



Mongolia: Issues for Congress

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Summary

Mongolia is a sparsely populated young democracy in a remote part of Asia, sandwiched between two powerful large neighbors, China and Russia. It made its transition to democracy peacefully in 1990, after nearly 70 years as a Soviet satellite state. Congress has shown a strong interest in Mongolia's development since, through the funding of assistance programs, ratification of a bilateral investment treaty, legislation to extend permanent normal trade relations, and passage of six resolutions commending Mongolia's progress and supporting strong U.S.-Mongolia relations. Mongolia's president, Tsakhia Elbegdorj, is scheduled to visit the White House and Capitol Hill on June 16, 2011.

Congressional interest in Mongolia has been strong in large part because of the country's story of democratic development. Since passing a democratic constitution in 1992, Mongolia has held five direct presidential elections and five direct parliamentary elections. The State Department credits Mongolia's current government with "generally respect[ing]" freedoms of speech, press, assembly, and association. Mongolia's democracy has sometimes been chaotic, however, and the 2008 parliamentary election was marred by violence that claimed five lives. Corruption is a mounting concern for many observers.

On the economic front, a mining boom is predicted to make Mongolia's economy the fastest growing in the world by 2013. (The World Bank's annual GDP growth rate projection for Mongolia in 2013 is 22.9%.) Mongolia's mineral wealth, including significant reserves of coal, copper, gold, and uranium, offers investment opportunities for American companies. The U.S. Embassy in Mongolia has, however, raised concerns about Mongolia's investment climate, which it sees as non-transparent, unpredictable, and potentially "expropriatory." The United States and Mongolia are negotiating a transparency agreement that could address some U.S. concerns.

To balance the influence of its two large neighbors, China and Russia, Mongolia has embraced an active foreign policy designed to raise its international profile and win it the support of friends far from its borders. It was among the first nations to join the coalition for the Iraq War, deploying troops in Iraq from 2003 to 2008. Its troops have been deployed in Afghanistan since 2003.

Mongolia is an active participant in many international organizations, in which it often supports U.S. positions. In 1992, Mongolia declared itself a single-state nuclear-weapons-free zone; establishing the zone in international law has been a major goal of Mongolia's foreign policy. China has emerged as Mongolia's largest trading partner and foreign investor, although each country remains wary of the other. Russia is Mongolia's largest source of energy products, and is cooperating with Mongolia in development of Mongolia's uranium reserves. To ensure its continued independence and sovereignty, Mongolia has also prioritized the development of relations with so-called "third neighbors," countries that do not border Mongolia, but have close ties to Mongolia. That list includes the United States, Japan, Korea, Germany, and India.

This report is divided into three main sections. The first discusses Mongolia's democratic development. The second discusses economic issues, and the third discusses Mongolia's engagement with the world. Appendix A lists major legislation related to Mongolia from the 102nd Congress to the present. Appendix B lists the outcomes of Mongolia's five direct presidential elections and five direct parliamentary elections to date. The report also includes a map of Mongolia showing major railways and the location of significant mineral deposits.

Contents

Overview	1
Mongolia’s Democracy	2
Mongolia’s Democratic Development	2
Views of Mongolia’s Democracy and Human Rights	3
Institutions and Electoral Procedures	4
Presidency of the Community of Democracies	5
Economic Issues	5
Investment Climate	8
Flagship Mining Projects.....	8
Oyu Tolgoi Copper and Gold Deposit.....	9
Tavan Tolgoi Coal Deposit	9
Dornod Uranium Deposit	10
Mongolia’s Engagement with the World.....	10
Deployments to Iraq, Afghanistan, and U.N. Peacekeeping Missions.....	11
Stance in International Organizations	12
Nuclear-Weapons-Free Status.....	12
Relations with the United States	14
U.S. Assistance to Mongolia.....	15
Millennium Challenge Corporation Compact.....	16
Other U.S. Government Programs in Mongolia	17
Relations with Russia.....	18
Relations with China	19
Relations with Japan	20
Relations with the Koreas.....	20
Relations with the European Union	21

