

BTI 2016 | Mongolia Country Report

	scale	score	rank	trend
Status Index	1-10	6.61	# 36 of 129	
Political Transformation	1-10	7.30	# 30 of 129	➔
Economic Transformation	1-10	5.93	# 53 of 129	➔
Management Index	1-10	5.83	# 36 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	2.9	HDI	0.698	GDP p.c., PPP \$	11945.7
Pop. growth ¹	% p.a.	1.8	HDI rank of 187	103	Gini Index	33.8
Life expectancy	years	67.5	UN Education Index	0.694	Poverty ³	% 4.0
Urban population	%	71.2	Gender inequality ²	0.320	Aid per capita	\$ 149.8

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Over the past two years, there have been few sweeping changes to the Mongolian political and economic landscape. Nonetheless, this has been a time of potentially destabilizing events and trends. Looking back over key developments, three in particular stand out: the 2013 presidential election, a vote of no confidence in the prime minister, and a new willingness on the part of politicians to pursue populist political agendas.

The July 2013 Mongolian presidential election saw the Democratic Party's incumbent President Tsakhiagiin Elbegdorj win a second term with a very small majority of 50.9% of the vote. Despite low turnout forecasts, 64% of voters ultimately cast their ballots, a rate roughly on par with the 2012 parliamentary elections. This gave the Democratic Party control of the parliament and the presidency. While this should have resulted in a favorable atmosphere for pursuing policy changes, subsequent developments revealed mounting political conflict and a degree of polarization that has hampered decision-makers.

In November 2014, the Mongolian parliament (otherwise known as the State Great Hural) called a vote of no confidence in the then-serving prime minister, Norov Altankhuyag. Out of 76 members of parliament (MPs), 36 voted for the motion, with another 30 voting against, and 10 abstaining. The call for the vote was primarily driven by concerns over Mongolia's slowing economic growth and the Altankhuyag government's failure to manage disputes with the mining group developing the country's huge copper/gold mine in South Gobi Province, Rio Tinto. By November 21st, a closed-door political deal resulted in the appointment of a new prime minister, Chimed Saikhanbileg. In an effort clearly calculated to smooth the political waters, the new prime minister immediately created a grand-coalition government that represented all parties in parliament. While such an approach is certainly novel in the country's recent political context, it has perhaps slowed the government's ability to respond to current pressing issues, the most pertinent of which remains the continuing tension between the need to develop the country's mineral resources and the popular call to ensure that the Mongolian government regulate and profit from these deals as much as possible.

Mongolian politicians, like those in any established democracy, are primarily concerned with their own reelection. While most voters may have been concerned primarily with development for the first decade and half of Mongolia's transition from a state-run to a market-based economy, the potential consequences from development through natural-resource extraction have received significant attention. The Mongolian public remains highly suspicious of the aims of multinational mining corporations, and there is increasing pressure on policymakers to ensure that Mongolia's stake in mining projects is as large as possible, and that more profits are used to benefit the Mongolian people directly. This has resulted in increasingly unpredictable policy decisions, with politicians who were initially supporters of free markets increasingly supporting populist agendas. Nowhere is this clearer than in the case of the Mongolian government's ongoing negotiations with Rio Tinto. Mongolia's reputation as an investment destination has suffered considerably as a result of prevarication among decision-makers.

History and Characteristics of Transformation

In 1990, Mongolia underwent a peaceful transition from communism to democracy, leaving behind its centrally planned economy and single-party authoritarian system for a free-market economy and multiparty parliamentary system. In recent years, the country has taken considerable steps forward in establishing a more modern and vibrant economy, with a booming mining sector driving double-digit economic growth. Spread out across 1.54 million square kilometers, Mongolia is the world's 19th largest country, but has a population of just 3 million, making it the least densely populated country in the world. Slightly more than half (54.2%) of the population is Buddhist. The country boasts a high degree of religious freedom and a very high literacy rate of 98.3%. Traditionally, Mongolia has been a country of nomadic pastoralists with a heavy reliance on agriculture; at least 25% of the population still depends on animal husbandry.

Mongolia's transformation course shows a unique trajectory. In 1990, the year in which the communist one-party system came to an end, most of the conditions commonly identified by political scientists as necessary for a successful democratic transition were absent in the country. Mongolia lacked any meaningful precommunist experience with modern parliamentary democracy. The dominance of state-owned and collectivized sectors in Mongolia's planned economy, which precluded the presence of influential entrepreneurs, hindered the emergence of an independent middle class that could have become an engine of democratization in a manner similar to that seen in South Korea and Taiwan. Finally, Mongolia had neither an established dissident movement nor a long tradition of anti-communist resistance. Bucking these odds, Mongolia underwent in 1990 a successful and remarkably peaceful democratic transition championed by domestic forces, and has succeeded in preserving its newly established democratic system.

Displaying unprecedented growth rates in 2011 – 2012, Mongolia has been one of the fastest-growing economies in the world. Driving this growth has been a booming mining sector in which Mongolia holds significant copper, gold, coking-coal and uranium deposits with a combined value of more than \$1.2 trillion. Mongolia has a major competitive advantage in being located next to China, the largest commodity consumer in the world. However, given that more than 90% of the landlocked country's exports go to China, the Mongolian economy is currently heavily dependent on China's growth.

The country's long-term development policy is guided by the National Development Strategy (NDS). This strategy aims to transform Mongolia into an export-oriented and knowledge-based economy by focusing on exploiting strategic minerals, reducing urban and rural disparities, creating or maintaining balanced ecosystems, consolidating democracy, and fighting corruption. The NDS' stated objective is to make Mongolia a middle-income, knowledge-based country by 2021. In line with these objectives, the country's legal framework is gradually changing to support such economic growth. As indicated in this report, this timeline may prove to be optimistic.

The head of the state is the president. The prime minister is the head of government, and all legislative power is vested in the Great State Hural (Assembly), Mongolia's unicameral parliament, which has 76 members elected by popular vote to terms of four years. The last general, parliamentary election, held on 28 June 2012, yielded the following results: The Democratic Party (DP) won 33 of the 76 seats, the Mongolian People's Party (MPP) won 26 seats, the Justice Coalition won 11 seats, the Civil Will-Green Party won two seats, and three independent candidates each won a seat. The DP, Justice Coalition and Civil Will-Green Party took part in the coalition government – in 2014 to be joined by the MPP. The 2013 presidential election saw the incumbent, President Tsakhiagiin Elbegdorj, win by a slight majority with 50.9% of the vote. In November 2014, the parliament held a vote of no confidence in DP Prime Minister Altankhuyag. On November 21, Saikhanbileg was appointed as the country's new prime minister.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force is secure throughout the entire territory. There are no organized groups strong enough to challenge the state's power in this regard. Aside from the election-related riots of 2008, as well as smaller, locally focused environmentalist opposition to mining activities since 2010, Mongolia has not seen any substantial use of force by organized groups. In October 2013, police arrested prominent environmental activist Tsetsegee Munkhbayar after a gun was fired during a protest outside the Government Palace. There is no evidence indicating that this was a challenge to the Mongolian government's monopoly on the use of force. There are some ultra-nationalistic groups who believe that the government has not done enough to control foreign influence in Mongolia, and have targeted foreigners, especially ethnically Chinese people, in attacks. The government, however, continues to show the political will to protect foreign citizens.

Monopoly on the
use of force
10

The entirety of the population accepts the nation-state as legitimate. Although there are diverse ethnic and religious groups, Mongolia is a relatively homogeneous country with a large percentage of the population sharing a basic social and ethnic identity. Even when there are differences, there is never any serious discussion over the legitimacy of the current concept of the Mongolian nation-state. Citizenship is not denied to particular groups within Mongolia. However, the citizenship of Kazakh-Mongolian citizens who left the country for Kazakhstan and later returned to Mongolia remains unclear. In general, Kazakhs in Mongolia are fully recognized as citizens of the country and participate fully in the country's political life. However, in the early 1990s, many Kazakhs in Mongolia left for Kazakhstan as part of that state's repatriation policy, with a significant number ultimately returning to Mongolia for a variety of reasons. Since Mongolia does not recognize dual citizenship, some of the Kazakhs that became Kazakhstani citizens before returning to Mongolia have uncertain citizenship rights at this time.

