



# Mongolia and U.S. Policy: Political and Economic Relations

**-name redacted-**

Specialist in Asian Affairs

**-name redacted-**

Specialist in Asian Trade and Finance

June 18, 2009

Congressional Research Service

7-....

[www.crs.gov](http://www.crs.gov)

RL34056

## Summary

Once a Soviet satellite state ruled by the communist Mongolian People's Revolutionary Party (MPRP), Mongolia underwent a democratic transformation in 1990 after public demonstrations for political pluralism led to the resignation of the MPRP government. Since then, Mongolia has been undergoing a chaotic political and economic transition to a parliamentary democracy under new constitutional rules adopted in 1991. The now non-communist MPRP has competed in free elections with opposition parties that grew from economic reformists. The country remains quite undeveloped, but with enormous potential from vast metal and mineral resources.

Mongolia's political scene remains democratic but volatile, with the MPRP able to maintain an uneasy dominance. In legislative elections on June 29, 2008, the MPRP increased its legislative margin to 47 seats (up from 39) out of a total of 76 seats, followed by the Democratic Party with 25 seats. After Democratic Party Chairman Tsakhya Elbegdorj declared the elections to have been fraudulent, demonstrators attacked MPRP headquarters in Ulaanbaatar, causing the government to declare a four-day state of emergency in the capital. Ultimately, the MPRP invited the opposition to join in yet another in a series of fragile coalition governments. Mongolia has seen several reshufflings of government since 1990. A former coalition government collapsed in 2006.

The United States recognized Mongolia in 1987 and since then has sought to expand cultural and economic ties. At Mongolia's invitation, the United States began a Peace Corps program there in 1991, which by 2007 was maintaining about 100 Peace Corps volunteers in the country. Also in 1991, following the signing of a bilateral trade agreement, the President restored Mongolia's most-favored-nation (MFN) trading status—now referred to as Normal Trade Relations (NTR)—under conditional annual waiver provisions. NTR status was made permanent (PNTR) for Mongolia effective July 1, 1999.

In FY2004, Mongolia became eligible for U.S. assistance through the Millennium Challenge Account (MCA), and submitted a proposal late in 2005. On September 12, 2007, the MCC Board of Directors awarded Mongolia a \$285 million aid program, focused mainly on improving rail transportation, property rights, and vocational education and health care. President Bush approved the aid package on October 22, 2007. The House Democracy Assistance Commission (HDAC) has established a partnership with the Mongolian parliament, the State Great Hural, focusing on parliamentary reform and improving transparency in government. HDAC sent its first bipartisan delegation to Mongolia in the summer of 2007.

Mongolia's relatively small economy relies heavily on trade and, like many other countries, has been hit hard by the global economic downturn. Prices for Mongolia's main export, copper, have declined sharply. U.S.-Mongolian bilateral trade is relatively small; total trade in 2008 was \$110 million. China and Russia account for a large share of Mongolia's trade. U.S. foreign aid to Mongolia has focused largely on helping it complete its transition to a free market economy and enhancing the rule of law; the Administration's proposed FY2009 USAID budget would give Mongolia \$10.4 million. In June 2009, Mongolia's government reportedly asked the United States to re-direct nearly \$188 million dollars in aid to improve the rail network, due to objections from Russia.

This report provides background information on Mongolia, including political and economic conditions, the status of U.S.-Mongolian political and economic relations, and key security and foreign policy issues.

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## Introduction

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

In 1990, the ruling Mongolian People's Revolutionary Party (MPRP) declared the end of the country's one-party communist state and initiated democratic reforms with U.S. assistance. Since then, the country has been an enthusiastic practitioner of democratic government, although not without some difficulty. Mongolia has seen several reshufflings of government, for instance—the most recent in 2008-2009, when the MPRP won a majority in the State Great Hural and elected the head of the Party as Prime Minister (2008), and the Democratic Party Chairman won popular election as Mongolia's president (2009). This report provides background information on Mongolia, including political and economic conditions, the status of U.S.-Mongolian political and economic relations, and key security and foreign policy issues.

### Country Data

**Population:** 3.04 million (July 2009 est.)

**Area:** 1,566,500 sq km (slightly larger than Alaska)

**Location:** Sandwiched between Russia (north) and China (south)

**Life Expectancy:** 67.65 years (2009 est.)

**GDP:** \$5.3 billion (2008)

**Resources:** oil, coal, copper, molybdenum, tungsten, phosphates, tin, nickel, zinc, fluor spar, gold, silver, iron

**Primary export partners 2007:** China (74.2%); Canada (9.5%); U.S. (3.4%)

**Primary import partners 2007:** Russia (35.3%); China (31.1%); South Korea (5.6%)

Data from *CIA World Factbook*, May 14, 2009; Global Insight, EIU, and IMF.

