somewhat diluted by the more conservative elements which had better control of the parliament, resulting in slower reforms.

Another important new observation pertains to the role played by the international community and especially the IFIs in the economic policymaking. It is commonly argued that Mongolia was highly dependent on aid and therefore policy conditionalities imposed

by the IMF and others. Fritz (2000) argued that Mongolia's was a "dependent democracy" and Rossabi (2004) argued that the IFIs were responsible for the cookie-cutter policies imposed on the Mongolian government and the negative consequences of such policies. Local observers – e.g., Baabar – also were critical that the Jasrai government was implementing IMF's agenda rather than its own. More careful analysis of the policy steps and the new evidence brought in in this dissertation contradict this orthodoxy. Although international players did play an important role, their influence was by no means decisive. The government actions – both of Byambasuren and Jasrai – were reflective more of the domestic interplay of political forces, popular sentiments, and the legacy of policymaking inherited from the previous regime.

I provide a great deal of detail about how the privatization program was designed and adopted, and ultimately implemented, although many of the issues have been pointed out by others scholars before. However, I believe the new details provide a clearer picture why mass voucher privatization was adopted and how it achieved its mostly political objectives. No studies conducted before explained why the privatization proceeded relatively fast and why certain methods were used. The new details also highlight and explain the difference in the type of privatization that prevailed in the industry and services vs. the agriculture, and the nature of political struggle that went on in the agricultural sector. Ultimately, privatization in agriculture proved to be successful mostly because of the peculiar type of assets involved (about 20 million animals). The overall picture reinforces the previous arguments that Mongolia's privatization was largely a political undertaking rather than an economic one. The privatization program

largely succeeded in its goal of transferring the assets to broader masses in a relatively fair manner and creating a private sector. However, the central lesson of privatization was that transfer of ownership rights alone is not sufficient to bring about the efficiency increases necessary for growth. Outside ownership concentration, good governance, and a competitive environment are essential for efficiency gains.

Previous analysis of economic reforms and privatization do not employ any specific theoretical approaches. Therefore, one of the contributions of this dissertation is attempting to explain the policies through the lens of political economy arguments. Political institutions, however, explain little of the nature and methods as well as implementation of the privatization program in Mongolia, although one could find some factors that were favorable to pursuing an ambitious mass privatization scheme. Overrepresentation of rural interests in the parliament through the electoral rule also partially explains the big concessions provided in the agricultural privatization.

The interest group theory is much more applicable to the issue of both economic reforms and especially privatization. Ample evidence from developed and developing countries suggests that organized interest groups have significant advantage in the making of economic policy and especially privatization. In this chapter I attempted to show that devolution of power from the center to the lower levels of administrative hierarchy was much less in Mongolia than in some other postcommunitis countries, most notably the former Soviet Union. This had crucial implications for the privatization, as it meant that groups with narrow interests – bureaucrats and managers of the SOEs – were

much weaker in Mongolia than elsewhere. Therefore, there was little resistance from the bureaucracy and fewer concessions were given to the managers and employees of state enterprises, although some privileges were given nonetheless.

The experience of Mongolia also proves that whenever there is a strong organized group with a narrow interest, they would find a way to influence the policies, which was the case with agricultural privatization. A strong group of the managers of the agricultural collectives mobilized through the Union of Agricultural Collectives and aided by the disproportionately high representation of rural interests in the legislature, was able to exert significant power on the privatization methods and outcomes in the agricultural sector. As a result, the privatization in this sector was less equal and more corrupt and perceived less legitimate by the rural populace.

Chapter 5 Explaining Political and Economic Reforms in Mongolia

This dissertation describes a political and economic transition that occurred in Mongolia in the early 1990s. I argue that the Mongolian experience is unique in the sense that if one looks at the standard indicators of Mongolia's politics, economics, geopolitical situation and resources, one would not have predicted a successful transition to democracy, development of relatively good institutions, and good economic performance.

A variety of factors have been presented as having contributed to the successful political and economic transition in Mongolia. However, one is puzzled which ones have played a key role in the transition process. Which factors constitute sufficient conditions for successful democratization and privatization in Mongolia? This chapter categorizes these factors and attempts to identify those that are believed to be most important in successful transition so that the existence of these factors was sufficient for such a success.

5.1. Explanatory Factors of Democratic Political Transition

I group the factors that were identified as having contributed to the successful democratic transition into five categories: external, historical, political, institutional, and cultural factors.

External Factors

The political events in Mongolia were triggered by the external developments that took place in the Soviet Union and Eastern and Central Europe since the second half of the 1980s. Gorbachev's perestroika and glasnost sparked series of major political and economic reforms that ultimately led to a greater systemic change. Events in the late 1980s in Eastern Europe were continuation of these developments. However, they took the changes to a qualitatively new level and ultimately regime change. It could be argued that without such a systemic motion, no changes were feasible in Mongolia, where the old party still had a strong grip over the political and economic system of the country.

Beissinger (2002) argues that Gorbachev's glasnost created a mobilizational cycle in the Eastern Bloc and nationalism was one of its dimensions. The concept of the mobilizational cycle was first developed by Tarrow (1989) and is defined as "a phase of heightened conflict and contention across the social system" involving "a rapid diffusion of collective action from more mobilized to less mobilized sectors." (142). As Tarrow (1989) noted, protest cycles emerge "through imitation, comparison, the transfer of forms and themes of protest from one sector to another, and direct reaction on the part of those whose interests had been affected by earlier protests." (223).

It could be argued that the mobilizational cycle on a systemic scale against the communist regime started with Gorbachev's reforms, although unsuccessful attempts in Hungary, Czechoslovakia, and Poland in the previous decades perhaps did have some

impact on the later developments in the Eastern Bloc. The cycle was not a Soviet phenomenon only and was initially meant to reinvent the old system. However, it swept the entire socialist system and led to its demise. Mongolia became part of this cycle due to its close political and economic ties with the Soviet Union and Eastern Europe. Events in the Soviet Union and Central and Eastern Europe were closely watched by the Mongolian leaders and especially young intellectuals who received degrees in these countries and had access to information. The fact that the Soviet Union was leading these rapid changes meant that no Soviet tanks would be involved this time.

Beissinger (2002) argues that the disintegration of the Soviet state materialized out of a “four-year period of “thickened” history in which events acquired a sense of momentum, transformed the nature of the political institutions, and assumed the characteristics of their own causal structure” (ibid, 36). Many republics of the former Soviet Union took advantage of the changing environment and became part of the nationalist (and separatist) tide, which ultimately led to the collapse of the union. Mongolia became part of this mobilizational cycle. Mass protests from December 1989 through to spring of 1990 closely resemble the events taking place elsewhere in the socialist world and were inspired by those events. Thus, I argue that the external factors that triggered the collapse of the socialist world were a necessary and critically important factor in the successful democratic transition in Mongolia.

As evident from the experiences of several post-Soviet states and especially the Central Asian states, although crucially important, external events do not guarantee that

democratic changes will occur in a given post-communist country. Most post-socialist countries were placed in a similar external environment (to the extent that information flows relatively freely, which could not be said of China, for instance), yet changes taken place in various countries vary dramatically. Even countries that accomplished democratic transitions differ significantly in their paths to democratization. Therefore, one needs to look into domestic factors and country-specific circumstances.

Historical Factors

I argued that certain historical factors played an important role in Mongolia's transition to democracy. In particular, I noted the existence of a mild leader and weak military as factors that favorably influenced democratic changes. But, how important were these factors? Would Mongolia have transitioned to democracy if there were a strong ambitious leader, akin to Nazarbayev, and a strong army which he could control?

Batmunkh is justly credited with quick dissolution of the politburo which laid foundation for the fast advancement of democratic political reforms. Batmunkh was a mild leader, especially if contrasted with other strong leaders in the region, such as Russia and most Central Asian republics. Mongolia itself had periods when a strong, imposing leader ruled the country. Batmunkh was mild and more liberal compared to his predecessor, Tsedenbal. Personal character may have played a role; however, I believe the key aspect of Batmunkh's leadership style was conditioned by historical circumstances. Batmunkh succeeded Tsedenbal in 1984, on the advent of Soviet perestroika. Batmunkh ruled the country under circumstances that were very different

from Tsedenbal's. Unlike Ceaușescu in Romania, Zhivkov in Bulgaria, Honecker in East Germany, and most of the incumbent leaders of the Soviet republics, Batmunkh's entire leadership coincides with the perestroika and glasnost-type of efforts in the Soviet bloc as well as in Mongolia. As Batmunkh admitted in his memoirs, the six years he ruled the country were marked with continuous questioning of the old ideology, revision of past practices and the history itself, great uncertainty as to where the system is headed, and search for something new yet unknown. This was a period of great challenge and the biggest change the Soviet-type system had ever undergone. Whether he wanted or not, Batmunkh had to be a different leader, because of the problems he faced and the ways these problems had to be tackled.

The distinctive nature of the decision making process under the communist regime was its extreme centralization, where the top leader ultimately makes important decisions on an individual basis. Under these circumstances, Batmunkh should be credited for a drastic decision to resolve the politburo. The question arises: would the decision (and the course of the events) have been different if there was a different leader? The answer is, yes, but probably not drastically so. The decision most likely would have been made slower, with some use of force or threat to use force on the regime side. Politburo members admitted that Batmunkh's decision came as a shock, i.e., it was fast. The MPRP's commitment to non-violence would probably be weaker, but still strong. This would likely lead to some violence, although probably limited and definitely not at the scale of prolonged clashes or civil war. The dominant sentiment both within the broader MPRP leadership and the masses for peaceful course and national coherence and

unity was extremely strong. Therefore, even if the military were stronger, violence would not have persisted. I believe the underlying cultural factors – which will be explained later – would have been stronger than a will of an individual strongman, if there was one. Therefore, the course of democratization would probably be sustained under an alternative leader, but the process would have been slower and more complicated.