State identity
10

Religious dogmas have no noteworthy influence on legal order or political institutions. Mongolia has seen a revival of religion, especially Buddhism and traditional shamanism, since the democratic revolution in 1990. While some high-level officials are known to be religious, there are no religious groups that have substantial influence on national politics. Some religious minorities, especially Christian Mongolians, have complained about restrictions on the number of missionaries allowed in the country; however, there is no evidence suggesting this is systematic or compromises the right to practice their faith freely.

No interference of
religious dogmas
10

The state's administrative structures provide most basic public services throughout the country, but their operation is to some extent deficient. Mongolia is the least densely populated country in the world. This low population density poses significant hurdles to the maintenance of state infrastructure and the provision of services, especially for the roughly 25% of the population who are pastoral herders.

Basic
administration
6

In the countryside, access to education and health care is burdensome. Many areas of the country still lack reliable access to electricity, though most herders employ solar panels and car batteries for basic electricity needs. Sanitation and water-treatment facilities are simply unavailable in rural environments, where latrines are the only waste-management system available, and garbage is not collected. By contrast, communication services have improved vastly over the past five years, with basic cellular phone services now provided by private carriers in all county (soum) centers.

Infrastructure challenges unfortunately extend to urban areas as well, including the capital city of Ulaanbaatar. Over 60% of the approximately 1.2 million Ulaanbaatar residents live in "ger" (the Mongolian word for yurt, the round, portable nomadic dwelling) districts, where administrative structures are improving but still ineffective.

Given these administrative hurdles, it is impressive that state services operate as well as they do, especially in the realm of education. There are boarding schools throughout the country that allow herding families to send their children to school. The success of this policy is clearly visible in Mongolia's exceptional literacy rate, estimated at 98.3%.

Economic growth and an increase in funding across the board are supporting innovative policy changes intended to address these issues. For example, the Ministry of Education has been extending broadband access to rural schools, seeking both to assist teachers with limited resources and to standardize the curriculum across the country. Efforts focused on the provision of urban housing are beginning to make more services available to migrants.

2 | Political Participation

General elections are regularly conducted on the national level, with consistently successful transfers of power from one ruling party to another. All elections have been deemed to be free and fair by international election observers, including a large-scale OSCE election-observation mission during the 2013 presidential election. There are concerns that the fees associated with running for office disproportionately affect smaller parties. Further concerns have been expressed regarding ownership patterns and a lack of transparency in the vibrant media sector, especially during election periods. Major news outlets have ties to key politicians, and many pursue an overtly partisan agenda.

Free and fair
elections

8

There are two major parties in Mongolian politics, the Democratic Party (DP) and the Mongolian People's Party (MPP). There are no barriers to opposition parties' campaigns. Small parties such as Civil Will-Green Party have been able to contest a limited number of seats in national elections, and are frequently members of ruling coalition governments.

In the June 2013 presidential election, incumbent Tsakhiagiin Elbegdorj (DP) won with a very slim margin of 50.9% of the vote. Despite projections that a growing lack of enthusiasm for electoral politics would suppress voter turnout, about 64% of the population cast ballots. This was comparable to the 65% voter turnout for the 2012 parliamentary elections.

Since 2012, votes have been tabulated mechanically; however, there remains a high level of suspicion that the machines can be tampered with, and may make enough errors to affect the outcomes of elections. While there is no evidence that this is the case, it suggests a continuing lack of trust in election results, as well as tensions within the losing parties.

Democratically elected political representatives have considerable power to govern. However, there are suspicions that large companies and external actors, most particularly Russia and China, wield considerable influence on key issues, especially in foreign policy.

Effective power to
govern

7

Concerns about the influence of private interests on political decision-making focus on the fact that most parliament members are also business elites, and thus use elections to legitimize policy decisions made in support of their own special interests. However, this has more to do with direct influence on decision-makers than with a true undermining of democratic procedures. The military is firmly under civilian control, and no internal non-governmental actors have any notable influence on policymaking.

Since 2013, many Mongolians have remarked on the problematic implications of politicians holding multiple and potentially conflicting positions in the government. This is colloquially referred to as “wearing two hats.” Many positions within the government are politically appointed according to coalition-building considerations.

Mongolia’s 1992 constitution guarantees freedom of association and assembly. In general, citizens are not restricted in their ability to associate and assemble. In fact, protests near the Government Palace and in front of political-party buildings are quite common. A multitude of formal and informal non-governmental organizations exist. These range from the comparatively highly organized homeland councils, which represent particular regions and provinces in debates in the capital and the political sphere more broadly, to more informal and very issue-specific organizations, as well as to NGOs that appear as an interest group but in practice represent only a single person.

Most NGOs remain very focused on specific issues and thus do not form broader coalitions or serve as the basis of social movements. Their impact on political decision-making consequently remains limited, though it is not legally restricted in any way. This has made them susceptible to narrow-interest-based agitation, and to allegations of engaging in “protest-for-hire.”

Freedom of expression is subject to some limitations, but generally there are no outright prohibitions affecting press capabilities. While the constitution guarantees the freedom of expression, there are many flaws that can be used to censor journalists. The Law on State Secrets vaguely defines “state secrets,” and is used to restrict journalists’ publications. Journalists and media outlets practice self-censorship for fear of retribution. The threat of defamation suits is particularly effective, particularly since journalists are held personally liable and are not legally shielded by publishers.

Although there is a plurality of traditional print and broadcast media outlets, as well as numerous online publications, these are not truly independent. Private media outlets are typically owned by big businesses or prominent politicians, with owners generally interested in advancing their own agendas and exerting direct influence on the political agenda, and regularly censoring their own editors and journalists. In early 2013, the government debated the introduction of regulations to censor website comments, but has since dropped the idea.

Association /
assembly rights

9

Freedom of
expression

6

3 | Rule of Law

The framers of Mongolia's 1992 constitution laid out strong mechanisms for a formal separation of powers, largely seeking to prevent the country's two powerful neighbors from exercising influence on its politics.

Separation of
powers
7

However, constitutional amendments made in 2000 allowed members of parliament to simultaneously hold posts in the cabinet. Some critics have pointed out that such dual officeholders might compromise the principle of horizontal accountability between the legislative and executive branches of the government. Cabinet posts are also used as political bargaining chips in forming coalitions, further complicating separation between the legislative and executive branches.

These criticisms were once again voiced after the 2012 election, when the newly elected Justice Coalition formed its cabinet. Currently, 17 of the 19 current cabinet members simultaneously serve as members of parliament. Though many members of the parliament have spoken out against this practice, there has been no strong drive to abolish it. The limited number of qualified politicians able to fill the important posts has exacerbated the situation. This reflects the lack of political will to ensure a greater separation of powers.

The lack of clarity in the definition of powers and responsibilities held by the president and the prime minister has been an ongoing source of tension within the government.

The judiciary is the weakest of the three government branches. Numerous complaints and reports have indicated that human-rights violations, corruption and nepotism persist in the Mongolian judicial system. The lack of judiciary independence is a key factor here. Under the current system, the president appoints Supreme Court justices, which – as many critics point out – undermines the judiciary's ability to exert independent oversight of the other branches of government.

Independent
judiciary
6

In early 2000, there were some efforts to reform the judiciary and ensure that legal professionals were well-trained under the new system's principles. Since 2012, some legal professionals have been active in efforts to reform the system and offer systematic legal education through the national universities. Most of this reform has focused on ensuring that the legal system produces a diversity of appropriate sentences, and that everyone in the country is treated in the same manner.

Currently, there are significant concerns that elements of the judiciary (especially and somewhat ironically the Independent Agency Against Corruption, or IAAC) have been used for political purposes by the president and other officials of the Democratic Party.

There have been significant developments in the prosecution of office abuse over the course of the last decade. The IAAC, newly formed in 2007, charged numerous high-profile figures with embezzlement and corruption. The most prominent and controversial such instance was the trial and conviction of former President Enkhbayar. The fact that the IAAC charged one of the most popular politicians in Mongolia itself fostered hopes that the authorities might get tough on corruption. The many high-profile corruption charges that followed Enkhbayar's imprisonment further solidified this view.

Prosecution of
office abuse

5

However, it is important to note an apparent bias in this activity, as the IAAC charges have primarily targeted former ruling-party officials. This has led to widespread suspicions that the IAAC has become a tool for political retribution by the current administration. The IAAC remains a troubled institution. In March 2011, the head of the IAAC, Chimgee Sangaragchaa, was himself arrested and sentenced to two years in prison for leaking state secrets. While the organization remains an important development in Mongolian politics, the IAAC has been mired in political issues for some time. This suggests that the institution is largely controlled by political interests who do not themselves want to face corruption charges by a truly independent authority.

