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Mongolia – Challenges and Prospects in 2023

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Disclaimer

All views expressed in this paper, however, are those of the authors, and do not reflect official Mongolian government policy, or those of any other institution.

All currency conversion values were those valid on the 31 January 2022.

Foreword

This paper will give an overview of the key challenges and prospects that Mongolia faces in 2023. It aims to cover recent events in the country's economic, political, and geopolitical spheres, thereby introducing Mongolia to a wider audience interested in learning more about the country and its place in regional and international affairs. It should be of particular interest to businesspeople, and policy makers in government and non-government organisations.

This paper focuses on ways in which Mongolia can work with the outside world on economic, geopolitical and environmental issues. Getting a better understanding of Mongolia's current prospects is timely. The global situation is becoming more complex as the world emerges from the COVID19 pandemic. Many things have changed. In particular, economic growth has slowed across the world. In the US, Europe and China, which account for over half of global GDP, there are a constellation of issues from inflation, energy supply, low or negative growth, and loss of consumer and investment confidence. The Russian invasion of Ukraine in early 2022 provided a further source of anxiety. 2023 will be a crucial year, showing whether the impact of these various factors will prove to be shorter term, or reach into a longer timeframe.

We will look at the situation of Mongolia in this global context. In particular, highlighting its economic and international links, and the current challenges it faces with regards to energy and the global energy market. The paper will assess the impact of the COVID19 pandemic, and what kind of role combatting climate change environmental issues will play for the country. The paper will then focus on geopolitical issues – Mongolia's relations with Russia, China, US, and other security matters and seek to provide a holistic framework by which to understand its potential impact on the country's international position, and also its future opportunities. Finally, it will look at prospects and seek to plot out where the country is heading, what sort of relations it will need, and what international status does it seek.

Key points

- Mongolia remains a vibrant and regionally important democracy, maintaining the political and social freedoms which were won in the post-Communist era from 1991.
- The country sits in sensitive geopolitical territory, between Russia and China, countries which have continued to pose challenges to the prevailing global system. Mongolia has succeeded in maintaining a strong sense of autonomy and independence, despite the fact that the Russian invasion of Ukraine in early 2022 and the continuing turn towards authoritarian rule in China have made this task more complex.
- Mongolia seeks to mitigate its geopolitical issues by diversifying partners for investment and trade, and engaging in more proactive diplomacy with Europe, North America and other countries in its own region. Reforms of investment protocols and laws, tackling corruption, and the creation of a more attractive economic environment are all priorities of the current administration.
- Economically reliant on mining and, in particular, coal, Mongolia remains a key country in the global action to achieve zero carbon emissions in the next decades. Its unique and fragile ecosystems are also particularly vulnerable to the effects of global warming, with current and predicted temperature increases far outpacing global averages.
- Mongolia was impacted by the COVID19 pandemic but is putting in place policies to stimulate economic growth, and to work with international partners to ensure that it is able to achieve its core development goals in the coming decade.
- It is a country that merits greater understanding and attention from European and North American policy makers and companies.

Abbreviations

DP	Democratic Party
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEACD	General Enforcement Agency of Court Decisions
ICSID	International Centre for Settlement of Investment Disputes
ILO	International Labour Organization
IMF	International Monetary Fund
MNT	Mongolian Tugrik
MPP	Mongolia People's Party
MPRP	Mongolian People's Revolutionary Party
NPL	Non-Performing Loan
OECD	Organisation for Economic Cooperation and Development
RLL	Revised Labour Law
SCO	Shanghai Cooperation Organisation
SOE	State Owned Enterprise
TDB	Trade and Development Bank
USD	US Dollars
VAT	Value Added Tax
WTO	World Trade Organization

All Websites accessed on November 18, 2022.

Mongolia – context

Landlocked between Russia and China, Mongolia is a vast nation whose landmass covers 1.56 million km². One of the biggest countries in Asia and the 19th largest country in the world, Mongolia's population density is remarkably low: 2.2 people per km². The country is home to 3.4 million people, 40 per cent of whom are aged between 18 and 44. The median age of the population is 28.5. The workforce participation rate currently stands at 59.2 per cent, with an unemployment rate of 5.4 per cent. The median wage is approximately \$346 per month. Poverty in Mongolia underwent a rapid decline between 2010 and 2014, dropping by 17 percentage points from 38.7 per cent to 21.6 per cent.

However, in recent years, the trend has reversed and hovers just under 30 per cent. If it had not been for the Covid-19 pandemic, Mongolia's poverty index was projected to drop to 24.3 per cent in 2020. Instead, the current rate stands at 27.8 per cent which suggests that the pandemic likely increased poverty but its effects were tempered by government boosting of social assistance programs. Five per cent of the Mongolian population earn less than \$3.20 US dollar per day. However, the World Bank ranks Mongolia's Human Capital Index at 0.61 on a scale of 0-1.

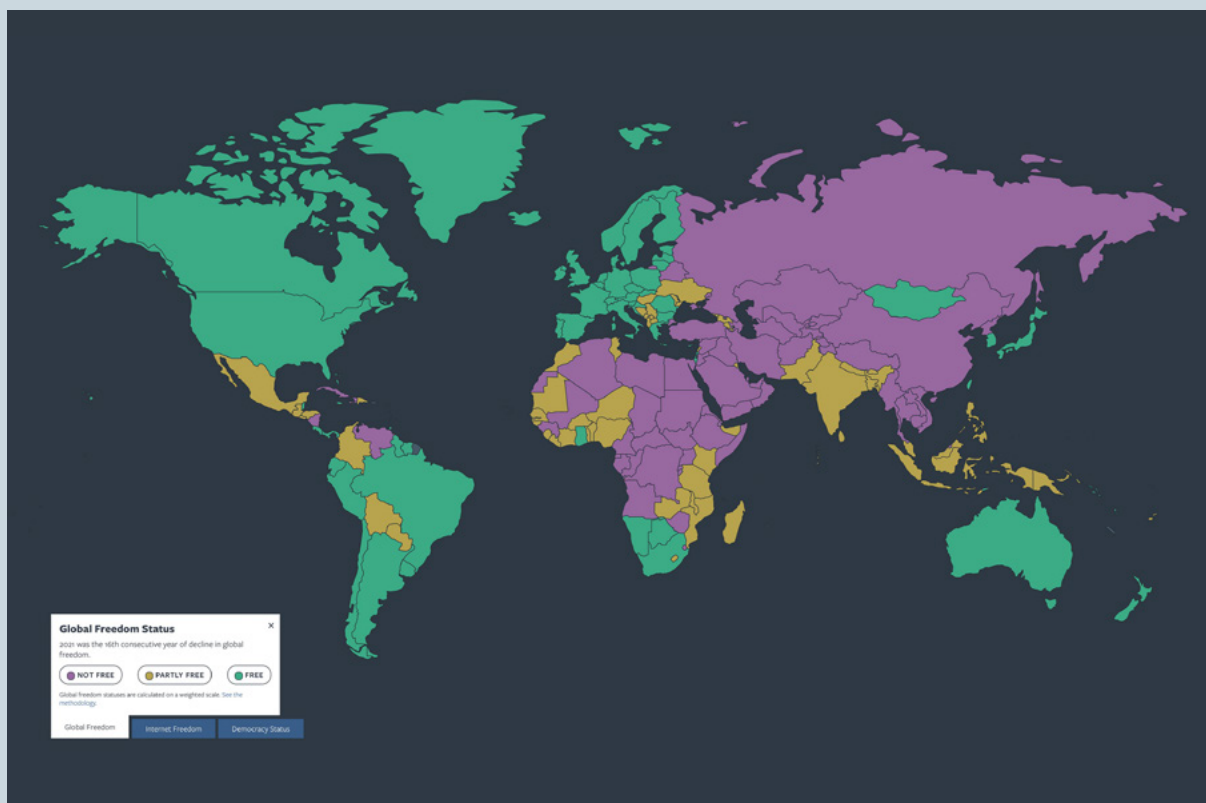


Figure 1 Mongolia: A regional oasis of freedom – <https://freedomhouse.org/explore-the-map?type=fiw&year=2022>

A Vibrant Democracy

In 2021, Mongolia celebrated the 30th anniversary of its first democratic constitution. The demise of the Mongolia People's Republic, in existence since 1924 with the Mongolian Communist Party enjoying a monopoly on power under the patronage of the USSR, meant that the country was able to enjoy self-autonomy. Elections in 1993 and 1996 with universal adult suffrage, and competition amongst political parties, saw new leaders emerge. Since then, there have been numerous transfers of power between parties.

Most regard Mongolia's evolution as a democracy to be a success. The Freedom House ranks Mongolia as a 'Free' country with a score of 84/100. Notably this puts Mongolia higher than both the USA and South Korea (both of whom score 83/100).¹ Political rights (36/40) are noticeably more protected than civil rights (48/60), but on the whole Mongolia benefits from a free press and active civil society. Despite a widespread lack of confidence in politicians' intentions and the ongoing issue of an absence of competing political ideologies between the parties, public support for democracy remains strong. Mongolia's parliamentary and presidential elections are largely considered free and fair, despite parties generally relying on patronage networks rather than competing policy visions. Allegations and evidence of vote-buying attempts remain, but even those voters targeted tend to cast their votes freely.² Transfers of power over the past decades have been peaceful, save for a riot that rocked the capital after the 2008 parliamentary election. That year, crowds of protesters set fire to the Mongolian People's Revolutionary Party's (MPRP) headquarters and were met with a strong police response. Five people lost their lives in the ensuing violence, scores of civilians and servicemen were injured and hundreds of protesters were detained. Fears of future political violence, however, were unfounded and Mongolians continue to exert their right to peaceful protest and participate in the country's democratic institutions.

Mongolia today is a semi-presidential democratic republic. It has a directly elected president, and elections every four years for a unicameral national assembly (the State Great Khural) with 76 members. The presidential position was originally constitutionally limited to two four-year terms. Since 2021, it has been limited to one six year term. The president appoints a prime minister and a cabinet, and serves as head of the armed forces, approves judicial appointments, and has the power of veto over the Grand Khural's legislation, unless this achieves a two thirds majority support level. In recent years the Mongolia People's Party (MPP) and the Democratic

Party (DP) have been the main players, although there are a number of other smaller parties. At the last election, in June 2020, the MPP won a second landslide victory after their previous success in 2016, taking 62 seats and the main opposition DP's eleven. In the following January 2021, the Prime Minister Ukhnaagiin Khürelsükh resigned after protests over the treatment of a coronavirus patient. He was subsequently elected Mongolia's sixth president on June 25, 2021. On January 27, 2021, Luvsannamsrai Oyun-Erdene of the MPP became the new prime minister. He has a master's degree in public policy from Harvard University, and has worked in the Philippines and Thailand on development projects.