## Background

Once part of the Chinese empire, Mongolia achieved independence in 1921 in a revolution backed by the Soviet Union. After this, the communist Mongolian People's Revolutionary Party (MPRP) ruled for almost 70 years, maintaining a tenuous balance between the Soviet Union and China and receiving substantial financial assistance from each. Public demonstrations for political pluralism in 1990 led to the resignation of the Communist MPRP government, whose leaders declared the end of a one-party Communist state. Since then, Mongolia has been undergoing a political and economic transition to a parliamentary democracy under new constitutional rules adopted in 1991. After decades of dependency on Soviet aid (at one point worth nearly 40% of the country's GDP), Mongolia has sought to broaden its foreign contact and trade.

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

## Political Trends and Conditions<sup>2</sup>

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

Despite the official demise of Communism in Mongolia in 1990, the formerly communist MPRP has continued to play a dominant political role.<sup>3</sup> In the first popular elections ever for Mongolia's parliament in 1990, the formerly communist People's Great Hural, the MPRP won 80% of the seats. In turn, the same year, this MPRP-dominated parliament elected an MPRP member, P. Ochirbat, as Mongolia's first president. While a new constitution in 1992 created a new parliament (the State Great Hural) to replace the People's Great Hural, the MPRP also won a significant majority in the new body. Its 71 out of a total of 76 seats gave it firm control while Mongolia's fledgling opposition parties remained essentially powerless. But the balance began to tip away from the MPRP in 1994, when the party turned against Ochirbat after he vetoed legislation passed by the parliament. When Ochirbat lost the MPRP's backing in Mongolia's first direct presidential election in 1993, he ran and won as an opposition candidate.

## Legislative Elections of 1996

Mongolia's parliamentary elections on June 30, 1996, were the first in which an effective, organized opposition existed to challenge the MPRP's 75-year rule. The "Democratic Union," formed over a period of about five years by a coalition of eight opposition parties, was the only party to field a clear, recognizable political platform to challenge MPRP candidates.<sup>4</sup> It achieved a stunning electoral victory in what was widely regarded as a free and fair election. With 91% of the electorate turning out to vote, the Democratic Coalition took 50 of the 76 seats, giving it a majority in the parliament as well as the support of President Ochirbat. The new Mongolian leadership was quoted as crediting the victory to help from U.S. political strategists (such as the International Republican Institute and the National Democratic Institute) and to study of American political devices—the "Contract with America" in particular.<sup>5</sup>

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<sup>2</sup> Sources for this section include the *Far Eastern Economic Review*, the *Wall Street Journal*, and the Foreign Broadcast Information Service.

<sup>3</sup> The MPRP, having shrugged off Communism, nevertheless did not officially adopt a new, Socialist agenda until March of 1997, when it amended its party platform.

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

<sup>5</sup> The International Republican Institute (IRI), in particular, has an extensive democracy-building program in Mongolia, (continued...)

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

## **Instability in 1997**

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

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

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

Mongolia's political situation became more tumultuous in 1998, with a series of political crises leading to much legislative maneuvering between the MPRP-led government and the ruling Democratic coalition. On April 17, 1998, Prime Minister Enkhsaikhan announced his resignation in the wake of public discontent over harsh reform measures he had adopted to strengthen Mongolia's economy. On April 23, 1998, Enkhsaikhan was replaced as Prime Minister by MNDP member Tsakhiagiyn Elbegdorj, the majority leader in parliament, who was elected with 60 votes out of the 76 members in the Great Hural. Elbegdorj, in turn, was forced to resign by a no-confidence vote in the Great Hural on July 24, 1998—making his government the shortest in

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conducting election training programs and assisting with parliamentary development.

Mongolia's brief democratic history—because of his controversial decision on May 27, 1998, to allow the state-owned Renovation Bank to merge into the privately held Golomt Bank. The parliamentary group of the MPRP charged that the decision on the bank merger violated the Mongolian constitution and posed a threat to national economic security. In the ensuing months, the ruling parliamentary coalition struggled with President Bagabandi over the naming of a new Prime Minister, with Bagabandi repeatedly rejecting the Great Hural's choice of Davaadorj Ganbold.

