

# CRS Report for Congress

Received through the CRS Web

## Mongolia: Political and Economic Status

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### Summary

On January 10, 2006, Mongolia's delicately balanced coalition government collapsed and the Mongolian parliament chose a new Prime Minister in accordance with constitutional requirements. Mongolia has seen several reshufflings of government since 1990, the year the Mongolian People's Revolutionary Party (MPRP) declared the end of a one-party communist state and initiated democratic reforms with U.S. assistance. Since then, Mongolia's profile has been raised further by the 2005 visits of President George Bush and Secretary Donald Rumsfeld. This report provides background information on Mongolia, including political and economic conditions, the status of U.S.-Mongolian political and economic relations, and key security and foreign policy issues. This report will not be updated.

### Background

Once part of the Chinese empire, Mongolia achieved independence in 1921 in a revolution backed by the Soviet Union. After this, the communist Mongolian People's Revolutionary Party (MPRP) ruled for almost 70 years, maintaining a tenuous balance between the Soviet Union and China and receiving substantial financial assistance from each. Public demonstrations for political pluralism in 1990 led to the resignation of the Communist MPRP government, whose leaders declared the end of a one-party Communist state. Since then, Mongolia has been undergoing a political and economic transition to a parliamentary democracy

under new constitutional rules adopted in 1991. After decades of dependency on Soviet

#### Country data

**Population:** 2.79 million (July 2005 est.)  
**Area:** 1,566,500 sq km (slightly larger than Alaska)  
**Location:** Sandwiched between Russia (north) and China (south)  
**Life Expectancy:** 64.52 years (2005)  
**GDP:** \$1.6 billion (2004, World Bank Group)  
**Resources:** oil, coal, copper, molybdenum, tungsten, phosphates, tin, nickel, zinc, fluorspar, gold, silver, iron  
**Primary export partners 2004:** China (50.7%); US(26.3%); Canada (5.3%); UK (4.3%);Russia(4.2%)  
**Primary import partners 2004:** Russia (31%); China (23.1%); Japan (8.4%); South Korea (6.7%)

aid ( at one point worth nearly 40% of the country's GDP), Mongolia has sought to broaden its foreign contact and trade.

## Political Trends and Conditions<sup>1</sup>

Despite the official demise of Communism in Mongolia in 1990, the formerly communist MPRP has continued to play a dominant political role.<sup>2</sup> In the first popular elections ever for Mongolia's parliament in 1990, the formerly communist People's Great Hural, the MPRP won 80% of the seats. In turn, the same year, this MPRP-dominated parliament elected an MPRP member, P. Ochirbat, as Mongolia's first president. While a new constitution in 1992 created a new parliament (the State Great Hural) to replace the People's Great Hural, the MPRP also won a significant majority in the new body. Its 71 out of a total of 76 seats gave it firm control while Mongolia's fledgling opposition parties remained essentially powerless. But the balance began to tip away from the MPRP in 1994, when the party turned against Ochirbat after he vetoed legislation passed by the parliament. When Ochirbat lost the MPRP's backing in Mongolia's first direct presidential election in 1993, he ran and won as an opposition candidate.

**Weak Governmental Institutions, Corruption.** Mongolia's legal and financial institutions remain underdeveloped and are a serious impediment to improving the country's economy and business climate. In part because of these weak institutions, the existence and enforcement of laws protecting private property is extremely limited even though the government passed a land ownership law in 2002 that allows the sale of farmland to individuals. Governmental corruption also is becoming a more acute problem and was the subject of demonstrations and protests during the 2005 presidential election campaign. In some respects, and with considerable assistance from western democratic organizations, the fledgling government has made great strides in the 15 years since it adopted multi-party politics.<sup>3</sup> Still, Mongolia's legislative processes remain in their infancy. It was only in 2004, for instance, that Mongolia's parliament, the State Great Hural (SGH), passed measures giving parliamentary committees separate budgets, staff, and rules of procedure. The first public hearing by a parliamentary committee was held only in 2002, although western groups providing assistance are encouraging the SGH to hold public hearings as a routine part of the legislative process.