Even though civil rights are largely guaranteed in Mongolia, violations still occur. From the cruel and inhumane treatment of people in custody to discrimination against sexual minorities and an inadequate provision of due process and equal protection, these sporadic yet persistent violations call for a more effective system capable of protecting fundamental civil rights in Mongolia. These violations are not checked largely because of the ineffective judicial system.

Civil rights

7

Prosecutions related to civil-rights violations are relatively rare in Mongolia. However, there are incremental efforts underway that could precipitate much broader change. In January 2013, for instance, Minister of Justice Temuujiin, citing a breach of privacy, eliminated a rule that all new job applicants be subject to criminal-record checks. Although relatively small in scope, new developments such as this indicate a rising awareness of civil-rights violations.

There is no institutionalized discrimination against people based on gender, religion or ethnicity. On a societal level, the Mongolian political and business spheres are largely dominated by men. However, there are significant examples of women holding positions of power. Members of parliament Oyungerel and Sanjasurengiin Oyun are probably the most popular examples. The rights accorded to women and sexual minorities are in practice somewhat curtailed as compared to men as a result of intensifying nationalistic sentiment. Deviations from standard Mongolian gender rules are seen by some as threatening the "purity" of the Mongolian nation.

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but are often inefficient. While friction between institutions is minimal, there is weak institutional memory. The institutions themselves are comparatively weak; too much depends on the individuals leading the institution. As a result, policies are disrupted by changes in leadership. Frequent changes to ministry names and duties along, with the creation of entirely new ministries, creates institutional confusion. Even within political parties, views range widely between different factions, making it hard to sustain a long-term policy in the face of frequent changes in the ruling coalition. The parliament of Mongolia, or legislative branch, has 76 members; the government of Mongolia, or executive branch, is made up of the prime minister and other cabinet members. After the June 2012 parliamentary elections, a cabinet was formed with 19 ministers, 17 of whom are members of parliament. The large number of ministers who are also legislators helps contain friction between the two institutions, though also undermines the effectiveness of checks and balances.

In November 2014, a vote of no confidence in then-Prime Minister Altankhuyag resulted in the appointment of a new prime minister, Chimed Saikhanbileg. Saikhanbileg immediately established a grand coalition that included all parties in the parliament. This grand coalition, however, includes many conflicting policy agendas, making it unclear how the new government will perform. This is the first time a vote of no confidence resulted in a change of government in the middle of a political term. Many have remarked that the dismissal of Altankhuyag had less to do with policy differences than with his inability to play the political game effectively. This suggests that the trend of increasing polarization in Mongolian politics continues, and that democratic institutions remain highly contingent on party dynamics.

While the Civil Service Council of Mongolia has a system of selecting civil servants based on merit, the ruling party typically appoints civil servants based on political affiliation rather than merit. This results in institutional inefficiency and discontinuities.

Since Ulaanbaatar represents about one-third of the country's total population, the central government and city government dominate the political scene. That said, provincial and county governmental institutions show political dynamics of their own, reflecting the political successes and pitfalls of the capital in terms of partisan politics

Performance of
democratic
institutions

7

All relevant actors see the democratic institutions in Mongolia as legitimate. Democracy is widely regarded as an appropriate governance mechanism by the Mongolian populace, and no influential political party is interested in overturning the democratic progress made since 1990.

Commitment to
democratic
institutions
8

However, there is reason to believe that a number of specific institutions are highly questionable with regard to their democratic credentials. The judiciary and the Independent Authority Against Corruption (IAAC) are vulnerable to political manipulation. Calls for institutional reform are common.

5 | Political and Social Integration

The party system in Mongolia is fairly stable, yet the high degree of clientelism in forming parties inhibits their effectiveness in society. This widespread practice can significantly shape careers, as much depends on an individual's party affiliation. This creates a situation in which individuals join parties only to benefit from the spoils. Moreover, this practice has severed the parties' social roots. According to a Sant Maral Foundation survey in 2014, 64.5% of Mongolians do not think that parties represent public opinion. There is relatively little divergence in the policies proposed by the two major political parties, and voting is often calculated on the basis of personal loyalties and patronage.

Party system
6

The parties have deep roots in Mongolian society, with affiliations often decided on the basis of tradition. Many of the MPP's supporters were also loyal to the Mongolian Communist Party, whereas DP supporters were often involved in the protests that led to Mongolia's democratization. These loyalties reinforce the clientelistic system by making personal affiliations a strong motivation in political decision-making. Furthermore, there is a significant rural-urban divide in party support, with the Democratic Party enjoying significantly more support in Ulaanbaatar, while the Mongolian people's party is generally more popular in the countryside.

Currently, five out of the 22 parties registered at the Supreme Court of Mongolia have seats in parliament. The new election law that replaced the majoritarian voting system with a mixed majoritarian and proportional system tried to ensure that small parties would receive more seats. The system has significantly benefited former president Enkhbayar Nambar's newly formed Mongolian People's Revolutionary Party (MPRP), enabling the party's Justice Coalition to win 11 seats in the parliament and four seats in the cabinet.

Interest groups play an active if not prominent role in Mongolian society. Given concerns about the environmental consequences of mining (especially when pursued by foreign companies), the most prominent community organizations include environmental NGOs and CSOs, though they do not form a coherent or organized movement.

Interest groups
6

Beyond environmental NGOs, which only occasionally enjoy political support, organizations that focus on civil rights and health issues are winning increased attention from the central government. Three NGOs focused on HIV/AIDS prevention and support continue to operate in Mongolia, and have been able to hold regular meetings with the Ministry of Health. As with other interest groups, however, political promises and political will remain hard to reconcile in many cases.

Despite economic hardships and the lack of a previous democratic legacy, Mongolians have overwhelmingly approved the notion of a democratic regime since 1990. Asian Barometer's survey shows that 85.4% of Mongolians regard the current form of government as the best form, while just 12.2% prefer a different form. However, in another Asian Barometer survey conducted in 2010, 48.4% of Mongolians stated that democracy is always preferable, while 32.1% stated that authoritarian government is under certain circumstances preferable.

Approval of
democracy
7

Categorical support for democracy was much higher in the past, and the consideration of authoritarianism as an option used to be lower. This slight decline in democracy's approval rating can be attributed in large part to the government's inability to resolve a number of mining-related issues that have been dragging on for years. However, the fundamentals of Mongolian democracy remain strong.

In general, many Mongolians prefer to trust people with whom they have close relationships or who have local regional affiliations. This can be attributed in part to the legacy of communism and in part to traditions of self-reliance in nomadic culture. The lack of general trust is exacerbated by the increasing pace of migration to urban areas, as new migrants lose their sense of community when they arrive in a new environment. Urban areas, especially Ulaanbaatar, are increasingly dangerous for all inhabitants. Increasing crime rates further undermine social capital and trust, which in turn reinforces a tendency to rely on those one knows rather than on abstract laws and institutions.

Social capital
6

The adverse effects of low levels of social capital can be observed in all institutions, as these demonstrate high incidences of nepotism and conflicts of interest. Thanks to the growth of social media in recent years, numerous formal and informal associations and self-organized groups have sprung up throughout Ulaanbaatar city. Whether this will significantly increase social capital has yet to be seen.

There are many independently organized cultural, environmental and social organizations in urban areas. However, many of these are rather small and cannot directly replace kin and friends as the essential social groups in Mongolia.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

In the period under review, Mongolia's Human Development Index (HDI) score continued to rise, to .698 up from a previous .692, putting the country's rating in the "high human development" category. According to the NSO's Household Socioeconomic Survey for 2010–2011, there is a clear urban-rural divide with regard to poverty rates (26.6% in urban areas, 33.3% in rural areas). Rural poverty is driving citizens to move to cities to seek work opportunities. However, most migrants have limited transferable skills and therefore face difficulties in securing employment, which increases the share of poor people in the city. The Gini coefficient (36.6 in 2008) shows a moderate level of social inequality, and the 2013 Human Development Report ranks Mongolia at 103 (alongside Turkmenistan). However, there is widespread belief that the benefits of the economic growth experienced in the past four years have been unevenly distributed.