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

## **2006: Coalition Collapse**

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

The increasing popular disillusionment with the coalition's rule was reflected in presidential elections in May 2005, when MPRP candidate and former Prime Minister Nambaryn Enkhbayar won the presidency (considered a less powerful position than that of Prime Minister) with 53.4% of the vote, compared to the 19.7% garnered by his Democracy Party rival, Mendsaikhani Enkhsaikhan. On January 11, 2006, the fragile government collapsed altogether when all 10 MPRP cabinet members resigned in protest to what they said was the alliance's ineffective governance and loss of public support. The collapse was followed by days of protests in the capital—some protesting government corruption and economic deprivation, some accusing the MPRP of attempting to seize power for itself. The official government response to the MPRP resignation, however, followed established political procedures. On January 25, 2006, the parliament chose Miyegombo Enkhbold, MPRP chairman, as the new Prime Minister succeeding Elbegdorj. According to reports, the Democratic Party declined the MPRP's offer to join in a “national unity” government and instead chose to function as an opposition and establish a “shadow cabinet.”<sup>6</sup>

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<sup>6</sup> Innes, Claire, “Democratic Party rejects offer to join new coalition government in Mongolia,” *Global Insight Daily Analysis*, English, January 19, 2006.

## **Post-2006: Uneasy MPRP Dominance**

Since the collapse of the Democratic Coalition in 2006, the MPRP has been able to maintain an uneasy dominance in what has become a volatile political scene in Mongolia. In legislative elections for the Great Hural on June 29, 2008, the MPRP increased its legislative margin to 47 seats (up from 39 in the previous election) out of a total of 76 seats, followed by the Democratic Party with 25 seats. After Democratic Party Chairman Tsakhya Elbegdorj declared the elections to have been fraudulent, demonstrators attacked MPRP headquarters in Ulan Bator, burning the building and causing the government to declare a four-day state of emergency – the first in the country’s history – in the capital. The election results were upheld by the electoral commission on July 3, 2008, but continued to be contested by the Democratic Party. The newly elected parliament finally was sworn in on August 26, 2008, after the MPRP invited the opposition to join in yet another fragile coalition government and agreed to investigate allegations of electoral fraud. On September 11, 2008, the Great Hural elected MPRP member Sanjaaglin Bayar, seen as an economic reformer favoring private enterprise, as the new prime minister of the coalition government.

Mongolia held elections for president in May 2009, with incumbent president Nambaryn Enkhbayar running again on the MPRP ticket. Opposition parties united behind Democratic Party candidate Tsakhiagiin Elbegdorj, who declared himself the victor. MPRP candidate Enkhbayar conceded defeat and said he accepted the electoral results.

## **Economic Trends and Conditions**

Mongolia’s economy is relatively poor and agrarian, with few industries but extensive mineral deposits. About one-third of Mongolia’s people live in poverty. Its gross domestic product (GDP) in 2008 was an estimated \$5.3 billion – this figure rises to \$9.4 billion when measured on a purchasing power parity (PPP) basis, which factors in price differentials between Mongolia and the United States.<sup>7</sup> Mongolia’s per capita GDP on a PPP basis (a commonly-used measurement of a country’s living standards) was \$3,541, equivalent to 7.6% of U.S. levels.<sup>8</sup> Industry contributed 35.7% of Mongolia’s GDP in 2007 (mining alone contributed 27.4%), followed by agriculture at 20.6%, transport and communications at 9.3%, and trade at 7.6%.<sup>9</sup> Mineral production accounts for 77% of industrial output, 67% of foreign direct investment (FDI), 40% of the central government’s revenues, and 57% of Mongolia’s export earnings.

The collapse of the Soviet Union in the early 1990s had a severe impact on Mongolia’s economy, which had employed Soviet-style economic policies and heavily relied on Soviet assistance.<sup>10</sup> After that aid abruptly ended, the economy suffered; real GDP fell by 9.2% in 1991 and by 9.5% in 1992, leading to a significant decline in Mongolian living standards.<sup>11</sup> Subsequently, the central

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<sup>7</sup> PPP data attempt to factor in price differentials between countries in order to determine the actual purchasing power (expressed in dollars) of a country’s GDP or per capita GDP which are using by nominal exchange rate data.

<sup>8</sup> Mongolia’s per capita GDP in nominal U.S. dollars was \$1,981. The PPP data reflect that prices for goods and services in Mongolia are lower than those in the United States and thus indicate the actual purchasing power of the data. Source: International Monetary Fund estimates.