## Legislative Elections of 1996

Mongolia's parliamentary elections on June 30, 1996, were the first in which an effective, organized opposition existed to challenge the MPRP's 75-year rule. The "Democratic Union," formed over a period of about five years by a coalition of eight

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<sup>1</sup> Sources for this section include the Far Eastern Economic Review, the Wall Street Journal, and the Foreign Broadcast Information Service.

<sup>2</sup> The MPRP, having shrugged off Communism, nevertheless did not officially adopt a new, Socialist agenda until March of 1997, when it amended its party platform.

<sup>3</sup> The International Republican Institute (IRI), in particular, has an extensive democracy-building program in Mongolia, conducting election training programs and assisting with parliamentary development.

opposition parties, was the only party to field a clear and recognizable political platform to challenge MPRP candidates.<sup>4</sup> It achieved a stunning electoral victory in what was widely regarded as a free and fair election. With 91% of the electorate turning out to vote, the Democratic Coalition took 50 of the 76 seats, giving it a majority in the parliament as well as the support of President Ochirbat. The new Mongolian leadership was quoted as crediting the victory to help from U.S. political strategists and to study of American political devices — the “Contract with America” in particular.

Economic issues, political reform, and foreign relations dominated the 1996 election campaign. In a political strategy that many came to view as the cause of the MPRP’s downfall, the party offered no firm prescriptions for Mongolia’s political problems or for its relations with other countries. Democratic Union coalition candidates, on the other hand, put forward a more specific policy agenda, vowing to make government more transparent, sell state-owned media organizations, establish pension plans, increase teacher salaries, and reform Mongolia’s judicial system. Finally, the coalition placed a strong emphasis on friendship with the West — primarily with the United States, which the coalition called Mongolia’s “third neighbor.”

## **Instability in 1997**

Mongolia held two related elections in 1997. In the presidential election on May 18, the results of the 1993 presidential election were reversed, and the presidency was won by Natsagiin Bagabandi, the MPRP candidate, leaving the government divided between the executive and the parliament. Bagabandi won with 60.8 percent of the vote against two other candidates: the incumbent of seven years, President Ochirbat, from the Democratic Union coalition, which retained its majority in the Great Hural from the 1996 elections; and Gombojav, from the Mongolian Unity Party (MUP). On August 20, 1997, Mongolia held an interim parliamentary election to replace Bagabandi, who had to give up his seat in the Great Hural in order to become president. Bagabandi’s former parliamentary seat was won by MPRP member Nambaryn Enkhbayar.

To some extent, political analysts at the time regarded Bagabandi’s election as a symbolic gesture of public frustration over the drastic and painful economic reforms imposed by the new government after the 1996 elections. Under those reforms, unemployment, crime, and taxes rose, while other financial and economic policies were not entirely successful. In addition, some believed that the Democratic coalition majority elected in 1996 did not communicate its goals and policies effectively enough to the public to sustain its popularity in the 1997 presidential election cycle. Most believed that Bagabandi’s election would not change the overall direction of democratic development and reform in Mongolia. For one thing, Mongolia’s 1991 Constitution reserves only limited powers to the President — in principle, the power to veto — while giving most political power to the Great Hural, including the power to appoint government ministers. Nevertheless, the Democratic coalition’s 50-seat majority in the Great Hural, though substantial, was still one vote short of the margin needed to override presidential vetoes.

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<sup>4</sup>The two largest parties in the coalition were the Mongolian National Democratic Party (MNDP) and the Mongolian Social Democratic Party (MSDP).

## **Break-up of Democratic Coalition, 1998-2000**

Mongolia's political situation in 1998 became more tumultuous, with a series of political crises leading to much legislative maneuvering between the MPRP-led government and the ruling Democratic coalition. On April 17, 1998, Prime Minister Enksaikhan announced his resignation in the wake of public discontent over harsh reform measures he had adopted to strengthen the Mongolian economy. On April 23, 1998, Enksaikhan was replaced as Prime Minister by MNDP member Tsakhiagiin Elbegdorj, the majority leader in parliament, who was elected with 60 votes out of the total of 76 members in the Great Hural. Elbegdorj, in turn, was forced to resign by a no-confidence vote in the Great Hural on July 24, 1998 — making his government the shortest-lived in Mongolia's brief democratic history — because of his controversial decision on May 27, 1998, to allow the state-owned Renovation Bank to merge into the privately held Golomt Bank. The parliamentary group of the MPRP charged that the decision on the bank merger violated the Mongolian constitution and posed a threat to national economic security. In the ensuing months, the ruling parliamentary coalition struggled for several months with President Bagabandi over the naming of a new Prime Minister, with Bagabandi repeatedly rejecting the Great Hural's choice of Davaadorj Ganbold.