Political Factors

Earlier account of political events emphasized such political factors as the emergence of political opposition and its strengthening through mass mobilization, divided leadership among the MPRP, and brief dominance of radical elements within the ruling party as critical elements of political democratic reforms in Mongolia. The experiences of transition countries – successful or otherwise – have shown that no political democratization is possible without democratic opposition. There has to be a substantial, organized pro-democracy political force in order for the democratic change to proceed. A strong pro-democracy opposition existed in all countries in Central and Eastern Europe and the Baltic states which made successful transitions. Pro-democracy opposition was very weak or absent in most Central Asian states – with the possible exception of the Kyrgyz Republic – where no democratic transition has occurred. Mongolia's pro-democracy opposition, initially rather weak, gathered strength and momentum by successfully staging anti-regime political protests and thus mobilizing the masses. Therefore, existence of a (relatively) strong political opposition is a necessary condition for democratization.

Regime transitions require a large enough shock to precipitate either a change in the composition of governing elites or in their political identities. Bratton and van de Walle (1994) argue that intra-elite competition was not sufficient to bring about a transition to democracy; it had to involve sustained mass mobilization and popular protest. Therefore, behavior of mass publics becomes a necessary condition rather than merely a facilitating factor for democratization in single-party or patronage systems.

The elites in Central and Eastern Europe have driven their respective countries down a much faster and successful road to democracy than any of the Soviet successor states precisely because they interpreted sustained mass protest as a clear sign that their future political support was contingent on their present role in enacting substantive democratic reforms (Jones Luong 2002). In contrast, the Central Asian states experienced the lowest degree of popular mobilization in the former Soviet Union (Beissinger 2002) and the legacy of the state socialism and patronage-style politics was much stronger in this part of the union. The extreme personalization and concentration of power that characterized Central Asia's political regimes at independence, therefore, made transition from above all the more unlikely there. No coincidentally, they also experienced the lowest levels of elite turnover (Suny 1995, in Colton and Tucker 1995).

Thus, in some countries, the opposition was strong and successfully led the changes. In others it was virtually non-existent. In Mongolia, however, it was weak and had to be aided by the radical elements within the MPRP in order for democratic changes

to occur. Therefore, I consider the fact that the MPRP leadership was divided – with fewer radical pro-democracy elements and the remainder who were more cautious and conservative, although also aiming at some sort of change – to be a critical component of the democratic transition. Without apparent support of some leaders within the MPRP, democratic opposition would not have succeeded. Moreover, these radical pro-democracy elements dominated the political decision making in 1990 and during the first coalition government. Thus, the political factors – which are not observed in Central Asia, for instance – seem to be critical in Mongolia’s success. I consider these political factors to be among the necessary and sufficient conditions that made Mongolia a democratic state.

Institutional Factors

Scholars argued that electoral and other constitutional rules play a critical role in democratization. As Huntington (1991) noted, “...[e]lections, open, free and fair, are the essence of democracy, the inescapable sine qua non.” Electoral systems are the basis on which founding elections in transition states occur. It was also argued that proportional representation – together with the parliamentary regime type – best supports the democratic opposition and therefore the success of the democratization process. I argued earlier that these institutional arrangements in Mongolia were mixed in Mongolia, but mostly inclusive and auspicious for democratic change.

McFaul (1997) argued that the political institutional design depended on the balance of power between the incumbents and regime challengers. Countries with strong

democratic opposition opted for an electoral system and political regime that gives institutional advantages to the democratic forces, i.e., proportional representation in the national legislature and a parliamentary regime type. Jones Luong (2002) provides empirical evidence from Central Asia and argues that the relative bargaining power of the political players – center vs. the regions – explains the variation in the electoral systems in the three Central Asian republics. The center was the weakest in Kyrgyzstan and therefore the electoral rule turned out to be relatively decentralized, while the opposite was the case in Uzbekistan.

One could argue that the relative power of political forces and political factors played an important role in the design of political institutions. We observe similar trends in Mongolia. The mixed nature of the electoral rule was reflective, on the one hand, of the overall MPRP dominance which wanted to fully control the People's Great Khural (the upper chamber) and, on the other hand, of a deal struck between the reformist elements of the MPRP and more moderate elements within the democratic opposition (hence proportional representation in the State Small Khural). I argue that such an arrangement would not have been possible without certain political factors, namely relatively strong pro-democracy opposition and the political will of the radical elements within the old party. Therefore, institutional factors were important in advancing the democratic course, but they were derivative of other factors, namely political factors, and as I argue below, cultural factors as well.

Cultural Factors

Many phenomena in Mongolia's democratization – lack of violence, effective collaboration on a national level, generally inclusive political institutions – could not be explained by pure historical or political factors. One had to look deeper into the underlying cultural factors. I identified several cultural factors as having played an important role in democratization in Mongolia. Among them, I particularly emphasized two: a strong sense of national identity and social homogeneity.

Robert Dahl (1971) argued that high levels of ethnic diversity make democracy much less likely, particularly in countries where one ethnic group can plausibly aspire to dominate a state. Other authors identify strong ethnic passions with antidemocratic animus and a penchant for militarism, intolerance, violence, and even genocide. Indeed, many argue that the exclusionist character of ethnic nationalism makes it a weak basis on which to build a democratic society, and that only a self-consciously civic nationalism is ultimately compatible with democratic development (e.g. Kohn 1945, Plamenatz 1973, Lipset 1963).

However, Beissinger argues that the experience of the Soviet and post-Soviet world stands as a prime source of support for the idea that politically mobilized ethnicity and democracy can go together, provided that ethnic feelings are focused on ending foreign rule rather than fighting with other ethnic groups closer to home (Beissinger 2008, 85). For example, the three successful democracies to have risen from the rubble of the Soviet Union – the Baltic states – relied heavily on ethnic nationalism to drive their

transitions to free self-government, whereas the absence of a strong national identity against the Soviet rule in Belarus has reinforced a weak civil society, provided a social base for the authoritarian rule of Lukashenka and helped to marginalize Belarusian democrats (Marples 1999).

The importance of cultural factors becomes even more profound when one contrasts Mongolia with other Central Asian countries. Mongolia is an ethnically and religiously homogeneous country. Mongolia was also characterized by nationalistic sentiments and heightened spirit of self-governance and self-determination. But Mongolia’s nationalism was focused on ending the Soviet rule. It was a civic nationalism, rather than ethnic; ethnic mobilization was low and non-political. I believe these factors provide the basis for high level of social cohesion: these sentiments were strong both among the incumbents and the opposition, as well as the general masses. High level of social cohesion lies at the roots of a strong civil society, inclusive institutional arrangements, absence of violence, and ultimately successful pact between the political parties. I believe, without these important cultural factors, successful democratization would not have been possible in Mongolia.

I have shown in the previous chapters that a plethora of factors have contributed to the successful democratization process in Mongolia. However, various factors have played varying role in this process. Table 5.1 below summarizes the discussion above.

Table 5.1 Factors that contributed to democratic political transition in Mongolia

Factors	How important?
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1. External factors	
Perestroika and glasnost in the Soviet Union (1985-1989) and popular mass demonstrations in Eastern Europe and some parts of the Soviet Union (1989-1990)	Extremely important, led to the shift in the fundamental structure of the communist regime and ultimately regime change <u>Necessary core condition</u> , although does not guarantee success of democratic transformation
Donor aid and pro-democracy international players (after 1990)	Important in dealing with economic crisis and legitimizing the new regime, indirect influence on democratic transition <u>Not sufficient condition</u>
2. Historical factors	
Removal of long-term leader Tsedenbal (1984)	Important in weakening (mildly) authoritarian leadership style and extreme pro-Soviet orientation <u>Not sufficient condition</u>
'Mild' leader Batmunkh who governed through perestroika and made a swift decision for the Politburo to resign	No strong leader to grab power Critical in speeding up the process and ensuring peaceful changes in the system, but probably less critical for the ultimate goal of democratic transition <u>Important but not sufficient condition</u>
Weak military	Helped the democratic opposition, important in the decision of the regime not to use force against the demonstrators, however not the most critical reason of peaceful changes <u>Important but not sufficient condition</u>
Pre-existing sovereignty	No need to build the nation-state from scratch, however not unique to Mongolia (e.g., the Baltic and other states successfully resolved the sovereignty issue) and does not mean that democratic changes will follow <u>Important but not sufficient condition</u>
3. Political factors	
Emergence of a strong democratic opposition (initially few intellectuals, later popular support)	Very important, not observed in Central Asia Conditioned partly by external factors <u>Necessary and sufficient condition</u>
Divided leadership among the MPRP	Very important for success of democratic opposition, but hardly unique to Mongolia, yet not present in some Central Asian countries <u>Important and sufficient condition</u>

Dominance of radical elements within the MPRP during 1990-1992	Extremely important for success of democratic opposition and democratization (collaboration of the radical elements within the MPRP with moderate elements within the democratic opposition, coalition government, radical reforms) <u>Important and sufficient condition</u>
4. Institutional factors	
Mixed electoral rule – majority for the People’s Great Khural and proportional for the State Small Khural (full legislative powers)	Important for strengthening new political parties and their influence in policymaking Critically important after the democratic breakthrough <u>Not sufficient condition, derived from political factors</u>
Other electoral rules – early elections, party nominations	Important for strengthening new political parties <u>Not sufficient condition</u>
Regime type – parliamentary during 1990-1992 and semi-presidential with strong parliament since 1992	Favorable for the democratic opposition <u>Not sufficient condition</u>
5. Cultural factors	
Ethnic, religious, and social homogeneity	Important for narrowing down the agenda and therefore for successfully reaching a pact. Important for successful national level collective action and cooperation <u>Sufficient condition</u>
Strong national identity and pride	Very important in greater social cohesion and successful collaborative effort <u>Sufficient condition</u>
Small population and tight elite	Makes a pact easier to reach, also makes collective action less costly <u>Not sufficient condition</u>
Historical precedence of decentralized leadership (as opposed to historical dominance of strong centralized leadership in Russia and Central Asia)	Played some role, especially in installing a parliamentary type of system (collegial decision-making) <u>Not sufficient condition</u>
Pastoral nomadism and dispersed rural population	Although there exists a dominant paradigm of nomadic free spirit, egalitarian clan-based horizontal structure, etc. historical evidence shows that the traditional society in Mongolia was very

	<p>much hierarchical. However, the dispersed rural population made it prohibitively costly to organize on a mass basis, therefore, more conservative nomads were removed from active political engagement <u>Not sufficient condition</u></p>
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Source: Author's own judgment

5.2 Explanatory Factors of Economic Reforms and Privatization

I have shown earlier that economically Mongolia performed relatively well compared to many other transition countries. Scholars argued that this was partially due to favorable initial conditions such as the small size and low level of industrialization as well as good economic policies including (relatively) fast reforms and privatization. This dissertation did not explain the relative macroeconomic performance of Mongolia. Instead, it aimed at explaining why certain policies – and especially the mass privatization scheme – were adopted. It was emphasized that, contrary to the common belief, liberalization and stabilization efforts during the initial period took place relatively slowly and gradually. Yet, privatization was fast and radical. It was shown that multiple factors contributed to the adoption and relative success of economic reforms and especially implementation of a far-reaching privatization program in Mongolia.