<sup>9</sup> Agriculture (in particularly herding), employs about half of the population.

<sup>10</sup> Such aid accounted for about one third of Mongolia’s GDP.

<sup>11</sup> Per capita GDP on a PPP basis fell from \$4,575 in 1991 to \$1,326 (a 245% drop), and although living standards have (continued...)



government moved to privatize its state-owned economy and adopt other free market reforms. From 1990 to 2006, the proportion of GDP accounted for by the private sector rose from 4% to 80%. Such reforms enabled Mongolia to join the World Trade Organization (WTO) in 1997.

Mongolia has struggled to reform the economy while promoting economic growth. From 1997 to 2002, real GDP growth averaged only 2.8%.<sup>12</sup> In 2003, Mongolia agreed to pay Russia \$250 million, an enormous sum for the government, to resolve most of its debt obligations in an effort to strengthen investor confidence. From 2003 to 2008, real annual GDP growth averaged 8.7%; much of that growth resulted from increases in global metal prices (such as copper and gold), and relatively mild winters (which affects livestock). However, inflation has been a problem for the past few years; in 2008 the consumer price index rose by an estimated 23.2% over the previous year.

Mongolia, like most other countries of the world, has been hard hit by the current global economic slowdown (see **Table 1**). The International Monetary Fund (IMF) projects real GDP growth will slow from 8.9% in 2008 to 2.7% in 2009. Exports are projected to fall from \$2.5 billion to \$1.9 billion, due to falling prices for copper and a decline in demand for exports by its major trading partners, especially China. Global Insight, an international forecasting firm, projects that Mongolia's real GDP could fall by 3.9% in 2009. Growing trade imbalances and rising government deficits have also put new strains on the central government. In April 2009, the IMF agreed to extend a \$224 million loan to Mongolia to help it meet its balance of payments needs. In addition to the effects of the global economic slowdown, challenges Mongolia faces over the long term include a weak banking system, sharp fluxes in global mineral prices, high dependency on imported energy, high unemployment, weak rule of law, government corruption, and inadequate infrastructure.

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improved, they were still 67% lower in 2006 than they were in 1991. Source, Global Insight, Mongolia, Detailed Analysis, March 2007.

<sup>12</sup> Economic growth was hampered by a number of factors, including severe weather conditions in 2000 and 2001, which damaged the agriculture sector. As a result, real GDP grew by only 1.0% in 2000 and by 1.1% in 2001.

**Table I. Selected Economic Data for Mongolia**

|  | 2005  | 2007  | 2008<br>(estimated) | 2009<br>(projected) |
|--|-------|-------|---------------------|---------------------|
| Nominal GDP (\$billions)                     | 2.3   | 3.9   | 5.3                 | 4.0                 |
| GDP PPP basis (\$billions)                   | 6.7   | 8.5   | 9.4                 | 9.7                 |
| Real GDP Growth Over Previous Year (%)       | 7.3   | 10.2  | 8.9                 | 2.7                 |
| Per Capita GDP, PPP Basis(\$)                | 2,615 | 3,231 | 3,541               | 3,615               |
| Consumer Price Index (% year-on-year change) | 9.6   | 14.1  | 23.2                | 9.0                 |
| Exports of Goods (\$billions)                | 1.1   | 1.9   | 2.5                 | 1.9                 |
| Imports of Goods (\$billions)                | 1.2   | 1.5   | 3.1                 | 2.2                 |
| Current Account Balance (\$millions)         | 29.7  | 264.8 | -502.7              | -261.8              |
| FDI Flows (\$millions)                       | 257.6 | 360.0 | 682.5               | 316.5               |
| Government Balance as a % of GDP (%)         | 2.6   | 2.8   | -5.0                | -6.0                |

Source: World Bank, IMF, and World Trade Atlas.

