

MONGOLIA



Mongolia's transition to a market-oriented economy continues, many pressing development challenges remain. Better economic and trade policies, improved transparency and rule of law, reform of the financial and energy sectors, and stronger efforts to fight corruption are all needed to enhance Mongolia's ability to alleviate poverty and attract long-term foreign investment. The ongoing global economic crisis has also pushed the government to adopt stringent new fiscal policies in an effort to attract foreign investment. U.S. assistance will be necessary to support Mongolia's broad and structural economic reforms. On the political/military side, Mongolia has proven to be both a good partner and reliable U.N. peacekeeper, with troops either recently or currently deployed to Iraq, Afghanistan, Kosovo, Sierra Leone and other nations. U.S. assistance will help build on this now-proven capability, help Mongolia protect its own borders, and promote cooperation with bordering nations to combat transnational crime and terrorism.

FOREIGN RELATIONS

In the wake of the international socialist economic system's collapse and the disintegration of the former Soviet Union, Mongolians began to pursue an independent and nonaligned foreign policy. Mongolia is landlocked between Russia and China and seeks cordial relations with both nations. At the same time, Mongolia has sought to advance its regional and global relations. Ties with Japan and South Korea are particularly strong. Japan is the largest bilateral aid donor to Mongolia, a position it has held since 1991. Mongolia has also made efforts to steadily boost ties with European countries. China is now the largest foreign investor in Mongolia.

As part of its aim to establish a more balanced nonaligned foreign policy, Mongolia has sought to take a more active role in the United Nations and other international organizations, and has pursued a more active role in Asian and northeast Asian affairs. Mongolia became a full participant in the ASEAN Regional Forum (ARF) in July 1998 and a full member of the Pacific Economic Cooperation Council in April 2000. Mongolia is currently seeking to join the Asia-Pacific Economic Cooperation forum (APEC). Mongolia is an observer in the Shanghai Cooperation Organization, but has stated it does not intend to seek membership. Mongolia, which has diplomatic relations with both North and South Korea, has also sought to play a role in the Six-Party talks. In late 2007, Mongolia hosted a closed meeting between two Six-Party members, North Korea and Japan. Mongolia has also offered to help organize and to host a northeast Asian regional security mechanism. Mongolia is a founding member of the Asia-Pacific Democracy Partnership (APDP) and hosted the group's planning meeting in Ulaanbaatar on July 1, 2008. Mongolia sent four technical experts to the ASEAN Regional Forum's May 2009 disaster relief exercise in the Philippines.

Mongolian relations with China began to improve in the mid-1980s when consular agreements were reached and cross-border trade contacts expanded. In May 1990, a Mongolian head of state visited China for the first time in 28 years. The cornerstone of the Mongolian-Chinese relationship is a 1994 Treaty of Friendship and Cooperation, which codifies mutual respect for the independence and territorial integrity of both sides. China has objected strongly to visits since 1990 of the Dalai Lama; during the 2002 visit, China briefly disrupted railroad links for "technical" reasons. There are regular high-level visits and expanding trade ties. President Hu Jintao visited Mongolia in 2003 (his first international visit as China's President). President Bagabandi visited China in 2004, President Enkhbayar visited in 2008, and Prime Minister Bayar met Premier Wen Jiabao in Beijing in April 2009.

After the disintegration of the former Soviet Union, Mongolia developed relations with the new independent states. Links with Russia and other republics were essential to contribute to stabilization of the Mongolian economy. In 1991, Mongolia and Russia concluded both a Joint Declaration of Cooperation and a bilateral trade agreement. This was followed by a 1993 Treaty of Friendship and Cooperation establishing a new basis of equality in the relationship. Mongolian President Bagabandi visited Moscow in 1999, and Russian President Vladimir Putin visited Mongolia in 2000 in order to sign the 25-point Ulaanbaatar Declaration, reaffirming Mongol-Russian friendship and cooperation on numerous economic and political issues. In December 2003, Mongolia finally settled the Soviet-era debt it owed to Russia with a negotiated payment of \$250 million. In July 2006, Prime Minister Fradkov visited Mongolia with a large business delegation. The Mongolian and Russian Governments continue to jointly own the railroad and the large Erdenet copper mine. Prime Minister Bayar visited Moscow in April 2008, and the following month President Enkhbayar met President Medvedev in Moscow. Prime Minister Putin visited Ulaanbaatar two weeks prior to the Mongolian presidential election in May 2009, and President Medvedev visited Mongolia in August 2009 to commemorate the 70th anniversary of the Battle of Khalkhin Gol, a combined Soviet-Mongolian victory over Imperial Japan in one of the opening salvos of World War II. After nearly two decades of inactivity, Russia is renewing military ties with the Mongolian armed forces through military education and training exchange programs, as well as joint exercises focused on the repair of Mongolia's Soviet-built equipment.