External Factors

The initial changes in the central plan started in 1987 following Gorbachev's perestroika efforts in the Soviet Union and earlier economic reforms in Eastern Europe.

This external influence had an important impact on the initiation of economic reforms, and especially streamlining the planning process and decentralization. However, the actual implementation of the reforms lagged behind compared to most of these countries, particularly in devolution of decision making to the lower levels of government and enterprises. The Central Asian republics were also among the ones who lagged behind in implementing the Gorbachev-Ryzhkov reform agenda. Some economic experiments took place in the Baltic republics, parts of the Russian Republic and elsewhere. However, the economies of the Central Asian republics were among the least reformed ones (Pomfret and Anderson 2001) and their leaders were considered the most conservative within the union. Therefore, the extent of this external factor – Soviet-induced experimental reforms – varies greatly among the countries and its impact on the subsequent market reforms is ambiguous.

Another external factor that influenced the economy and therefore implementation of the market economic reforms was the economic shock associated with trade disruption within the CMEA system and aid withdrawal by the Soviet Union. I argued that the economic shock forced the Mongolian authorities to look outside the Soviet bloc for new economic partners which, in turn, was conducive to advancing the market reforms. One could reason that the degree of shock – and therefore the need for reforms – was especially high among those countries which depended on the intra-union and intra-CMEA transfer of resources. Yet, most of the Central Asian republics with their highly dependent (occasionally mono-culture) and backward economies did not

undertake market reforms, with the exception of the Kyrgyz Republics in the earlier stages of transition and to some extent Kazakhstan.

External shock led the country's leaders to look for new economic partners and new markets. As part of this process, Mongolia became a member of major international financial institutions. It is commonly argued, and justly so, that financial support provided by the IFIs was crucial in dealing with the economic shock and economic crisis which became imminent after the withdrawal of financial assistance by the Soviet Union. It was further argued that these international players contributed to the adoption and implementation of the political and economic reforms. The only country in Central Asia which received a strong support of the IFIs and most notably the IMF and the World Bank was Kyrgyzstan. Not surprisingly, it was considered as one the most dynamic reformers among the former Soviet republics, successfully curbing hyperinflation in 1995 and becoming the first one join the WTO. Yet, it was not able to sustain and advance on the initial basic reforms and establish a well-functioning market economy (Pomfret and Anderson 2001).

I argued earlier that, although critically important, donor assistance and influence over the domestic policies in Mongolia is occasionally overemphasized by the scholars. Mongolia's democracy is not a dependent democracy which was imposed and/or sustained by external players. Evidence shows that the Mongolian democracy probably would have prevailed without external financial assistance. However, the economic situation would have been unmanageable without such a support.

Overall, I argue that the external factors played an important role, in particular, financial and technical support provided by bilateral and multilateral donors. This support was not available in most of the Central Asian economies (again, with the exception of the Kyrgyz Republic), or came in relatively late. Nonetheless, the role of external factors does not explain why relatively fast reforms were undertaken and mass privatization was adopted in Mongolia. In Kyrzystan, for instance, we observe reversal of the early privatization and price liberalization efforts (Abazov 1999). One, therefore, needs to look into domestic structural, economic, and political factors.

Historical and Structural Factors

There are several historical and structural factors that distinguish Mongolia from some postcommunist countries. The Mongolian economy is characterized by high degree of aid and trade dependency. The economy was undiversified and could not survive without the CMEA trade regime. This situation is similar to most of the Central Asian economies which were net recipients of resources within the Soviet Union and relied on few – if not one – natural resources (e.g, cotton in Uzbekistan, oil in Kazakhstan, and gas in Turkmenistan). However, reform path diverged greatly in spite of these structural similarities.

Mongolia implemented perestroika-type of reforms relatively late and on a limited scale. Reforms were experimented on a partial basis for two years and on a full scale for

only one year. Moreover, unlike most countries in Eastern Europe, Mongolia did not have any experience with market economy. In the 20th century, it transitioned from a semi-feudal, largely self-sufficient pastoral nomadic society with negligible market activities straight to central plan. The situation is again quite similar to some Central Asian economies and creates extremely unfavorable conditions for market-type of reforms. The virtual absence of historical experience compounds the difficulties created by the limited nature of market-oriented during the late communist period.

However, I argued that the limited reforms in the late 1980s helped the communist party to retain centralized authority and thus limit the powers of the regions, directors of SOEs, local government officials, and the bureaucrats in line ministries. Furthermore, the very fact of aid dependency helped the center to control the inflow of foreign capital and intermediate goods. Thus, little devolution occurred in the second half of the 1980s, which is quite different from the experiences of the Soviet Union (or at least some parts of it) and Central and Eastern Europe.

I argue that the fact that the center was able to control the resources does not guarantee that market reform will be advanced or (more or less equal access) mass privatization will be implemented. On the contrary, in some places where the center was in full control of resources, no reforms occurred in the early-to-mid transition period, Turkmenistan and Uzbekistan being cases to the point. Yet, these historical and structural peculiarities of the Mongolian economy and politics created the balance of political and economic power which was conducive for market reforms and privatization.

Political Factors

I believe that the political breakthrough and dominance of radical elements in the government during 1990-1992 were extremely important for launching market reforms in Mongolia. Without democratically oriented leadership, no postcommunist country implemented far-reaching market reforms in the early transition period⁴³. Cross-country empirical evidence from the early transition period shows that political reform was the strongest predictor of economic reforms in the mid-1990s (de Melo et al 1997). Uzbekistan, Belarus, and Turkmenistan with their extremely conservative communist incumbent leadership never had a chance of early market reforms. Uzbekistan's gradual approach to economic reforms is most likely conditioned by political factors, more than anything else (Abazov 1999). Nevertheless, experiences with partial market reforms in many parts of the postcommunist world – especially Russia – demonstrates that democratic political leadership does not guarantee that good policies will be implemented.

Political will at the highest level was often not enough to pull through the policy measures. It is a necessary but not sufficient condition for the successful reforms. Much depends on the degree of resistance to the reform agenda demonstrated by the lower level bureaucrats, at the ministerial, local government, and enterprise level. The level of

⁴³ China proves that market reforms are possible without democratic political change. Later experiences of some Central Asian republics, e.g., Uzbekistan, also show that economic reforms could (eventually) proceed under an authoritarian leadership. However, the common picture of almost all Soviet-block countries was that political changes preceded economic changes and the two were closely interrelated.

resistance, in turn, depended on the relative power of these agents. I have shown in Chapter 4 that, unlike in most CIS countries, the special interests represented by state enterprises and local governments were rather weak in Mongolia. This was explained by the structure of the economy and the nature of the reforms during the late communist period. At the same time, agricultural interests represented by the Union of Agricultural Cooperatives were relatively strong. Ultimately, this configuration of power among the critical political and economic players determined the methods and path of privatization and the course of economic reforms in general. Therefore, I consider political factors to be critically important and sufficient conditions for economic reforms.

Institutional and Cultural Factors

I also mentioned several institutional and cultural factors as having influenced the nature of economic reforms and privatization. In particular, Murrell et al (1996) argued that the culture of price setting during the communist period was critical in explaining the gradual price liberalization that took place in the early 1990s in Mongolia. However, I do not detect any other cultural dimensions that strongly influenced the privatization scheme. Even the privatization of livestock seemed to have been determined by the interplay and relative strength of various political players. Overrepresentation of rural interests in the legislature was mentioned as an institutional factor that helped the agricultural interests to get substantial privileges. But, again, I do not consider this factor to be critically important. The rural interests were significantly overrepresented in the People's Great Khural, but not to such a great extent in the Small Khural, which was the

main legislative body. Therefore, institutional and cultural factors played only a marginal role in the adoption of the economic reform agenda in Mongolia.

Table 5.2 below summarizes the above discussion about the relative importance of various factors in determining the economic reforms.

