

SEARCH FOR THE THIRD BORDER

MONGOLIAN FOREIGN POLICY BETWEEN RUSSIA AND CHINA

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A country's foreign policy is determined substantially by its geographic size, the size of its population, its economic power and its location. Mongolia stands out with respect to all these aspects. It is considered to be the world's most sparsely populated state. Mining is the dominant business sector in this country, which is four times the size of Germany and has a population of only three million. Added to this is a challenging geostrategic location without access to the sea and with just two neighbours: Russia and China. Both neighbours have dominated the country at different times in its history. From the 17th century onwards, Mongolia was under Chinese rule as part of the Manchu Empire. It was not until 1911 that the Manchu dynasty was overthrown and Outer Mongolia declared independence. However, between 1915 and 1921, China regained sovereignty over the territories of the present Mongolian state. Shortly after this period, the country underwent the Communist Revolution aided by Russia. After the end of World War II, Mongolia developed into a highly subsidised satellite state of the USSR and pushed ahead with improvements in infrastructure development, education, healthcare, urbanisation and industrialisation with support from the Soviet Union.¹ Because of the Cold War, Mongolia remained politically and economically isolated and therefore of little interest to other powers.² Since the peaceful revolution of 1990, the country has succeeded in developing into an independent, democratic state with a market-based economy, leaving 300 years of periods of dominance by China and Russia behind. While the young democracy does have problems, such as corruption, a democratic deficit within the political parties and



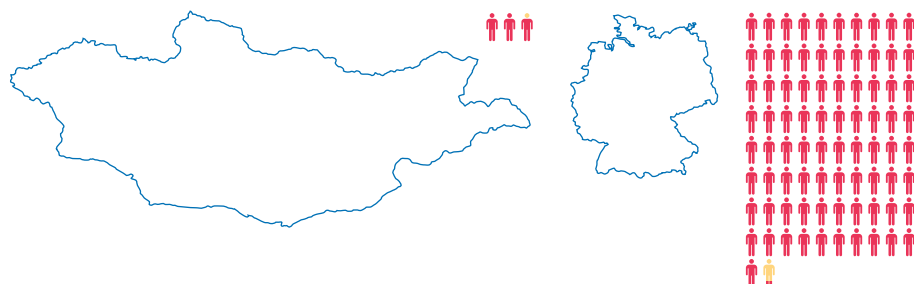
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- 1 | Cf. Verena Fritz, "Doppelte Transition in der Mongolei. Politischer und wirtschaftlicher Systemwechsel in einem postsozialistischen Entwicklungsland", *Osteuropa* 49, 1999, p. 936.
- 2 | Cf. Mashbat Otgonbayar Sarlagtay, "Mongolia's Immediate Security Challenges: Implication to Defense Sector and The Regional Cooperation", *NIDS Joint Research Series*, Jul 2012, p. 105.

a low level of public engagement in politics, its foundations have remained solid.

Fig. 1

Mongolia in Comparison by Size



Mongolia

Area: 1,564,116 km²
Population: ca. 2.9 million

Germany

Area: 357,340.08 km²
Population: ca. 81.2 million

Source: Own illustration, © racken.

DILEMMAS FACING MONGOLIAN FOREIGN POLICY

The first aspect to consider is the country's significant economic dependence on its two neighbours. Mongolia sources 76 per cent of its gas and diesel from Russia. Conversely, only 1.4 per cent of Mongolian goods go to Russia. That said, Russia represents the third most important market for Mongolian products behind China (90 per cent) and Canada (3.6 per cent). China's dominance is less pronounced where imports are concerned. 37.8 per cent originate from China and 27.6 per cent from Russia.³ Trade relations with Western countries are of relatively little significance and are underdeveloped compared to the diplomatic relations. Only 0.3 per cent of Mongolian exports thus go to Germany, despite an agreement on cooperation in the extractive, industrial and technological sectors signed in 2011 in Ulaanbaatar by Angela Merkel and her counterpart Batbold.⁴ The agreement ranges from joint

3 | Cf. Gabriel Dominguez, "Mongolia's 'rebalance' towards Russia and China", *Deutsche Welle*, 2 Sep 2014, <http://dw.de/p/1D4eg> (accessed 2 Mar 2015).

