



Asia Pacific Bulletin

Number 184 | November 1, 2012

Mongolia's Turn at the "Great Game"

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Alicia Campi, recent Asian Studies Visiting Fellow at the East-West Center in Washington and President of the US-Mongolia Advisory Group, explains that "Mongolia's extensive experience in manipulating the ambitions of powerful states along its borders greatly influences the way it views its place in the globalized world and hones its skill in international gamesmanship."

Mongolia—which for nearly two years now has experienced a phenomenal 17 percent GDP growth primarily as a result of its vast mineral resources—is playing its own “Great Game” to rewrite the rules for energy and commodity markets in Northeast Asia. Its strategy of calculated utilization of mineral investment and environmental laws has enabled it to develop a brand of resource nationalism that maximizes its national security and economic development goals. Moscow and Beijing, both large energy resource producers and consumers, have their own entrenched world views regarding their right to exercise economic and political power in the region, and the United States, while not a major consumer of Asian minerals, holds cards in this game because of its own interests in maintaining regional harmony and promoting free trade principles. All three major powers, along with Japan and South Korea, have been surprised and confused by Mongolia's recent artful counterbalance moves to restructure its resource development policies potentially overturning the current regional mineral and energy supply paradigm.

Mongolian strategists see Northeast Asia as home to four of the world's major powers—the United States, Russia, China, and Japan. They further calculate that: 1) The United States and Russia may not be true friends, but post-9/11 they have at times worked more closely together “like *de facto* allies,” 2) Russia under President Vladimir Putin has markedly improved its relationship with China although historical mistrust remains that tempers establishing deeper ties, 3) The Sino-US relationship under the Obama administration's pivot to Asia has raised tensions between these two military powers, and 4) The US-Japan alliance is viewed as the cornerstone of US foreign policy in Asia.

Mongolian policymakers stress that geography is the major decisive factor in shaping their country's destiny. For centuries Mongolia was a weak pawn whose fate was consistently determined by the nature of the Sino-Russia relationship. Mongolia's decision at the beginning of the 20th century to align with Bolshevik Russia preserved its national sovereignty, but when the Soviet Union disintegrated in the 1990s, Mongolia had to define and pursue its own national priorities. Thus, it abandoned reliance on just one state and one ideology in favor of embracing a multi-pillared foreign policy. In addition, it sought a balanced, though not necessarily equidistant, relationship with its two neighbors, and declared itself a Nuclear Weapon-Free Zone. Finally, it made integrating into the Asia-Pacific region a priority and declared Mongolian civilization and national identity as undeniably Northeast Asian.

Mongolia understands that Northeast Asia's economic growth requires secure energy resources and sees its own mineral deposits, which include coal, copper, gold, oil, natural gas, and uranium, as motivation for regional actors to implement an “infrastructure linkage strategy” for Mongolia to build up its poor rail and pipeline infrastructure. Mongolia is also fully aware that Northeast Asia cannot proceed towards full economic cooperation without first addressing the remaining Cold War (Korean Peninsula) and



historical (Sino-Mongolia, Sino-Japan, and Korea-Japan) security challenges which could potentially destabilize the region. As a result, the Mongols are relying upon on their own growing military relationship with the United States and NATO for protection.

Mongolia has watched Russia under Putin, aided by the steep rise in hydrocarbon prices in the last decade, leverage its abundant energy resources and energy wealth to restore the Russian economy, consolidate power domestically, and then project it overseas. By emphasizing that energy security is the most important element in national security, Russia developed “strategic” energy state businesses that forced out the private sector, and foreign-invested deposits were confiscated for “booking” (buying up) reserves, but not developing them.

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Meanwhile, for the past two decades, China has been pursuing its own “Outgoing Strategy” in Mongolia by expanding Chinese production and control over resource minerals by investing in difficult markets which other countries often avoid for political and human rights reasons. Chinese state-owned enterprises (SOEs) acquire resource deposits in legitimate private stock deals and then muscle out Western multinational companies via non-transparent tenders or tie access to mineral resources to generous foreign aid packages. This model was used to successfully corner Mongolia’s small oil production in the late 1990s, but failed in 2012 to secure control of coal resources in the Ovoot Tolgoi mine which was owned by the Canadian company, Turquoise Hill (formerly known as Ivanhoe).

In reaction to the \$2.5 billion of investment by some 5,000 Chinese firms, Mongolia, in emulation of Russian policies, amended its liberal Mining Law in 2006 to create a thirteen-site government-owned “strategic deposit” list based on deposit size and that limits control by foreign investors to less than 50 percent. This list is in the process of being revised to include many more sites. In the last three years around 4,000 private mining licenses have been cancelled or revoked for environmental violations and, according to the Mongolian Mineral Authority, there are plans to cancel another 1,400 for non-development within the next two years. The Mongolian parliament last May rushed through mining law amendments governing foreign investor participation, specifically targeted at limiting Chinese and even Russian SOEs. Furthermore, the cabinet in June decided that no new private mining licenses will be distributed for the next five years. The just-opened fall parliamentary session will reconsider the long-established favorable terms of the Oyu Tolgoi copper-gold license held by western investors Rio Tinto and Turquoise Hill. It seems the once favorable Mongolian mineral investment environment has been turned upside down.

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

Mongolia’s extensive experience in manipulating the ambitions of powerful states along its borders greatly influences the way it views its place in the globalized world and hones its skill in international gamesmanship. Mongolia believes that small states can play a positive role in strengthening their own form of economic development and security which, in turn, promotes regional peace and stability. It has used the United States and Europe for assistance in free market and democratic institution-building and Western and Chinese investors to obtain investment capital during the past twenty years of democracy.

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Mongolia to date has been very successful in changing the rules of the mineral development game now taking place in Northeast Asia, because mineral investment monies are continuing to flow its way. However, Mongolia must be very careful that its eco-security strategies do not result in the so-called “Dutch disease” of increasing dependency upon resource export revenues and declining growth becoming intertwined with the “state curse” of corruption which is constantly undermining the quality of institutions involved in managing and redistributing mineral wealth. Such a scenario would mean that temporary political expediency might triumph over long-term economic and national security common sense.