

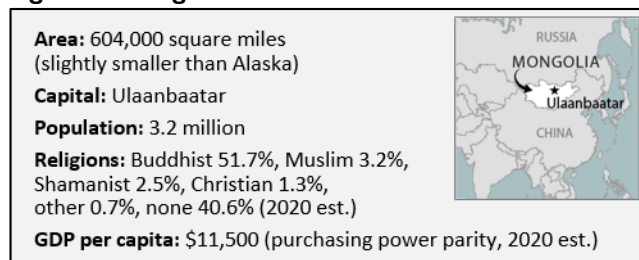
Mongolia

Overview

Mongolia is a landlocked country that shares borders with two powerful neighbors, Russia and China. With a population of about 3.3 million and a land area slightly smaller than Alaska, Mongolia is the most sparsely inhabited country in the world. About half of the country's population lives in the capital, Ulaanbaatar. While Mongolians were traditionally nomadic pastoralists, the country's economy is now highly dependent on its extensive mineral resources, with extractive industries accounting for the vast majority of Mongolian exports.

For almost 70 years after it declared independence from China in 1921, Mongolia was a satellite state of the Soviet Union, under the one-party rule of the communist Mongolian People's Revolutionary Party (MPRP). Following a peaceful revolution in 1990, Mongolia embarked on a successful democratic transition. Mongolia's foreign relations are driven by a desire to balance Chinese and Russian influence by engaging with a range of partners, including the United States and other countries such as South Korea and Japan. Some Members of Congress have expressed support for expanding U.S. engagement with Mongolia.

Figure 1. Mongolia at a Glance



Sources: Central Intelligence Agency, *The World Factbook*, 2022. Map created by CRS.

Political Background

Mongolia's political system is "semi-presidential," with a parliament and prime minister as well as a popularly elected president. The Mongolian prime minister is the head of government with primary responsibility for executive ministries, while the president plays a primary role in foreign policy, chairs the National Security Council, and serves as the commander in chief of the armed forces.

Although Mongolia has a multiparty system, since the country's democratization in 1990 political power has alternated between the two major parties, the Mongolian People's Party (MPP), the successor to the MPRP) and the Democratic Party (DP). The DP and the MPP have established a track record of peaceful transitions of power. For most of its democratic history, Mongolia had a divided government, with the presidency and the parliamentary

majority held by different parties. That changed in 2021, when the MPP won the presidency after having secured a supermajority in parliament in 2020. Mongolia's June 2021 presidential election delivered a decisive victory for MPP candidate Ukhnaagiin Khurelsukh, who had served as prime minister until he resigned from that post in January 2021 amid protests over his government's handling of the COVID-19 pandemic.

The State Department characterizes Mongolia's achievements in terms of democratization and market reforms "considerable," but describes institutional weakness and widespread corruption as enduring challenges. According to the State Department and other observers, corruption remains widespread at all levels of government, and the politicization of anticorruption efforts hampers their effectiveness. That said, Mongolia has passed the Millennium Challenge Corporation's scorecard on control of corruption and democratic rights every year since 2018. Mongolia is the only formerly communist country in Asia classified as "free" by the U.S. non-governmental organization Freedom House. According to Freedom House, political rights and civil liberties in Mongolia "have been firmly institutionalized." While observers have generally considered elections in Mongolia to be free and fair, the Economist Intelligence Unit categorizes the country as a "flawed democracy," citing corruption and political volatility.

Economy

Mongolia's economy is highly dependent on extractive industries, and the country sends most of its exports to China, rendering it vulnerable to fluctuations in commodity prices and developments in the Chinese economy. Mongolia has extensive deposits of minerals including copper, gold, coal, molybdenum, uranium, tin, and tungsten. While Mongolia's economy traditionally was based on herding and agriculture, the mining sector now accounts for over 25% of the country's gross domestic product (GDP).

The World Bank calculates that Mongolia's GDP contracted by 4.4% in 2020 as a consequence of the COVID-19 pandemic, with a weak recovery of 1.4% growth in 2021. The World Bank projects that Mongolia's GDP will grow by a modest 2.5% in 2022, hampered by border closures due to China's zero-COVID policy and the impact of the war in Ukraine through higher prices of imported food, fuel, and fertilizers. The World Bank forecasts that economic growth will accelerate and exceed 6% annually in 2023-2025.

Mongolia remains economically dependent on Russia and China. China accounts for 89% of Mongolian exports and 33% of Mongolian imports. Russia is Mongolia's second-

largest source of imports, accounting for 28% of the total, and provides over 90% of Mongolia's energy imports.

As Mongolia has developed economically, Ulaanbaatar has become one of the world's cities with the highest levels of air pollution, fueled by coal-heated dwellings (*gers* or *yurts*), coal-fired power plants, and automotive exhaust. The growing number of cashmere goats, coupled with persistent drought, has contributed to overgrazing and the degradation or reduction of Mongolia's grasslands.