4 | Cf. "Abkommen zwischen der Regierung der Bundesrepublik Deutschland und der Regierung der Mongolei über Zusammenarbeit im Rohstoff-, Industrie- und Technologiebereich, Bundesministerium für Wirtschaft und Energie", 13 Oct 2011, <https://www.bmwi.de/BMWi/Redaktion/PDF/A/abkommen-zwischen-brd-und-mongolei-zusammenarbeit-rohstoff-industrie-technologie,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf> (accessed 28 Sep 2015).

investigation, exploration, extraction and processing of raw materials and the creation of the corresponding infrastructure to the basic and further training of specialists. The outcome in terms of economic impact has been disappointing to date. Since the beginning of the downturn in the Mongolian economy in 2013, there has been hardly any trade in goods between the two countries (Mongolia's ranking on the list of imports to Germany in 2014: 150; ranking for exports: 121).⁵ A similarly negative picture emerges with respect to imports to Mongolia. Only 2.9 per cent of Mongolian imports come from Germany.⁶ The concentration on one economic sector makes the Mongolian economy vulnerable to crises. Mongolian exports are poorly diversified. Coal (26.3 per cent), copper concentrate (22.2 per cent), iron ore (15.3 per cent), crude oil (12.1 per cent), gold (7.3 per cent) and textiles (6.6 per cent) accounted for almost 90 per cent of all exports in 2013.⁷ When international raw material prices go down, as has happened recently, this has a very high impact on the Mongolian economy.

Secondly, the country is dependent on Russia and China in terms of infrastructure. There is a large modernisation deficit due to the fact that the Mongolian rail network is owned by the Ulaanbaatar Railway, a Mongolian-Russian joint venture. The Russian shareholders have so far refused to modernise the rail network.⁸ In the south, Mongolia depends on Chinese railway lines. Consequently there are two different track widths in Mongolia. This is an issue insofar as there are no through rail links from the Mongolian coal mines to China and the coal needs to be transferred at the border. This means that there are high transport and logistics costs attached to Mongolian raw materials. And the situation is exacerbated by the fact that Mongolia is landlocked and does not have access to the high seas.⁹

5 | Cf. German Trade and Invest, "Wirtschaftsdaten kompakt: Mongolei", May 2015, http://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/PUB/2015/05/pub201505292016_13556_wirtschaftsdaten-kompakt-mongolei-mai-2015.pdf (accessed 28 Sep 2015).

6 | Cf. Alexander Simoes, "Mongolia", *The Observatory of Economic Complexity*, <http://atlas.media.mit.edu/profile/country/mng> (accessed 2 Mar 2015).

7 | Germany Trade and Invest, "Mongolische Importe starten schwach ins Jahr 2014", 14 Jul 2014, <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1048220.html> (accessed 26 Mar 2015).

8 | Cf. Sarlagtay, n. 2, p. 108.

9 | Cf. Ruth Kirchner, "Arme Menschen, reiches Land", *Tagesschau.de*, 4 Mar 2015, <http://tagesschau.de/ausland/mongolei-tourismus-101.html> (accessed 14 Apr 2015).

Fig. 2

Mongolia between Russia and China

Between giants: Although four times the size of Germany, Mongolia seems small in between Russia and China. | Source: Own illustration, © racken.

Thirdly, Mongolia is also highly dependent on its large neighbours for its security. From 1993, i.e. since the withdrawal of the Russian Army, the Mongolian military has been on its own where safeguarding national security is concerned. There are currently some 10,000 soldiers in active service and 130,000 reservists – low numbers compared to the neighbours. Men are obligated to do one year's compulsory military service.¹⁰ Securing the national borders (3,485 kilometers with Russia and 4,677 kilometers with China) is a great challenge. There are regular incursions by illegal Chinese settlers and immigrants across the southern border. There is also some illegal mining taking place.¹¹ Incursions from the north for the purpose of cattle or horse rustling are no rare occurrence either.¹²

10 | Cf. B. Khash-Erdene, "Men Born with Debt", *UB Post*, 23 Apr 2015, <http://ubpost.mongolnews.mn/?p=14315> (accessed 13 Oct 2015).

11 | Cf. Wayne Nelles, "Meeting basic needs, embracing the world and protecting the state", *Asian Perspective* 25, 2001, p. 214 ff.

