

## **Response to PacNet #43 – Ten Things We Get from Mongolia**

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The picture Stephen Noerper paints of US-Mongolian relations in ‘Ten Things We Get from Mongolia’ (PacNet #43) is an overly optimistic account of the two states’ relations and Mongolia’s current state of affairs. Here is a list of five things that draw into question the value of Dr. Noerper’s analysis.

1. *Mongolia is a Chinese, NOT an American, success story.* By any account, Mongolia’s economy is almost entirely dependent on China. In 2011, China was Mongolia’s largest trade partner, receiving 91 percent of its total exports and providing 32 percent of its imports. China is the largest provider of foreign direct investment (FDI) to Mongolia, providing 51 percent of total FDI. Canada and the Netherlands, the second and third largest providers, accounted for just 8 and 6 percent respectively. US FDI to Mongolia is nominal. While Noerper notes that Mongolia ‘famously’ denied a \$300 million loan from China, China is still Mongolia’s primary lender. In 2009, Mongolia requested an emergency \$3 billion loan from China, suggesting Ulaanbaatar increasingly views China as a lender of last resort.

Chinese foreign businesses also dominate Mongolia’s domestic sector, officially accounting for 50 percent of all foreign firms and unofficially accounting for a far larger percentage. The number of Chinese foreign companies dwarf second-ranked South Korea (18 percent). Chinese workers, both illegal and legal, make up the large majority of foreign workers. In 2010, the official number was 16,675. Many believe the actual number is two or three times higher. While Chinese overseas development aid (ODA) to Mongolia remains nominal compared to states like Japan, it is changing the way Mongolia views and uses aid. Chinese aid is ‘unconditional’; it does not require accountability to the extent aid from USAID does and it is focused on infrastructure and mining, both high priorities for Mongolia. China’s aid has eroded Mongolia’s willingness to submit to the more strenuous oversight attached to USAID or World Bank aid, fundamentally transforming Mongolia’s relations with its traditional donors. Many of Mongolia’s highest ranking politicians are also prominent businessmen with direct and indirect ties to China. This linkage provides China with indirect (and perhaps direct) influence over Mongolia’s political process.

2. *Mongolia is not an Asian model for democracy.* Mongolia is a fragile democracy marred by corruption, nepotism, inefficiency, infighting, blatant handouts, and occasional violence. In dismissing these as products of a ‘young democracy’ and likening Mongolia’s development to 19<sup>th</sup> century America, Noerper ignores four important facts.

First, Mongolia was an authoritarian state for more than 70 years under the Soviet Union. Its officials, institutions, and bureaucracy all maintain vestiges of authoritarian ideology.

Second, most Mongolians have fond memories of Mongolia as a Soviet satellite state and view authoritarianism as an effective, egalitarian system. Many are disenchanted with democracy’s ability to provide social goods and services.

Third, many Mongolian politicians are notoriously corrupt. This leads to the impression that democracy and a liberal economy are in fact institutions that favor the rich and well-connected over the poor.

Fourth, Mongolia is a democracy only because it was forced to become one by Western financial institutions. As their influence wane and authoritarian models such as China wax, Mongolians might reconsider the appropriateness of the democratic model. Together with the systemic weakness of Mongolian democracy, these four facts suggest that the future development of democracy is far from certain.

3. *Mongolia is eyes and ears on the US for China and Russia.* Noerper argues that Mongolia ‘affords the US ears on China’ and ‘eyes on Russia.’ While true, such benefits often come with costs. Any strategic advantage the US might gain from Mongolia must be weighed against Mongolia’s ability to leverage its ties to the US for advantage in its other important relations. This is particularly true in relation to China and Russia as Mongolia is expanding political, economic, and military cooperation with both bilaterally and through the Shanghai Cooperation Organization.

4. *The Third Neighbor policy is a failure.* The lynchpin of Noerper’s argument is that the US and Mongolia have developed deep ties through Mongolia’s Third Neighbor policy; Ulaanbaatar’s stated desire to avoid overdependence on either Russia or China through the establishment of diverse partnerships with states at geographic distances. Only by viewing US-Mongolian relations through the Third Neighbor policy is it possible to make the assertion that Mongolia is an American ‘success’ story. Yet all quantitative and qualitative data point to Mongolia’s Third Neighbor policy as a failure. Mongolia is now almost totally economically dependent on China. The dependency translates into Chinese influence over Mongolia’s economy, environment, political system, and society that dwarfs any influence the US (or Russia) can bring to bear.