2022 Protests

On December 4th 2022, protests erupted on the streets of Ulaanbaatar following the disclosure of details of corruption in Mongolia's coal exports from the state owned Tavan Tolgoi mine to China.³ Named the 'Coal Theft' or 'Coal Mafia' scandal, information released by the Mongolian government revealed a huge discrepancy between both the amount of coal exported to China and the price at which it is sold. It appears that not only may coal itself have been stolen and transported across the Mongolia-China border 'off the books' but also funds embezzled through the manipulation of different prices on different markets. Prime Minister Oyun-Erdene has stated that 40 trillion MNT (Mongolia's entire GDP) had been lost to corruption since 2018 and is trying to present himself as a leader in the fight to make Mongolia's state enterprises and public governance more transparent. The public outcry at a theft of such proportion given the economic struggles facing ordinary Mongolian citizens has been extraordinary. People protested vociferously in great numbers in freezing conditions on the central square in Ulaanbaatar, some stripping down to their underwear to express the depth of their frustration.

Two weeks since they began the Coal Mafia protests finally appear to be subsiding. Nevertheless, they raise a number of important issues with regards to the Mongolian political and economic situation. On the one hand, the release of the material by the government does speak to the state's commitment to exposing corruption, even in a state-owned company such as Erdenes Tavan Tolgoi. On the other hand, such a move also reveals the factional struggles that are taking place *within* the ruling Mongolian People's Party that won a supermajority in the last parliamentary elections, as the fallout from the allegations is bound to hit members of the elite from both major parties. There are rumours of a growing rift

1 <https://freedomhouse.org/country/mongolia/freedom-world/2022>

2 <https://blogs.ucl.ac.uk/mongolian-economy/2017/07/13/the-price-an-election-split-hopes-and-political-ambivalence-in-the-ger-districts-of-ulaanbaatar/>

3 <https://www.mongoliaweekly.org/post/mongolia-witnesses-mass-demonstrations-in-face-of-corruption-and-living-cost-crisis>. See Mongolia Weekly and the reporting of journalist Amar Adiya for more on the issues discussed here.

between Prime Minister Oyun-Erdene and President Khurelsukh, formerly close political allies. The two leaders also supported different responses to the protests, with Oyun-Erdene and other members of parliament calling for a state of emergency to be enacted in response to protestors entering the state palace. President Khurelsukh, however, reportedly refused, citing the example of the 2008 post-election riot which was precipitated by police violence under a state of emergency order. In fact, the state response to the protests has largely been relatively sympathetic. The Prime Minister met protesters in person and has invited one hundred citizen representatives to witness the reforms his government are trying to enact in response.

President Khurelsukh has also publicly reprimanded law makers and pledged to get to the bottom of the scandal. Representatives of the Mongolian government abroad, including the ambassador to the UK, speak of the protests as representative of health of the country's democratic freedoms, including free speech (protestors with all kinds of placards were able to share their views on the central square, drawing contrasts with recent 'blank paper' protests in China) and freedom of the press who can report on the protests and criticise government responses to people's complaints, including pointing out that the government has had information on the corruption scandal for a long time and still may be protecting powerful individuals by restricting the release of names of those accused of graft, citing national security concerns. The government insists, in response, that investigations take time and must be carried out to the letter of the law.

The Coal Mafia scandal points to the complexity of the situation in Mongolia. While it was resource nationalism that prevented the privatisation of Erdenes Tavan Tolgoi, these revelations of corruption in a state-owned mining company fuel fears that political elites may be incapable of running such an important national asset without illegally siphoning off assets or profits for their own personal gain. Nevertheless, the arrest of eight people, including the former CEO of Erdenes Tavan Tolgoi, and the release of a list of seventeen Coal Mafia suspects does speak to the intent of the government to root out corruption.

The MPP leadership and the current administration have indeed made tackling corruption one of their key public pledges. The recently appointed Deputy Justice Minister, B. Solongo, a graduate of Harvard Law School with a Masters degree in Mining Law, is one of those seeking to make a difference. Interviewed for this report, the minister pointed out that countries with vast natural wealth often face challenges and that the dominance of the mining sector in Mongolia had exacerbated corruption. According to the minister, the recent protests were a positive sign that the Mongolian population felt

empowered to speak up and demonstrated their support for the anti-corruption actions being taken by the government. Public support and a change in private sector attitudes to bribes (ie that they are no longer worth the cost) were, she said, making the job of fighting corruption easier. She said the Mongolian government recognised that public trust is difficult to earn and easy to lose, but that the political will to change the situation and deliver tangible results in Mongolia is strong.

Finally, putting the details of the Coal Theft scandal aside – indeed, the actual amount of coal stolen may be much lower than first thought – the central takeaway from the weeks of protests in Ulaanbaatar is twofold. On the one hand, people's freedom to protest and the government's conciliatory responses paint a reassuring picture regarding the rule of law and freedom of expression in Mongolia. On the other hand, the reality is that too many Mongolians are suffering. The socio-economic gap between elites and ordinary citizens is growing ever wider, as is the gap between the political rhetoric of Mongolia's natural resources being the patrimony of the people, and the reality that elites have either mismanaged them or seek to use them for personal gain. The World Bank, for example, estimates that out of every dollar Mongolia has generated through mining over the last 20 years, 99 cents has been consumed, and only one per cent saved.⁴ Furthermore, populist politicians have not just spent actual mining revenues but taken out loans against future wealth they expected to earn, expectations that have not always been met due to sudden downturns in commodity markets. The unfortunate result is that Mongolia is currently 'bequeathing negative wealth to the next generation'.⁵ The average Mongolian no longer survives from hand to mouth but lives from loan to loan. As the Mongolian people continue to urge their government to acknowledge corruption, effective and equitable management of natural resources, and economic diversification away from the volatile commodities-based status quo are matters requiring urgent attention.

Anti-Corruption Efforts

Mongolia has signed and ratified the United Nations Convention against Corruption but has not signed and ratified the OECD Anti-Bribery Convention. The country ranks poorly on the corruption perceptions index published by Transparency International, sitting at 116th in the world in 2022 with a score of 33 (where 0 = absolute corruption and 100 = no corruption). This puts Mongolia well below the global average of 44.5. Private businesses report suffering the effects of corruption every time they do business, including when applying for permits or public contracts.

⁴ <https://asia.nikkei.com/Spotlight/The-Big-Story/Mongolia-s-missing-millions-What-happened-to-a-decadelong-mining-boom>

⁵ <https://www.worldbank.org/en/news/press-release/2020/09/17/accelerating-mongolias-development-requires-a-shift-from-mines-to-minds-world-bank>

The Mongolian government is seeking to address the issue of corruption and has set the goal of bringing Mongolia's corruption index ranking down to double digits in the next two years. As a member of the UN Convention Against Corruption the country is expected to create a legal framework to protect informants and whistle-blowers; such a law has recently been drafted. The law aims to create conditions that will encourage whistleblowing that is in the public interest by protecting whistle-blowers from retaliation, including the protection of public official whistle-blowers from prosecutions on the grounds of disclosing state secrets, and proposes monetary incentives for whistleblowing that will be set between 100,000 and 1,500,000,000 MNT (USD 28 to USD 439,000 as at November 2022). In addition, amendments to the Law on Protection of Witnesses and Victims, the Criminal Law, the Law on Violations, and the Law on Investigation and Resolution of Violations are also being prepared. Some in the government see these pieces of legislation as important step on the path to a transparent and effective legal environment in Mongolia. Once that environment is established, they suggest implementation will follow. Others, however, dismiss the whistle-blower law as legislation with a fancy name and that's all.

At one point, Mongolia was thought to be controlled by a hundred elite families. Now, as claimed by Khurelsukh in his move to oust former House Speaker Enkhbold in 2019, that number may have dropped to thirty whose members span both major political parties and work to consolidate power and wealth. Under these circumstances, it remains to be seen whether anti-corruption probes, accusations and arrests will function as political tools to eliminate rivals, or constitute serious attempts to reform the management of Mongolia's wealth and resources. Investors acknowledge that corruption is widespread in Mongolia, leading some to cut back on investments or exit the country altogether. While Mongolian laws punish corrupt officials, the government cannot always enforce the laws effectively or fairly. Both Non-Government Organisations and private companies have also acknowledged the existence of judicial corruption. Factors contributing to corruption include conflicts of interest, lack of transparency, limited access and access to information, insufficient funding under the civil service, low wages and limited government control over key institutions.

In response to the recent protests against Coal Mafia corruption, Mongolia has also passed a new law that increases the government's power to prosecute high level officials for corruption by stripping MPs of immunity and raises the penalties for those found guilty, barring them from public office for life and mandating a prison sentence between five and 12 years.

Human Rights

In 2015 Mongolia was elected to the United Nations Human Rights Council with the highest number of votes for any candidate in the Asia-Pacific region, winning 172 of 192 votes and earning one of five places with seven countries competing. Mongolia campaigned for this position with an extensive list of pledges including the abolition of the death penalty which was successfully removed from the criminal code in 2017.

Human rights in Mongolia are protected by the Constitutional Court of Mongolia, which allows any citizen to submit a claim regarding human rights violations, even if they themselves have not been affected. In addition, the Human Rights Commission in Mongolia, established in 2000, is also charged with 'monitoring the implementation of the provisions on human rights and freedoms and provided in the Constitution of Mongolia, laws and international treaties of Mongolia and mandated with the protection and promotion of human rights'.⁶ In April 2021, Mongolia adopted a landmark law to protect human rights defenders, making it the first country in Asia to develop a legislative framework to protect those that speak out on human rights concerns. Nevertheless, there is evidence that security laws are being used against some activists. The Human Rights Law itself has been criticised by local and international organisations such as the International Service for Human Rights for including restrictive provisions and ambiguous clauses that could be used to limit, rather than protect, the activities of human rights defenders. Furthermore, there remain issues with corruption and a judiciary that is not impartial. The UN Human Rights Council recently commended Mongolia for increasing protections against arbitrary detention. However, arrests without judicial warrant remain the norm and individuals are regularly interrogated without a lawyer present. Local people complain about endemic 'double standards', referring to the difference between the way the law is applied to normal citizens, versus the rich and powerful.