In December 1998, the new MNDP leader, Janlavyn Narantsatsralt, became Prime Minister. But his government fell in scandal in July 1999. On July 30, 1999, the Great Hural endorsed as Prime Minister Rinchinnyamyn Amarjargal, another Democratic coalition candidate. Ultimately, in 2000, the strain of these political crises proved too much for the Democratic coalition. It collapsed, setting the stage for a dramatic comeback by the MPRP in parliamentary elections in July, when MPRP candidates won 72 out of the 76 seats in the Great Hural. That month, the MPRP leader, Nambaryn Enkhbayar, became Mongolia's 5<sup>th</sup> Prime Minister in two years. In December 2000, the remnants of the former Democratic coalition, including the MNDP and the MSDP, merged to form the Democratic Party (DP). President Bagabandi was elected to a second term as president in May 2001.

## **Coalition Government Collapse, 2006**

Mongolia's latest political crisis was born in the 2004 parliamentary elections when an assortment of democratic-minded parties under the umbrella title Motherland Democracy Coalition (MDC) won 34 parliamentary seats (out of a total of 76) to the MPRP's 38 seats. After weeks of political gridlock, the two groups compromised to form a workable coalition government: the Democratic Party leader, Tsakhiagiyn Elbegdorj, became the new Prime Minister and the MPRP assumed 10 positions in Elbegdorj's 18-member cabinet. But the troubled government struggled with growing unemployment, allegations of corruption, and factional differences.

The increasing popular disillusionment with the coalition's rule was reflected in presidential elections in May 2005, when MPRP candidate and former Prime Minister Nambaryn Enkhbayar won the presidency (a less influential, though still powerful, position than that of Prime Minister) with 53.4% of the vote, compared to the 19.7% garnered by his Democracy Party rival, Mendsaikhani Enkhsaikhan. On January 11, 2006, the fragile government collapsed altogether when all 10 MPRP cabinet members resigned in protest to what they said was the alliance's ineffective governance and loss

of public support. The collapse was followed by days of protests in the capital — some protesting government corruption and economic deprivation, some accusing the MPRP of attempting to seize power for itself. The official government response to the MPRP resignation, however, followed established political procedures. On January 25, 2006, the parliament chose Miyegombo Enkhbold, MPRP chairman, as the new Prime Minister succeeding Elbegdorj. According to reports, the Democratic Party declined the MPRP's offer to join in a "national unity" government and instead will function as an opposition and establish a "shadow cabinet."<sup>5</sup> The next parliamentary elections are in 2008.

## Economic Trends and Conditions<sup>6</sup>

Mongolia's economy is relatively poor and agrarian, with few industries but extensive mineral deposits. Per capita GDP on a purchasing power parity (a common measurement of living standards) in 2004 was \$1,900 (equivalent to about 5% of U.S. levels). Agriculture is the dominant economic sector (especially herding), accounting for about one-third of annual GDP. Mining accounts for about half of Mongolia's gross industrial output and about one-third of its exports.