12 | Cf. Valerij Niolaevic Scetinin, "Under the banner of Genghis Khan", *International Affairs* 42, May-Jun 1996, p. 137.

THIRD NEIGHBOUR POLICY AS A RESPONSE TO THE GEOGRAPHIC LOCATION

Mongolia's foreign policy strategy has been influenced by the country's dependence on its large neighbours and the fear of being dominated by them. A process of re-orientation began in 1990. Mongolia was faced with the challenge of developing its own foreign policy and positioning itself in the arena of world affairs. The country made efforts to emancipate itself from being a mere object of Soviet foreign and security policy and develop into a self-reliant actor. The geopolitical interests that existed back in the socialist era, such as performing the role of a buffer zone between Russia and PR China as well as controlling the national borders, are no longer sufficient today for holding its own in the web of international relations. Having said that, Mongolia does have some security-related potential, which endows it with an importance over and above its economic significance.

By unilaterally declaring itself a "nuclear-weapon-free zone" (NWFZ) in 1992, Mongolia took a significant step into the international security policy arena. The striving for neutrality that this step reflects has been in evidence throughout the concept of Mongolian security policy since 1990. Mongolia

prohibits the stationing or transit of foreign troops, nuclear weapons or other weapons of mass destructions within its national territory. Basing its foreign policy on neutrality promised Mongolia the respect and esteem

Basing its foreign policy on neutrality promised Mongolia the respect and esteem of the neighbouring states and simultaneously increased the value of its own geostrategic location.

of the neighbouring states and simultaneously increased the value of its own geostrategic location. The country tried to transform the "necessity" of a state surrounded by major powers into a "virtue" of neutrality and therefore inviolability. The decision to declare the country a NWFZ met with international approval.¹³ The speedy and transparent manner in which the country defined its foreign and security policy after the political turnaround caused by the fall of the Iron Curtain earned Mongolia international recognition, which held promise for economic benefits as well.

The goal of third neighbour policy is to balance out the direct influence of China and Russia by developing bilateral and multilateral relations with democratic countries in the areas of politics, business and culture. One of the important objectives is to improve

13 | Cf. Jargalsaikhany Enkhsaikhan, "Mongolia's nuclear-weapon-free status. Concept and practice", *Asian Survey* 40, 2000, p. 342 ff.

the balance in foreign trade and direct investments.¹⁴ Mongolia's foreign policy strategy also includes maintaining good-neighbourly relations with Russia and China while making clear that independence, sovereignty and continuing development of the country can only be secured through diversification of its foreign policy. The country is thus attempting the difficult balancing act of engaging in bilateral and multilateral cooperation with economically strong democracies such as the EU, the USA and Japan¹⁵ in political, economic, cultural and humanitarian areas without alienating its large neighbours.¹⁶ Securing the country's existence is a central concern in all this, which mainly means preserving Mongolia's territorial integrity and the inviolability of its state borders.¹⁷

The country's efforts to diversify its foreign relations include its activities to further its bilateral relations with the USA, the EU, Japan and Kazakhstan as a representative of Central Asia. Diplomatic relations with the USA go back to 1987. The main objectives for the USA were initially the promotion of democracy and economic development. Investment and trade agreements were signed to this end. In 2013, the volume of U.S. exports to Mongolia contracted by 58 per cent (383 million U.S. dollars). Today, Mongolia's main significance for the U.S. is to be viewed in the context of the U.S. containment strategy against China. While Mongolian foreign policy adheres to the principle of the prohibition on foreign troops being stationed on its territory and its status as a nuclear-weapon-free zone, there are training agreements and modernisation programs in place that are funded by the USA. In the long term, the USA's interest in Mongolia has to do with the fact that radar stations on its territory can be used to monitor Russian and Chinese military movements.

The European Union has developed into Mongolia's third most important trading partner. As a liberal democracy, the country is an important partner for the EU in Asia. Most recently, this has brought about a Partnership and Cooperation Agreement, which was signed in 2013 during the visit by the EU High Representative.¹⁸ The purpose of this agreement is to extend cooperation to

14 | Cf. Institute for Strategic Studies, "National Security Concept of Mongolia" (unofficial translation), in: *National Security Concept of Mongolia: Challenges and Responses*, Ulaanbaatar, 2012, pp.82-109.