Socioeconomic
barriers
5

The degree of rural poverty is sometimes hard to gauge, with informal economic transactions (barter) accounting for a sizable chunk of herders' livelihoods.

Gender inequality does play a role in poverty, but this role is relatively small when compared across the region. Mongolia has a score of .32 on the 2013 Gender Inequality Index. This is a significant decrease from a score of .411 in 2010 (a lower score indicates less inequality). A strong tradition of formal equality in employment, a part of the Soviet/Communist legacy, is an important contributor to this status. Women comprise a considerable majority in higher-education settings, with a women-to-men ratio of 144.7%. In 2013, women made up 45.8% of the total labor force.

The overall literacy rate, at 98.3%, remains high, especially considering the country's sparse population. There is no significant difference between the literacy rates of women and men.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	2523.5	7189.5	12545.2	12015.9
GDP growth	%	7.3	6.4	11.6	7.8
Inflation (CPI)	%	12.7	10.1	8.6	13.0
Unemployment	%	6.9	6.5	4.9	-
Foreign direct investment	% of GDP	7.3	23.5	17.1	-
Export growth	%	-	6.8	13.7	51.4
Import growth	%	-	24.1	6.3	4.9
Current account balance	\$ M	84.3	-885.9	-3192.0	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	1396.4	5928.0	18920.6	-
Total debt service	\$ M	45.0	238.8	1402.1	-
Cash surplus or deficit	% of GDP	-	2.6	-	-
Tax revenue	% of GDP	-	19.6	-	-
Government consumption	% of GDP	12.1	12.7	13.5	11.6
Public expnd. on education	% of GDP	-	5.4	-	-
Public expnd. on health	% of GDP	3.4	3.9	3.6	-
R&D expenditure	% of GDP	0.24	0.28	-	-
Military expenditure	% of GDP	1.2	0.8	-	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

At the beginning of 2013, Mongolia's market-based economic reforms seemed to have reached a high point. The Heritage Foundation's 2013 Index of Economic Freedom score for Mongolia reached 61.7%, making its economy the 75th freest in world. However, in 2014, the score was reduced to 59.2%, moving the country down to 96th place. The Global Competitiveness Report scores for the country's financial-market development, which is classified primarily as factor-driven, are lower than those accorded to many other economies in transition. Foreign investment is officially welcome, but the legislative framework facilitating such investment remains in a fledgling state. The parliament passed a Law on the Regulation of Foreign Investment

Market-based
competition

5

in Entities Operating in Strategic Sectors in May 2012. However, 2014 foreign direct investment was down 62.4% from its high in 2011 – 2012. There is a widespread fear that foreign investment will discourage economic policies that protect Mongolian-specific interests, and politicians have been eager to boost their approval ratings through “resource nationalism.”

The World Economic Forum notes that the most problematic factors for those doing business in the country include ineffective government bureaucracy, inadequate infrastructure, difficulties in accessing financing, and political instability.

Currently, there is a strong commitment to market-based competition. However, a diversification in the range of economic partners is being sought, as policymakers prefer investments made by countries other than Russia or China. Overall, the Mongolian business landscape features a few companies with diverse investments in a variety of sectors and businesses; there is little room for new entrants, and unfair competition can be observed to some extent. State-owned companies remain somewhat dominant in areas such as mining and transportation. According to various estimates the informal sector is relatively small, at below 10% of GDP.

Anti-monopoly policy is formulated in the Law on Prohibition of Unfair Competition of 1993 and the Law on Competition in 2009. In 2004, the Authority for Fair Competition and Customer Protection (AFCCP) was set up. Policy efforts addressing monopolization and unfair competition have gained momentum since the Democratic Party won the 2012 parliamentary elections, and the AFCCP has become one of the most active government organizations in Mongolia. However, unfair competition can still be observed in every industry, especially in the context of government tender-selection processes.

Anti-monopoly
policy
7

Since the onset of its economic transition, Mongolia has promoted foreign trade and investment, and achieved tangible results in trade liberalization. Mongolia’s accession to the World Trade Organization (WTO) in January 1997 underlined the country’s relative success in developing a new trade regime. In the wake of WTO accession, around 30 laws related to the simplification of customs services and the reduction of customs duties on foreign trade were passed and amended. However, some of these pledges have not been realized, specifically with regard to foreign-trade tariffs. The trade-weighted average tariff rate is 5.1%, and costly non-tariff barriers further constrain trade freedom.

Liberalization of
foreign trade
7

The trade deficit reached record levels of \$1.7 billion in 2011, when imports of mining-related equipment and fuel imports surged. But exports have also grown strongly, rising to \$4.8 billion in 2011 from \$2.9 billion a year previously. The policy of trade liberalization often works to the detriment of domestic producers who have to compete with cheap imports. Outgoing customs duties are imposed on only a few items such as unprocessed cashmere. Mongolia is actively engaged in negotiations

for trade discounts with other nations. In 2012, 92.5% of all exports went to China; this makes Mongolia's economic success heavily dependent on China's growth. In addition, 54% of all imports come from China or Russia. Given China's huge market share (followed by Russia), Mongolian authorities have shown a clear preference for investment from other countries. Chinese investment in the mining industry became a political issue in 2012, with the rejection of China's Chalco bid to buy a majority share in SouthGobi Resources.

In July 2014, Mongolia and Japan signed a free-trade agreement.

In 2013, there were a total of 14 commercial banks and 212 small non-banking financial institutions (NBFIs) in Mongolia. Although NBFIs cannot take deposits, they provide basic banking products and services. Major commercial banks have already adopted international best practices with regard to corporate governance and business processes. In February 2012, Goldman Sachs bought a 4.8% stake in Mongolia's third-largest bank, the Trade and Development Bank of Mongolia (TDBM), and later in April 2012, Trafigura Beheer B.V. bought a 5% stake in the Golomt Bank, Mongolia's second-largest bank.

The financial system has undergone rigorous modernization in recent years. This began with the 2006 establishment of the Financial Regulatory Commission, which is tasked with regulating financial services by supervising legal compliance and protecting the rights of investors and clients. The minimum capital requirement for commercial banks ordered by the Bank of Mongolia (BoM) is MNT 8 billion (about \$6.8 million). After weathering the strain caused by the global financial turmoil, the banking sector has stabilized. According to Eurasia Capital, the Mongolian banking industry expanded by 50.1% in 2011. The same year, the sector's net earnings exceeded \$130 million, the value of assets surged to \$6.7 billion, and banks' assets-to-GDP ratio reached a new high point of 86.5%. Mongolia has among the lowest Tier 1 capital buffers in the East Asia region, as well as some of the highest non-performing loan (NPL) ratios, dating back to the 2008 – 2009 banking-sector crisis, when two large banks failed. However, the ratio of NPLs to gross loans fell from 5.8% in 2011 to 4.1% (excluding the NPLs of the two failed banks) in 2012. The banking system remains highly dollarized. About one-third of deposits are denominated in dollars, and the degree of convertibility between local and foreign-currency deposits is high.

Banking system

7

8 | Currency and Price Stability

Inflation threatens not only to hamper economic growth, but also causes political instability; however, the government seems unable or unwilling to deal with it. Previously, cash handouts and salary increases were directly related to increased inflation. However, the government stopped distributing cash handouts in 2012, and the two main parties agreed not to make cash-handout promises in the 2012 parliamentary election.

Anti-inflation /
forex policy

7

Monetary policy in Mongolia is implemented by Mongolia's central bank, the BoM. A principle objective of the BoM is to ensure the stability of the Mongolian national currency, the tugrik. The governor of the BoM is formally independent from the government, is appointed for a six-year period by the State Great Hural, and reports to the parliament. Policies during the financial crisis showed that the BoM acts independently in pursuing its goal of monetary stability, although inflation in Mongolia has been increasing in recent years. The World Bank reports that the inflation rate in Mongolia was 8.6% in 2013. However, inflation rates have also been highly volatile, ranging from 25.1% in 2008 to 6.3% in 2009. The World Bank Q4 2012 report stated that "inflation has eased slightly in recent months, but remains persistently high due to high food prices and expansionary fiscal policy, which has led to demand-side pressures in an already overheating economy. The headline rate was 15.9% in August, with the increase in the index driven mostly by the increase in food, notably meat, prices."