Balancing human rights with public safety concerns during the height of the Covid-19 pandemic caused significant issues for countries around the world. Mongolia was no exception and concerns have been raised about the quality of data protection, the treatment of some citizens with covid or suspected covid, and the restriction on rights to protest. However, Mongolia still managed to conduct Parliamentary elections in June 2020 and Presidential elections in July 2021, with covid-19 mitigation measures in place. As argued by B. Bolorsaikhan, Human Rights Advisor to the Secretary General and Secretary of the National Committee for Human Rights, human rights and corruption must be understood as linked phenomena. In terms of human rights achievement, corruption acts as a bottle-neck issue, blocking advancement, particularly

6 <https://en.nhrcom.gov.mn/news/national-human-rights-commission-of-mongolia/>

in terms of the realisation of the UN's sustainable development goals. In an interview, B. Bolorsaikhan lamented Mongolia's lack of progress over the last decade, especially with regards to discrimination, social inclusion, disability awareness and gender equality. Nevertheless, he pointed to the MPP's party Congress in 2021 and the party's commitment to fight corruption and advance the realisation and protection of human rights in Mongolia, an initiative he strongly supported.

A Highly Urbanised Population

Statistics on population density hide the fact that half of Mongolia's population currently reside in Ulaanbaatar, the capital city. Across the country, 69 per cent of the population now live in urban areas. Urbanisation and the internal migration of people from rural to urban centres has been one of the most significant trends in the post-socialist development of the country. Since the country's peaceful democratic revolution in the 1990s, changes to the rights of people to move within the country and the introduction of private land ownership have driven the shift from rural to urban life. A city built to house roughly 500,000 people, Ulaanbaatar's downtown centre is increasingly surrounded by areas known as ger districts, so named after the 'gers' [traditional collapsible dwellings] that many migrants have brought from the countryside and set up in the city. While factors that push people to leave rural areas include the effects of climate change and extreme weather, such as droughts and dzud (winter blizzards) that devastate herds and render traditional pastoral livelihoods untenable, many migrants are drawn to Ulaanbaatar for the opportunities it offers. These include better education, waged employment, better healthcare and to join family members already living in the city.

With the introduction of the Law on Land in 1992, all Mongolian citizens were granted the right to own a piece of urban land. People seeking plots in Ulaanbaatar are allocated 0.07 hectares (0.35 hectares in (*aimag*) district centres and 0.5 hectares in (*sum*) rural subdistrict centres) upon which they may set gers or build houses. Most people fence their plots, which are referred to as *khashaa* (the Mongolian word for fence). Ger district areas now cover approximately 80 per cent of Ulaanbaatar's landmass and have continued to grow, despite recent government attempts since 2017 to restrict and even ban migration to Ulaanbaatar. Such attempts have had only a limited effect on slowing rural to urban migration and have instead increased the vulnerability of migrants who can no longer register as city residents in order to access local services.

City Life

While apartment blocks are serviced by running water (including centralised hot water for heating), electricity and sewers, ger district homes have not been connected to the city's infrastructure, apart from electricity supply.

Local water kiosks in the ger district enable residents to draw clean water for cooking and cleaning, transporting it home by hand or on small carts, but residents are left to dig and manage their own pit latrines outside. One of the main consequences of this rapid and infrastructurally underserved urbanisation has been the regrettable rise of air pollution.

Throughout the long winter, with temperatures remaining well below zero, ger district residents have no choice but to heat their homes with household stoves. Coal, which is both cheap and plentiful in Mongolia, is the main fuel available to people. Between 2010 and 2015 the Ulaanbaatar Clean Air Project, financed by the World Bank, distributed 175,000 clean stoves to ger district homes. Over this period air pollution (PM 2.5) dropped, but in the following years levels have remained steady or worsened due to the continued usage of old stoves by more than half of all ger district households, and the continued influx of migrants. Air pollution in winter is so extreme that despite its relatively low population the city regularly ranks as the most air polluted city in the world, with levels of 2.5 PM concentrations reaching more than 100 times the safe limit, as defined by the World Health Organization. The air pollution crisis has significant impacts on the health of children in Ulaanbaatar, who were found have 40 per cent lower lung function than their rural-dwelling counterparts. Pneumonia is the second leading cause of death for children under five and foetal deaths increase by 3.5-fold during the winter.

In 2019, the government of Mongolia banned the burning of raw coal in household stoves. In its place, refined coal briquettes were made available for sale at subsidised prices. The briquettes, however, needed to be burned in a different way to the coal people were accustomed to and in the first months of their introduction eight citizens died and a thousand were hospitalised with carbon monoxide poisoning. The coal ban, however, had an immediate impact on Ulaanbaatar's air pollution with a visible reduction in smoke over the first year of its implementation. During covid lockdowns, however, as many families struggled to afford food, let alone cleaner fuel, air pollution levels returned to their previous levels with Ulaanbaatar in October 2020 once again ranking as the most polluted city in the world. Furthermore, confined in their homes, residents were forced to burn even more coal than before. The issue of urban air pollution in Mongolia is directly linked to the poverty experienced by so many of the city's residents, particularly those in the ger districts.

While the poorest certainly bear the brunt of the pollution's deleterious effects on health and wellbeing, the problem affects everyone in the city and significantly reduces Ulaanbaatar's liveability. Unless Mongolia takes radical steps to ameliorate the situation, which can only be fixed by improving the lives of Ulaanbaatar's impoverished ger district residents, the city will not be able to attract investors or entrepreneurs looking to move

to Mongolia. Furthermore, poor public transport options and inadequate storage and transport infrastructure for locally produced goods makes Ulaanbaatar's roads extremely congested. Traffic regularly grinds to a halt on the city's main roads, especially during winter when outside temperatures prohibit walking all but the shortest distances. In recent years, the city introduced measures to reduce the number of private vehicles on the road. On each day of the week, cars with numberplates with certain numbers are prohibited from driving, but this measure is both underregulated and has not solved the issue of congestion.

A lack of understanding among international actors in the development sector about the history of urban forms in Mongolia have seen the ger districts mischaracterised as a recent phenomenon. Such perspectives fail to recognise that gers and ger districts constitute the original form of urban settlement in Mongolia, and erroneously assume that ger district residents would rather live in apartments. As such, projects such as those led by the Asian Development Bank to transform ger district areas into apartment blocks or encourage residents to purchase apartments with mortgages have largely failed. Local initiatives, such as the GerHub non-profit, seek instead to work with the form of the ger to develop ger district housing that is both acceptable to residents and overcomes the challenges the areas face. Recognising that the Mongolian ger – a remarkable architectural form that constitutes part of Mongolia's unique intangible heritage and is the perfect fit for the nomadic pastoral context in which it developed – struggles in a number of ways when transformed into a stationary, urban dwelling, particularly en masse, GerHub has worked with international partners and academic institutions to develop design-led solutions to urban problems. These include the Ger Plug In, which retrofits plumbing, sewage and underfloor electric heating onto gers. The expansion of ger-focused innovations offer promising avenues for the sustainable development of Ulaanbaatar as a ger district city, although their current impact remains negligible, given the scale of the city's expansion. Indeed, most analysts identify poverty as the fundamental barrier to efforts to improve Ulaanbaatar's air pollution.

Education and Digital Literacy

The Mongolian population remains highly literate and educated. Literacy rates among those five years and above stand at an average of 99.2 per cent. The country has 1,453 kindergartens, 848 primary schools and 88 colleges and universities. At the level of higher education, more women than men are enrolled: 60.7 per cent of students are female and 39.3 per cent are male. Once again, however, a sharp urban versus rural divide is revealed with 93.9 per cent of university and college students studying in urban areas, versus 6.1 per cent in rural parts of the country. This highlights the role of education as a force that pulls people

to the city, especially Ulaanbaatar.

Despite Mongolia's vast landmass and dispersed population, mobile phone usage and internet access is widely distributed, although more than one million people access the internet solely through a mobile connection. There are 4.62 million cellular mobile connections in Mongolia – 137.8 per cent of the population, suggesting that many people use more than one phone number. There are at least 2.16 million internet users in the country, 64.4 per cent of the population. Social media usage is also very high, particularly on Facebook which has 2.5 million user accounts (though individuals may use more than one account). In fact, with regards to the population eligible to use Facebook (ie those 13 and over) there are more Facebook users than people: 103 per cent. Other social networks used include Instagram (854.9 thousand users), LinkedIn (240 thousand users) and Twitter (131.5 thousand users). Of the 2.85 million social media users in Mongolia, 99.2 per cent access social media via mobile devices. The average price of 1GB of cellular mobile data is \$0.60, which is 0.2 per cent of the average monthly income. Banking and commerce are also digitalised in Mongolia. In the past year, 85.3 per cent of the population report having made or received digital payments, while 7.4 per cent have made an internet purchase, 38.4 per cent have used online banking, and 14 per cent have used the internet to pay bills. There is also emerging evidence that maintaining access to the internet may now be influencing pastoral migrations among herders in the Mongolian countryside.

Despite widespread mobile internet use, during the covid lockdowns that saw schools closed for extended periods, the replacement of in-person learning with distance education had disproportionately negative effects on already disadvantaged students. Only one in five households actually has the hardware resources necessary for distance learning. For the millions who access the internet solely via a mobile connection, most online educational resources were not mobile friendly or compatible with older smart phones.

Mongolia has taken strides to digitalise its government services through the implementation of the E-Mongolia program. As of March 2022, 630 public services have been digitalised, allowing citizens to apply for passports and residential cards, register new companies, and apply for business licences online. Moving these and other services online has bolstered the country's anti-corruption efforts, reducing corruption in the primary and secondary levels of public service. It has also saved Mongolia approximately 57 billion tugriks in 2021.

While social media access brings many benefits, Mongolia faces similar challenges to populations around the world that have become reliant on social media for news and information. Fears are rising about the harms of misinformation and the misuse of media. So-called 'troll farms' are already said to exist in the country and the concern is that whoever controls social media in

the country has significant power over local opinions. The independent Press Institute of Mongolia estimates that the majority of the country's media companies are owned by politicians. On 22 January 2023, the Mongolian government passed a new law titled the 'Law to Protect Human Rights on Social Media'. Despite the name, media watchdogs such as the Nest Center NGO, immediately raised the concern that the law had been rushed through and gave unchecked power to the state to both decide what social media users see and to pass legislation without public discussion⁷. Within three days, six thousand signatures were added to a change.org petition, urging President Khurelsukh to veto the law and, indeed, he did so on 27 January. These recent events demonstrate the importance Mongolians place on maintaining their rights to freedom of expression and the strength of civil society movements and NGOs to challenge attempts to curb that freedom, even as they reveal what a fragile and contested freedom it may be.