Table 5.2 Factors that contributed to economic reforms and fast privatization in Mongolia

Factors	How important?
1. External factors	
Economic reforms in Eastern Europe and Soviet Union	Important in launching perestroika type of reforms in the late communist period <u>Necessary but not sufficient condition</u>
Membership in IFIs and donor aid	Important in dealing with economic crisis and getting technical support, improving the legitimacy of the new regime <u>Necessary but not sufficient condition</u>
2. Historical and structural factors	
Late launch of devolutionary reforms	Centralized practices persisted, although some devolution occurred, but mid-level bureaucracy did not gather as great strength as in the former Soviet Union, therefore little resistance from the lower levels <u>Not a necessary condition, but critically important in the power arrangement of various actors, especially strong center and weak lower level bureaucracy</u>
Geographical concentration of economic activity in few locations	Contributed to the strong centralized state <u>Not necessary but critically important and related to the above point</u>
Aid dependency and centralized control over external sources	Also important for centralized control <u>Not necessary but critically important and related to the above point</u>
3. Political factors	
Political breakthrough	Very important and proved to be one of the most important predictors of successful economic reforms,

	however does not guarantee that economic reforms will proceed <u>Necessary but not sufficient condition</u>
Lack of vision within major political parties – most notably within the MPRP – on market economic reforms (idea vacuum)	This allowed greater influence of the more radical MNPP to determine the reform agenda, particularly privatization. Yet does not guarantee fast reforms <u>Necessary but not sufficient condition</u>
Weak interests among SOEs and local government	This is conditioned by historical and structural factors <u>Derives from historical and structural factors, but critically important and sufficient condition</u>
Strong Union of Agricultural Collectives	This is also conditioned by historical factors and was key to special treatment of the negdels <u>Sufficient condition</u>
Greater influence of herders in the localities (although not at the national level)	Allowed the herders to fight against the directors of the collectives to impose other forms of decentralization, e.g., lease agreements <u>Sufficient condition</u>
4. Institutional factors	
Overrepresentation of rural interests in the legislature	Helped to pass the specific provision on excluding agricultural privatization from the general privatization law <u>Not a sufficient condition</u>
5. Cultural Factors	
Legacy of central plan and the culture of policymaking	Led to gradual liberalization <u>Neither necessary condition nor sufficient condition</u>

Source: Author's own judgment

5.3. Conclusion

The stated aim of this dissertation was to shed some light on the “puzzle” of relative success of Mongolia in its political and economic transition from an authoritarian communist regime and centralized planning to liberal democracy and market economy.

Specifically, the aim was to understand why Mongolia performed better on many dimensions of transition compared to countries with similar initial conditions and structural background. In answering this question, I provided a detailed narrative of the political and economic circumstances that were present at the end of the communist regime, the events that took place in the early 1990 which led to the collapse of the regime, and the subsequent political and economic reform policies that were undertaken to install a new political and economic order. This nuanced narrative is based on ample primary data, a great deal of which was uncovered and used for the first time in an academic analysis.

A more detailed and closer look at the actors, events, and circumstances reveals that Mongolia did have favorable conditions for undertaking a successful regime change. In particular, the configuration of domestic and international powers, cultural and institutional setting, and the legacy of the prior regime were such that the regime challengers gained strength and the reformist elements within the incumbent regime exercised substantial influence at the onset of transition, which allowed them to reach an agreement and lead the radical reforms. This is especially apparent when I bring in some evidence from the Central Asian states. In many of these countries, democracy and marketization never had a chance to succeed (Åslund 2007).

I identified a host of factors that have contributed one way or another to the successful transformation of Mongolia's politics and economy. In this chapter I classified them into a group of external, historical (structural), political, institutional, and

cultural factors. I also attempted to prioritize them and pinpoint those which played a critical role, in the sense that without these factors Mongolia's transition would have been impossible.

Analysis of democratization is more complicated than privatization. There are numerous factors that influenced the political processes in Mongolia. Closer look at the factors reveal that various factors played an important role at the various stages of democratic transition. I show that external factors – glasnost and perestroika, mass protests in Eastern Europe – were crucially important in laying the foundation for changes and at the very initial stage of the democratic political process, when the first mass protests started and gained momentum. The democratic “revolution” itself was conditioned by political factors – namely the ability of the new democratic opposition to garner strength through mass mobilization, turn into a real political force, and successfully cooperate with the reform-minded faction within the MPRP.

I argue that certain historical factors – mild leader, weak military, and pre-existing sovereignty etc – did play a role in smooth transitioning to democracy, i.e., making the revolution smooth and successful. However, they were conditioned by broader cultural factors, such as a strong sense of national identity and resolve for self-determination.

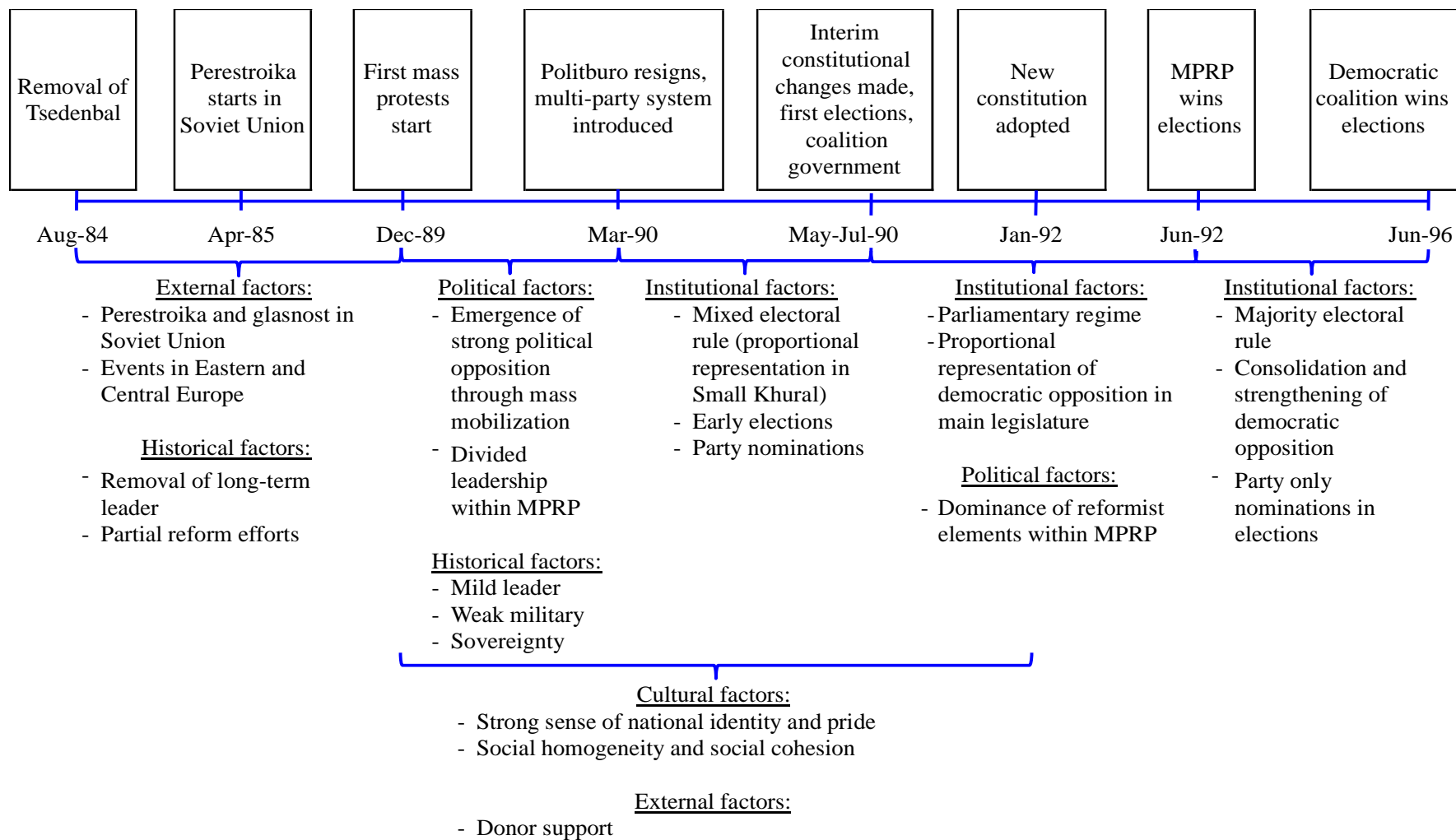
I argue that, once the politburo was dismantled, institutional factors played an important role in advancing democracy. They were inclusive and therefore conducive for the democratic change. These rules – electoral rule and parliamentary regime – helped

the democratic opposition to influence the policies and thereby advance political reforms and strengthen itself. Institutional factors were important in adopting a new democratic constitution.

But, again, I argue that favorable institutions were rooted in deeper-seated cultural factors, such social cohesion conditioned by a strong unifying national identity and homogeneity. Figure 5.1 below summarizes these points. The bottom line conclusion is that external factors triggered the entire democratization process, and were aided by political factors and favorable cultural determinants.

The analysis of factors that influenced the nature of the economic reforms and privatization in particular, leads us to believe certain external factors – prior economic dependence and the ensuing crisis due to withdrawal of aid – did play a role in rejecting the old economic system. Yet, these conditions were present in all post-communist countries, while only some were successful in reforming the economy.

Figure 5.1 Importance of various factors at different stages of democratic transition in Mongolia



Source: Author's own judgment

The political breakthrough and dominance of reformist elements in the MPRP-led government were critically important in launching the market reforms. I argue that without the political will and democratically disposed leadership Mongolia would not have advanced economic reforms. However, political will alone is often not enough for successful economic reforms. Because the reforms impose certain costs, it is often opposed by various groups within the society, and especially by strong entrenched interest groups.

Fortunately for Mongolia, these groups were weak, which is conditioned by historical and structural factors, namely the centralized nature of the national economy and late launch of perestroika-type of devolution reforms. Although not a necessary condition for successful economic reforms and fast privatization, these happened to shape the relative power of political and economic players in such a way that reforms could proceed without major obstruction. Thus, I conclude that the political factors seemed to have played a core function in the nature and extent of economic reforms, and these were circumstanced by historical and structural factors.