15 | Referred to as "third neighbour" in remainder of text.

16 | Cf. Institute for Strategic Studies, n. 14, p. 3.

17 | Cf. Sarlagtay, n. 2., p. 105.

18 | Cf. European External Action Service, "EU Relations with Mongolia", http://eeas.europa.eu/mongolia/index_en.htm (accessed 6 Apr 2015).

the sectors of energy, rural development, climate change and research. Regular political discussions are to be held at the same time. For Mongolia, the EU is not only an important partner because of such programs to boost its own economy but also within the context of its third neighbour policy. An agreement with the EU means recognition by and partnership with all 28 member states, which makes such agreements considerably more attractive than bilateral agreements.



Winners of a horse race: No other country in the world has so many horses proportional to its population. | Source: © M. Rutkiewicz, picture alliance/blickwinkel.

As the economic exchange between Mongolia and Japan is rather modest, Japan has been increasingly pursuing security interests in Mongolia. But for Mongolia, economic cooperation takes priority. Japan is also the largest provider of credit and funding in the area of development aid. In 2015, a trade agreement was signed that is intended to remove 90 per cent of customs tariffs between the two countries.¹⁹ On the international stage, Japan supports Mongolia at the UN. Both countries promote *détente* on the Korean Peninsula.

19 | Cf. Masaaki Kameda, "Japan, Mongolia sign economic partnership", *The Japan Times*, 11 Feb 2015, <http://japantimes.co.jp/news/2015/02/11/business/japan-mongolia-sign-economic-partnership> (accessed 2 Oct 2015).

The fact that relations between Mongolia and Kazakhstan have not progressed is mainly due to the latter's closeness to Russia.

There are several aspects Mongolia shares with Kazakhstan as the representative of Central Asia, namely the nomadic culture, the geographic location and the experiences from Soviet times. However, the establishment of diplomatic relations in 1992 has not resulted in a deepening of economic and political relations. The trading volume amounts to a meagre 24 million U.S. dollars.²⁰ The fact that relations have not progressed further is mainly due to Kazakhstan's closeness to Russia, as Mongolia is intent on preserving its independence. The two countries have also moved further and further apart in the course of their respective transformation processes. That said, Mongolia does have an interest in Kazakhstan's technological edge in the energy sector and in wheat imports.

Besides bilateral relations, Mongolia is involved in numerous international initiatives and international organisations: UN, WHO, OSCE, ASEM, Freedom Online Coalition, IMF, World Bank, ADB, etc. One remarkable fact is that Mongolia has provided troops for a number of international peacekeeping missions under UN mandates since 2003: Iraq, Afghanistan, Sierra Leone, Sudan, Western Sahara and DR Congo.²¹ Thanks to the successful peacekeeping missions, the Mongolian armed forces have asserted their *raison d'être* and gained public and political trust at the same time. The missions have demonstrated that the Mongolian military can fulfil an international remit. In addition, it has proved possible to build up and train the armed forces in peace time without unsettling the two neighbours. In addition, the peacekeeping missions represented a source of income to help with the urgently required modernisation of the armed forces.²² Mongolia is also involved in Asian cooperation activities, for example as a member of the ASEAN Regional Forum and as an observer at the Shanghai Cooperation Organisation.²³ In 2012, the Individual Partnership and Cooperation Programme (IPCP) with NATO further came into force.²⁴

20 | Cf. Brendan Miliate, "The steppes to the States", *East Asia Forum*, 30 Aug 2013, <http://eastasiaforum.org/2013/08/30/from-the-steppe-to-the-states> (accessed 28 Sep 2015).

21 | Cf. Udo Barkmann, "Die Mongolei und ihre dritten Nachbarn", *pmg Denkwürdigkeiten* 79, 2012, p. 12.

22 | Cf. Sarlagtay, n. 2, p. 109 ff.

23 | Cf. Barkmann, n. 21, p. 11 f.

24 | Cf. NATO, "NATO's cooperation with Mongolia", 23 Mar 2012, http://nato.int/cps/en/natohq/topics_85297.htm (accessed 23 Oct 2015).