Logistics and Infrastructure

Logistics and transport issues provide the most significant challenges to Mongolia's efforts to expand trade ties with non-neighbour countries. Being landlocked between Russia and China means that it is expensive and complicated to move goods out of the country. Mongolia's score of 2.37 on the Logistic Performance Index in 2018 reveals that the country has below average logistical capacities when compared to other countries in its region (East Asia and Asia Pacific – average score 3.15) and income bracket (Lower Middle Income – average score 2.57). Challenges persist in both road and rail transportation. 70 per cent of Mongolia's imports are containerised, but their transportation is hampered by long lead times and uncertain delivery schedules. Border crossing points have inadequate infrastructure and only three crossings have rail connectivity. Furthermore, a difference in the railway gauge between Mongolia and China introduces a high level of inefficiency for goods crossing this vital trade border. The question of rail gauge became intensely politicised in Mongolia, many of whose citizens feared the national security consequences of providing more convenient rail access into the country for the Chinese, and delayed the long-awaited construction of a rail line from the Tavan Tolgoi mine to the Chinese-Mongolian border. The railway line finally commenced operations on September 9, 2022.

Climate Change

This is a key issue. Mongolia is recognised to be one of the countries most vulnerable to the effects of climate change. The country is one of the world's highest by elevation and

has a strongly continental climate. Generally cold and dry, Mongolia is known for its vast temperature fluctuations and extremely cold winters. In the past, summer temperatures would peak at 24 degrees Celsius in July, while the average temperature in January dropped to -28 degrees. Most rainfall happens over the summer months, but areas such as the Gobi desert in the South see only about 40mm of rain per year. In recent years, it has experienced more extreme weather events, such as dust storms, severe droughts, and even flash floods.

The Mongolian steppe has never favoured settled agriculture; the vast herds upon which the Mongolian people sustain themselves rely on grassland pastures. But both Mongolia's crops, such as wheat, and livestock – the bedrock of the country's food security – are under threat. Climate and nomadic pastoral cycles are closely intertwined; even small changes to temperature and precipitation can have a large effect on herders and their capacity to raise livestock. Difficult winters have long been a part of national life, but the snow is also a vital source of water for herds and pastures. If less snow falls one year, there will be less grass to fatten animals in the spring and summer; if a dry summer is followed by a harsh winter, then weakened animals do not survive. This drought-dzud cycle is being exacerbated by global warming. Mongolia has already warmed an average of over two degrees Celsius and had less rainfall since 1940. As with other particularly vulnerable nations, Mongolia stands to face rates of warming that far outstrip global averages. Worst case scenarios predict temperature rises for Mongolia of over five degrees Celsius by the end of the century.

Although the Mongolian government has listed climate change as a factor in the formulation of policies by various agencies and ministries, it has no specific green investment plan. But despite this the government does take this issue seriously. Mongolia is a signatory to the UN Climate Change Accord and submitted its first nationally determined contribution to the UN framework convention on climate change in 2019. In its submission, Mongolia pledged to reduce its greenhouse gas emissions by 22.7 per cent by 2030 and up to 44.9 per cent, if conditional mitigation measures are implemented.

Mongolia's 2020-24 action plan mentions references to establishing a green financing system. Regarding efforts to achieve net-zero carbon emissions by 2050, the government has neither made policy recommendations nor provided specific regulatory or legal measures to reduce carbon emissions. Therefore, the government does not expect the private sector to take steps to achieve net zero emissions. More broadly, the government continues to incentivise the conservation of biodiversity, particularly through eco-labels and tax credits. Procurement policy has not been approved. While the Procurement Law includes a policy related to green procurement, businesses

⁷ https://duuyaatnest.substack.com/p/mongolian-lawmakers-vote-against?utm_source=profile&utm_medium=reader2

and the environmental community have reported that implementation is lagging behind.

Under the green development recovery plan, the Mongolian government is looking to the country's 'national traditions of environmental protection' to underpin its economic and industrial recovery policies. Environmentally-friendly waste recycling plants are to be established in Ulaanbaatar and aimag capitals, water resources are to be better protected and safe water supplied ensured for both drinking and irrigation. Mongolia also aims to plant a billion trees by the end of 2030. The 'One Billion Trees' project was launched by President Khurelsukh following the 2022 United Nations Climate Change Conference in Glasgow.

Returning to Tavan Tolgoi, new plans to privatise the company and organise an IPO have gathered steam since the 2022 protests. However, the turbulence surrounding the company and international disinclination to invest in coal projects may prevent the realisation of these plans. On the other hand, many recognise that Mongolia's supply of critical and rare earth minerals offer opportunities as the world moves away from fossil fuels, as these remain necessary for a green economic transition. 1.4 billion dollars of financing from the Green Climate Fund has already been approved for green projects in Mongolia and some of Mongolia's largest foreign investors, such as Rio Tinto, have already committed themselves to reaching net zero emissions by 2050. The Asia Foundation office in Ulaanbaatar has been working with local start-ups such as URECA LLC to develop a democratised carbon credit market in Mongolia. The aim is for ger district households to use solar panels to generate surplus energy which can be sold to companies that wish to offset their carbon footprint. The money generated can also contribute to household use of electric heating, rather than coal, which will also reduce Mongolia's greenhouse gas emissions.

Foreign Policy and Response to Russia's War

Mongolia's foreign policy strategy is known as the 'third neighbour' policy. Wedged between Russia and China, Mongolia relies on each superpower neighbour's unwillingness to antagonise the other to preserve its borders and national sovereignty. Looking beyond these two physical neighbours, Mongolia leverages its status as a regional 'oasis of democracy' (as called by John Kerry) to forge wider partnerships with 'third neighbours', such as the United States and Japan.

As a non-nuclear weapons state with a multi-pillared foreign policy strategy, Mongolia tends to seek strong bilateral relations with international partners, rather than integrating itself into regional security groupings. As a result, the country has strategic partnerships with a number of states with divergent interests, including Russia, China, Japan, India and the United States. Since 2004, Mongolia has been an observer state in the Shanghai Cooperation Organisation (SCO), a regional committee

that seeks to maintain the security status quo and address counterterrorism challenges. However, it has not sought full accession.

With regards to its two powerful neighbours, Russia and China, Mongolia participates in a biannual trilateral summit. This year, Russian President Vladimir Putin headed the meeting, while the Mongolian president will host the summit in 2024. A key outcome of the 2022 meeting was the discussion of an economic corridor and gas pipeline project. Set to run through Mongolia, the gas pipeline represents a major infrastructural development linking the three countries; one that has significant potential benefits for Mongolia with regards to energy supply and solutions to the air pollution problems that plague the country, especially the capital city.

Mongolia's geopolitical position has required the nation to tread a fine line in response to Russia's 2022 invasion of Ukraine, remaining largely neutral and abstaining from UN motions to condemn the Russian aggression. Mongolia's 70 year history as a Soviet satellite state and its enduring memory of Manchu colonisation means that its citizenry today generally consider Russians to be important allies ('older brothers' in local parlance). Even as the country's economy has become ever more reliant on China as a trading partner and market for the nation's natural resources, popular mistrust of Chinese intentions with regards to Mongolian sovereignty remains widespread. In the wake of Russia's aggression, however, competing narratives are emerging.

On the one hand, propaganda that paints Ukraine as a Nazi-led state in need of Russian liberation is repeated on mainstream pro-Russian media outlets. However, on the other, Mongolians are taking note of the particularly high toll the conflict is taking on Russian minority groups, including fellow ethnic Mongols, such as Buryats. Former president Tsakhia Elbegdorj issued an impassioned plea to Putin to end the war and criticised the use of ethnic minorities as 'cannon fodder' by the Russian regime. Reigniting the spirit of pan-Mongolism, Elbegdorj, the President of the World Mongol Federation, offered Mongolia as a refuge for Russian minorities, including 'Buryat Mongols, Tuva Mongols and Kalmyk Mongols'. Mongolia has indeed opened its borders to thousands of Russians (most of whom come from Mongol ethnic minority groups) who have arrived there, fleeing conscription. They have been greeted with extended visas and even promised resident permits to those who wish to stay in the country. The arrival of thousands of young men from Russia has highlighted gaps in Mongolia's immigration policy and raises the question of Mongol identity as something that reaches beyond the country's borders. As Mongolia embraces policies that may revive a pan-Mongol conception of solidarity among Mongol peoples, it remains to be seen how its neighbours will react, and how Mongolia itself may be changed by an influx of ethnic Mongols, not all of whom speak Mongolian.

Mongolia's geopolitical position may allow it to benefit

from Western efforts to isolate Russia. These opportunities come from both sides of the conflict. On the one hand, Western nations' efforts to reduce their reliance on Russia may see them look to Mongolia. Germany, for example, recently informed Mongolia that it is looking to buy raw commodities, such as copper and rare earth minerals, from Mongolia. On the other hand, the conflict has pushed Russia closer to China and stronger ties between the nations may mean Mongolia becomes a major road between the powers. But this is a position that it must exercise great caution over, as the relationship between China and Russia is not an inherently stable one, with huge inequalities between the two in terms of economic size (Russia is a sixth the size of the Chinese economy).

Indeed, from Mongolia's perspective it appears that the conflict and subsequent sanctions imposed on Russia are having an overall negative effect on the country. Prime minister L. Oyun-Ederne recently spoke out about the situation in an interview with the Financial Times⁸. Pointing to the loss of 'navigation fees' from aircraft being rerouted away from Russian airspace, and increased prices for fuel and other vital goods that Mongolia relies on Russia for, L. Oyun-Ederne described the situation as 'a double sanction on Mongolia even though it is not our fault'. Key to the prime minister's argument is the sense of injustice that Mongolia, a rare democracy in the region, would be left to suffer the consequences of the actions of its autocratic neighbours by its 'third-party' allies, the democracies of the West.

Relations with China

As with every other country in the region, Mongolia's relations with China are of critical importance. The two share a huge border (4700 kilometres), and a long, often contentious, modern history. For the last 18 years till 2022, China has been Mongolia's largest source of investment and trade. As Mongolia Ambassador to China Tuvshin Badral stated in an interview with the Chinese Global Times in October, 'From January to September, Mongolia's total foreign trade volume amounted \$13.35 billion, of which trade with China accounted for 60 per cent.'⁹ As part of Xi Jinping's Belt and Road Initiative, Mongolia has participated in a China-Mongolia-Russia Economic Corridor, an agreement of which was signed in 2016. In September 2022, at the Shanghai Co-operation Organisation meeting held in Uzbekistan, the leaders

of Russia, China and Mongolia recommitted to this framework, saying that they wanted to increase trilateral trade volumes, enhance product competitiveness, strengthen transit transport facilitation, and develop infrastructure. There are already 32 named projects being developed, one aimed at building better rail links. Mongolia is particularly interested in becoming a transit hub for trains to Europe, though the impact of the Russian invasion of Ukraine have put this on temporary hold.