Appendices

Appendix 1 The First Petition of the Mongolian Democratic Union to the MPRP leadership

A letter by the members of the Mongolian Democratic Union, participants of the meeting convened on the occasion of the International Day on Human Rights, to the 7th Plenary Session of the MPRP and the 8th Session of the People's Great Khural of the People's Republic of Mongolia

Ulaanbaatar city

December 10, 1989

We, the participants of the Meeting, fully supporting the perestroika initiated by the MPRP, expressing our commitment to honestly provide our inputs to this process, being dissatisfied with the pace of perestroika, the country's current social, political and economic situation, and the inability to take quick measures to solve pressing societal problems, are hereby putting forward the following as the political requests by the Mongolian Democratic Union:

1. Make the following amendments to the Constitution of the People's Republic of Mongolia
1. Eliminate party centered management of the country's government affairs, establish the legal foundation of the multiparty political system by approving appropriate laws, and approve the Law on political parties.
2. Ensure that the universal rights of the human being proclaimed in the Universal Declaration on Human Rights are respected by the state, government organizations and political parties.
3. Change the People's Great Khural as a parliament with regular sessions and other organizational forms and set up a publicly elected council on human rights as parliament unit.
4. The Khurals should make decisions on social, political and economic the issues that represent the national interests of the country by holding open public debates and local communities debates on the matters important to these communities, respectively.

2. Take the following urgent measures to speed up perestroika and reform processes:
 - Change radically the People's Great Khural election system, and convey extraordinary general elections in the first half of 1990.
 - Develop and publicly debate the concept of socially oriented market economy as the key factor for economic development.
 - Expand the banking system, separate it from the Ministers' Council, and set up a separate body reportable to the People's Great Khural.
 - Ensure freedom of the press.
 - Eliminate party nomenklatura's special welfare benefits.

3. Take the following actions in order to draw a conclusion about the social development the People's Republic of Mongolia:
 - a. Set up a public commission with the aim to detect and pass judgment on individuals who have been obediently implementing Kh.Choibalsan and Yu.Tsedenbal's orders and supporting their authoritarian management style, thus worsening the wrong doings.
 - b. Find, identify by name and rehabilitate all progressive minded politicians and activists, ordinary people, practitioners of traditional medicine, Buddhist lamas and educated people who were repressed by ruling party during the recent history of the People's Republic of Mongolia, ensure that the MPRP apologies to those political repressed citizen, and to pay compensation for their families.
 - c. The MPRP to make political conclusion about the decisions made by this party regarding the forced collectivization, its support to the armed invasion in the Peoples Republic of Hungary in 1956 and the Czechoslovak Socialist Republic, in 1968, respectively, and condemn its decision that lead to the destruction of approximately 700 Buddhist temples, objects of historical and cultural heritage and scriptures.
 - d. The Mongolian Democratic Union requests the MPRP to give a thorough reply letter to the official requirements put forward by the MDU. The participants of the Meeting propose to celebrate the International Day on Human Rights as the national day of democracy.

The Mongolian Democratic Union

Appendix 2 Abbreviated Minutes of the meeting of the politburo and cabinet members on March 9, 1990 (the original official text is taken from Batmunkh 2003)

The meeting began at 15:00 pm and finished at 16:11 pm.

Issue on the agenda: discussion and decision on the draft resolution to take forceful action against the hunger strikers in Ulaanbaatar city and restore public order.

The meeting was chaired by J. Batmunkh.

Ts. Gotov, Secretary of the Presidium of the People's Great Khural, read out the text of the draft resolution.

J. Batmunkh announced the names of the officials who drafted the resolution and requested them to briefly explain the content of the draft, and requested the participants to ask questions regarding the draft.

L. Rentsen, Chief Judge:

- We co-drafted the resolution. The last edited version of the text seems good. It is not possible to predict the final consequences. In case the resolution is approved, it should be implemented.

D. Zundui, First Deputy Minister of Justice and Arbitration:

- We discussed the resolution thoroughly. From the legal perspective, it is possible to issue such a resolution. The resolution will not declare a state of emergency as per se. However there will be some major restrictions. We do not know how international community will find the approval of such a resolution. We need to think about how to implement the resolution.

J. Baljinnyam, Prosecutor General:

- I think, there is no need for using force in such situations. Police and internal troops do not have enough personnel to protect the area of a big city circle. There is a shortage of police forces.

B. Dejid, Secretary of the MPRP Central Committee:

- Shall we let the party and the people be insulted in such a way?

J. Baljinnyam, Prosecutor General:

- I have consulted with my collegium. People will not understand if we use force. We need to negotiate. It is important to come to an agreement. Yesterday I was in favor of this resolution. However today I think this resolution is not necessary.

J. Batmunkh, General Secretary of the Central Committee of the MPRP and Chairman of the Presidium of the People's Great Khural:

- Are there any other comments? Anyone who supports the resolution?

G. Khuderchuluun, Governor of the State Bank:

- In case the resolution is approved, what will happen to the participants of the hunger strike? It [the resolution] will be an act of using force.

J. Batmunkh, General Secretary of the Central Committee of the MPRP and Chairman of the Presidium of the People's Great Khural:

- You answered to your own question. We may leave the hunger strikers where they are.

S. Batkhuyag, Minister of Fuel and Energy:

- In case of using force, do the police and internal troops have enough personnel?

J. Batmunkh, General Secretary of the Central Committee of the MPRP and Chairman of the Presidium of the People's Great Khural:

- In case the resolution is approved, the law enforcement agencies will have to implement it. However, it will be difficult for few police officers allocated in a street to dissolve many demonstrators and protectors.

S. Batkhuyag, Minister of Fuel and Energy:

- It seems power stations and transport will have to be stopped. From yesterday's negotiations it looks like the representatives from the opposition forces are not able to properly represent themselves. Workers and public officials are not fully performing their jobs, instead they are discussing what will happen next. We have to approve the resolution and explain it to the people.

N. Jantsan, Head of the Department of the MPRP Central Committee:

- We need to consider what will happen if the resolution is not approved. It is difficult to predict any consequences of either approving or not approving the resolution. It may be a right decision to approve the resolution if the interests of the people are to be protected. In case there are major negative consequences, the proponents of this resolution should not be blamed for such consequences. It is about protecting the interests of the people and defending the state. It is getting difficult to convene the plenary meeting (of the MPRP Central Committee) under these circumstances.

Ts. Gombosuren, Minister of External Affairs:

- Is the failure of negotiations conclusive? The approval of the resolution will be regarded as a step back from solving the issues through means of peaceful negotiations. It is not appropriate to pass the resolution when there is a street turmoil and hunger strike. I think negotiations are the right option.

A. Jamsranjav, Minister of Public Safety:

- It is difficult to say that the resolution will be enforced once it is approved. We do not have enough police force to be deployed in all streets. We are ready to protect the streets even now. Power stations and prisons are protected. I do not think that order will be restored with just an approval of this resolution. How will the resolution be accepted both domestically and internationally? The resolution is to be enforced in Ulaanbaatar city. What will happen in case a similar political situation emerges in aimags and other cities? Shall we pass separate resolutions for every aimag? The state of emergency could be declared only if the necessary gradual (peaceful) actions are unsuccessful. Please consider that a resolution will not be received well under the current circumstances where there is no clear delineation between the party and the state. Once we make this distinction clear, the state's action to restore order may be received more favorably. In terms of timing, the deadline of July 1 should be reconsidered. Even if the order is restored temporarily, what if the situation worsens by the Naadam celebrations (i.e., July 11-13)? I think holding public (transparent) negotiations is most important. Many people are criticizing me for not being decisive and strongly pushing to use force. If you think I am not decisive and bold enough, please accept my resignation.

S. Batkhuyag, Minister of Fuel and Energy:

- I am requesting to pass a resolution prohibiting strikes at power stations, water reservoirs and other special objects.

J. Batmunkh, General Secretary of the Central Committee of the MPRP and Chairman of the Presidium of the People's Great Khural:

- The day before yesterday we had a meeting and agreed on taking certain gradual measures. Some officials from legal and law enforcement organizations agreed to draft a resolution which they did. The upcoming party plenary meeting will be held in a critical political situation. An extreme method of political resistance is chosen and hunger strike is declared, which is disturbing. We had a press meeting which was broadcast by TV and radio stations. Political negotiations and meetings are going on. We heard the views of the representatives of law enforcement organizations as well as views of other colleagues. Just before this meeting we had a discussion at the politburo. My proposal is to continue with the negotiations, have discussions transmitted by TV. How about the ministers and heads of the departments taking part in these negotiations? I think it is even necessary. Just by passing a resolution the order cannot be restored. On the contrary, this might

worsen the situation just like adding oil to fire. Not only the members of the [Democratic] Union but the ordinary people might negatively accept the resolution. The political meetings and protests might spread over in other places away from the central square, and street violence might break out. However some agreed measures should be implemented, for example, a declaration by the Prosecutor's Office should be issued. Let us take certain measures in aimags, cities and organizations. Let us consider having enforced security measures at special objects, be prepared to deploy forces in case the state of emergency is declared. Ministry of Public Safety should take proper measures to protect power stations and other special objects. Each ministry, department should take measures to protect their property. The party committee of Ulaanbaatar city, mayor's office, the national TV and radio committee should implement public awareness measures, parents should guide their children, and a special news group need to be established. We should avoid a situation where a resolution is passed however it cannot be enforced and be blamed for using force. Let us give special power to police and the Ministry of Public Safety to reinforce armed forces as needed. Most importantly let us proactively engage in the negotiations. The politburo is taken as a political hostage, but we are not afraid of it. The politburo may resign, but the ordinary people should not suffer under any circumstances. The prosecutor issued a warning notice, however, it is necessary to think about the right wording, and the information should be disseminated properly. We have to lead our people using appropriate methods. There are many young people from aimags who want to speak out at the mass meetings. However, I wonder if they really support these political activities. Let us cooperate with the young people and be vigilant.

Appendix 3 The questionnaire of the survey conducted following the first elections (1990)

1. Are you confident in the newly elected parliament (in terms of composition)?

Fully confident – 221, Doubtful (uncertain) – 351, no confidence at all – 28

2. Will the first session of the newly elected parliament be critically important in determining the future of the reforms?