The BoM announced that its monetary-policy goals for 2013 were to keep inflation stable and collaborate with the government to restrict the impact of supply-driven inflation. In 2013, the BoM announced that it would maintain the floating-exchange-rate regime, with interventions in the foreign-exchange market limited to smoothing out excessive volatility, without attempting to reverse the underlying trend. In January 2014, foreign-exchange reserves amounted to about \$1.3 billion dollars, as reported by BoM.

Given high inflation rates, the lack of foreign investment and looming fiscal challenges, the Mongolian tugrik has lost significant value against foreign currencies, and continues to decline.

The Fiscal Stability Law (FSL) took full effect in January 2013. This law will promote fiscal discipline by enhancing transparency, strengthening accountability and establishing regulations intended to limit fiscal deficits, government debt and expenditure growth, while preventing a boom-bust instability pattern. The law additionally provided legal grounds for the establishment of the Stabilization Fund. The objective of this fund is to ensure fiscal stability in the medium and long term by

Macrostability

7

accumulating windfall revenues and enabling budget support when commodity prices fall or in the event of other external shocks.

While many economic projections predicted significant economic growth as a result of large mining projects, especially at Oyu Tolgoi in South Gobi Province, recent populist policy changes have led to considerable reductions in these projections.

As a result of the 2011 – 2012 construction and mining boom, the government of Mongolia has taken on significant foreign debt. These debts will begin to come due in the next several years, and pose a serious challenge to the country's fiscal stability, barring a macroeconomic rebound.

9 | Private Property

The 1992 constitution established basic property rights, which were further secured by such laws as the Law on Land Ownership of Citizens of Mongolia, the Law on Property Ownership Rights and the Law on Registration of Property Ownership. The Global Competitiveness Report 2012 – 2013 ranked Mongolia at 110th place (up from 118th) out of 144 countries with regard to property rights. The World Bank reports that it takes an average of 11 days for property to be registered, and requires five different procedures.

Property rights
5

There is a lack of institutional commitment to the strong protection of property rights. Overall, property and contractual rights are recognized, but enforcement is weak. The judicial system remains inefficient and vulnerable to political interference. Intellectual-property laws are not effectively enforced by the government of Mongolia.

Conflicts regarding land ownership are common, especially in urban areas. Ulaanbaatar's yurt (ger) districts are inhabited by migrants from rural areas, and the overwhelming majority do not hold rights to the land they live on. This complicates city services and infrastructure and makes city planning particularly difficult. Many buildings have been erected in recent years without zoning permits on supposedly protected lands.

Though there are some state-owned companies, the private sector is regarded as the backbone of the economy and accounts for the majority of GDP. The regulatory framework has become more supportive of fostering private-sector growth. Given Mongolia's small market size, most sectors are dominated by oligopolies. The government welcomes private investment, including foreign investment, though inconclusive legislation pertaining to foreign investment has scared off much of this investment in the past two years.

Private enterprise
6

Privatization of state companies has not always taken place consistent with market principles. According to the Public Procurement Law of 2000, all government purchases of services and goods are conducted through tender selection; however, winners often have good political connections.

Following the passage of a controversial Law on Minerals in 2012, the Mongolian government has oscillated between encouraging foreign investment and changing the rules for firms already active in the country. For example, Oyu Tolgoi (a copper and gold mine in the South Gobi) began producing copper concentrate in January 2013 from its strip-mining operations; however, construction of its underground operations remains stalled due to these oscillations in government policies.

10 | Welfare Regime

Following sweeping economic reforms in the early 1990s, the Mongolian government cut most social-welfare programs. While the situation has improved following annual increases in government spending, these safety nets remain inadequate, and access to services is inconsistent.

Social safety nets
5

Among the developing Asian economies, Mongolia had one of the highest shares of government expenditure on social security and welfare in 2011, at about 36%. This is roughly equivalent to the shares reported for the developed economies of Australia, Japan and New Zealand. Nonetheless, the government has yet to achieve its desired effects, as poverty levels remain high.

All Mongolians have access to state health insurance, and medical care is relatively inexpensive. All rural centers have health care facilities. However, the quality of care is not always even, and many comparatively wealthy Mongolians prefer to be treated in private hospitals, where the costs are much higher. The Mongolian government does operate a pension plan, and subsidizes retirement savings.

The government set up the Human Development Fund (HDF) in 2009 as a strategy to share mining revenues. It started with a cash handout of MNT 120,000 for every citizen in 2010. Monthly cash handouts of MNT 21,000 were continued until June 2012. A universal Child Money Program ultimately replaced the HDF disbursements. It is today widely believed that cash allowances are ineffective, as they drive inflation rates upward. The implementation of targeted social-protection and employment-generation programs are generally felt to be more effective in battling poverty. The reliability of government funds has fluctuated, as shifting ministerial appointments can lead to corrupt practices. The Ministry of Education, for example, offers numerous scholarship opportunities, but students consistently report that their ability to apply is in practice dependent on the submission of informal application fees and on having ministry connections.

Members of ethnic or religious minorities have almost equal access to education, public offices and employment. Women do not enjoy fully equal opportunities in politics and the workplace, even though they consistently achieve higher average levels of education than men. The incidence of violence against women remains high, with 20% of women surveyed by the National Statistical Office reporting that they had been physically abused by a partner or husband (2009 figures). The Law on Gender Equality was approved in 2011, and included a gender-based quota for civil-service management positions. Although ratio of political seats in parliament held by women fell precipitously from 11.8% in 2000 to 3.9% in 2008, a new parliamentary election law, approved in December 2011, which contained a mixed system with a 20% quota for women candidates, resulted in a threefold increase in the number of women parliamentarians contesting the 2012 parliamentary elections. However, as some parties put female candidates at the end of proportional lists, the number of women actually elected to office significantly decreased. In 2012, the parliament had nine female members, placing Mongolia significantly below the global average of 19.8%. The women's caucus in parliament has been effective in organizing across party lines, and helped drive an ambitious revision to the country's domestic-violence legislation in 2014.

Equal opportunity
6

People of economically disadvantaged backgrounds and those from rural areas have limited opportunities when compared to the urban elite. Informal connections offer the primary road to career advancement, leaving talented students and professionals lost in the shuffle if they do not come from a family with influence.

11 | Economic Performance

Mongolia's economic growth rate has slowed considerably from its high point in 2011 – 2012. This is largely due to ineffective government policy and an unattractive investment climate for international actors. According to official estimates, the economy grew by 17.3% in 2011 and 12.3% in 2012; however, growth rates were down to 11.7% in 2013 and an annualized rate of 7.5% in the first quarter of 2014. Surveys done by the World Bank, the IMF and the National Statistical Office (NSO) of Mongolia had predicted that economic growth would reach 18% to 20% in 2013. These estimates have proven to be unreliable.

Output strength
7

The biggest negative factor in Mongolia's economic performance has been a severe drop in FDI, which has fallen by 62.4%. Overall investment is down 32.4%. Mongolia's NSO reports that at the beginning of 2015 the unemployment rate is 7.7%, the inflation rate is 9.3%, and the current fiscal deficit totals MNT 185.3 billion.

It is important to contextualize this relatively rough year for the Mongolian economy by noting that in 2004, GDP stood at only about \$2 billion. Mongolia's growth rates

and general economic expansion over the past decade have been truly phenomenal. However, current projections remain sobering.

The country's trade balance remains a sensitive topic. The CIA World Factbook reports that in 2014 China received 89% of Mongolia's exports, and provided 37% of the country's imports; Russia provided another 25% of imports. Much of the current economic downturn is directly tied to concerns over the role of China in Mongolia's economy. Realistically, there are very few choices for Mongolia's exports (especially mineral resources). However, Mongolian politicians must respond to popular sentiment, which remains highly suspicious of China's intentions.

12 | Sustainability

Mongolia continues to be affected by serious problems of land and ecosystem degradation. Desertification, pasture and land degradation, and air and land pollution continue to progress as a consequence of climate change, mining, overgrazing and rapid urbanization. In recent years, increased pollution from household heating, transport, industry, and power generation has led to dangerous levels of air pollution in Ulaanbaatar, making it one of the world's most polluted cities in terms of air quality. There are also air-quality issues in the areas around Oyu Tolgoi, largely the result of poor infrastructure that creates dust problems for local herders. Rural water sources have been polluted by artisanal mining.