Mongolia's diplomatic approach can be considered to have been successful. It is well-respected by the third neighbours. The country is considered a poster child for Western values where democracy and the free market economy are concerned, particularly given its geographic location. Despite misgivings on the part of China and Russia, Mongolia has been successful in establishing and expanding its international relations at a political level since independence – not least due to its geostrategically important location and its wealth of natural resources.

DISAPPOINTED ECONOMIC AND SECURITY-RELATED EXPECTATIONS

Despite the diplomatic achievements, Mongolia still has an issue in that its high standing among its third neighbours has not paid off in terms of enhanced security and economic cooperation. The third neighbour policy has not had a noticeable impact on the country's economic dependence on its large neighbours. Focusing its foreign trade activities on its neighbour China with its vast market demands was a logical approach to take and it has been crucial in helping to boost the economy.²⁵ At the same time, this approach meant that one clear economic objective of Mongolia's third neighbour policy was not achieved: direct investments by one nation should not make up more than a third of overall direct foreign investment.²⁶

The stagnation in the country's economic relations is partly self-inflicted, partly caused by the infrastructure problems as well as falling global market prices for raw materials.

Self-inflicted because new laws were adopted at the height of Mongolia's miraculous economic growth in 2011 (annual growth of 17.5 per cent),²⁷ which caused a reduction in

direct foreign investment.²⁸ The two laws with the largest impact were the windfall profits tax law and the law on foreign investments in strategic resources. In conjunction with other taxes, the windfall profit tax law produced an overall tax rate of 100 per cent

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25 | Cf. Jürgen Kahl, "Schnelles Ende der Bonanza. Ernüchterung folgt in der Mongolei auf die Euphorie", *Neue Zürcher Zeitung*, 24 Mar 2015, <http://nzz.ch/1.18508468> (accessed 13 Oct 2015).

26 | Cf. Institute for Strategic Studies, n. 14, p. 6.

27 | Cf. The World Bank, "Mongolia", <http://worldbank.org/en/country/mongolia> (accessed 2 Mar 2015).

28 | Cf. Jürgen Kahl, "Rohstoffreiche Mongolei. Monopoly um mongolische Bodenschätze", *Neue Zürcher Zeitung*, 2 Aug 2012, <http://nzz.ch/1.17426823> (accessed 13 Oct 2015).

on profits in mining. The law on foreign investments in strategic resources adopted in 2012 had been intended to prevent Chinese state-owned enterprises taking over Mongolian businesses. However, the law also affected all other foreign companies.²⁹ The laws were adopted by means of a fast-track procedure without employer associations being consulted. The lack of transparency of the legislative process and the high levels of taxation had the effect of driving investors away. Back in 2012, direct foreign investment amounted to 4.4 billion U.S. dollars; but by mid-2013, the figure had reduced by half to 2.1 billion U.S. dollars. According to estimates by the World Bank, only 0.9 billion U.S. dollars are likely to have flowed into the country in 2014.³⁰

It is also unlikely that the third neighbour policy has improved Mongolia's security situation. When one looks at it dispassionately, it was not to be expected either. The influence of external factors, such as the balance between the two major powers, will ultimately define Mongolia's security. Or put another way: Mongolian security policy has little chance of being independent.³¹

The country's use of foreign policy resources could probably be improved. Mongolia likes to offer its services for hosting international conferences, for instance, although these entail substantial organisational and financial challenges. People are looking forward to the 2016 ASEM Summit in Ulaanbaatar with some trepidation. The hosts are already worrying about whether there will be sufficient hotel capacity available for the guests of state. There is also some uncertainty about where the government planes will be accommodated. The new airport is not scheduled for completion until the following year.

In summary, Mongolia has remained rather insignificant in geopolitical and economic terms. As the third neighbour policy has not brought about the expected progress, the search is on for alternatives. There are basically only two: either Mongolia actively pursues cooperation with its large neighbours or it continues to

29 | Cf. U.S. Embassy in Mongolia, "2015 Investment Climate Statement", May 2015, <http://mongolia.usembassy.gov/ics2015.html> (accessed 28 Sep 2015).

30 | Cf. Germany Trade and Invest, "Wirtschaftsboom in der Mongolei kühlt ab", 16 Jan 2015, <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1153750.html> (accessed 3 Mar 2015).