China is a hugely important partner for Mongolia, with 95 per cent of its exports transhipped via China. Mongolia's exports to China in 2020 alone came to USD5.4 billion. Chinese Foreign Minister Wang Yi visited Ulaanbaatar in August 2021, and signed a cooperation agreement, seeking to deepen relations.¹⁰ But as a Reuters report in 2017 stated, like many in the neighbourhood, Mongolians harbour ambiguous attitudes towards their massive neighbour. One politician was recorded as saying 'The reality for today is we have the supply, China has the demand,' adding that Mongolia had to diversify and 'reduce inappropriate dependence' on one country.¹¹ That captures the country's quandary well.

While Xi Jinping visited Mongolia in 2014, the latest high-level visit was by the Mongolia Prime Minister to Beijing in November 2022. While in Beijing, China and Mongolia released a Joint Statement on Advancing the Comprehensive Strategic Partnership in the New Era between Mongolia and the People's Republic of China and committed to 'convert friendly political relations into an impetus of cooperation', as put by the Mongolian ambassador to China.¹² The joint statement sets a goal of \$20 million for the countries' annual trade volume and an increase in Mongolia's coal exports to China to 40-70 million tons per year. Such aims are part of a set of sixteen bilateral cooperation documents that were signed during Khurelsukh's visit and cover issues of economy, trade, investment, customs, ecological projects to tackle desertification, and sporting and cultural initiatives, including the Chinese-sponsored construction of a National Theatre of Arts and a Youth Sports Centre.

Maintaining good relations with China means adhering vocally to the One China policy and disciplining those that oppose it. In Mongolia, this has consequences for the degree of support Mongolians are able to give to their ethnic Mongol compatriots living in Inner Mongolia, an autonomous region of China that borders Mongolia to the South and East. The Mongols in Inner Mongolia

8 <https://www.ft.com/content/21a51801-6bc6-4fda-a38d-0653605c0d88>

9 'China-Mongolia ties to embrace greater potentials from infrastructure to trade under China's BRI and Mongolia's Steppe Road Program: envoy', Global Times, October 13, 2022, <https://www.globaltimes.cn/page/202210/1277101.shtml#:~:text=From%20January%20to%20September%2C%20Mongolia's,mainly%20affected%20by%20the%20epidemic>

10 Ralph Jennings, 'China accelerates Mongolia investment to 'facilitate' Russia trade link and secure energy, commodities', South China Morning Post, August 11, 2022, <https://www.scmp.com/economy/global-economy/article/3188532/china-accelerates-mongolia-investment-facilitate-russia>

11 Terence Edwards, 'Mongolians fret over China investment as they prepare to vote', Reuters, June 25, 2017, <https://www.reuters.com/article/us-mongolia-election-china-idUSKBN19F0S6>

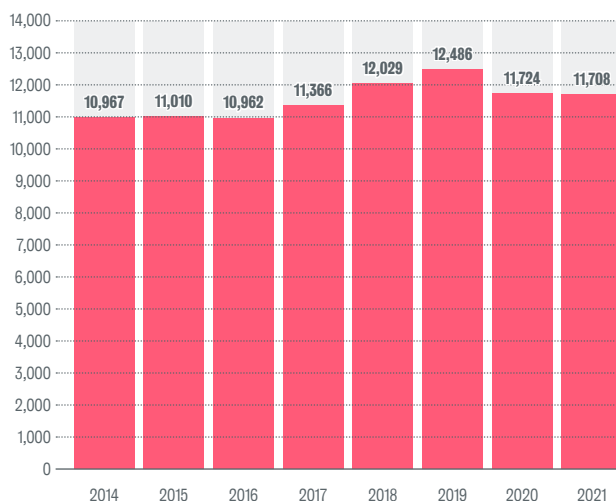
12 <https://news.cgtn.com/news/2022-12-02/Khurelsukh-s-visit-adds-great-significance-to-Mongolia-China-ties-1fqSXxRpW3S/index.html>

have been subjected to increasing cultural and linguistic suppression in recent years, particularly with the changes made to their right to education in the Mongolian language. Nevertheless, groups that speak out about the treatment of Inner Mongolian Mongols are subject to restrictions in Mongolia. In June 2022, the activist Munkhbayer was notably sentenced to jail for 10 years after being accused of spying for India against China, while other protest movements are suppressed in the lead up to visits by Chinese officials, such as Chinese Foreign Minister Wang Yi to Ulaanbaatar in August 2022.

The expectation by China for political support as it continues to experience severe tests in its relationship with the US will place Mongolia in a position where it has to be dextrous, flexible, and have a strong awareness of its own self-interest. But this is a challenge that it has been dealing with for a long time. The only new feature now is simply one of intensity.

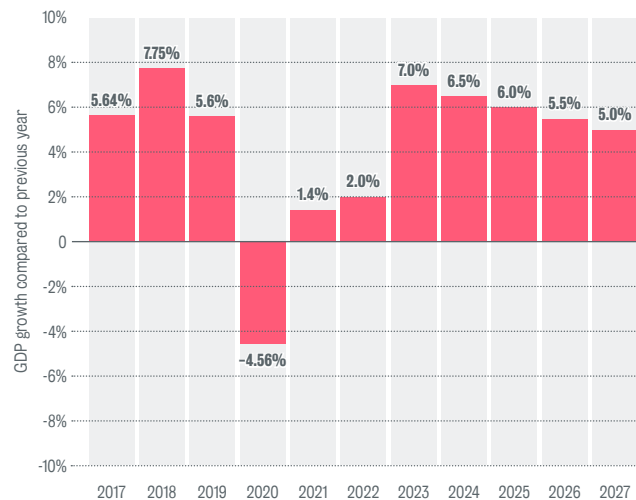
Mongolia's Economic and Investment Outlook

Mongolia – per capita GDP in USD 2014 to 2021



Source: https://www.theglobaleconomy.com/Mongolia/gdp_per_capita_ppp/

Annual GDP growth projected to 2027



Source: Statista: <https://www.statista.com/statistics/727556/gross-domestic-product-gdp-growth-rate-in-mongolia/>

Mongolia's market and huge mineral reserves provide investors with potentially lucrative opportunities, but caution is required as the economy is small and vulnerable to external economic and financial factors. Strong growth in the period 2017-19 of around 6.5 per cent annually suffered a setback due to the pandemic in 2020, when the economy contracted. There has been a more modest return to positive growth in 2021, with two per cent predicted for 2022, and then far healthier figures for the coming five years. In terms of per capita, the country made good gains till 2019, but then saw a contraction, settling currently at a figure of around USD11,500. For international investors, however, the good news is that the country has the advantage of limited market entry barriers and few investment restrictions.

There are of course some problems. In 2021, disputes hampered the progress of the Oyu-Tolgoi copper-gold mine, although fortunately these were resolved. This mine is expected to account for 25 per cent of Mongolia's GDP by 2024. The renewed agreement on the cost and debt sharing for future development of the mine, as well as greater commitment to transparency in decisions on management and strategic development, demonstrates that Mongolia can and will resolve disputes within the scope of contractual obligations.

As already alluded to, the main challenges have been from the COVID-19 outbreak and Russia's invasion of Ukraine. These have both brought great pressure on Mongolia's economy. At the end of 2021, Mongolia's parliament passed a New Recovery Policy, a 10-year development plan aimed at boosting the country's productivity (discussed below).¹³ The plan depends

¹³ See 'A New Revival Policy to Stimulate Economy' Approved, Montsame, Mongolia official website, December 31, 2021, <https://montsame.mn/en/read/285624>. Details of each of the sectors focussed on is contained on the Website of the Mongolian Business Council: <https://bcmongolia.org/en/news/o.html>

on the recovery of mineral exports, which are the main source of income for Mongolia. However, the Chinese government's insistence of implementing a zero-COVID policy continues to create logistical bottlenecks at the Mongolia-China border through 2022. This policy was lifted at the end of the year, with almost all restrictions removed in 2023, which will hopefully improve this situation. Meanwhile, Russia's invasion of Ukraine in February 2022 triggered unprecedented international sanctions against Moscow. This has served to create uncertainty over imports of petroleum products, electricity and key commodities such as wheat and fertilisers into Mongolia.

Mongolia has always adhered to its 'third neighbour' foreign policy in order to diversify its options. The two issues referred to above have only underlined how important this approach is. Cooperation with the European Union and North America will continue to be key. The current government is focusing on global cooperation in clean energy, desertification control, and green development. As a landlocked country, Mongolia is also committed to developing the aviation industry and cooperating with various ports.

New Recovery Policy and Pathways to Economic Diversification

On December 30, 2021, the Parliament approved the New Recovery Policy. Subsequently, the Government launched the 'NRP' which is a 10-year policy to remove key 'binding constraints' and 'resolve factors affecting development' by 2030. The 'NRP' will allow the government to implement its long-term policy under the 'Vision-2050', a thirty-year vision for the country that aims to unleash Mongolia's potential over the subsequent twenty years. The plan targets six sectors or areas in need of recovery and sets out ambitious targets for their development via active partnerships between public and private sectors and investors. Factors holding back Mongolia's development have been identified as: ports of entry, energy supply, rural development, industrialisation, public sector productivity, and natural resources. The New Recovery Plan aims to maintain economic growth at a rate of six per cent, double the per capita national income, and increase labour force participation to 65 per cent. It also projects a three-fold increase in the capacity of border ports and two-fold increase in energy sources. According to the plan, border port infrastructure, including land, rail and air, will be further developed and free economic zones established, new energy sources will be established and existing capacity enhanced, including renewable energy facilities, and the share of value-added finished products in Mongolia's exports will be increased through investment in value-added heavy industry capacities. Digitalisation is at the heart of plans to improve public productivity by reducing bureaucracy, eliminating duplicate inspections, and combatting corruption.

Meat-golia?