## Trade and Foreign Direct Investment

Mongolia's merchandise exports and imports in 2007 totaled \$1.9 billion and \$2.1 billion, respectively (see **Table 2**). The top three Mongolian exports were copper, gold, and animal hairs. Its top three imports were oil; machinery, and transport equipment. China was Mongolia's largest export market (accounting for 74.2% of total, mainly minerals), followed by Canada (11.4%) and the United States (3.4%). Russia was Mongolia's largest source of its imports, mainly oil (at 34.3% of total), followed by China (31.1%) and South Korea (5.6%); the United States ranked 6<sup>th</sup> at 2.4% (see **Figure 1** and **Figure 2**).<sup>13</sup>

According to a U.S. government report, Mongolia supports foreign direct investment (FDI) in all sectors and businesses and does not discriminate against foreign investors except in certain sectors. Foreigners may own 100% of any registered business with the exception of land ownership, petroleum extraction, and strategic minerals deposits.<sup>14</sup> Cumulative FDI in Mongolia through 2008 was estimated at \$2.5 billion. The largest foreign investors in Mongolia (cumulative through 2005) were China (47.4% of total), Canada (12.2%) and South Korea (7.3%); the United States ranked 6<sup>th</sup> at 2.3%. FDI in 2008 was estimated at \$682.5 million, but was projected by the IMF to fall to \$316.5 million in 2009, due to the effects of the global financial crisis.

Russia is a large and growing investor and economic player in Mongolia. In March 2009, Russia extended a \$300 million loan to help boost Mongolia's agriculture sector.<sup>15</sup> In May 2009, the Russian and Mongolian governments agreed to create the Mongolian Railway Company, a 50-50 joint venture that is intended to help Mongolia modernize and build up its railroad system in exchange for development rights in various mining ventures (including uranium, coal, and copper), a deal reportedly valued at \$7 billion.<sup>16</sup> In June 2009, the Mongolian government

<sup>13</sup> Economist Intelligence Unit, *Mongolia*, May 2007.

<sup>14</sup> U.S. Embassy, Mongolia, *2007 Mongolia Investment Climate Statement*, p.1.

<sup>15</sup> EuroasiaNet, Mongolia: The Kremlin Extends Agricultural Aid to Ulaanbaatar, March 19, 2009.

<sup>16</sup> EuroasiaNet, Mongolia: The Kremlin Takes Aim at Mongolia's Uranium Reserves, May 18, 2009.

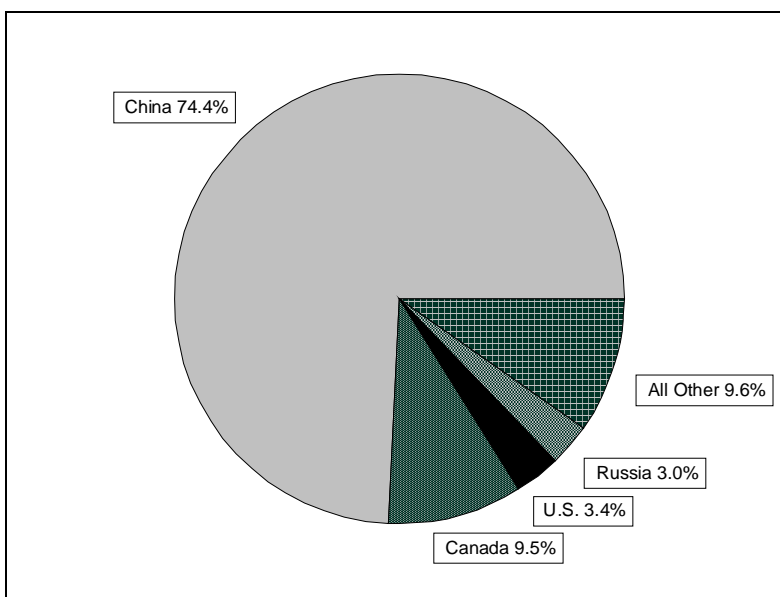
reportedly requested the United States to re-direct nearly \$188 million dollars in U.S. aid to improve the rail network to other projects, due to objections from Russia.

**Table 2. Major Mongolian Merchandise Exports and Imports: 2007**

| Major Commodity  | \$millions | Percent of total |
|--|------------|------------------|
| <b>Total Exports</b>   | 1,886.6    | 100              |
| Ores (mainly cooper)   | 1,085.9    | 57.6             |
| Precious stones and metals (mainly gold and gold products)             | 234.9      | 12.5             |
| Animal hair, yarns, and fabric (mainly cashmere and cashmere products) | 193.1      | 10.2             |
| <b>Total Imports</b>   | 2,117.0    | 100.0            |
| Mineral fuels (mainly oil)   | 569.3      | 26.9             |
| Machinery  | 264.7      | 12.5             |
| Transport equipment, vehicles, and spare parts (excluding railroad)    | 192.4      | 9.1              |