31 | Cf. Damba Ganbat, "National Security Concept of Mongolia: Basic Principle", *NIDS Joint Research Series* 11, 2014, p. 92, http://www.nids.go.jp/english/publication/joint_research/series11/pdf/09.pdf (accessed 13 Oct 2015).

choose the onerous path of third neighbour policy. From a European perspective, the second is the preferable alternative, as some economic potential does exist and as Mongolian democracy could exert a positive effect on other Asian countries. There are already some Mongolian initiatives to further democracy in countries such as Myanmar and Kyrgyzstan. But for such efforts to be effective a greater willingness to engage in economic cooperation with Mongolia will be required, particularly on the European-German side as well as higher levels of reliability and investor protection on the Mongolian side. Currently, the Mongolian understanding of negotiations, contractual fidelity and project implementation do not conform to Western-European or international standards, a situation that has resulted in a loss of trust in the past. But as these problems are entirely of Mongolia's making, they can ultimately be overcome.



Political meeting in the "State Yurt": To support Mongolia's third neighbour policy a greater willingness to engage in economic cooperation on the European side is required. | Source: © Soeren Stache, picture alliance/dpa.

ALTERNATIVE ONE: TURNING BACK TOWARDS THE LARGE NEIGHBOURS

Mongolia's strengthening orientation back towards its large neighbours was illustrated symbolically by the two closely scheduled and well-choreographed state visits in 2014 by Xi Jinping (21 and 22 August) and Vladimir Putin (3 September). In April 2015, President Elbegdorj took stock of his foreign policy in a statement

made at the Mongolian parliament, stressing the importance of the two large neighbours. He stated that the focus of Mongolian foreign policy was not directed far into the distance but at the immediate neighbouring states. Relations with Russia and China therefore played the most important role in Mongolian foreign policy. The visits by Xi Jinping and Vladimir Putin the previous year had been a great success. The numerous agreements now had to be implemented.³²

One fundamental point to remember in this context is that stronger cooperation with the large neighbours particularly in the economic area would virtually mean Mongolia relinquishing its independence. Chinese influence in particular is already enormous. For that reason alone and due to developments in Inner Mongolia as a part of China, the Mongolian population harbours substantial

Fears and prejudices of historical origin mix with apprehension about current developments, which many Mongolians regard as threatening.

feelings of resentment against China, which has occasionally resulted in physical attacks on Chinese people.³³ Although the two sides describe one another as friends and praise their good relations, these are anything but free from tension. Fears and prejudices of historical origin mix with apprehension about current developments, which many Mongolians regard as threatening. This unease includes, for instance, the fear of losing their own culture and their land through the increasing dominance of the overpowering neighbour. The fact that the majority of Mongolian commodities are exported to China strengthens the case of those who criticise the fact that the mineral resources are being sold off cheaply.

The fears on the Mongolian side are not unfounded. In the collective memory of the Chinese, "Outer Mongolia" is part of Chinese national territory. China also has sufficient population numbers to swiftly populate the territories of Mongolia, at least theoretically. Furthermore, Mongolia losing its independence would rob Russia of an irreplaceable strategic advantage. Mongolia would lose its buffer function against the population pressure exerted from China on Russia's Siberian territories that are rich in raw materials. One needs to bear in mind that the Chinese efforts to exert influence are fundamentally defensive and governed by the notion of wishing to save face. There are already clear indications of Chinese influence in the areas of business and infrastructure.³⁴

32 | Cf. press review of *Deutsches Radios Ulaanbaatar*, Issue 15, 2015, 17 Apr 2015.

33 | Cf. Kahl, n. 28.

34 | Cf. Barkmann, n. 21, p. 9.

Russia's reputation, by contrast, is somewhat more positive. This is remarkable insofar as the period spent as a de facto Soviet republic only dates back 25 years. To this day, people connect the country's modernisation with Russia's influence. The Soviet Union had built houses and schools and ensured a relatively high level of education, with the literacy rate rising to 96 per cent by 1990.³⁵ At that time, the disparities between rich and poor, which are increasingly manifest today, did not exist. One of the reasons in favour of turning towards Russia no doubt also lies in the fact that no adequate efforts have been made to come to terms with the country's own past. There has been no intensive public discourse. Nevertheless, the relationship between the two countries suffers from mutual distrust. As Russia is likely to experience problems in developing its Siberian territories for years to come, sovereign Mongolia will remain an important component in the Russian security concept. It is therefore in Russia's interest to strengthen Mongolia's independence and sovereignty.³⁶

One of the reasons in favour of turning towards Russia no doubt also lies in the fact that no adequate efforts have been made to come to terms with the country's own past.