The government has taken incremental measures to abate the problem by introducing energy-efficient stoves and upgrading housing in informal settlements (i.e., in the yurt (ger) districts). It is not yet clear whether these measures have had a significant effect.

However, progress has been made in integrating sustainable development policies and programs, including an increase in protected water sources. In 2012, the government of Mongolia ratified a series of environmental laws, expanded its system of nature reserves, and began investing in energy-efficient technologies and pollution-abatement schemes. The first independent renewable-energy generator, the 50 megawatt Salkhit Wind Farm, marks the country's first big step toward a sustainable energy market. The wind farm started production in 2013. Renewable energy also enjoys presidential support, giving the industry the political support it will need to get off the ground.

Additionally, green development has been added to the mandate of the Ministry of Environment, and work is underway for the preparation of a national strategy for green growth. The country has joined the Sustainable Energy for All (SE4ALL) initiative. Revisions to the country's environmental legislation has eliminated legal loopholes and generally improved the quality of regulations. The law has also

Environmental
policy
5

introduced international standards in environmental auditing and a “polluter pays” principle. The recent upsurge in mining activities has brought environmental issues, such as water management in the South Gobi region, to the forefront of policy debates

The Mongolian Constitution guarantees the right to education. Basic education is provided free of charge. Although school enrollment rates are high for both girls and boys at all levels, concerns remain regarding significant geographical disparities in educational outcomes and the system’s overall quality. Learning achievements are low, particularly in rural areas.

Education policy /
R&D
5

In recent years, the government has focused on technical and vocational training in order to facilitate the expansion of key industries such as mining and the development of new infrastructure. The government is partnering with private companies and international donor agencies to significantly increase investment in technical vocational education and training, and to create the skilled workforce needed for development. Vocational training has received considerable support from Australian donor activities, Oyu Tolgoi corporate initiatives and the German-Mongolian Institute of Technology. In addition, the number of private and government scholarships provided for study abroad has increased, especially for students pursuing engineering-related degrees.

In 2012, the government began to actively enforce certain minimum criteria for private colleges and universities, closing many schools that did not have acceptable curricula.

Governance issues continue to plague the higher-education sector. The remnants of a division of labor between the Academy of Science institutes (research) and the universities (teaching) continues to linger. Institutions’ leaders are appointed on the basis of political calculations rather than academic or managerial qualifications.

In general, spending for education as a percentage of GDP is relatively high (5.5% in 2011), but it is important to note that as a result of the country’s vast territory and harsh winter climate, large sums are spent on heating and transportation. Educational reforms have been ongoing since 2005.

Spending on research and development is insufficient, inhibiting the further development of scientific research. R&D represents just .27% of GDP (as of 2011). Schoolteachers at every level of education are poorly paid, which has created a chronic lack of teaching personnel, especially in rural areas. Corruption within schools is widespread. The private sector, which can pay higher salaries, hires most of the highly qualified teachers, especially university professors.

Transformation Management

I. Level of Difficulty

The Mongolian political leadership's governance capacity faces several structural constraints. The country's vast territory, combined with a small and sparsely located population, makes development difficult in administrative, economic and infrastructural terms. In addition, the country is landlocked, which is a disadvantage for trade. The city of Ulaanbaatar, where more than a third of the population resides, serves as the center of political, economic and social activities. Semi-nomadic and pastoral livelihoods continue to prevail in rural areas where decentralized governmental structures are difficult to establish. Animal husbandry provides the main source of livelihood for at least 25% of the population. This allows many Mongolians the opportunity to be economically self-sufficient and provide for their families in rural environments, where other forms of employment may simply be nonexistent. On the other hand, it also means that at least a quarter of the country's population are vulnerable to climatic variations, including droughts and severe winters.

Structural
constraints

7

Another problem stems from the added costs of providing government services, such as education, health, social and other administrative services, to citizens in remote areas. A shortage of skilled workers in all sectors of the economy and relative low quality of education further hinders development. However, Mongolia does not face some of the more severe hurdles experienced by other countries such as extreme poverty, illiteracy, ethnic or regional conflicts, or serious external threats. In addition, it is noteworthy that Mongolia's mineral wealth holds the promise to form the basis for future development, if the country can avoid the so-called resource curse.

Mongolia has also been able to capitalize on its geopolitical situation to some extent. Increased engagement with the United States, EU member states, India, South Korea and Japan has largely been driven by Mongolia's proximity to China. All of these countries are major sources of foreign aid, which has mitigated some of Mongolia's structural constraints.

Prior to the onset of democratic transformation in the 1990s, Mongolia had few civil-society traditions. Under socialism, citizens' political involvement was formal and guided by the government. Women's organizations, youth organizations and trade unions existed, but were supportive of the ruling party and tasked with propagating the dominant ideology. On the other hand, the communist government did seek to produce an educated populace, acutely aware of the dangers of economic disenfranchisement. Mongolia's successful democratic transition and currently active civil society suggests that an ample foundation for such activities has been laid, although it is difficult to speak of a tradition of civic commitment.

Civil society traditions

7

A small but vocal number of civil-society organizations have emerged since the democratic transformation, representing and protecting citizens' rights and interests by trying to influence government policies. In recent years, mining activities have led to a surge in activity b environmental organizations.

Urbanization trends have shown a large part of the rural population leaving their traditional social-support networks in the countryside to seek better standards of living found in the city. This has increased the number of informal settlements around urban areas, leaving a large part of the urban population with no stable framework for community-building activities.

Increased access to the Internet, wireless data and the use of social-networking sites have enabled people to form informal groups online that actively engage in civic issues pertinent to the society. Beyond this, international-donor agencies have supported the emergence of a vibrant NGO/CSO community, many of which work to monitor economic development, mining practices and human rights abuses. Mongolia's civil society thus perhaps lacks "traditional" roots, but is certainly growing in importance. Furthermore, the government often consults with these CSOs.

There have been few violent incidents in Mongolia deriving from social, ethnic or religious differences. Nevertheless, since 2010 – 2011, a number of environmental groups have begun pressuring the government, advocating for the resignation of incumbents and a fundamental change in government structures. Some armed clashes between pastoral herdsmen and mining advocates have occurred. In addition, public opinion on the June 2012 arrest of former President Enkhbayar has been divided. The government and its supporters see Enkhbayar's arrest and imprisonment as a long-overdue act of justice, whereas his allies assert that his arrest is simply an attempt by the government to purge a political foe. This issue continues to shape Mongolia's political world, as the party affiliated with Enkhbayar continues to command some of the vote and remains active in parliament.

Conflict intensity

3

Strongly nationalist gangs have gained traction in recent years, largely thanks to the perception among many Mongolians that the country is being exploited by foreign

(i.e., Chinese) actors. Violent, racially motivated crime is on the rise. While these groups represent a small minority, the sentiment that Mongolia must be protected from exploitation by foreign countries is widespread. Politicians are increasingly driven to respond to demands for more government oversight and regulation of the economy, which in turn has reduced foreign investment.

II. Management Performance

14 | Steering Capability

Question
Score

The Mongolian government puts forward long-term strategic priorities. However, populist positions, contradictory political-party promises and special interests tend to prevent these priorities from being realized in a timely manner. Policymaking, which often lacks vision, is not based on scholarly research, and neither financing nor implementation mechanisms are taken sufficiently into consideration.

Prioritization
6

Domestic-policy changes are often made to appeal to voters, but without considering long-term goals. Educating voters about issues is accorded a lower priority than securing votes in the short term. Mongolia faces a difficult development challenge as it tries to manage its mining-led growth. Although the government has in the past pursued populist measures (e.g., cash allowances) instead of focusing on realistic poverty-alleviation strategies, there is progress being made in terms of managing mining revenues appropriately. Starting in 2012, the feasibility of electoral action plans must be approved by the General Election Commission before they can be presented to the public. Lawmakers are now barred from making electoral promises about jobs or money as part of the new election law passed in 2011.

Although official estimates claim that the poverty rate has declined, it is generally believed that inequality is growing.

Mongolia has made substantial progress toward meeting its Millennium Development Goals: maternal and infant mortality rates have fallen steadily over the past two decades, literacy is nearly universal, and gross enrollment ratios for primary and secondary education reach well over 90%. However, the most recent U.N. progress report, released in December 2013, indicates that targets remain unmet in a number of areas, including providing services to recent immigrants from the countryside, increasing women's participation rates in political and other decision-making spheres, putting the economy on a sustainable development path, and reforming the trade and financial systems.