U.S.-MONGOLIAN RELATIONS

The U.S. Government recognized Mongolia in January 1987 and established its first embassy in Ulaanbaatar in June 1988. It formally opened in September 1988. The first U.S. ambassador to Mongolia, Richard L. Williams, was not a resident there. Joseph E. Lake, the first resident ambassador, arrived in July 1990. Secretary of State James A. Baker, III visited Mongolia in August 1990, and again in July 1991. Mongolia accredited its first ambassador to the United States in March 1989. Secretary of State Madeline Albright visited Mongolia in May 1998, and Prime Minister Enkhbayar visited Washington in November 2001. Deputy Secretary of State Richard L. Armitage visited Mongolia in January 2004, and President Bagabandi came to Washington for a meeting with President George W. Bush in July 2004. President Bush, Mrs. Bush, and Secretary of State Condoleezza Rice visited Mongolia in November 2005. Defense Secretary Rumsfeld visited in October 2005 and Speaker of the House of Representatives Dennis Hastert visited Mongolia in August 2005. Agriculture Secretary Johanns led a presidential delegation in July 2006 in conjunction with Mongolia's celebration of its 800th anniversary. President Enkhbayar visited the White House in October 2007 and the two Presidents signed the Millennium Challenge Compact for Mongolia (see below). House Minority Leader John Boehner visited Mongolia in August 2009.

The United States has sought to assist Mongolia's movement toward democracy and market-oriented reform and to expand relations with Mongolia primarily in the cultural and economic fields. In 1989 and 1990, a cultural accord, Peace Corps accord, consular convention, and Overseas Private Investment Corporation (OPIC) agreement were signed. A trade agreement was signed in January 1991 and a bilateral investment treaty in 1994. Mongolia was granted permanent normal trade relations (NTR) status and generalized system of preferences (GSP) eligibility in June 1999. In July 2004, the U.S. signed a Trade and Investment Framework Agreement with Mongolia to promote economic reform and more foreign investment. In July 2007, six members of the U.S. House of Representatives visited Mongolia to inaugurate an exchange program between lawmakers of the two countries. The return visit came in August 2007, with five members of the Mongolian parliament traveling to the U.S. Similar exchanges of lawmakers and staff members have occurred through June 2009.

The U.S. Agency for International Development (**USAID**) plays a lead role in providing bilateral development assistance to Mongolia. The program emphasizes two major themes: sustainable, private

sector-led economic growth and more effective and accountable governance. Total USAID assistance to Mongolia from 1991 through 2009 was about \$190 million, all in grant form. In the area of economic growth, USAID Mongolia's FY 2009 budget of \$7.5 million will focus on economic and trade policy, energy sector reform, and national consensus-building, with a special emphasis on stabilizing the banking sector and building national consensus on the future of the mining sector. In the area of governance, USAID funding in 2009 will support anti-corruption work and help improve the ability of the judiciary to adjudicate commercial cases.

In most years since 1993, the United States Department of Agriculture has provided food aid to Mongolia under the Food for Progress and 416(b) programs. The monetized proceeds of the food aid (\$5 million in 2008) are used to support programs bolstering entrepreneurship, herder livelihood diversification, and better veterinary services.

The United States has also supported defense reform and an increased capacity by Mongolia's armed forces to participate in international peacekeeping operations. Mongolia has contributed small numbers of troops to coalition operations in Iraq and Afghanistan since 2003, gaining experience that enabled it to deploy armed peacekeepers to both UN and NATO peacekeeping missions. Mongolia has committed to sending additional rotations of troops (up to 300) to Afghanistan on site security and artillery training missions in late 2009 and has also committed to supplying an 800-man peacekeeping battalion to Chad in late 2009 or early 2010. With U.S. Department of Defense assistance and cooperation, Mongolia and the U.S. jointly have hosted "Khan Quest," the Asian region's premier annual peacekeeping exercise, since 2006. The number of participants has grown each year, with the Republic of Korea joining for the first time in 2009.

The **Peace Corps** has approximately 120 volunteers in Mongolia. They are engaged primarily in English teaching and teacher training activities. At the request of the Government of Mongolia, the Peace Corps has developed programs in the areas of public health, small business development, and youth development. In 2005 and 2006 Mongolian Government officials, including then-President Enkhbayar and then-Prime Minister Elbegdorj, requested significant increases in the number of volunteers ("PCVs") serving in country. On August 19, 2009, the largest group of PCVs to serve in Mongolia, numbering 66, took the oath of service. This is the 20th PCV group to serve in Mongolia.