One noteworthy point is that Mongolians cite Russia (72.3 per cent) rather than China (21.7 per cent) when asked which would make for a promising and reliable partner. The fact that connections with Europe are rated even lower (11.3 per cent) than those with China adds to the sobering image of the impact of the third neighbour policy.³⁷

The good intention of developing relations with the neighbours in a balanced manner has been undermined by China's dominance as a trading partner. Imports from Russia to Mongolia are almost exclusively limited to oil products. Russia is not above leveraging the dependence in this area to apply political pressure. Thanks to its own reserves of mineral resources, the Mongolian raw material wealth has not been sufficiently attractive.³⁸ This inevitably led to an imbalance developing in Mongolia's relations with its two neighbours. Re-orientation towards Russia and China therefore begs the question: which neighbour is Mongolia likely to prefer over the other? Misgivings about China and sympathy towards

35 | Cf. UNDP, "Human Development Report Mongolia", 1997, p. 9, <http://www.mn.undp.org/content/dam/mongolia/Publications/NHDRReports/mhdr1997eng.pdf> (accessed 28 Sep 2015).

36 | Cf. Barkmann, n. 21, p. 9.

37 | Cf. Study conducted by the Sant Maral Foundation. Average values from the period 2007 to 2014. Multiple answers were possible.

38 | Cf. Barkmann, n. 21, p. 13.

Russia can logically only result in Mongolia looking for stronger links with Russia in order to curb Chinese influence, in the areas of both the economy and culture.



Changing the wheels: The Trans-Mongolian Railway is part of the shortest railway from Moscow to Beijing. | Source: © Jeremy Hainsworth, picture alliance / AP Photo.

One opportunity may derive from the fact that Putin is focusing his attention increasingly on Asia due to the European sanctions resulting from the Ukraine crisis.³⁹ Mongolia's recent economic slump is also encouraging closer links between the two countries. During Vladimir Putin's visit in 2014, an agreement was made to intensify relations in areas including business, infrastructure, the military and technology. The aim is to develop the existing cooperation into a true strategic partnership through greater collaboration. The mutual visa requirement introduced in 1995 was lifted in January 2015 and replaced by a visa waiver for stays of up to 30 days.⁴⁰ Not only does this boost tourism, it also above all facilitates access to the Mongolian market for Russian businesspeople. While the volume of trade between the two countries fell by 16 per cent to 1.6 billion U.S. dollars from 2012 to 2013, it is forecast to rise to ten billion U.S. dollars by 2020.

39 | Cf. *ibid.*, p. 16.

40 | Cf. Embassy of Mongolia to the United States of America, "List of Countries and Regions without Visa", <http://mongolianembassy.us/list-of-countries-and-regions-with-no-visa-2> (accessed 28 Sep 2015).

ALTERNATIVE TWO: A MORE FOCUSED THIRD NEIGHBOUR POLICY

The problems and setbacks experienced with the third neighbour policy have been outlined. But there is no true alternative. As past experience shows, the power imbalance in the region threatens to make Mongolia once again the pawn of one of the two large nations. The large neighbours exerting even greater influence over it cannot be in Mongolia's interest. This would sooner or later result in a de facto loss of independence. However, a fundamental decision in favour of the third neighbour policy would require some changes in Mongolia's approach to its political, legislative and economic activities. Diplomatic efforts, for instance, should go hand in hand with economic initiatives to establish greater links between the economies of Mongolia and those of Western countries. This would simultaneously have a real impact in weakening the influence of both China and Russia. The fact that Mongolia has not been able to satisfy the mineral resource interests of Western industrialised nations – and particularly European ones – is due to Mongolia's poor infrastructure and unsatisfactory investor protection.