The National Development Strategy (NDS) forms the cornerstone for Mongolia's long-term development plans. Based on the MDGs, this strategy seeks to develop an export-oriented, knowledge-based economy, and aims to exploit strategic minerals, reduce urban and rural disparities, rectify ecosystem imbalances, consolidate democracy, and bring an end to corruption. The NDS' objective is to render Mongolia a middle-income country with a knowledge-based economy by 2021. Much of the framework for implementing the NDS effectively is still being drawn up. There have been noticeable gains made in fighting corruption. However, populist agendas often interfere, and goals have been overly ambitious.

The government of Mongolia has established strategic priorities and develops policies that address these priorities. However, the effectiveness of its policy implementation is questionable.

Implementation
6

Implementation efficacy is often undermined by the political actors' parochial interests. No clear implementation roadmap has been produced.

Environmental policy provides a clear example of the government's inability to implement its own policies fully. While endangered plant and animal species and national parks are afforded strong legal protections, enforcement of these protections is weak. Many animals are killed by poachers seeking valuable body parts, with the products sold to China or even made available in Mongolian markets. Protected areas, especially around Ulaanbaatar, are being developed for housing. Pollution from the informal-mining sector's use of dangerous chemicals continues to ruin the country's limited fresh-water resources.

In many other policy areas as well, the government has established strategic long-term plans, but rarely seems to pursue concrete steps that would set it on a path toward achieving its goals.

As Mongolia is a relatively young democracy, many modern policymaking procedures and strategies are new to the parliament and the government. The government also faces significant information deficits, a fact particularly evident when it interacts with foreign investors and international businesses.

Policy learning
6

While the government attempts to derive best practices from success stories in other contexts, and sometimes draws on the advice of international consultants, it has no institutional memory and rarely learns from past experiences. Policy decisions are rarely based on research; indeed, policymakers are more likely to make decisions based on the interests of political parties and the political benefits to be gained. Although research from academic experts, scholars and research institutions is available, policymakers do not actively draw on this data. There have been virtually no efforts to build a nonpartisan policy-analysis capacity.

Overall, a lack of policy continuity results from the power shifts associated with frequent reappointments in nearly every political post, including the State Secretary of the Ministries – the figure ostensibly tasked with ensuring policy continuation.

15 | Resource Efficiency

With the 2012 parliamentary elections, power shifted from the MPP to the DP. Since the elections, there have been numerous politically motivated dismissals and new appointments for key political and public-sector positions, with staff selections based on political affiliations and loyalties. The formation of a grand coalition in late 2014 led to another round of dismissals and appointments within the state bureaucracy.

Efficient use of
assets

5

Since 2012, the government has restructured the cabinet and the administration, adding three ministries but eliminating 15 regulatory agencies. Overall, the total number of central-government bodies has been reduced from 43 to 28. The previous cabinet spent most of the funds raised by a \$580 million bond sale on cash handouts and inefficient welfare programs.

The new Fiscal Stability Law, which went into effect in January 2013, caps the state structural deficit at 2% of GDP. The law also places a ceiling on state debt, ostensibly limiting it to 50% of GDP in 2013 and 40% of GDP thereafter. However, in 2012, the budget deficit amounted to 3.6% of GDP, and in January 2015, the Mongolian parliament passed legislation that raised the 2015 debt cap to 58.3% of GDP.

Overall, policy coordination, which in Mongolia depends entirely on individuals and lacks a systematic framework, is inadequate and in its early stages of development. Whereas the National Development Strategy (NDS) provides a high-level framework for policy coordination and implementation, essential elements of this framework are still under development. In addition, individual ministries rather than local governments make decisions on investments in basic social infrastructure. State organizations are often bureaucratic and inefficient, with adverse effects on effective policy coordination. While political parties have governing bodies that are charged with policy coordination and the development of election platforms, the performance of these tasks is often overwhelmed by ad hoc political reasoning and power struggles.

Policy
coordination

5

The government of Mongolia intensified its fight against corruption in 2012. The anti-corruption legal framework draws primarily on the 1990 Law on Political Parties, the 1996 Law on Anti-Corruption (amended in 2006), the 2000 Public Procurement Law and the 2002 National Program for Combating Corruption. The Independent Authority Against Corruption (IAAC), which was established in 2007, has the ultimate power to investigate anyone whom the authority considers to be involved in corruption.

Anti-corruption
policy
4

The legal framework for battling corruption improved dramatically in January 2012 when the parliament passed the Law on Regulating Public and Private Interests in Public Services and Preventing Conflicts of Interest. Officeholders and parliament members are required to declare their assets to the IAAC each year, although the absolute accuracy of these declarations has been called into question. There have been concerns that the IAAC has acted in a biased manner by selectively targeting individuals; however, the concern itself appears to be politically motivated. The active anti-corruption approach represents a good start, and has become an important issue on a national scale.

President Elbegdorj Tsakhia has openly endorsed the fight against corruption, making the issue one of his main priorities. However, few concrete actions have resulted from this commitment. In January 2013, seven high-level individuals were detained in connection with alleged corruption, money laundering and mismanagement of MIAT Mongolian Airlines, the national carrier. Other similar cases have been brought against a significant number of very large conglomerates. There is clearly an element of ongoing account-settling among the oligarchs and politicians; however, the public discussion of corruption is nevertheless a positive step.

The fifth Study of Private Perceptions of Corruption survey, released in October 2014, found a decrease (-5.4%) in the share of business owners reporting “a lot” of corruption, and a similar increase in the share of respondents reporting that they had never encountered any form of corruption. The same survey reported that 64.5% of respondents identified “government services” as being the category most vulnerable to corruption.

16 | Consensus-Building

There is a general societal consensus regarding the paired objectives of democracy and economic transformation, but there have been attempts by the state in recent years to take on a larger role in the operation and regulation of the mining sector. Major political actors agree in identifying the consolidation of democracy as a major goal, but resource nationalism is intensifying as many advocate for greater government involvement in sectors deemed strategic. Despite frequent discussions of

Consensus on goals
9

electoral reform, the central institutions of parliamentary democracy are not under discussion or threat.

There is little question that Mongolia is committed to a market economy; however, Mongolian policymakers continue to struggle to balance market forces while providing social safety nets and advancing responsible/sustainable development. For instance, a Draft Minerals Law proposed by the president is under review. An earlier draft version of the law would have allowed the government to appropriate mining operations. The Oyu Tolgoi Investment Agreement signed in 2009 has come under heavy scrutiny, with the government seeking to renegotiate the deal and increase its stake from 34% to 51%. This has called into question the government's commitment to contracts. A populist tone, with the Justice Coalition's resource nationalism just one example, has been a constant among the major political parties and is fueling a divisive atmosphere. However, long-term development goals also receive considerable thought, particularly within the increasingly active civil-society sector.

Reformers can successfully exclude or coopt all actors with anti-democratic interests. There are no anti-democratic actors with substantial influence or veto powers. While there are a small number of people advocating the establishment of a non-democratic regime, these people are not taken seriously by the public or the government. Such groups are primarily limited to hypernationalist parties or gangs. They have no influence, and are largely peripheral. The Mongolian Armed Forces do not have a history of seeking political control, and there are no indications that the military seeks any policymaking role.

Anti-democratic
actors
9

The political leadership generally prevents cleavage-based conflicts from escalating. However, socioeconomic gaps have been growing, leading to an unstable political environment fueled by populism. The urban-rural divide, along with the generally lower socioeconomic status of new migrants to urban areas, mark significant socioeconomic cleavages.

Cleavage /
conflict
management
7

The 2014 vote of no confidence in the prime minister's leadership is clear indication of increasing cleavages, especially regarding the ongoing debates over the Oyu Tolgoi Investment Agreement and foreign investment more generally.

The political leadership permits civil-society participation within the policymaking process. It takes account of and accommodates the interests of most civil-society actors, though formal hearings and other mechanisms for soliciting comment are underdeveloped. The president emphasized the importance of civil participation when he created the Citizen's Hall in 2009, with the goal of holding open, public discussions of policy issues. This has been reinforced by the creation of the Local Development Fund, which charges local Citizens' Halls with prioritizing some budget items in a nonbinding fashion.