Yes – 288, Uncertain – 291, No – 21

3. Can the newly elected parliament reflect the interests of the various strata in our society?

Yes – 186, Uncertain – 299, No – 115

4. Will the newly elected parliament be critically important in establishing a new democratic political system?
Yes – 263, Uncertain – 259, No – 78

5. Can the newly elected parliament appoint a trustful State Small Khural (permanent chamber)?
Yes – 251, Uncertain – 254, No – 95

6. Can the newly elected parliament and the State Small Khural appoint a trustful government (cabinet)?
Yes – 233, Uncertain – 302, No – 65

7. How successful will the first session of the newly elected parliament be?
Successful (cooperative) and effective – 223, controversial but less effective – 352, not effective at all – 25

Appendix 4 Cumulative Liberalization Index

De Melo et al (1996) constructed a Cumulative Liberalization Index (CLI) which is calculated as the sum of a country's LIs over a period of time, namely from 1989 till 1994. Based on the CLIs, 26 transition countries are ranked and grouped into four groups: advanced reformers ($CLI > 3$), high intermediate reformers ($2 < CLI < 3$), low intermediate reformers ($1.3 < CLI < 2$), and slow reformers ($CLI < 1.3$). Table 1 below shows the CLIs and other macroeconomic indicators for all transition countries.

Table 1. Economic Liberalization, Growth, Inflation, and Political Freedom

Group	Countries	CLI 1994	Av inflation (93/94)	Av growth (93/94)	Political freedom
Advanced	Slovenia	4.16	26	3.0	6.50

Reformers	Poland	4.14	34	4.2	6.00
	Hungary	4.11	21	0.0	6.50
	Czech Republic	3.61	16	0.8	6.50
	Slovakia	3.53	19	0.4	5.50
	Averages	3.91	23	1.7	6.20
High	Bulgaria	2.96	81	-1.4	6.00
Intermediate	Estonia	2.93	69	0.9	5.50
	Reformers	Lithuania	2.62	231	-7.3
	Latvia	2.39	73	-4.4	5.50
	Romania	2.35	194	2.2	4.50
	Albania	2.30	57	9.5	4.50
	Mongolia	2.27	164	0.6	5.50
	Averages	2.55	124	0.03	5.36
Low	Russia	1.92	558	-13.5	4.50
Intermediate	Kyrgyzstan	1.81	744	-13.2	4.50
	Reformers	Moldova	1.62	558	-17.0
	Kazakhstan	1.31	1870	-18.5	2.50
	Averages	1.67	933	-15.6	3.88
Slow	Uzbekistan	1.11	640	-2.5	1.00
Reformers	Belarus	1.07	1694	-16.6	4.00
	Ukraine	0.80	2789	-18.6	4.00
	Turkmenistan	0.63	2751	-15.0	1.00
	Averages	0.90	1968	-13.2	2.63
Affected	Croatia	4.02	807	-0.7	4.00
by War	FYR Macedonia	3.92	157	-10.7	4.50
	Armenia	1.44	4595	-7.4	4.50
	Georgia	1.32	10563	-24.6	3.00
	Azerbaijan	1.03	1167	-17.7	2.00
	Tajikistan	0.95	1324	-26.3	1.00
	Averages	2.11	3102	-14.5	3.17
East Asia	Vietnam	3.42	10	8.5	1.00

China	3.08	13	11.7	1.00
Averages	3.25	11	10.2	1.00

Source: De Melo et al (1996), from Tables 2 and 11

Appendix 5 The Questionnaire of the Survey

8. Are you confident in the newly elected parliament (in terms of composition)?

Fully confident – 221, Doubtful (uncertain) – 351, no confidence at all – 28

9. Will the first session of the newly elected parliament be critically important in determining the future of the reforms?

Yes – 288, Uncertain – 291, No – 21

10. Can the newly elected parliament reflect the interests of the various strata in our society?

Yes – 186, Uncertain – 299, No – 115

11. Will the newly elected parliament be critically important in establishing a new democratic political system?

Yes – 263, Uncertain – 259, No – 78

12. Can the newly elected parliament appoint a trustful State Small Khural (permanent chamber)?

Yes – 251, Uncertain – 254, No – 95

13. Can the newly elected parliament and the State Small Khural appoint a trustful government (cabinet)?

Yes – 233, Uncertain – 302, No – 65

14. How successful will the first session of the newly elected parliament be?

Successful (cooperative) and effective – 223, controversial but less effective – 352, not effective at all – 25

Appendix 6 Quantitative and structural conditionalities imposed by the IMF on the government of Mongolia (1991-2001)

Table 2. Mongolia: Quantitative Conditionality, 1991-2004

	SIB (Oct 4, 1991 - Dec 31, 1992) Indic. Prog.												ESAF I (June 25, 1993 - June 24, 1996)											
	1991			1992			1993			1994			1995			1996								
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec							
Number of targets	6	6	8	8	8	8	7	7	7	7	7	7	7	7	7	7	7							
<i>Of which: Met</i>	5	3	4	4	4	7	5	4	5	4	4	5	4	4	4	5	6							
Net domestic assets (ceiling, in billions of tugrik) 1/																								
Target							22.8	25.1	24.6	27.3	32.0	50.6	55.3	58.2	63.2	68.4	70.4							
Outcome							2.5	32.4	25.6	33.4	39.7	49.7	55.3	64.5	71.1	71.0	66.1							
<i>Met?</i>							yes	no	no	no	no	yes	yes	no	no	no	yes							
Net credit to the government (ceiling, in billions of tugrik)																								
Target	-1.4	-1.3	-1.8	-1.7	-1.7	-1.7	-1.7	-4.0	-3.9	-4.1	-7.9	-8.6	-0.9	-5.4	-5.8	-6.6	-7.0							
Outcome	-1.7	-1.7	-1.9	-2.2	-2.6	-3.2	-2.8	-4.6	-6.7	-6.6	-6.8	0.9	0.9	2.4	2.2	-8.9	-18.3							
<i>Met?</i>	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	no	no	no	no	yes	yes							
NIR stock (floor, in millions of US\$) 2/																								
Target	9.6	17.5	12.9	46.9	3.0	6.0	15.1	13.6	16.6	19.0	21.5	37.5	50.8	91.2	112.0	136.0	154.6							
Outcome	18.0	7.7	-10.6	9.0	5.4	14.5	8.9	2.8	27.2	37.8	31.3	38.7	37.2	45.8	42.4	53.8	50.0							
<i>Met?</i>	yes	no	no	no	no	yes	no	no	yes	yes	yes	yes	no	no	no	no	no							
External arrears (ceiling, in million of US\$) 3/																								
Target							29.0	6.0	-17.7	-31.7	24.6	20.1	15.5	7.8	0.0	0.0	0.0							
Outcome							59.8	57.2	-5.5	-23.5	21.4	22.4	28.2	15.1	14.1	8.4	0.0							
<i>Met?</i>							no	no	no	no	yes	no	no	no	no	yes	yes							
New nonconcessional external debt (ceiling, in millions of US\$)																								
6-1 years																								
Target	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
Outcome	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
<i>Met?</i>	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes							
1-12 years																								
Target	30.0	21.8	21.8	21.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
Outcome	20.0	21.8	21.8	21.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
<i>Met?</i>	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes							
<i>o/w: 1-5 years</i>																								
Target	10.0	10.0	21.8	21.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
Outcome	20.0	21.8	21.8	21.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
<i>Met?</i>	no	no	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes							
TEMPORARILY USED TARGETS																								
Currency issue (ceiling, in billions of tugrik)																								
Target	2.2	2.0	2.5	2.7																				
Outcome	2.0	2.1	2.7	2.9																				
<i>Met?</i>	yes	no	no	no																				
Cumulative change in net credit of Central Bank to commercial banks (ceiling, in billions of tugrik)																								
Target							1.0	0.9	0.0															
Outcome							3.2	0.9	-0.1															
<i>Met?</i>							no	no	yes															
Net credit to state enterprises and private sector (ceiling, in billions of tugrik)																								
Target							22.5	24.0																
Outcome							19.3	22.8																
<i>Met?</i>							yes	yes																

1/ Of the banking system in ESAF I and II, of the Bank of Mongolia in PRGF.
2/ In the indicative program December 1992 - March 1993 refers to change in reserves.
3/ In the indicative program December 1992 - March 1993 refers to change in arrears.
Bold numbers indicate test dates.

Table 2. Mongolia: Quantitative Conditionality, 1991-2004 (concluded)