There is also a lack of alignment between individual policy areas. Diplomacy, economic cooperation and domestic policy could be better coordinated. The expropriation of foreign investors may be a pragmatic domestic policy decision, but it results in foreign investors becoming more cautious or even withdrawing completely. A holistic view taking in all the different policy areas could make for a more effective third neighbour policy.

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It is similarly important to use the diplomatic resources, modest as they are in such a small country, to good effect. This will require clear objectives to be set for the country's foreign policy combined with an agenda on how to achieve these objectives. In principle, Mongolians consider all states other than Russia and China third neighbours. The third neighbours with which Mongolia maintains good diplomatic relations range from Germany to North Korea. The indiscriminate assignment of the term third neighbour does have the decisive advantage that the two large neighbours Russia and China are not at all concerned that Mongolia is aligning itself too much with the EU and NATO.

European countries also have an interest in Mongolia continuing with its third neighbour policy. Firstly, Mongolia can become an important partner in the future fight for natural resources. It would be a worst-case scenario for Europe if Mongolia were to overcome its problems in terms of infrastructure and investor protection, yet vast parts of its raw material deposits had already gone to China.

Despite deficits, Mongolia is making resounding commitments to democracy and the market economy and regularly requests support from the West with its development efforts.

Secondly, Mongolia can become an important beacon for European values in Asia. To date, the performance of Mongolian democracy has not come up to European standards.

Nevertheless, Mongolia is making resounding commitments to democracy and the market economy and regularly requests support from the West with its development efforts. If the European Union wants to be more than an economic union, namely a community of interests based on values, Mongolia can become an important poster child in Asia, promoting these values. This will, however, require Mongolia to continue on its present course and the European Union to honour these efforts to improve democracy and the rule of law in the country more strongly through economic cooperation initiatives as well.

Thirdly, Mongolia is of interest to the Western countries in terms of security because of its location between China and Russia and because of its proximity to the Islamic countries of Central Asia. For the EU and the USA, Mongolia offers the opportunity of gaining a foothold in a region that was closed to them until 1990. As recently as the 1990s, collaboration between NATO and Mongolia was out of the question. At that time, the fear that this may irritate one of its large neighbours was too great.⁴¹ Today, cooperation between NATO, the OSCE and the EU works well. There is still a danger, though, of arousing the concern of the large neighbours without ultimately enhancing Mongolia's security.

CONCLUSION

Because of the country's high dependence on its two large neighbours in the areas of commerce, infrastructure and security, Mongolian foreign policy is a difficult balancing act. On the one hand, there is a need for Mongolia to diversify its political and economic relations. On the other hand, it requires good cooperation with its two neighbours, despite the fact that both dominated Mongolia in the past. Mongolia's foreign policy is consequently coloured by

41 | Cf. Sarlagtay, n. 2, p. 111.

the fear that this may be the case again in the future. The third neighbour policy therefore represented a logical decision, and there is no alternative to it despite the economic and security-related expectations placed in it not yet having materialised. Having said that, there are numerous opportunities of making the third neighbour policy more effective and at the same time intensifying economic relations with Western democracies: improving investor protection, focusing more clearly on economically strong democracies in the third neighbour policy, and maintaining a high level of engagement with international organisations. President Elbegdorj recently brought into play one possible way of developing the third neighbour policy further and thereby protecting the country's independence for the long term. At the beginning of September 2015, he argued that Mongolia should adopt the status of a permanently neutral state.⁴² In doing so, he held out the prospect of further diversification in Mongolia's foreign relations. Maintaining neutrality in the sense of having good relations with all can secure a country's independence. But in that case, the diversification of political relations must be complemented by economic relations. In future, Mongolia's relations with its large and third neighbours will be defined by competition among those countries for the country's strategic resources. Ultimately, Mongolia must overcome the above-mentioned challenges and take advantage of the major powers competing for its raw materials for its own ends. That will offer Mongolia a chance of maintaining its national security and independence. Failing to overcome the challenges, by contrast, may mean an end to Mongolia's independence.⁴³

42 | Cf. President Tsakhia Elbegdorj, "Mongolia – Neutrality", *InfoMongolia.com*, 7 Sep 2015, <http://infomongolia.com/ct/ci/9695> (accessed 28 Sep 2015).

43 | Cf. Sarlagtay, n. 2, p. 107.