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## Mongolia's Cloudy Future: Part II

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*(This is the second of a two-part series on the recent elections in Mongolia. The first installment "Mongolia's Cloudy Future," is available at <http://www.eastwestcenter.org/pubs/2864>)*

**Alphonse F. La Porta**, former U.S. Ambassador to Mongolia, explains that new Mongolian Prime Minister Bayar, "had to overcome significant opposition within his own party, the former communist MPRP, to create a coalition and split the governing portfolios. Bayar correctly realized that the polarization of the June election, with elections coming up in the fall, called for efforts to transcend party parochialism."

The post-election strife of July 1, 2008 shocked the Mongolian nation and sobered its leading politicians. The new government found itself in perilous waters, plagued with allegations of election tampering, country-wide economic woes, and internal political division. Today, four months after this shaky start, re-elected Prime Minister S. Bayar of the Mongolian People's Revolutionary Party (MPRP) has begun prosecuting those responsible for the July 1 mob action which destroyed the headquarters of the MPRP and the national gallery of modern art, has launched a bi-partisan government incorporating younger members of the Democratic Party (DP) opposition, and is fashioning an action program that attempts to have broad appeal.

### LAW AND ORDER

The July 1 riots involved tens of thousands of Mongolians encouraged by haranguing speeches from various opposition party leaders. Following accusations that the government did not move quickly enough against the demonstrators and those who incited them, President N. Enkhbayar and Bayar reportedly overcame their differences and pledged a thorough and impartial investigation. Police members are being investigated for using excessive force and thus far two leaders of the minuscule Civil Movement Party have been indicted on charges of incitement, while the mercurial leader of the Republican Party, B. Jargalsaikhan, remains under suspicion. Bayar and police officials seem to be moving deliberately to reassure the public and forestall accusations of partisanship in assessing legal accountability.

### BI-PARTISAN GOVERNMENT

A month went by after the election results were officially announced before Bayar moved to form his government, bringing in "acceptable" DP politicians. Bayar had to overcome significant opposition within his own party, the former communist MPRP, to create a coalition and split the governing portfolios. Bayar correctly realized that the polarization of the June 29 election, with local elections coming up in the fall, called for efforts to transcend party parochialism. Former Democratic minister Ts. Elbegdorj who, following the June election, was ousted as party head, and other senior DP leaders were anathema to MPRP insiders. The brokering resulted in the incorporation of younger, quasi-technocratic Democrats who were given a deputy prime ministership and five other cabinet posts. In an effort to incorporate factions of his own party, Bayar also appointed four ministers outside parliament. Democrat N. Altanhuyag, who rates highly for economic competence, was appointed first deputy prime minister, while other Democrats received the finance, defense, environment and tourism, roads, transportation, construction and urban development, and health portfolios.

The MPRP side is a mixed bag. Bayar was compelled to balance his ministerial roster with major party funders and those who represented entrenched party interests. The second deputy prime minister, M. Enkhbold, was an unpopular former prime minister and had an unsavory reputation as mayor of Ulaanbaatar. One surprise was the inclusion of MPRP arch-conservative T. Nyamdorj, who returns as minister of justice and internal affairs. Nyamdorj had been speaker of parliament but was ousted because he altered the texts of legislation after final passage.

#### GOVERNMENT AND PARLIAMENT

Mining policy is the top priority on the government's near term agenda. Although domestic and foreign mining interests believe that the present minerals law is fair, economic nationalism - indeed jingoism - helped to polarize the electorate over statist vs. private sector approaches. The tension is between more or less state involvement, with the Democrats favoring private sector control and a royalty and taxation system, while classical MPRP socialists favor majority government ownership and operation. A working group of parliament is charged with developing a legislative solution by November 15.

The advent of the global financial crisis, however, may mean that, because of the extended debate over mining policy, Mongolia has missed the rising commodity price and investment curve. Thus, many international mining companies will be reluctant to invest in Mongolia during a period of falling prices and contracting credit. Mongolia may have to adjust its expectations of massive natural resource revenues and opt for a more attractive investment regime. In this mix, the Bayar government has pledged to issue the "treasure" share - a national *per capita* dividend from natural resource income - in 2009 when mining revenues are expected to be sufficient.

Beyond mining, the government is faced with more than 15% annual inflation, rising prices for food and other essentials, the need to diversify sources of imported petroleum, and modernization of the power sector. Experts believe that Mongolia will be relatively insulated from the Wall Street crisis, but the cabinet already has authorized a capital injection into the nation's commercial banks despite the central bank's insistence that such action presently is not necessary.

#### GOVERNANCE AND CORRUPTION

For the longer term, corruption and improving government performance will be major challenges. The Mongolian Anti-Corruption Agency (ACA), which began operation in 2007, so far has a positive record, having pursued 601 cases and 57 prosecutions.

The ACA budget will be increased in 2009 but, to complement the agency's investigations, a thoroughgoing overhaul of the civil service system is needed. Government salaries have undergone major increases in recent years, so the main problems are selection, training, performance incentives, and merit promotion.

More broadly, Mongolia is slipping in some international indices. Mongolia ranks 100<sup>th</sup> in the Global Competitiveness Index of the World Economic Forum, a rating that is not competitive enough to stimulate major investment and inspire confidence. The Heritage Foundation- *Wall Street Journal* designation of the world's freest economies ranks Mongolia 62 out of 162 countries, noting that problems remain in judicial protection, property rights, corruption, and bureaucratic obstructions. The World Bank's composite of twenty indices for 2007 saw slippage in political stability (even before the July 1 violence), government effectiveness, regulatory quality, rule of law, and control of corruption. The Bayar government not only has to recoup from the election aftermath, but also must accelerate efforts for government reform.

#### PRIME MINISTER VS. PRESIDENT?

Assuming that Bayar can keep his coalition government on an even keel and resolve the controversy over mining legislation, he is still confronted with challenges peculiar to the MPRP which are likely to be exacerbated in next year's presidential election. It is no secret that President Enkhbayar and the prime minister were contenders for power in the MPRP before Bayar's ascendancy to prime minister last year. Observers believe that the contention between the president and the prime minister will intensify as the time comes for parties to nominate their next presidential candidates as Enkhbayar can run again and Bayar may covet the presidency.

#### OUTLOOK

Prime Minister Bayar thus far is performing creditably. He has a reputation for testiness, however, and some of his MPRP cohorts cannot be counted on to perform reliably or honestly in the country's interest. For the time being, the opposition Democrats are pretty much confined to playing the parliamentary game, but those in the cabinet have an opportunity to provide good leadership in their respective portfolios. It is hoped that the Bayar government can provide technocratic and pragmatic approaches to address national problems along with political accommodation for bi-partisan governing.

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