	ESAP II (July 30, 1997 - July 29, 2000)												PRGF (September 28, 2000 - July 31, 2005)																	
	1997			1998			1999			2000			2001			2002			2003			2004								
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec		
Number of targets <i>Of which:</i> Met	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Net domestic assets (rolling, in billions of tugriks) 1/																														
Target	68.4	75.6	48.7		63.3	60.9		-1.5	14.4	10.1	-2.9		-11.5	-24.8	-17.3	-21.1	-27.7		-23.0	-27.4	-41.8	-68.8	-81.7	-26.5						
Outcome	65.3	59.2	36.0		21.6	9.5			no	no	no			-10.4	-10.4	-21.6	-18.1		-42.0	-51.0	-58.6	-63.3								
Met?	yes	yes	yes		yes	yes								yes	yes	yes	yes		yes	yes	yes	yes								
Net credit to the government (rolling, in billions of tugriks)																														
Target	0.0	43.1	32.9		19.5	21.7		66.1	63.5	53.7	57.1		66.1	-7.1	-18.2	-0.9	1.0		-26.5	10.9	19.1	-5.0	-20.8	5.0						
Outcome	30.2	32.6	18.9						63.7	44.2				-18.7	4.3	9.3	-27.7		-4.5	-13.0										
Met?	no	yes	yes						no	yes				yes	no	no	no		yes	yes	yes									
Net stock of gov. in millions of US\$																														
Target	28.7	37.6	67.1		83.2	83.5		72.5	60.0	75.0	87.5		72.5	148.2	149.7	163.0	166.8		188.3	214.5	215.7	246.0	250.0							
Outcome	29.4	85.5	92.0						51.8	84.0				158.8	159.3	169.3	219.4		219.4	212.7	233.9									
Met?	yes	yes	yes		yes	yes			no	yes				no	no	yes	yes		no	no	no									
External reserves (rolling, in millions of US\$)																														
Target	4.5	4.5	6.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	4.1	0.0	0.0	0.0	0.0						
Outcome	4.5	0.5	0.0						0.0	0.0	0.0		0.0	4.8	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Met?	yes	yes	yes						yes	yes	yes		yes	no	no	no	no		no	no	no	no	no	no	no					
New issuance of external debt (rolling, in millions of US\$)																														
0-3 years																														
Target	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Outcome	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Met?	yes	yes	yes		yes	yes		yes	yes	yes	yes		yes	yes	yes	yes	yes		yes	yes	yes	yes	yes	yes	yes					
1-12 years																														
Target	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Outcome	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Met?	yes	yes	yes		yes	yes		yes	yes	yes	yes		yes	yes	yes	yes	yes		yes	yes	yes	yes	yes	yes	yes					
> 1-5 years																														
Target	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Outcome	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0						
Met?	yes	yes	yes		yes	yes		yes	yes	yes	yes		yes	yes	yes	yes	yes		yes	yes	yes	yes	yes	yes	yes					
TEMPORARILY USED TARGETS																														
Net domestic financing of general government (rolling, in billions of tugriks)																														
Target (at approval of target)	-30.0	-2.6	-13.8		-1.7	2.2																								
Outcome	-2.5	-8.1	-26.8																											
Met?	no	yes	yes																											
Privatization receipts (flow, in billions of tugriks)																														
Target (at approval of target)	4.0	5.0	10.0		2.0	6.0																								
Outcome	4.1	7.1	13.0																											
Met?	yes	yes	yes																											
Domestic interest arrears (rolling, in billions of tugriks)																														
Target (at approval of target)																														
Outcome																														
Met?																														
Indicative target: NDA of the banking system (rolling, in billions of tugriks)																														
Target (at approval of target)																														
Outcome																														
Met?																														

1/ Of the banking system in ESAP I and II, of the Bank of Mongolia in PRGF. Bold numbers indicate met dates.

Table 3. Mongolia: Summary of Structural Conditionality, 1991-2004

	Prior Actions		Performance Criteria				Benchmarks			Area of Conditionality				
	Set	Met	Set	Met	Set	Met	Fiscal reform	Financial sector reform	Enterprise reform	Privatization	Civil service reform	External	Other	
Stand-By Arrangement, 1991-92														
ESAF I Arrangement, 1st Annual Program														
At approval (June 25, 1993)	6	6	3	3	6	4	4	4	1	1	0	2	3	
Mid-term review (March 16, 1994)	5	4	-	-	-	-	1	2	0	0	0	2	0	
ESAF I Arrangement, 2nd Annual Program														
At approval (November 23, 1994)	8	8	3	3	9	5	2	4	6	2	0	3	3	
Mid-term review (February 14, 1996)														
ESAF II Arrangement, 1st Annual Program														
At approval (July 24, 1997)	19	18	5	4	4	4	3	9	5	5	4	0	2	
Mid-term review (April 8, 1998)	1	1	-	-	-	-	0	0	0	1	0	0	0	
ESAF II Arrangement, 2nd Annual Program														
At approval (June 10, 1999)	9	9	10	2	19	14	4	28	2	1	2	0	1	
Mid-term review (January 24, 2000)	8	8	1	0	-	-	3	5	1	0	0	0	0	
PRGF Arrangement														
At approval (September 28, 2001)	8	8	5	3	7	3	15	3	1	0	1	0	0	
First and Second Reviews (September 12, 2003)	2	2	4	4	4	3	3	7	0	0	0	0	0	
Total	66	64	31	19	49	33	35	62	16	10	7	7	9	

No structural conditionality

Implementation of program to meet conditions to complete review.

Table 4. Mongolia: Structural Conditionality, 1991–2004

	Date	Implementation	
		Yes/No	Remarks
Stand-By Arrangement, 1991-92: No structural conditionality			
ESAF I Arrangement, 1st Annual Program			
At approval (June 25, 1993)			
Prior Actions			
Exchange system reform including transfer of foreign exchange reserves and their management to the Bank of Mongolia and establishment of prudential guidelines for banks.	--	Yes	
Implementation of the sales tax.	--	Yes	
Introduction of a reserve measure on copper concentrate.	--	Yes	
Adjustment of the minimum interest rate on commercial bank deposits.	--	Yes	
Issuance of revised trade policy regulations.	--	Yes	
Elimination of remaining mandatory state orders.	--	Yes	
Structural Performance Criteria			
Elimination of domestic public sector arrears and implementation of strict rules on payments by budget units and state enterprises; and establishment of regulations on seizure of assets, in case of nonpayment by nonbudgetary units	30-Sep-93	Yes	
Refrain from introducing export licensing and quotas except for bona fide purposes (with exception of licensing of live animals, meat, and wheat, which will be considered at the midterm review); and export taxes other than royalty-	Continuous	Yes	
Identification of nonperforming loans of the banking system and finalization of procedures for dealing with such loans. In addition, progress in implementing these procedures will be examined as part of the mid-term review of the	31-Dec-93	Yes	
Structural Benchmarks			
Establishment of treasury function in Ministry of Finance.	31-Dec-93	Yes	
Elimination of consumer rationing and replacement with need-based support.	31-Dec-93	Yes	
Enact securities law as a basis for secondary market trading of corporate shares and other financial securities.	31-Mar-94	No	Delay
Create unit within Ministry of Finance to register and manage external debt.	30-Sep-93	Yes	
Complete the voucher-based privatization program.	31-Dec-93	No	Delay
Establish new procedures of corporate governance for remaining state-owned enterprises including requirements for fixed term performance based management contracts and outside Boards of Directors.	31-Dec-93	Yes	
Mid-term review (March 16, 1994)			
Prior Actions			
Introduce excise tax on petroleum products.	--	Yes	
Remove import duty exemptions on flour and other food items.	--	Yes	
Higher reserve requirements for commercial banks.	--	Yes	
Announcement of bank lending ceilings through March.	--	Yes	
Finalization of rescheduling agreements.	--	Yes	
ESAF I Arrangement, 2nd Annual Program			
At approval (November 23, 1994)			
Prior Actions			
Increase urban bus fares by 200 percent.	--	Yes	
Terminate central bank lending to public enterprises.	--	Yes	
Establish the monthly repayment schedule of outstanding budgetary loans by public sector flour mills and the power	--	Yes	
Agree that all receipts from cash privatization will be incorporated in the budget and earmarked for public	--	Yes	
Increase the price of gasoline by 25 percent.	--	Yes	
Prepare a list for cash privatization of public enterprises and a timetable for their sale, with the intention of yielding at least Tug 2 billion for the 1995 budget.	--	Yes	
Eliminate remaining external payments arrears.	--	Yes	
Increase electricity tariffs for commercial use by 28 percent and heating tariffs by 60 percent on average.	--	Yes	
Structural Performance Criteria			
Establish a regulatory commission to review the tariffs for public utilities and to introduce a mechanism for	31-Mar-95	Yes	
Introduce central bank refinancing facility.	31-Mar-95	Yes	
Refrain from introducing new restrictions and conditions (licensing, quotas, and taxes) on exports, except for royalty-type tax@ on nonrenewable resources and limits for environmental, cultural, and security reasons.	Continuous	Yes	

Table 4. Mongolia: Structural Conditionality, 1991-2004 (Continued)

	Date	Implementation	
		Yes/No	Remarks
Structural Benchmarks			
Enact legislation on land ownership and other property rights.	31-Dec-94	Yes	
Identify and rectify remaining legal and regulatory constraints on foreign direct investment.	31-Dec-94	Yes	
Adjust the prices of petroleum products other than gasoline.	31-Dec-94	Yes	
Raise domestic heating tariffs for residential use by 60 percent.	15-Jan-95	Yes	
Sell one fourth of the list of public enterprises earmarked for cash privatization in 1995.	31-Mar-95	No	Delay
Complete repayment of outstanding directed credits.	31-Dec-94	No	Partially
Undertake provisioning against losses and recapitalization of banks on the basis of recommendations made by the	31-Mar-95	No	Partially
Abolish the ban on raw cashmere exports.	31-Mar-95	No	Envisaged 10/96
Agree on a timetable for implementation of improvements in price, government finance, and balance of payments	31-Mar-95	Yes	
Mid-term review (February 14, 1996)			
A program was implemented to meet conditions for completing the midterm review, including observance of the monthly targets for budget revenue and expenditure, net official international reserves, net credit to government, and net domestic assets of the banking system for October-December 1995; and the development of a financial and structural program for 1996, consistent with existing commitments.			
ESAF II Arrangement, 1st Annual Program			
At approval (July 14, 1997)			
Prior Actions:			
Agreement on, and parliamentary passage of, an amended 1997 budget and associated tax legislation.	--	Yes	
Agreement on a quarterly financial program for the first year of the program and achievement of the targets for March and June 1997.	--	Yes	End-March achieved
Establishment of an Economic Policy Committee, including senior representatives of the Office of the Prime Minister, the Ministry of Finance, the Bank of Mongolia, and Parliament.	--	Yes	
Maintenance of significantly positive real interest rates on central bank bills and government securities.	--	Yes	
Agreement on a framework for linking civil service wage increases to economies achieved in staffing.	--	Yes	
Agreement on a maximum civil service wage bill for 1997 of Tug 46.8 billion, including severance payments of no more than 6 months' pay, with any additional nominal wage increase only to be awarded on the basis of already-	--	Yes	
Implementation of a comprehensive monitoring system for the wage bill, wage rates, and civil service employment levels on a quarterly basis.	--	Yes	except employment monitoring
Agreement on a list of enterprises and assets to be privatized by the end of each year and passage of legislation to abolish reservation prices.	--	Yes	
Achievement of privatization sales of at least Tug 4 billion, including at least one large enterprise.	--	Yes	
Establishment of quarterly structural benchmarks for privatization sales for the first year of the program.	--	Yes	
Repayment in full by April 1, 1997 of the \$10 million (equivalent) borrowed by the Neft Import Concern (NIC) from the government in 1996. Commencing March 1997, the government and the Bank of Mongolia to refrain from providing further loans or loan guarantees to the NIC.	--	Yes	
Development of a system for monitoring financial support-including budgetary subsidies, grants, lending, government guarantees, and bank credit-for seven large public enterprises.	--	Yes	
Completion of the liquidation procedures for the Ardyn and Insurance Banks, including all book entries, and allocation of all their assets and liabilities to the successor institutions, and the issuance of government bonds for	--	Yes	except bonds to TDB
Completion of special inspections of the Savings Bank and Reconstruction Bank, introduction of written internal regulations; and enforcement of capital adequacy rules.	--	Yes	
Replacement of all nonperforming assets of the Reconstruction Bank with government bonds and the transfer of these nonperforming assets to MARA.	--	Yes	
MARA to be fully operational and preparation of monthly financial statements.	--	Yes	
Strict enforcement of the Bank of Mongolia's MOUs with BIT1 and Agricultural Bank; implementation of a corrective strategy if necessary.	--	Yes	
Elimination of passive clearing loans by BOM to banks.	--	Yes	
Amendment of the civil code and other necessary legislative steps to streamline the procedures for debt collection and the disposal of collateral.	MT review	?	