Mongolia was one of the first countries eligible for the new Millennium Challenge Account initiative that began in 2004, administered by the Millennium Challenge Corporation (**MCC**). MCC's program focuses on providing grant support to countries that perform above the median in their income peer group on key indicators in three broad policy categories: ruling justly, investing in people, and encouraging economic freedom. MCC-eligible countries propose projects that will significantly reduce poverty in their countries through stimulating economic growth. On October 22, 2007, at a White House signing ceremony, President Bush and President Enkhbayar signed a Millennium Challenge Compact for Mongolia that calls for \$285 million to be spent on four projects over a 5-year period beginning in September 2008. The Compact will support efforts to broaden and deepen economic development in Mongolia. The original focus of the Compact was on four key areas: rail modernization, property rights, vocational education, and health. In April 2009, the Government of Mongolia requested the termination of the rail modernization project, citing circumstances beyond its control due to the lack of cooperation of the 50% Russian owners of the Mongolian railway. The government proposed areas for reallocation of the rail project funds, and MCC will make a final determination on all of the proposals before the end of 2009. Implementing MCC projects in Mongolia will enable key institutions and infrastructure to better support the country's burgeoning urbanized, market-based economy and help Mongolians to increase their incomes by becoming healthier and better trained, by using their land assets more productively, and by increasing their capacity to trade with the world.

Peace and Security: U.S. security assistance through the Department of State will continue to focus on defense, military, and law enforcement restructuring, reform, and operations. U.S. efforts will assist Mongolia in completing the transition of much of its military force structure, including the completion of building a 2,500-troop brigade of international peacekeepers. U.S. efforts will focus on fully equipping the first of the two existing peace support battalions and support for initial integration of a deployable field medical hospital and a military police company. A specific focus will also be placed on support for top level defense modernization efforts including peacekeeping doctrine development, and reform of the General Staff to a model more effectively integrated with international security efforts. Finalization of development of Mongolia's regional peacekeeping training center will further Mongolia's ability to host bilateral and multilateral exercises that contribute to regional partnerships, confidence-building, and security. U.S. assistance will support legal, regulatory, and enforcement training, and enhance Mongolia's ability to effectively control the movement of sensitive items and materials through the country. U.S. assistance will support interagency law enforcement and justice sector surveys, consultations, and training efforts.

Governing Justly and Democratically: Mongolia's continued democratic and economic success hinges on its ability to improve governance in key areas. These include the establishment of greater government accountability, more transparency, stronger anti-corruption measures, and a judiciary that is better able to uphold commercial law. The U.S. Agency for International Development (USAID) will strengthen the ability of the Government of Mongolia's new Independent Authority Against Corruption to identify and pursue corruption cases. It will also improve the ability of the judiciary to successfully adjudicate anticorruption cases, and help civil society organizations effectively engage the public in the fight against corruption. FY 2010 funds will be used to strengthen the judiciary's capacity to adjudicate commercial cases, including those related to the mining sector which is critically important to Mongolia's economic development.

Focus on Performance: FY 2010 funding increase will equip the second peace support battalion in the Mongolian Armed Forces Peace Support Operations Brigade. Completion of equipment for the first battalion is anticipated in FY 2009. The brigade, when fully completed, will consist of three battalions of peacekeeper infantry troops, a brigade headquarters element, a military police company, a military engineering company, a logistics and transportation company, and a battalion sized medical element, centered around an Expeditionary Medical Support (EMEDS) level II field hospital. U.S. assistance will aid in improving logistics capability to deploy that hospital. Two line battalions currently exist. One is partially equipped, while one is not equipped yet. The EMEDS is in place, but the personnel and logistics to support it are not present. A military police company is partially manned, but has no equipment. The engineer and logistics companies, as well as the brigade Headquarters, do not yet exist. The arrival and integration of the vehicle set for the partially equipped battalion later this year will bring it to full capacity. FY 2010 funds are required to equip the second battalion with radios, vehicles and individual personal equipment. FY 2010 funding will bring overall capacity to approximately 35 percent.

Economic Growth: U.S. assistance in FY 2010 will continue to focus primarily on promoting private sector led economic growth. USAID programs will improve licensing, registration, and inspection regimes, and analyze and advocate on economic and trade policies affecting the private sector. USAID programs will also identify and advocate for better policies, laws, and administrative practices affecting private sector investment and financial sector operations. U.S. assistance programs to improve the economic policy and regulatory environment for private sector growth and financial institutions will encourage private sector investment, broaden Mongolia's economic base, undercut centers of institutionalized corruption, and reduce poverty. USAID will continue to pursue the development of a national consensus on the approach to mining in Mongolia, critical to the sustainable development of the sector and the economic future of the country. U.S. resources will also continue to help Mongolia introduce critical reforms in the strategic energy sector, with a focus on electricity market structures,

improving the tariff regime, cost recovery, the performance of state-owned energy enterprises, and promoting private investment in the energy sector. In FY 2010, energy sector activities will be increasingly integrated with USAID's mining sector work.

Linkages with the Millennium Challenge Corporation

In October 2007, the Millennium Challenge Corporation signed a five-year, \$285 million Compact with the Government of Mongolia aimed at reducing poverty and promoting sustainable economic growth through investments in four projects. These strategic investments, which are closely coordinated with USAID, will increase economic activity through improvement in the efficiency and capacity of the rail network; secure and register property land titles; provide vocational training to help Mongolians qualify for the more demanding and financially rewarding market-oriented jobs; and ensure that they become healthier and more productive as they enter the marketplace. The MCC Compact in Mongolia entered into force on September 2008, formally initiating the 5-year timeline for project implementation.