The collapse of the Soviet Union in the early 1990s had a severe impact on Mongolia's economy, which had employed Soviet-style economic policies.<sup>7</sup> After Soviet aid ended, real GDP fell by 9.2% in 1991 and by 9.5% in 1992, leading to a significant decline in Mongolian living standards. Subsequently, the central government moved to privatize its state-owned economy and adopt other free market reforms. Between 1990 and 2004, the proportion of GDP accounted for by the private sector rose from 4% to 80%. Such reforms enabled Mongolia to join the World Trade Organization (WTO) in 1997. Economic growth over the past few years has been uneven. Real GDP grew by only 1.0% in 2000 and by 1.1% in 2001 (due in part to severe weather conditions, which damaged the agriculture sector). However, real GDP grew by 3.9% in 2002, 5.0% in 2003, and by 10.6% in 2004.<sup>8</sup> In 2003, Mongolia agreed to pay Russia \$250 million, an enormous sum for the government, to resolve most of its debt obligations in an effort to strengthen investor confidence. Among other economic challenges Mongolia faces is a weak banking system (much of which is still state-owned and is thought to be saddled with a significant level of non-performing loans), public resistance to land reforms, sharp fluxes in global mineral prices, high unemployment, weak rule of law, government corruption, harsh weather conditions, and inadequate infrastructure.

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<sup>5</sup> Innes, Claire, "Democratic Party rejects offer to join new coalition government in Mongolia," *Global Insight Daily Analysis*, English, January 19, 2006.

<sup>6</sup> Sources for this section include the Economist Intelligence Unit and the Foreign Broadcast Information Service.

<sup>7</sup> Such aid accounted for about one third of Mongolia's GDP.

<sup>8</sup> Global Insight projects real GDP growth at 6.8% in 2005.

## U.S.-Mongolian Relations

The United States recognized Mongolia in 1987 and since then has sought to expand cultural and economic ties. In 1991, following the signing of a bilateral trade agreement, the President restored Mongolia's most-favored-nation (MFN) trading status — now referred to as Normal Trade Relations (NTR) — under the conditional annual waiver provisions of Title IV of the Trade Act of 1974. NTR status was made permanent for Mongolia effective July 1, 1999, obviating the annual trade status review process.<sup>9</sup>

Mongolia remains a relatively minor (though growing) U.S. trading partner. According to International Monetary Fund (IMF) statistics, in 2005, U.S. exports to Mongolia totaled \$21.5 million, while imports totaled \$144 million.<sup>10</sup> According to the U.S. Department of Commerce, the most promising sectors for increased U.S. exports to Mongolia include mining, construction, franchising, information technology, tourism, and meat processing. In July 2004, the United States signed a Trade and Investment Framework Agreement (TIFA) with Mongolia to boost bilateral commercial ties and resolve trade disputes. Since 1991, the U.S. Agency for International Development (USAID) has provided around \$150 million in assistance to Mongolia. Major USAID programs have focused largely on promoting sustainable private sector-led economic growth and more effective and accountable governance. Mongolia also is eligible for assistance under the U.S. Millennium Challenge Account.

One primary U.S. interest in Mongolia is in supporting the country's ongoing transition from a communist state to a nation with a market-based economy and a democratically elected government. U.S. support for both Mongolia's political and its economic reforms has been tangible. The United States strongly supported Mongolia when it joined the IMF, the World Bank, and the Asian Development Bank in 1991. Congress annually has earmarked U.S. assistance amounts for Mongolia to signal its support.

**Anti-Terror Support.** Mongolia was an early political supporter of the U.S. global anti-terror effort, as well as an early logistics supporter, offering training opportunities and overflight clearances for U.S. forces. Mongolia has contributed troops, engineers, and medical personnel to Operation Iraqi Freedom since April 2003. At the request of the United States, Mongolian forces also are participating in training artillery units of the Afghan National Army. U.S. appreciation for this assistance led in part to last year's visits to Mongolia by Secretary of Defense Donald Rumsfeld (in October 2005) and President George Bush (in November 2005) — the first U.S. Defense Secretary and U.S. President ever to visit Mongolia. President Bush's visit resulted in a Joint Statement reaffirming the U.S.-Mongolian "comprehensive partnership between their two democratic countries based on shared values and common strategic interests..."<sup>11</sup>

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<sup>9</sup> See Section 2424 of The Miscellaneous Trade and Technical Corrections Act of 1999, enacted as P.L. 106-36, effective on July 1, 1999 by Presidential Proclamation 7207.

<sup>10</sup> Source: U.S. Department of Commerce and U.S. International Trade Commission data.

<sup>11</sup> November 21, 2005, [<http://www.whitehouse.gov/news/releases/2005/11/20051121-1.html>].