5. *Minerals.* While Mongolia’s mineral sector contributes to rapid growth, it is not a panacea. Overdependence on commodities for growth has serious economic, political, and social consequences. Since the 1990s, Ulaanbaatar has put the country’s sizeable mining sector at the forefront of its development plan. This has proven successful in many ways; GDP grew at an average of just under 6 percent between 1999

and 2008. In focusing exclusively on its mining sector, however, the government has neglected other domestic industries to the detriment of overall economic strength. Mongolia's agricultural sector is a prime example. As of 2009, a bumper crop year, Mongolia's crop production covered less than 250,000 hectares, almost 300,000 hectares less than in 1990. This decline is the result of a lack of domestic and foreign investment in what is increasingly treated as a secondary industry. So, too, has Mongolia's manufacturing sector declined. Between 2001 and 2008, manufacturing fell from 30 percent to 20 percent of gross industrial output while mining grew from 50 to 70 percent— a classic sign of impending 'Dutch disease.'

The weakness of this myopic economic development model became clear in 2009 when a drop in Chinese demand led to a 1.9 percent contraction in Mongolia's economy and a 4.1 percent drop in Mongolia's industrial sector. These losses translated into increased unemployment (10.5 to 12.8 percent), the collapse of the country's third largest bank, a devaluation of Mongolia's currency, and a surge in nonperforming loans. The IMF noted Mongolia almost experienced a 'near financial collapse' in 2009. The downturn contributed to increased social problems, such as spikes in infant mortality, maternal deaths, etc. Both moderate and extreme poverty grew 1 percent during 2009, while the number of children enrolled in primary and secondary education dropped 2.4 percent. Subsequent increases in Chinese demand for commodities in 2010 and 2011, however, erased these human development losses. These issues are fundamental to Mongolia's current state of affairs and cannot be glossed over as side issues to the larger claim that Mongolia is 'an American international success story'. Viewed with a more critical lens, Mongolia's 'macros' are anything but 'awfully good'.

### **Stephen Noerper Responds**

Reeves fails to grasp both my overarching theme and a number of particulars. Though pointing to real economic dependencies and deficiencies, his criticisms actually augur for one of my fundamental arguments: that the US and international community step up their support of Mongolia for all the goods lest threats to good democratic development and economic opening overtake them.

To suggest that Mongolia is a Chinese success story shows a gross misunderstanding of Mongolian realities and is an insult not only to Mongolians, but to the many outsiders who have worked for democratic transition. Nowhere was it argued that China is not the dominant trading partner or investor. But Mongolia has taken tremendous strides to limit Chinese control where possible. Rather than applaud Mongolians for seeking strategic diversity – politically and economically – Reeves dismisses Mongolia's gains. My arguments focused on the political realities and the course of democratic development, pointing out the tremendous support offered by the international community. That Mongolia is a vibrant democracy with growing institutionalization and accountability is evidence of an American success story. That has been noted by the past three US presidents in citing the "special relationship" with Mongolia.

Mongolia is indeed a fragile democracy – again all the more reason to continue to up its importance. Reeves' point about Soviet realities makes Mongolia's embrace of democracy all the more remarkable. Nostalgia does not equate with a desire to return to days of less choice and opportunity; nostalgia is simply a common human way of remembrance and admission of a need for more equitable development. Those concerns are expressed everywhere in the post-recession era. Mongolia's problems with corruption are well known, but it figures relatively well in transparency indexes. It has made great strides toward accountability. As one who hosted a silent sit-in during the privatization days as a way of drawing attention to the need for transparency, I am not immune to the challenges. But the recent doubling of public salaries is designed to remove incentives for corruption. Upping Mongolia in our calculations helps draw attention to the need for good governance.

The argument about Mongolia being forced into democracy is Reeves' weakest and an insult to those who participated in a bloodless transition to democracy. Democracy synchs well with Mongolian tradition and community-based systems of accountability. For all the struggles, Mongolians across the spectrum enjoy freedom of choice and relish the progress that has been made. The comments on Russia and China fail to acknowledge the prior arguments about modeling for Central Asia and North Korea, inter-related when considering the range of benefits argued. We can (and should) learn a great deal about the realities in Russia and China through prisms like Mongolia.

His suggestion that a Third Neighbor policy has failed ignores the fact that so many foreign nationals are now in Mongolia. Mongolia has choices. The way out of economic dependency is to option those, with a focus on greater economic diversification. Mongolia knows no shortage of problems, but it deserves a show of strong support. Reeves fails to acknowledge the many positive contributions Mongolia makes in peacekeeping and hosting events on human security or for new and restored democracies. His host institution was designed to provide a showcase for Asia-Pacific contributors. Former Defense Secretary William Perry argued for that recognition in his establishment of US regional studies centers, recognizing that reliable international contributors and partners stand for both the US and global interest. Mongolia's macros are awfully good; I'd rather see a glass half-full than one empty or overturned.

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