Figures

Figure 1. Map of Mongolia	7
---------------------------------	---

Tables

Table 1. Mongolia’s Trade with Major Partners in 2010.....	7
Table 2. U.S. Bilateral Foreign Assistance to Mongolia FY2009-2012	15
Table 3. Japanese Overseas Development Assistance to Mongolia 2005-2009.....	20
Table A-1. Select Legislation on Mongolia from the 102 nd Congress to the Present	23
Table B-1. Direct Presidential Elections	25
Table B-2. Direct Parliamentary Elections 1992-Present.....	25

Appendixes

Appendix A. Select Legislation on Mongolia.....	23
Appendix B. Mongolian Elections 1992-Present.....	25

Contacts

Author Contact Information	26
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Overview

Mongolia is a vast, sparsely populated, mineral-rich nation sandwiched between Russia and China. Formerly a Soviet satellite state, the country peacefully ended one-party Communist rule and launched democratic and free market reforms and an independent foreign policy just over 20 years ago, in 1990. Congress has shown strong support for Mongolia since that date through funding of assistance programs, ratification of a bilateral investment treaty, extension of permanent normal trade relations, and House, Senate, and concurrent resolutions commending Mongolia on its development of democracy and expressing support for expanded U.S.-Mongolia relations. (See **Appendix A** for a list of significant legislation related to Mongolia from the 102nd Congress to the present.)

Mongolia: Basic Information¹

Population (2009): 2.67 million
Area: 603,864 sq. miles (slightly smaller than Alaska)
Nominal GDP (2010 est.): \$6.7 billion
Per capita GDP (2010 est.): \$2,470
GDP growth rate (2010): 6.1%
Projected GDP growth rates: 10.3% for 2011; 7.6% for 2012; 22.9% for 2013
Percent of population at or below poverty line (2008): 35.2
Literacy rate (2009): 97%

Congressional interests in Mongolia have expanded steadily over the last 20 years. Congress has a strong interest in seeing Mongolia's transition to democracy and a market-based economy succeed. Some analysts believe that a vibrant Mongolian democracy not only serves the people of Mongolia, but could also serve as a model of democratic governance for Mongolia's immediate neighbors, Russia and China, as well as for nearby North Korea and the nations of Central Asia. A Mongolia with strong democratic institutions and a viable market-based economy is also believed to be more likely able to maintain an independent, neutral status between Russia and China, rather than falling under the undue influence of either country.

As Mongolia begins to approve deals for development of its so far largely untapped mineral wealth, estimated to be worth hundreds of billions of dollars, Congress has an interest, too, in the investment opportunities Mongolia offers for American businesses. Of strategic significance, Mongolia has reserves of rare earth elements that could help reduce the world's dependence on rare earth elements mined in China, although their size is not yet known.²

Congress also has an interest in many aspects of Mongolia's engagement with the broader international community. Mongolia has contributed troops to the wars in Iraq and Afghanistan, and to global United Nations Peacekeeping Operations. It has supported U.S. positions in international organizations such as the United Nations. Uranium-rich Mongolia has also taken a strong stance in support of nuclear non-proliferation. As a nation with a heavily Tibetan Buddhist population and close ties to Tibet's exiled spiritual leader, the Dalai Lama, Mongolia could have a role to play in resolution of the Tibet issue. (See "Relations with China" below.)

¹ Area data from Central Intelligence Agency, *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/mg.html>; economic data from The World Bank, *Mongolia Quarterly Economic Update*, April 2011 and The World Bank, *Global Economic Prospect June 2011: Regional Annex*, p. 77; population, poverty and literacy data from The World Bank, *Mongolia Country Data*, <http://data.worldbank.org/country/mongolia>.

² For more information on rare earth elements, see CRS Report R41347, *Rare Earth Elements: The Global Supply Chain*, by Marc Humphries.

Issues of possible concern for Congress include Mongolia's sometimes turbulent politics and allegations of official corruption, both of which risk tarnishing the country's democratic record. Some criticize Mongolia's investment climate as non-transparent, unpredictable, and even "expropriatory." The status of the United States' \$285 million Millennium Challenge Corporation Compact with Mongolia, signed in 2007, is also a worry for some. After a rocky start, including the cancellation of the compact's marquee project, some observers fear that allocated funds will not be spent by a deadline of September 2013. (See "Millennium Challenge Corporation Compact" below.) Also of concern is a spat between Mongolia and two of Western Europe's leading democracies, Britain and Germany, over the arrest in London of a top advisor to the Mongolian president. (See "Relations with the European Union" below.)