Civil society
participation
6

The mining boom has elevated the importance of environmentally focused NGOs, as they have done substantial work to balance the interests of mining companies and local communities. Associations such as the Confederation of Mongolian Trade Unions and the Mongolian National Chamber of Commerce have successfully been able to influence the government's policies. The leaders of both of these organizations were elected to parliament in the 2012 elections. However, the vast majority of civil-society actors still lack the necessary clout to participate in agenda-setting and policy-formulation activities. While there is no outright opposition to NGOs as a sector, they are seen more as service providers than as actors that shape policy discussions.

Civil society is further weakened by corruption and weak NGO management, as well as a lack of coordination between the various actors in similar policy arenas. Funding provided by domestic or international donors is often difficult to account for once it has been received by an NGO. Staff members are often underpaid and expected to work full time despite their volunteer status, while managers are seen to be paid well, but are ineffective at implementing their own programs.

As the vast majority of Mongolians cannot recall experiences of repression, reconciliation is not a major concern in the context of political discussions or decisions. Although political repression and purges did take place under the former communist regime, Mongolians have not undergone any massive, systematic injustice since the Stalinist purges. From 1922 to 1940, political leaders and other individuals considered potentially subversive, such as aristocrats, national entrepreneurs and Buddhist monks, were purged. This activity resulted in capital punishment for more than 20,000 people and the imprisonment of tens of thousands. After World War II, many intellectuals with nationalist views were subject to repression. Over time, political repression in Mongolia evolved from outright state terror to forms of administrative restriction, defamation of personal dignity and discrimination on the basis of opinion.

After the transition to democracy in 1990, a National Rehabilitation Commission was formed to examine each individual case of repression. The commission established around 36,000 case files. In January 1998, parliament passed a Law on the Rehabilitation of Victims of Political Repression and on Granting Compensation. As of the time of writing, around 17,400 victims had been recognized and MNT 16 billion had been paid in compensation. In 1996, the Democratic Party officially asked for a pardon of its members on behalf of the government and party leaders of Mongolia. The MPP did the same in March 2011, on the occasion of the unveiling of the restored monument for Damdin Sukhbaatar, military leader of the Mongolian Revolution in 1921.

Reconciliation
n/a

17 | International Cooperation

When Mongolia's decades of dependence on Soviet aid ended following the collapse of the Soviet Union, Mongolia sought to fill this gap with funds provided by international donors. Once one of the most aid-dependent countries in the world, Mongolia has been able to reduce its external reliance thanks to the country's rapid economic growth.

Effective use of
support
8

However, pervasive corruption and embezzlement have undermined the effectiveness of loan funding. The lingering memory of the economic devastation of the 1990s is also often associated with the "shock therapy" advocated by some international advisors. This memory, coupled with growing suspicion of the objectives of international advice following the influx of large-scale foreign investment, has led to some distrust of foreign assistance.

Mongolia has proven innovative in its foreign-policy measures, with the clear goal of establishing closer relationships with countries other than China or Russia through its "Third Neighbor" policy. Mongolia has been particularly effective in cooperating with other democracies, such as the United States and EU member states.

In 2008, the Mongolian parliament approved its National Development Strategy (NDS), a comprehensive strategy in line with the Millennium Development Goals. The NDS has helped the government streamline some aid and avoid the pitfalls of misusing resources.

The country has cooperated with U.N. peacekeeping missions in Africa, the Middle East and Afghanistan. Its troops are trained around the world, including in India's Counterinsurgency and Jungle Warfare School in Mizoram. This signifies a very long-term outlook. Mongolia is seeking to increase its international image as a market-based democracy, encouraging other countries, many of which also have security interests in Mongolia, to provide international aid and investment.

While state-to-state relations are strong, Mongolia's recent policy instability regarding international investment and resource extraction has hurt the country's ability to cooperate with international industrial concerns, a key non-state international actor. Furthermore, this trend may result in the cooling of relations with some countries, especially Canada and Australia, since these countries' firms stand to lose out in Mongolia's increasingly hostile investment climate.

Since opening itself to the world following the democratic revolution, the government has been tasked with establishing credibility through its commitment to democratization and by creating favorable conditions for foreign investors. Given the importance of foreign investment to the country's future prosperity, any claim that Mongolia is hostile toward foreign investors must be deemed as detrimental to the country's economic growth.

Credibility
7

Nonetheless, the controversy surrounding the Oyu Tolgoi project is having a negative and growing impact on Mongolia's credibility among foreign investors. Believing the terms of the investment agreement unfair, a number of populist-oriented Mongolian politicians continue to call for a revision of the agreement. This has generated a negative perception among foreign investors that Mongolia is an unstable country subject to strengthening currents of resource nationalism. Moreover, haphazard decision-making that has not appeared to consider the consequences of decisions fully has further damaged the country's reputation, leading to the withdrawal of foreign investment.

In contrast to its economic policy, Mongolia's democratic credentials are well established in the international community.

Because Mongolia is located between two great powers – Russia and China – it has to prioritize the maintenance of friendly and balanced relations with both. Thus, any international move on the part of Mongolia must carefully consider Russian and Chinese interests. Economically, Mongolia is very much dependent on both: 98.2% of all its petroleum products are imported entirely from Russia, while 89% of its trade overall is conducted with China.

Regional
cooperation
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However, Mongolia also strives to pursue an active foreign policy beyond its two physical neighbors. Conceptualized in its Third Neighbor Policy, Mongolia's efforts to balance the influence of its two neighbors have led it to assume an active role in international and regional organizations. Aside from its close cooperation with the Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN). China has long hoped to involve Mongolia more deeply in the Shanghai Cooperation Organization, though this alternative has not been actively pursued by the Mongolian government. Russia has also offered a customs union of sorts, though it is unclear whether this is of any interest to Mongolia. As Russia's President Putin has been shunned by Europe following the conflict in the Ukraine, he has turned toward China as a potential customer. This leaves Mongolia somewhat "squeezed" by agreements among its two neighbors.

Mongolia is notable for having maintained ties with other communist states despite its own successful transition. For example, it enjoys open relations with North Korea and ties to Laos.

While the country's cooperation within the Asia-Pacific region has been noteworthy, the same cannot be said of its cooperation with the Central Asian Republics. As an exception, Kyrgyzstan has requested Mongolia's assistance with its own democratization, and similar relations are under development with Myanmar.

Strategic Outlook

It has become a cliché to state that Mongolia is at a crossroads. The reality is that Mongolia is a vibrant and firmly established democracy. This political transformation, while ongoing, is recognized domestically as a fact of political life. When we turn to the country's economic transformation, however, the picture becomes more complicated. While the country has certainly made impressive gains in terms of GDP and market reforms, the government is stuck between demands for development on the one hand and suspicions that multinational resource-extraction conglomerates will steal all project profits, leaving little for the Mongolian people. This contradiction must be dealt with in order to ensure Mongolia's continued political stability and development. All the pieces are there; however, the puzzle must still be assembled. The following policy measures would likely prove helpful:

1. The Mongolian government needs to focus on voter education rather than appealing to “common knowledge” and the political rumor mill. Some Mongolian parties, such as the Mongolian People's Revolutionary Party, have profited from rumor and speculation; it is up to the two major parties (the Democratic Party and the Mongolian People's Party) to ensure that voters not only have access to reliable economic information, but also that they are given the tools to distinguish between propaganda and reality. This will be of particular importance in the run-up to the 2016 parliamentary election.
2. Mining agreements must be conducted with the strictest guarantees that the agreements will remain viable and not be subject to redrafting. The government's tendency over the past three to four years to backtrack on its agreements with international firms is beginning to affect FDI in a very negative way.
3. Environmental NGOs have broad popular support. As such, it would be appropriate for the government to implement its own environmental laws in a way that would pacify increasingly vocal demands for those protections. These laws must be implemented across the spectrum of domestic and international actors. It is too easy in this information age for people to recognize uneven implementation and enforcement, generating distrust and suspicion about for whom the government works.
4. Higher-education institutions must be capable of providing high-quality technical skills in order to ensure students' future employability. One way to effectively increase education standards and contribute to rural economic development is to encourage higher-education institutions to increase their presence, and by extension their standards and reputations, in provincial centers outside of Ulaanbaatar. This would increase educational-achievement opportunities for almost two-thirds of the population, lessen the influx of internal immigration into the capital, and support the development of service industries throughout the country. The building of policy-analysis capacity is an urgent task for higher education as well as for the government and political parties.