Table 4. Mongolia: Structural Conditionality, 1991–2004 (Continued)

	Date	Implementation	
		Yes/No	Remarks
Structural Performance Criteria			
Contain growth of overall wage bill to 30 percent in 1997.	31-Dec-97	Yes	
Implement interim treasury system and consolidate all government accounts into a single treasury account at the central bank.	31-Dec-97	No	alternative measures implemented
External audit of the Bank of Mongolia.	31-Dec-97	Yes	
Increase energy prices by an amount to achieve full operating cost recovery.	31-Dec-97	Yes	
Achieve privatization sales of Tug 10 billion for cash privatization receipts.	31-Dec-97	Yes	
Structural Benchmarks			
Plan to extend sales tax base to trade and service sectors and implement credit mechanism with a view to implementing a VAT in 1998.	31-Dec-97	Yes	
Eliminate subsidies and concessional lending to all enterprises, except to enterprises being restructured under A5DB and World Bank programs loans, and subsidies for urban public transport.	31-Dec-97	Yes	
Implement a mechanism for automatic monthly adjustments in energy prices to compensate for changes in import prices and the exchange rate.	31-Dec-97	Yes	
Achieve privation sales of at least Tug 5 billion, including at least one large enterprise.	30-Sep-97	Yes	
Mid-term review (April 8, 1998)			
Prior Actions			
Issuance of a short list of ten large enterprises which are being readied for sale.	--	Yes	
ESAF II Arrangement, 2nd Annual Program			
At approval (June 10, 1999)			
Prior Actions			
Parliamentary approval of a supplementary budget for 1999 consistent with understandings with Fund staff.	--	Yes	
Establish a High Level Steering Committee (HLSC) for banking sector reform.	--	Yes	
Establish a Restructuring Working Group (RWG) with participation of IMF, AsDB, USAID, and the World Bank.	--	Yes	
Parliamentary approval of bank restructuring strategy.	--	Yes	
BOM to draft legal amendments to strengthen provisions related to conservatorship, receivership, and recovery of	--	Yes	
Appoint conservators at Reconstruction Bank (RB), ITI Bank, and Agriculture Bank (AB).	--	Yes	
Appoint external advisors at RB, ITI Bank, and AB to assist conservators in rationalizing operations.	--	Yes	
Initiate international financial and portfolio audits of 1998 accounts of RB, ITI Bank, and AB.	--	Yes	
Issue licencing, prudential, and regulatory framework for all types of nonbank financial intermediaries.	--	Yes	
Structural Performance Criteria			
Bring Trade and Development Bank to the point of sale.	30-Sep-99	No	
RB: Bring the bank to the point of sale.	30-Sep-99	No	
ITI Bank: Recapitalize with private capital; if recapitalization fails, bring the bank to the point of sale.	30-Sep-99	No	
AB: Prepare a plan, based on the recommendations of an external consultant, to decouple the bank's government payment functions from commercial bank operations.	30-Sep-99	Yes	
RB: Appoint receiver under the Banking Law, as necessary, if sale does not materialize.	31-Dec-99	Yes	Process initiated
ITI Bank: Appoint receiver under the Banking Law, as necessary, if sale does not materialize.	31-Dec-99	No	Process initiated
AB: Implement the recommendation of the external consultant with regard to an alternative payments mechanism for government transactions.	31-Dec-99	No	
AB: Recapitalize with private capital; if recapitalization fails, bring the bank to the point of sale.	31-Dec-99	No	
Bring Gobi and NIC to the point of sale.	31-Dec-99	No	Technical preparations completed
AB: Appoint receiver under the Banking Law, as necessary, if sale does not materialize.	31-Mar-00		
Structural Benchmarks			
Fully enforce Banking Law provisions for insolvent banks. Strict enforcement of the current hierarchy of claims under the Banking Law (household deposits have the highest priority. Write down of shareholders' equity when a	Continuous	Yes	
BOM to cease credit and liquidity support to insolvent banks.	Continuous	No	
No recapitalization of banks with public funds prior to privatization.	Continuous	Yes	
Submit to Parliament draft legal amendments, prepared by the BOM and the MOJ in consultation with the IMF and the AsDB, to strengthen provisions related to conservatorship, receivership, and recovery of bad debts.	30-Jun-99	Yes	
Conservators and advisors to draw up restructuring plans to achieve a resolution of the problems of insolvent banks.	30-Jun-99	Yes	
Conservators to convene meeting of banks' shareholders and present plans.	30-Jun-99	Yes	
Publish a quarterly list of identified loan defaulters.	30-Jun-99	Yes	
Establish an arbitration mechanism to regularize financial claims and arrears between the government and BOM.	30-Jun-99	Yes	
MOF to ensure that VAT refunds are paid within the deadline prescribed by Law.	30-Jun-99	Yes	
MOF to amend reporting procedures to allow full reconciliation of budgetary entities' revenues and expenditures with their cash balances on a monthly basis.	30-Jun-99	Yes	
Issue cabinet resolution instructing the Mongolian members to call on the Board of Directors to initiate annual audit of Erdenet by an international accounting firm.	30-Jun-99	No	Delay
BOM to review all existing bank licenses, and initiate action against those not found "fit and proper."	30-Sep-99	Yes	
Prepare a plan, based on the recommendations of an external consultant, to resolve outstanding issues related to the Buligaar leather factory.	30-Sep-99	No	Delay
Government to clear interest arrears on its restructuring bonds and be current on future interest payments to banks.	30-Sep-99	No	Delay
Develop a medium-term treasury reform plan.	30-Sep-99	Yes	
Announce a civil service reform plan consistent with agreements with the AsDB, including targets for public sector employment reduction and wage decompression in 2000 and beyond.	31-Dec-99	Yes	
AB: Fully operationalize alternative payment mechanism for government transactions.	31-Dec-99	Yes	
Prepare a plan to replace restructuring bonds with marketable securities.	31-Dec-99	Yes	
Introduce notionally defined individual pension accounts.	31-Mar-00		

Appendix 7 List of people interviewed (names and dates of interview)

	Name of the interviewee	Current position	Previous position(s)	Date of interview
1.	D. Baasankhuu	Advisor, Rio Tinto Group	Head of Department, Ministry of Finance; Advisor to the Executive Director, the World Bank	Oct 2011 May 2012
2.	D. Bailiikhuu	Advisor, the State Property Commission	Advisor, the Government Privatization Commission	Mar 2012 Aug 2012
3.	B. Batbayar (Baabar)	Publicist	Chairman of the Mongolian Social-Democratic Party; Member of the Parliament; Minister of Finance	Apr 2012 Jul 2012
4.	C. Bavuu	Retired	Director of the Legal Department of the People's Control and Inspection Commission (1972-1981) and Deputy Chairman of the Commission (1981-1988)	Mar 2012 Jul 2012
5.	A. Bazarkhuu	Retired	Minister of Finance (1990-1992); Member of the Parliament (1992-2004)	Sep 2010 Mar 2012 Jul 2012
6.	E. Byambajav	Retired	Minister of Finance (1990 and 1994-1996)	Mar 2010 Apr 2010 May 2010
7.	D. Byambasuren	Retired	Prime Minister (1990-1992) Deputy Prime Minister (1989-1990), Deputy Chairman of the Planning Commission (1988-1989)	May 2010
8.	G. Davaasambuu	Advisor to the Speaker of the Parliament	Minister of Finance (1992-1994)	Oct 2011 Mar 2012 Jun 2012
9.	D. Ganbold	Deputy Mayor of Ulaanbaatar City	First Deputy Prime Minister (1990-1992)	Jan 2012
10.	Yo. Gerelchuluun	Senior official, Office of the President	Secretary of the Government Privatization Commission (1991-1993)	Mar 2012
11.	R. Gonchigdorj	Member of the Parliament	Vice President (1990-1992)	Sep 2011
12.	N. Luvsanjav	Chairman, the State Election Commission	Director of Legal Department of the People's	Mar 2011

			Control and Inspection Commission (1981-1987), and Responsible Secretary of the Commission (1987-1990)	
13.	T. Namjim	Advisor, the Parliament	First Deputy Chairman of the State Planning Commission (1986-1988)	Oct 2010
14.	D. Sodnom	Advisor, MAK LLC	Prime Minister (1984-1990) and Minister of Finance (1979-1984)	Nov 2011

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