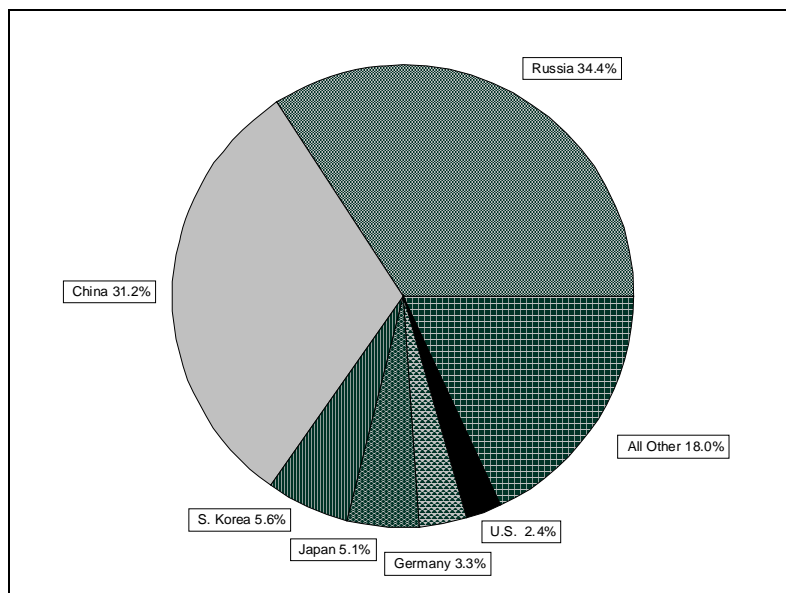
Source: Global Trade Atlas.

**Figure I. Mongolia's Main Export Partners: 2007**  
as a % of total



Source: World Trade Atlas.

**Figure 2. Mongolia's Main Import Partners: 2007**  
as a % of total



Source: World Trade Atlas.

## U.S.-Mongolian Relations

Since the early 1990s, Mongolia has pursued an open and non-aligned foreign policy, seeking supportive friendships broadly in Asia and around the world and taking a more active role in international organizations, particularly in the United Nations.<sup>17</sup> Not surprisingly given its geographical location, the land-locked country maintains good relations with Russia and China, its two giant neighbors. As a new democracy, Mongolia also places a high priority on cultivating good relations with the United States, which government officials in Ulaan Bator have referred to as Mongolia's "third neighbor."

The United States recognized Mongolia in 1987 and since then has sought to expand cultural and economic ties. At Mongolia's invitation, the United States began a Peace Corps program there in 1991, which by 2007 was maintaining about 100 Peace Corps volunteers in the country.<sup>18</sup> Also in 1991, following the signing of a bilateral trade agreement, the President restored Mongolia's most-favored-nation (MFN) trading status—now referred to as Normal Trade Relations (NTR)—under the conditional annual waiver provisions of Title IV of the Trade Act of 1974. NTR status was made permanent for Mongolia effective July 1, 1999, obviating the annual trade status review process, and creating a more stable trade environment.<sup>19</sup>

<sup>17</sup> Aside from U.N. organizations, Mongolia's participation in international organizations also includes the Asian Development Bank, the ASEAN Regional Forum, the International Atomic Energy Association, and the Pacific Economic Cooperation Council.

<sup>18</sup> According to the Embassy of the United States in Ulaanbaatar, Mongolia.

<sup>19</sup> See Section 2424 of The Miscellaneous Trade and Technical Corrections Act of 1999, enacted as P.L. 106-36, effective on July 1, 1999 by Presidential Proclamation 7207.

Total USAID assistance to Mongolia from 1991 through 2008 was about \$174.5 million. Major USAID programs have focused largely on promoting sustainable private sector-led economic growth and more effective and accountable governance. The Administration proposed FY2009 USAID budget would give Mongolia \$10.4 million.

One primary U.S. interest in Mongolia is in supporting the country’s ongoing transition from a communist state to a nation with a market-based economy and a democratically elected government. U.S. support for both Mongolia’s political and its economic reforms has been tangible. The United States strongly supported Mongolia when it joined the IMF, the World Bank, and the Asian Development Bank in 1991. Congress annually has earmarked U.S. assistance amounts for Mongolia to signal its support. In addition, in 2007, the House Democracy Assistance Commission initiated a program of parliamentary assistance to Mongolia’s parliament, the State Great Hural.