Mongolia's International Relations

Mongolia has long sought to maintain good relations with Russia and China, while pursuing a "third neighbor" policy that emphasizes developing relationships outside of its immediate neighborhood. Mongolia describes the United States as its most important "third neighbor." The United States and Mongolia upgraded their bilateral relationship to a Strategic Partnership in 2019. The House of Representatives and the Senate passed resolutions reaffirming the strategic partnership between the United States and Mongolia in the 116th (H.Res. 1100) and 117th (S.Res. 36) Congresses. The United States was the fifth country with which Mongolia established a strategic partnership, following Russia (2006), Japan (2010), China (2014), and India (2015). The U.S. State Department describes Mongolia as "a steadfast U.S. partner," citing Mongolia's military deployments with the United States to Afghanistan and Iraq, and terms Mongolia "an important partner in upholding a free, open, and inclusive Indo-Pacific."

Mongolia's foreign military relations complement the country's "third neighbor" policy, and participation in global peacekeeping operations is part of the country's multilateral diplomacy. Mongolia actively cooperates with NATO on issues including counterterrorism, non-proliferation, and cybersecurity through an Individual Partnership and Cooperation Programme. Mongolia is also an observer in the Russia- and China-led Shanghai Cooperation Organization. Since 2003, Mongolia has hosted the annual Khaan Quest multinational military exercise, co-sponsored by U.S. Indo-Pacific Command and designed to promote regional peace and security in Northeast Asia. After a two-year hiatus due to the COVID-19 pandemic, the most recent iteration of Khaan Quest took place in June 2022, with 15 countries participating.

According to the State Department, the growing military cooperation between the United States and Mongolia "centers on further developing Mongolia's already impressive capacity to contribute to U.N. peacekeeping operations." Since 2002, Mongolia has sent more than 18,000 troops to U.N. peacekeeping operations around the world, a contribution the United Nations terms "significant." As of 2021, Mongolia was the 23rd largest contributor of troops to U.N. peacekeeping operations.

Analysts see Russia's ongoing war against Ukraine as placing Mongolia in a difficult diplomatic position. Mongolia's government has been largely silent on the conflict, and has continued to pursue multilateralism. Public opinion appears divided, with many Mongolians appearing

to favor neutrality, while some express pro-Russian or pro-Ukrainian sentiments.

U.S. Assistance

U.S. assistance to Mongolia supports a range of programs whose aims include modernizing the country's energy sector, promoting economic diversification, building the capacity of law enforcement agencies, supporting Mongolia's border security capabilities, and furthering military professionalization. According to the State Department, approximately 120 Mongolians travel to the United States every year on U.S. government-funded educational, professional, and cultural exchange programs. The State Department regards Mongolia as a "priority" recipient in East Asia for Foreign Military Financing and International Military Education Training programs. The Biden Administration's budget request for FY2023 includes \$13 million in total assistance to Mongolia, compared to an estimated \$13.3 million allocated in FY2022.

Between 2008 and 2013, the Millennium Challenge Corporation implemented a five-year, \$285 million compact with Mongolia targeting property rights, transportation, energy, education, and health. A second, five-year \$350 million compact to build critical water infrastructure in Ulaanbaatar entered into force in 2021.

Mongolia is one of 21 countries whose legislatures participate in the House Democracy Partnership, a bipartisan commission of the U.S. House of Representatives that seeks to support the development of effective, independent, and responsive legislative institutions.

U.S.-Mongolia Trade

U.S. trade in goods with Mongolia totaled \$168.1 million in 2021, including \$19.6 million in Mongolian exports to the United States. Mongolia is a beneficiary of the U.S. Generalized System of Preferences (GSP) program, which expired on December 31, 2020, and is currently pending reauthorization. Major Mongolia exports that are eligible for GSP benefits include tungsten, one of Mongolia's top export items to the United States; certain handmade or handicraft textile products; and some nonapparel items that use cashmere or furs.

The U.S. government seeks to assist Mongolia in diversifying its economy in order to decrease dependence on China. The Mongolia Third Neighbor Trade Act, first introduced in the 115th Congress in 2018 and reintroduced in the 116th and 117th Congresses in 2019 and 2021, respectively, would facilitate the export of cashmere from Mongolia to the United States, enabling Mongolia to diversify its exports. While Mongolia is the world's second-largest cashmere producer after China, most of its cashmere is exported in raw form and processed in, and then re-exported from, China. Mongolia's Ministry of Foreign Affairs states that, if passed, the bill would "support the Mongolian economy by creating jobs, diversifying export, and contribute to expanding trade and economic cooperation between Mongolia and the United States."

Maria A. Blackwood, Analyst in Asian Policy

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