With regards to two major challenges facing Mongolia, namely the overpopulation of Ulaanbaatar and the climate crisis, the New Recovery Policy contains a number of proposals. Policies aimed at urban and rural recovery include the goal of developing aimag centres into independent cities, improving the quality and standards of roads and public transport in Ulaanbaatar and intensifying the development of its new residential areas. Rural economic development policies focus on the sustainable growth of agricultural products in order to ensure Mongolia can not only meet its domestic food demand but also increase the share of food products in the country's exports. Livestock currently accounts for 10 per cent of Mongolia's gross domestic product and the sector employs around 23 per cent of the population. Re-developing Mongolian meat production as an export-focused industry is a key part of the government's drive towards economic diversification. It is hoped that the development of the meat industry may also have positive impact on the Mongolian environment by reducing the numbers of herd animals grazing on the steppes, which have reached record levels and are estimated to be beyond the carrying capacity.

Media-golia?

In addition to those covered in the New Recovery Plan, other sectors are also receiving government investment in hopes of diversifying the country's economy. For example, since being appointed to the post of Minister of Culture in 2021, Nomin Chinbat has made it her personal mission to raise the profile of Mongolia's cinematic industry. With her previous experience as founder and CEO of the television channel MongolTV, the Minister has recognised the potential of creative industries to bring international investment to Mongolia and create and support jobs in the country's creative industries. Following the passing of new legislation that set out a number of financial incentives for local and foreign production companies, 2022 saw the launch of the Mongolian National Film Council. The purpose of the council is to provide opportunities for Mongolian filmmakers to benefit from international experience and encourage Mongolian and international filmmakers to work together on co-produced films. The incentives on offer to foreign producers include a 30 per cent rebate on productions with a minimum spend of 500,000 USD, which can be increased by 10 per cent for productions that pass a culture test. A further five per cent rebate is available to help with local cast and crew costs. The scheme applies to both film and TV projects and is already attracting the attention of major Hollywood studios, such as HBO, Netflix, Paramount Pictures and Warner Brothers, all of whom visited Mongolia in September 2022 to meet the Mongolian Prime Minister and Minister of Culture.

Mind-golia?

The Mongolian government also seeks pathways to growth in the tech and tourism industries. In December 2022, it launched a new online procurement portal – www.mindgolia.mn – with the aim of ‘reducing costs and bureaucracy related to the procurement of software solutions’.¹⁴ The portal currently features 180 products from over 100 companies and is part of the government’s explicit strategy to diversify away from mining and towards ‘emerging and high-growth areas in the knowledge economy’. The launch of e-visas and VAT refunds for tourists is also on the Prime Minister’s agenda, along with the ‘liberalisation’ of the aviation sector. Mongolia remains a reasonably popular destination for summer tourists, but the effects of the pandemic and the war in Ukraine have severely disrupted the sector in recent years. In particular, lack of access to the trans-Siberian railway line for Western tourists is a limiting factor.

Foreign direct investment (FDI)

Foreign direct investment makes up an important component of the country’s economic structure, although as a result of the pandemic between 2019 and 2020 there was a fall both in national GDP and in inflows of FDI.

Table One: Mongolia Direct Investment and GDP 2019-2020

	Year	Quantity (Billions USD)	Year	Quantity (Billions USD)	Source
Gross Domestic Product (US\$ million)	2019	\$14.21	2020	\$13.31	World Bank/ UNCTAD
Foreign Direct Investment	2019	\$2.4	2020	\$1.7	World Bank/ UNCTAD

Source: <https://www.loydsbanktrade.com/en/market-potential/mongolia/investing#:~:text=According%20to%20UNCTAD%20World%20Investment,by%20the%20Covid%2D19%20pandemic>

As to sources of this investment, Canada was the principal partner in 2020 as the table below shows (amounts are for total year investment, in millions USD).

Mongolia’s Top Five Inward Investors 2020

Total foreign investment	2.42	100%
Canada	0.9	37%
Mainland China	0.5	22%
Singapore	0.15	6%
Luxembourg	0.15	6%
Hong Kong, China	0.1	4%

Source: Bank of Mongolia

Current Investment Policy Framework

While Mongolia has a liberal and open investment policy, it also has two main provisions. Firstly, foreign investors must invest at least \$100,000 US Dollars (USD) to establish a joint venture, something unnecessary for domestic investors. Secondly, while foreign investors can obtain land use rights, such rights are only for five years and need to be extended upon expiration for non-Mongolian sources. Outside these national treatment restrictions, the Mongolian government aims to provide a ‘one-stop service for investors’, providing investors with visa, tax, notarisation and business registration services. Clearly, for Mongolia’s development and prosperity, foreign direct investment is important, and the policy framework makes this clear.

Despite the restrictions on land use, foreign and domestic investors have equal rights to establish, sell, transfer or securitise title structures, shares, rights of use and companies. Except for foreign state-owned enterprises, there are no statutory or regulatory restrictions on foreign-invested enterprises. Of all the sectors, mining is one of the most important. The Mining Act allows the government to acquire 50 per cent ownership of mineral deposits deemed ‘strategically important’ to the country by Parliament. Since 2019, Article 6.2 of Mongolia’s constitution also requires the state to have a ‘majority’ share in the ‘interest’ of strategic mining projects.¹⁵ Investors are currently waiting for the government to clarify what the ‘interest’ from mining activities in this regulation mean. According to government officials, it could mean profits or non-cash forms such as development plans, employment or technology transfers. Investors also observed that excessive regulatory discretion allowed officials to de facto control legally granted rights, corporate governance decisions, and the use of ownership shares, noting that in some cases regulators set rules beyond their actual statutory responsibilities. Finally, Mongolia has no formal or informal investment review

¹⁴ <https://www.prnewswire.com/news-releases/mongolian-government-provides-major-boost-to-the-countrys-thriving-tech-sector-with-launch-of-mindgolia-procurement-portal-301709117.html>

¹⁵ See Zorigt Dashdorj, ‘Mongolia’s Constitutional Amendments: An Analysis’, in Geopolitical Intelligence Services, <https://www.gisreportsonline.com/r/mongolia-constitution-amendments/>, February 12, 2021

mechanism, although the National Security Council prohibits investments from some foreign state-owned enterprises.

Mongolia has been a member of the World Trade Organisation (WTO) since 1997. To enhance the business environment, Mongolia has ratified the U.S.-Mongolia Agreement on Transparency in International Trade and Investment ('Transparency Agreement'), originally signed in 2013, and entering into force in 2017.¹⁶ However, Mongolia and the United States do not have bilateral tax or free trade agreements. Mongolia is also a member of the OECD's Inclusive Framework on Tax Base Erosion and Profit Shifting, and a party to the Inclusive Framework's October 2021 agreement on two-pillar solutions to global tax challenges, including a global minimum corporate tax.¹⁷ The Japan-Mongolia Economic Partnership Agreement entered into force in 2016.¹⁸ Mongolia has also ratified the Asia-Pacific Trade Agreement.

Mongolia's Rule of Law

Mongolia has clearly strengthened its legal system in the last two decades. Draft legislation has to be published for public comment on the official parliamentary website at least 30 days before any bill is presented to parliament. A report assessing the cost and impact of the bill also has to be issued. Sponsors of legislation must solicit comments in writing, organise public meetings, solicit comments through social media, and conduct public surveys. No more than 30 days after the end of the public comment period, the sponsor must prepare a summary table of all comments, including those used to amend the bill, as well as those not used, which must be posted on the Parliament's official website. Once a law is passed, parliament must monitor and assess its implementation and impact.

This process is clearly currently a work in process. According to businesses, ministries and agencies have yet to meet the statutory requirements outlined above. Sometimes relevant legislation is posted on the parliamentary website before it is passed into law. Businesses are also noticing unpredictable and opaque regulatory practises at the local (provincial and county) level. The inconsistencies in the application of regulations between central, provincial and municipal jurisdictions, and a lack of expertise by local inspectors create problems. But there is transparent discussion of this domestically, and an awareness that it is an area that needs improvement. The Mongolian Centre for Economic Policy and

Competitiveness Research for instance annually ranks the local regulatory work.¹⁹

Another area where the country is seeking to improve its legal efficacy is in the so-called Transparent Budget Law. This requires governments at all levels to publicly release budgeted and actual spending, and is widely followed, according to business and transparency experts. However, Parliament is exempt from these transparency requirements for the Emergency and Budget Bill and waived these transparency requirements several times in 2020 and 2021 during the COVID-19 pandemic. There are also governmental restrictions in investments in high-risk securities such as digital currencies and cryptocurrencies, detailed in the law on virtual asset and related services which was approved by Parliaments on December 17, 2021.

An important recent event was the joining by Mongolia of the Asia-Pacific Trade Agreement (APTA) in 2021. Despite this, the country has generally avoided regional economic blocs. It frequently seeks to adapt European standards and norms in areas such as building materials, food and environmental regulations, and focuses on US standards in the hydrocarbon sector and uses a combination of Australian and Canadian mining industry standards and codes. Mongolia also prefers to adopt OIE standards in its animal health regulations.

In terms of judicial independence, investors reflect that in the past judges often avoided controversial decisions in commercial disputes, preferring to delay sentencing for as long as possible, sometimes years. After giving a verdict, enterprises faced difficulties in law enforcement, and in some cases, the process took so long that by the time the verdict was enforced, the opposing party had gone bankrupt and disappeared. Similar long delays were experienced with inspection bodies such as the Tax Dispute Resolution Board and other inspection panels, particularly those related to mineral licenses and health issues. These issues have been addressed in the amendments of the Judiciary Act in 2021, bringing it into line with the revised constitution. The law limits the power of the government, parliament and the president to influence the removal of judges. Investors have welcomed these reforms, saying they are seriously helping restore judicial independence.

Mongolia has a contract law, but no dedicated commercial court to implement this. Contractual disputes are usually adjudicated through the civil court division. Criminal cases brought by the Attorney General's Office are adjudicated at criminal courts. Disputing parties can appeal to the Ulaanbaatar City Court and ultimately to

16 Full text of agreement at <https://ustr.gov/sites/default/files/US-Mongolia%20Transparency%20Agreement-English-Final-As%20Posted.pdf>. Press release marking its passing into force at <https://ustr.gov/about-us/policy-offices/press-office/press-releases/archives/2017/january/united-states-mongolia#:~:text=The%20U.S.%20Mongolia%20transparency%20agreement,publish%20final%20laws%20and%20regulations>.