### Bilateral Trade Relations

Mongolia is a relatively minor U.S. trading partner. In 2008, Mongolia was the 164<sup>th</sup> largest U.S. export market (at \$57.2 million) and its 139<sup>th</sup> largest source of imports (at \$52.8 million). From 2000 to 2008, U.S. exports to Mongolia more than tripled, but they remain extremely small. U.S. imports from Mongolia peaked in 2004 at \$239.1 million, but have steadily declined each year since, largely due to a sharp fall in U.S. imports of apparel products.<sup>20</sup> Major U.S. exports to Mongolia in 2008 included motor vehicles, agriculture and construction machinery, and railroad rolling stock, while the top three imports from Mongolia were apparel, basic chemicals, and animal hairs (see **Table 3**, **Table 4**, and **Table 5**). U.S. data for January-April 2009 show that U.S. exports to Mongolia were up 16.4% over the same period in 2008, while U.S. imports from Mongolia were down 87.0%.

**Table 3. U.S. Merchandise Trade With Mongolia: 2000-2008**  
(\$ millions and percent change)

|         | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 | 2008 | 2000/2008<br>% Change |
|---------|-------|-------|-------|-------|-------|-------|-------|------|------|-----------------------|
| Exports | 17.7  | 12.1  | 66.3  | 20.7  | 28.1  | 21.8  | 23.0  | 26.1 | 57.2 | 223.2                 |
| Imports | 116.6 | 143.6 | 161.5 | 183.4 | 239.1 | 143.7 | 113.9 | 83.5 | 52.8 | -54.7                 |

Source: USITC Database.

<sup>20</sup> U.S. apparel imports from Mongolia fell from \$134 million in 2005 to \$40 million in 2008, a 70% decline.

**Table 4. Major U.S. Exports to Mongolia: 2005-2008**

| NAIC Number and Commodity  | 2005               | 2006  | 2007  | 2008   | Percent Change<br>2007-2008 |
|--|--------------------|-------|-------|--------|-----------------------------|
|  | (in 1,000 dollars) |       |       |        |                             |
| 3361, Motor vehicles   | 2,153              | 1,740 | 2,491 | 10,067 | 304.1                       |
| 3331, Agriculture and construction machinery                           | 4,840              | 4,086 | 2,291 | 9,197  | 301.4                       |
| 3365, Railroad rolling stock   | 142                | 23    | 7     | 5,423  | 75,728.4                    |
| 3342, Communications equipment   | 632                | 1,068 | 1,279 | 4,678  | 265.8                       |
| 3345, Navigational, measuring, electromedical, and control instruments | 474                | 1,535 | 1,276 | 4,405  | 245.2                       |

**Source:** USITC Dataweb

**Notes:** North American Industry Classification System, 4-digit level.

**Table 5. Major U.S. Imports From Mongolia: 2005-2008**

| NAIC Number and Commodity                | 2005               | 2006    | 2007   | 2008   | Percent Change<br>2007-2008 |
|--|--------------------|---------|--------|--------|-----------------------------|
|  | (in 1,000 dollars) |         |        |        |                             |
| 3152, Apparel                            | 134,426            | 103,725 | 71,503 | 39,616 | -44.6                       |
| 3251, Basic Chemicals                    | 0                  | 0       | 0      | 6,217  | NA                          |
| 1124, Sheep, goats, and fine animal hair | 300                | 1,965   | 1,454  | 1,989  | 38.8                        |
| 2123, Nonmetallic minerals               | 5,436              | 4,745   | 4,397  | 1,738  | -60.5                       |
| 2122, Metal ores                         | 76                 | 367     | 2,544  | 829    | -67.4                       |

**Source:** USITC Dataweb

**Notes:** North American Industry Classification System, 4-digit level.

On July 15, 2004, the United States signed a Trade and Investment Framework Agreement (TIFA) with Mongolia to boost bilateral commercial ties and resolve trade disputes. Annual TIFA meetings have been held, focusing largely on issues relating to protection for intellectual property, standards development, and transparency. In addition, the two sides created the U.S.-Mongolian Business Forum to hold annual meetings involving government and private sector officials on how to improve mutual trade and investment opportunities. The most recent forum was held in Washington, DC, in June 2009 and focused on energy development, including coal mining and production, renewable energy, oil and gas, and nuclear energy.

From 1991-2004, the U.S. Agency for International Development (USAID) provided around \$150 million in assistance to Mongolia. USAID programs have focused on two main projects which seek to promote private sector led economic growth and efforts to achieve more effective and accountable governance; U.S. appropriations for these two projects totaled \$7.5 million in FY2007.<sup>21</sup> Other projects have sought to promote: tax reform, the investment climate, tourism,

<sup>21</sup> This is down from \$9.9 million in FY2004. See USAID, *Budget, Mongolia* at <http://www.usaid.gov/policy/budget/cbj2007/ane/mn.html>.

and business training for rural inhabitants. Mongolia also is eligible for assistance under the U.S. Millennium Challenge Account.