17 OECD website: <https://www.oecd.org/tax/beps/>

18 Full text of the agreement in English at <https://www.mofa.go.jp/files/000067716.pdf>

19 This can be found at Overall Competitiveness Rankings: <http://en.aimagindex.mn/competitiveness>

the Supreme Court of Mongolia. Mongolia has several specialised administrative courts that hear cases brought by citizens, foreign residents and businesses against official administrative actions. Investors and legal sector experts say the administrative courts are procedurally competent, fair and consistent, but the civil courts are very inconsistent.

Foreign Direct Investment Laws and Regulations

The key law for investors is the Investment Law of 2013.²⁰ This sets out the general statutory and regulatory framework for all investors, local or foreign. According to this, foreign investors have access to the same investment opportunities as Mongolian citizens and receive the same protections. The long-term residency of the investor, however, not the investors' nationality, determines whether the investment is foreign or domestic. The law provides for a more stable tax environment and gives tax breaks and other incentives for investors. It also grants eligible companies a low-tax license, valid for up to 27 years.

The Mongolian Agency for Fair Competition and Consumer Protection (AFCCP) examines competition-related issues in domestic transactions. The Agency however has not opened competition cases affecting foreign direct investment in 2021. Investors generally agree that the AFCCP applies its norms and procedures transparently, although they remain concerned that the agency favours local economic interests over foreign interests. AFCCP decisions can be appealed.

State organs at all levels may confiscate or change land use rights for the purposes of economic development, national security, historical site protection, or because of environmental protection. The Mongolian constitution recognises private real estate and rights derived from this, and Mongolian law expressly prohibits the government from expropriating assets without paying adequate market compensation. The lack of clear power boundaries between the central, provincial and county governments however has sometimes resulted in the loss of property and rights of use in practice. An example is the Minerals Act which does not clearly delineate land use licenses and special use rights for local, regional and national jurisdictions. Investors may find themselves unable to fully exercise their rights under the law in the face of ambiguity and frequent differences in approach and interpretation of regulations at different levels of government.

Mongolia ratified the Washington Convention and joined the International Centre for Settlement of Investment Disputes (ICSID) and the New York Convention in 1991 and 1994. It has accepted international arbitration in several disputes. Mongolian law allows

domestic enforcement of ruling under the ICSID Convention and the New York Convention.

In disputes involving the government, foreign investors have described three broad categories of alleged interference. First, in disputes between private parties in judicial courts, investors warned that private parties in Mongolia could use government, judicial, law enforcement, media or prosecutor connections to coerce foreign parties into accepting the request. Second, in direct disputes between investors and the Mongolian government, the government can assert the sovereign right to intervene in commercial enterprises, usually because the Mongolian government itself operates or seeks to operate a competing state-owned enterprise (SOE), because officials have undisclosed business interests, or because of ignorance of relevant laws and regulations. The third is a dispute with Mongolian tax officials or prosecutors who allegedly imposed highly inflated levies on foreign businesses, issued unsubstantiated tax assessments, and demanded immediate payment or threat of a civil or criminal prosecution.

In terms of enforcement of court judgments, the General Enforcement Agency of Court Decisions (GEACD) who has responsibility for this has a very limited number of officials. In addition, its employees typically live in the jurisdictions where they work and are under pressure from friends and professional acquaintances. Complicated chains of command and opportunities for conflicts of interest sometimes undermine GEACD's resolve to enforce court judgments on behalf of foreign and domestic investors.

Mongolia has been a plaintiff and defendant in several past and ongoing international arbitration lawsuits involving the confiscation of private sector mining rights or the imposition of exorbitant taxes. Whenever the government loses an arbitration claim, it meets each judgment after some negotiation with foreign investors. The already mentioned Oyu-Tolgoi copper and gold mine remains the leader in Mongolia's investment climate. At full capacity, the mine is expected to produce as much as 25 per cent of Mongolia's GDP. Many investors believe that the 2021 settlement agreement between the Mongolian government and Oyu-Tolgoi resolved some ongoing disputes and thereby improves Mongolia's image of the international investment climate.

Investment Incentives

The government generally provides the same tax benefits to foreign and domestic investors. There are sometimes exemptions from duties on imports of fuel, food or the import of agriculture or energy product. Mongolia's five per cent import duty and 10 per cent value added tax

20 United Nations Conference on Trade and Investment website, [https://investmentpolicy.unctad.org/investment-laws/laws/124/mongolia-investment-law#:~:text=1\)%20The%20purpose%20of%20this,and%20the%20competences%20of%20a](https://investmentpolicy.unctad.org/investment-laws/laws/124/mongolia-investment-law#:~:text=1)%20The%20purpose%20of%20this,and%20the%20competences%20of%20a)

(VAT) may be exempted. Governments can also offer incentives such as feed-in tariffs, electricity tariff discounts or tax incentives for both the traditional and green energy sectors. The government can also provide tax credits on a case-by-case basis for investments in industries such as mineral processing, agriculture and infrastructure. According to the Investment Law, tax paying foreign-invested companies registered in Mongolia are eligible to become Mongolian domestic entities and enjoy investment incentive programs, among other benefits, a stable low tax policy for up to 27 years. While in theory the government could issue guarantees or co-invest in FDI projects, in practice it would not do so.

The Mongolian government has had a plan for a free trade zone since 2004. Two free trade zones are located along the trans-Mongolian road and railway: (1) the Mongolian-Russian northern border town of Altanbulag; (2) the southern Mongolian-Chinese border town of Zamyn-Uud. Both free trade zones however are currently relatively inactive and in need of development. The third free trade zone is located at the Tsagaannuur port of entry in the most remote western Bayan Ulgey province, bordering Russia. Mongolian officials have also said that the new Ulaanbaatar International Airport may have a special economic zone that could have some of the features of an existing free trade zone. This at the time of writing (October 2022) has yet to be finalised.

Real Estate and Intellectual Property Protections

The Mongolian Constitution states in article 5.2, 'The state shall recognise public and private property in any form.'²¹ However, in the subsequent article 6.3 it goes on to restrict land ownership to 'adult citizens of Mongolia'. While foreign investors can own permanent tangible structures and gain access to land and resources, only Mongolian citizens can own land, and only with the approval of the municipality. Land ownership does not imply ownership of surface or subsurface resource rights, nor does it necessarily acquire these rights, which still belong to the state. Outside municipalities, the state owns land and resources in perpetuity and can lease these resources to public and private entities.

Ownership of a building gives the owner control over the use of the land on which the real estate is located. Use rights are granted for a period of three to 60 years, depending on the specific use rights. However, foreigners and foreign companies can lease land use rights for up to 10 years, with a five-year term and a five-year extension.

While Mongolia has a well-established registry of immovable property (buildings and real estate), it lacks a central registry of tenure rights. Therefore, investors, especially those investing in rural Mongolia, have no

easy way to understand who may have conflicting rights. Complicating matters, Mongolia's civil law system is still developing a formal process for assigning multiple tenure rights on adjacent lands or adjudicating disputes arising from conflicting tenure rights. As of 2022, the Mongolian government does not have a clear precise number of land ownership.

Creditors can seize and dispose of property offered as collateral, although this process is often subject to lengthy legal delays. Debt instruments backed by real estate, fixed structures and other real estate collateral can be registered with the Real Estate Office of the National Registry.²² Chattels (cars, equipment, livestock, accounts receivable and other items of value) can also be registered in the National Registry as collateral. Investors report that the chattel registration system, while generally reliable, has occasionally encountered technical capacity issues.

In terms of intellectual property, film, television and digital content from Europe and the United States enjoy strong copyright protection in Mongolia. However, the use of pirated software by Mongolian government departments, household consumers and businesses are rampant. Patent protection for importers of drugs and medical devices is virtually non-existent, and trademark law is often the only recourse for rights holders. While law enforcement agencies will seize trademark-infringing drugs, simply removing the infringing trademark still allows access to the market. Medical devices have encountered similar problems. Trademark infringement also includes the distribution of counterfeit clothing and the sale of counterfeit spare parts for heavy equipment. However, the Mongolian Intellectual Property Office did not focus on these areas because the rights holder had not filed a complaint.

Intellectual property infringements below the value of Mongolian Tugrik (MNT) 50 million (approx. USD15,000) will be subject to administrative enforcement, and those above MNT 50 million will be enforced as a criminal act. Law enforcement agencies are indeed pursuing criminal and civil intellectual property (IP) cases, demonstrating the willingness of Mongolian courts, prosecutors, administrative investigators and police to address the issue.

Finance

Mongolia has few restrictions on capital movements and complies with Article VIII of the International Monetary Fund (IMF) with no restrictions on international payments and transfers. However, capital markets are underdeveloped and there is little ability to trade futures or derivatives in traditional markets. The state-owned Mongolian Stock Exchange is the main venue for

21 Revised constitution of Mongolia, at https://www.conscourt.gov.mn/?page_id=842&lang=en

22 Website at <http://www.burtgel.gov.mn>

domestic capital and portfolio investment, and foreign investors can access credit in various forms, depending on local market conditions.²³

The four major Mongolian commercial banks – Khan Bank, Trade and Development Bank (TDB), Xac Bank and Golomt Bank are majority-owned by Mongolian and foreign investors and together hold 84.3 per cent of all bank assets, or about 12 billion US dollar (as of December 2021). The non-performing loan ratio (NPL) of Mongolian commercial banks averaged 10 per cent in December 2021, down from 11.8 per cent in December 2020. The ongoing COVID-19 pandemic has created additional risks for the banking industry as banks allow deferral of consumer loan and mortgage payments. The Bank of Mongolia is the central bank of Mongolia and oversees banking operations. Foreigners can set up domestic accounts and need to provide their legal residency in Mongolia for more than 90 days.

Parliament revised Mongolia's Banking Law in 2021. These revisions were positively received, with Fitch Ratings stating that they 'will improve transparency and strengthen the banking system's corporate governance in the medium-to-longer term, ultimately contributing to the system's stability.'²⁴ The revised law stipulates that shareholders and their affiliates cannot own more than 20 per cent, and banks have until December 31 2023 to comply with this divestment requirement. In addition, Mongolia's four important commercial banks – Khan Bank, TDB Bank, Xac Bank and Golomt Bank, as well as Mongolia's state-owned Turiin Bank (National Bank), must be listed on the Mongolian Stock Exchange by June 30, 2022. The new rules are likely to improve bank governance by creating accountability for a wider group of shareholders, but there are concerns that the pushed time limit could be detrimental to industry stability.