In an address to the American Center For Mongolian Studies in June 2006, U.S. Ambassador to Mongolia Pamela Slutz called on Mongolia to lessen its dependence on foreign assistance by promoting policies that would encourage more trade and foreign investment. The ambassador stated that (according to the World Bank and IMF) Mongolia had received \$2 billion in assistance over the last 15 years, and that it annually receives \$300 million in aid, making it one of the world's most dependent countries on foreign aid.<sup>22</sup> Mongolia has asked for a Free Trade Agreement (FTA) with the United States.<sup>23</sup> However, U.S. officials have indicated that Mongolia must make major reforms of many sectors of its trade regime and legal system, and to improve its labor conditions, before it will consider FTA negotiations.<sup>24</sup>

### **Millennium Challenge Account**

In FY2004, Mongolia became an eligible country for U.S. assistance through a Millennium Challenge Account (MCA). After a consultation process, Mongolia submitted an official MCA proposal to the Millennium Challenge Corporation (MCC) late in 2005. The MCC conducted “due diligence” on Mongolia’s proposal (assessing it for its suitability, technical viability, and compliance with MCC environmental and other guidelines) for several years. During her visit to Mongolia in January 2007, the Managing Director of the MCC, Frances Reid, reaffirmed that it was the U.S. intent to conclude an MCA agreement with Mongolia in 2007. On June 14, 2007, the MCC issued notification to Congress initiating a 15-day consultation period prior to commencing Compact negotiations with Mongolia. On September 12, 2007, the MCC Board of Directors awarded Mongolia a \$285 million aid program, focused mainly on improving rail transportation, property rights, and vocational education and health care. On October 22, 2007, President Bush approved the aid package during a visit to Washington, DC, by Mongolian President Nambaryn Enkhbayar after the two presidents signed an MCC Compact.

### **Anti-Terror and Peacekeeping Support**

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

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<sup>22</sup> *Vision 2020: Whither Mongolia? (and Ways the U.S. Can Contribute to Growth and Prosperity)*, Speech by Ambassador Pamela J. Slutz to The American Center for Mongolian Studies Ulaanbaatar, June 8, 2006, available at <http://usinfo.state.gov/ei/Archive/2006/Jun/15-96720.html>.

<sup>23</sup> In the 109<sup>th</sup> Congress, legislation was introduced, include H.Con.Res. 244, and S.Con.Res. 111, calling on the United States to expand trade opportunities with Mongolia and to seek an FTA.

<sup>24</sup> See, keynote address by Ambassador Pamela J. Slutz before the 8<sup>th</sup> Annual Investors Conference and Prime Minister’s Roundtable, the North America-Mongolia Business Council, September 12, 2005, Ulaanbaatar, Mongolia, available at <http://mongolia.usembassy.gov/09122005.html>.

shared values and common strategic interests ...”<sup>25</sup> In 2006, Mongolia expanded its global peacekeeping activities by sending a contingent of 250 soldiers to protect the U.N. war crimes tribunal in Sierra Leone, a platoon to participate in the NATO mission in Kosovo, and by helping to serve as U.N. observers in Sudan and Ethiopia/Eritrea.

On October 23, 2007, the U.S. and Mongolia signed a memorandum of understanding to increase cooperation in preventing nuclear smuggling by allowing the U.S. to install radiation detection equipment in Mongolia and at several of its border crossings. In addition, the two sides signed the Proliferation Security Initiative Shipboarding Agreement, which would allow either side to request the other to confirm the nationality of a U.S. or Mongolian flagged vessel, and possibly detain the ship or its cargo, in order to prevent the proliferation of weapons of mass destruction (WMD).<sup>26</sup>

Figure 3. Map of Mongolia



<sup>25</sup> November 21, 2005, <http://www.whitehouse.gov/news/releases/2005/11/20051121-1.html>.

<sup>26</sup> See U.S. Embassy in Mongolia website: <http://mongolia.usembassy.gov/>.



## **Author Contact Information**

(name redacted)  
Specialist in Asian Affairs  
/redacted/@crs.loc.gov, 7-....

(name redacted)  
Specialist in Asian Trade and Finance  
/redacted/@crs.loc.gov, 7-....

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