Mongolia also has a large number of illiquid banks. Potential investors in Mongolia's banking sector need to conduct careful investigation, as industry participants and regulators are concerned that some banks' balance sheets may be inflated or misreported to create the impression that capital adequacy ratios are higher than reality. International and domestic observers noted that the Bank of Mongolia did not exercise sufficient oversight of commercial banks, enabling them to misrepresent their assets. It also allows small, insolvent banks to continue operating despite not having enough assets to pay their debts. Investors considering participating in an IPO should carefully consider the additional systemic risks associated with these regulatory issues.

Mongolia's 2020 removal from the Financial Action Task Force's (FATF) 'grey list' of jurisdictions and increased oversight may give investors' confidence that the country

is serious about anti-money laundering and combating the financing of terrorism. However, industry players pointed to ongoing challenges in establishing new correspondent relationships with banks in foreign jurisdictions, with counterparty banks in some transactions citing high transaction costs.

The government employs a liberal foreign exchange system, and its national currency, the Tugrik (expressed as MNT), is fully convertible into a range of international currencies. Apart from occasional market-driven foreign reserves shortages, foreign and domestic businesses reported no problems switching or transferring funds. Mongolia's currency law requires MNT for domestic transactions, unless the Bank of Mongolia exempts it. The regulations prohibit listing wholesale or retail prices in foreign currencies in any manner, including as an internal accounting practice, to effectively prevent the indexing of prices or otherwise into currencies other than MNT. Hedge funds that can be used elsewhere to reduce foreign exchange risk are often unavailable due to the small size of the market. Letters of credit in various currencies are available for trade facilitation. Governments sometimes pay for goods and services with promissory notes, which cannot be directly exchanged for other currencies.

The Ministry of Finance of Mongolia manages two sovereign wealth funds, which are supported by shifting mining industry revenues: the Fiscal Stability Fund and the Future Legacy Fund. The misappropriation of fiscal stabilisation funds could boost spending in boom-and-bust cycles of revenue. However, Mongolia's recent fiscal crisis has drained this fund. The Future Legacy Fund is similar to Norway's global pension fund, accumulating mining revenue for the future and investing the proceeds exclusively outside Mongolia. Mongolia's Future Heritage Fund follows the Santiago Principles, and Mongolia is an associate member of the International Forum of Sovereign Wealth Funds. The Ministry of Finance and the International Monetary Fund's project 'Future Legacy Fund' will start accumulating \$104-125 USD million a year in 2023, coinciding with rising revenues from the Oyu Tolgoi copper and gold mines. However, as of 2022, these sovereign wealth funds are not being meaningfully funded.

Mongolian State-owned Enterprises

While a market economy, Mongolia has state-owned enterprises (SOEs) in the banking, finance, energy production, mining and transport sectors. The Ministry of Finance manages the Bank of Mongolia and the Mongolian Stock Exchange, and the state-owned Erdenes holds most of the government's mining assets. The Ministry of Roads and Transport Development

23 Website at http://www.mse.mn/en/aboutus_en

24 'Banking Law Amendments to Boost Mongolian Banks' Governance', Fitch Ratings, 1 March 2021, <https://www.fitchratings.com/research/banks/banking-law-amendments-to-boost-mongolian-banks-governance-01-03-2021#:~:text=The%20amendments%20to%20the%20Banking,the%20directors%20to%20be%20independent.>

manages the Mongolian Railway Administration. The government's National Asset Policy Coordination Agency publicly states that it manages 106 non-mining and non-financial assets, but does not provide a complete list of official state-owned enterprises. State-owned Assets Administration representatives publicly stated that their number of state-owned enterprises does not include provincial and county-level local enterprises, which number in the hundreds. Investors worry that state-owned firms will squeeze market share from more efficient private firms. Investors can compete with SOEs, but an opaque regulatory framework limits competition. Businesses have observed that government regulators favour SOEs, such as simplifying the environmental permission process or ignoring SOE's health and safety concerns. Mongolian SOEs do not comply with the OECD Guidelines for Corporate Governance of SOEs. While SOEs are legally required to follow international standards for transparency, property and statistical reporting, SOEs tend to follow these rules only when seeking international investment and financing. Many international best practise rules are not institutionalised in Mongolian law, and SOEs tend to follow existing Mongolian rules.

The government does currently have plans to privatise state assets such as the Mongolian Stock Exchange, state airline MIAT, Mongolian Post Office and mining assets through the sale of shares or equity, but has yet to determine how and when.

Labour and Social Issues

The Mongolian National Bureau of Statistics reports that the official unemployment rate is 8.1 per cent (99,400 persons) of Mongolia's 1.23 million labour force (December 2021). Youth unemployment hovers around 18 per cent of the total unemployed. 42 per cent (519,420) of the workforce live in Ulaanbaatar and 58 per cent (707,084) in rural areas. Women make up 47.6 per cent of the total labour force (583,621) and the female unemployment rate is 7.4%. Women accounted for 43.6 per cent (43,333) of the total unemployed. The latest statistics on working-age disabled workers in 2019 showed that the total number of workers was 98,166, of which 9,179 were employed. Foreign workers (5,617) from 77 countries are officially registered with the Ministry of Labour and Social Welfare, and two-thirds of them work in construction and mining. Despite China's travel restrictions related to the COVID-19 outbreak, up to 63 per cent of registered foreign workers are from China.

Unskilled labour is plentiful, but there is a chronic shortage of most professional categories that require advanced degrees or vocational training, including all types of engineers and professional traders in the construction,

mining and service sectors. Foreign-invested companies address shortages by offering domestic training, increasing wages and benefits to retain employees, or hiring expatriate workers with expertise not available in Mongolia.

Mongolia's Revised Labour Law (RLL) 2021 came into force in January 2022.²⁵ The RLL states that work and rest shifts must be equal, for example, 14 days of work must be balanced with 14 days of rest, and overtime must be limited. Employers report that these new rules actually require them to hire more staff to achieve the same staffing levels under the old rules, with a greater administrative burden. As Mongolia faces a chronic shortage of skilled employees, employers are concerned that RLL will lead to higher costs as headcount may have to increase, while productivity per worker declines, threatening the commercial viability of businesses with limited ability to absorb or pass on these additional costs.²⁶

Because Mongolia's winter restricts the operation of foundational project development, in construction and mining, employers tend to use a higher degree of temporary contract labour. The RLL allows employers and employees to use short-term contracts; however, such contracts are limited to jobs lasting less than six months and making up less than 30 per cent of the entity's workforce.

The RLL allows most workers to form or join independent trade unions and professional organisations and protects the right to strike, but denies these rights to foreign workers, certain civil servants and workers without formal employment contracts. However, all groups have the right to organise. The law protects the right to participate in trade union activities without retaliation, and the government protects this right in practice. Some employees will occasionally face barriers to forming or joining a union, and some employers have taken steps to weaken existing unions. For example, some employers prohibit unionisation during working hours or refuse to conclude collective bargaining agreements in contracts.

RLL does allow employers to fire workers for a specific cause. However, depending on the circumstances, severance pay may be required and workers may seek judicial review of their dismissal. According to the RLL, retirement is no longer a legal ground for firing an employee, and mass layoffs require 90 days' notice. Employers and legal experts report that courts in Mongolia generally uphold employee claims, especially if the plaintiff or defendant is a foreign business. Laid-off workers are entitled to three months of unemployment insurance from the Social Security Administration.

The International Labour Organization (ILO) has raised concerns about child labour practices and discrepancies between Mongolian law and international labour standards. Authorities report that employers often require minors to work longer than the allowed hours per week,

25 An unofficial translation of the law is available at <http://ilo.org/dyn/natlex/docs/MONOGRAPH/111581/139692/F843409385/MNG111581%20Eng.pdf>

26 For details on Mongolian labour laws, see: <https://www.state.gov/reports/2020-country-reports-on-human-rights-practices/mongolia/>

paying them less than the minimum wage. The ILO in a report in June 2016 did recognise that legal changes had been made to protect some of the worst abuses, but that in the mining and entertainment (circus) sector, more needed to be done.²⁷

27 ILO, Policy Brief, Mongolia, June 2016, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-beijing/documents/publication/wcms_491324.pdf

CONCLUSION

Mongolia remains a stable, and evolving democracy, and one with a good level of freedom and elections which are regarded as free and fair. The geopolitical outlook in 2022 has become more complicated because of the Russian invasion of Ukraine, the ongoing impact of the COVID19 pandemic, and the continuing tensions between China and the US. Mongolia has been able to achieve a balancing act, trying to diversify its diplomatic and economic partnerships, and create a wider network for it to work within. Despite this, the role of China in Mongolia's investment and trade continues to create tensions and the need for constant management and vigilance.

Mongolia has undertaken important legal changes in the last ten years in order to make its investment environment more attractive. It has also sought sectors which lead it away from overwhelming dependence on resource exploitation. It is clear that while demand for energy and raw materials, in particular from China, will continue to be strong, measures to combat climate change will make it more urgent for Mongolia to have alternative strategies for its economic growth. Agribusiness and tourism will remain important.

Recommendations

- ♦ Rapid, uneven urbanisation has introduced a number of challenges for Mongolia, but it can also generate solutions. Working with the unique form of the city can have its benefits. Space for household solar panels, as used in the countryside, electric heating and insulation upgrades could help make Ulaanbaatar more liveable for locals and foreigners. However, poverty is at the heart of the issue.
- ♦ Addressing rural-urban imbalances is vital to Mongolia's development. Health, education and business infrastructure must be better developed in the countryside to prevent further migration towards the cities, especially Ulaanbaatar. Rural livelihoods require support and investment, including climate-focused policies that improve conditions for pastoralism, such as the proper management of pastures.
- ♦ Mongolia's third neighbour policy is effective for maintaining national sovereignty. Supporting Mongolia's democracy is key to maintaining its attractiveness to its third neighbours. Mongolia must continue to tread a fine line between its national interests and responding to the actions of its two massive neighbours, Russia and China. Mongolia continues to have bilateral relations with countries among whom exist antagonistic relations. This may allow it to act as a neutral space to host sensitive negotiations.

Mongolia's economic health going into the future clearly depends on to what extent the government can diversify its economy away from natural resource mining. Potential sectors include agribusiness, animal products, tourism, alternative energy (solar and wind) and creative industries. Diversification, in this case, also includes increasing the share of value-added products available for export, whether those are commodities/minerals or not. Being over reliant on the export of raw materials limits Mongolia's capacity for development. On the other hand, sound use of the funds generated by the sale of minerals is also fundamental to raising the capital Mongolia needs to invest in other industries, for raising the standards of living of its impoverished population and combatting rising socio-economic inequality.

- ♦ The country needs an explicit green investment plan, in order to help its aspirations to diversify its economy.

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