Mongolia's Democracy

Mongolia has made a rapid transition from one-party Communist rule to democracy. In a potent symbol of the country's achievements, it is scheduled to assume the rotating presidency of the Community of Democracies in July 2011, a position from which it will seek to promote and sustain democracy around the world. (See "Presidency of the Community of Democracies" below.) Congress has passed resolutions congratulating Mongolia on a series of largely free and fair elections,³ and the State Department credits Mongolia with "generally respect[ing]" freedoms of speech, press, assembly, and association.⁴ Up close, however, Mongolia's democracy has sometimes been messy. Parliamentary coalitions have collapsed and prime ministers and cabinets have come and gone. Parliamentary elections in 2008 were marred by violence that claimed five lives, and the 1998 assassination of one of the charismatic leaders of the 1990 democratic revolution, Sanjaasuren Zorig, continues to resonate, with a senior Mongolian official currently fighting extradition from Britain to Germany over charges that he participated in the illegal rendition of a suspect in the case. Corruption has been an enduring problem. Such issues are a concern to those who see a strong Mongolian democracy as vital to keeping Mongolia a neutral, sovereign country that is able to stand up for its interests in the face of its powerful neighbors, China and Russia.

Mongolia's Democratic Development

For nearly 70 years, Mongolia was a one-party state ruled by the communist Mongolian People's Revolutionary Party (MPRP). Mongolia's democratic revolution began with Eastern Europe-inspired street protests in western Mongolia in December 1989, which then spread to the capital, Ulaanbaatar. The MPRP's Politburo chose to resign en masse in March 1990. Two months later, in May 1990, constitutional amendments ended the MPRP's monopoly on power and created an indirectly-elected presidency. In 1992, a new democratic constitution guaranteed a broad set of rights and freedoms, created a directly-elected presidency, and established a multi-party, directly-elected, unicameral legislature, the State Great Hural (SGH).⁵

³ The State Department most recently used the "largely free and fair" formulation to describe the 2009 presidential election. U.S. Department of State, *2010 Country Reports on Human Rights Practices: Mongolia*, April 8, 2011, <http://www.state.gov/g/drl/rls/hrrpt/2010/eap/154394.htm>.

⁴ U.S. Department of State, *2010 Country Reports on Human Rights Practices: Mongolia*, April 8, 2011, <http://www.state.gov/g/drl/rls/hrrpt/2010/eap/154394.htm>.

⁵ Also sometimes rendered as State Great Khural or the Mongolian Great Khural or Mongolian Great Hural.

Since then, Mongolia has held five direct presidential elections and five direct parliamentary elections. (See **Appendix B** for the results of all ten elections.) The formerly Communist MPRP, recently renamed the Mongolian People's Party (MPP),⁶ won three of the presidential elections and won the most seats in four of the parliamentary elections, including the most recent 2008 parliamentary election, when it won 46 of the parliament's 76 seats. Mongolia clocked a milestone in its democratic development in 2009 with the election of its first president from the Democratic Party, Tsakhia Elbegdorj, one of the original 13 leaders of the 1990 democratic revolution. (See text box, **Mongolia's Leaders**.)

Mongolia's Leaders⁷

President: Tsakhia Elbegdorj of the Democratic Party (since May 2009)

Born in 1963, Elbegdorj is the first president of Mongolia from the Democratic Party. A former journalist, Elbegdorj was one of the original 13 leaders of the 1990 democratic revolution. He led the Democratic Union Coalition (DUC) to a historic victory over the formerly communist Mongolian People's Revolutionary Party in parliamentary elections in 1996. Elbegdorj served twice as Prime Minister, first for a brief period in 1998 and again from 2004-2006. In between those stints in office, in 2002 he earned a Master's in Public Administration from the Kennedy School of Government at Harvard University. As a member of a small western Mongolian tribe, the Zahchin, he is the first president not to be a member of the dominant ethnic group in Mongolia, the Khalkha.⁸

Prime Minister: Sukhbaatar Batbold of the Mongolian People's Party (since November 2009)

Born in 1963, Batbold is a wealthy former businessman who holds degrees in international relations from two Russian institutions and another degree from the London Business School. He served as Minister of External Relations for a year, from September 2008 to October 2009, before being named to replace the previous Prime Minister, who stepped down for health reasons. Batbold became the MPRP's chairman in 2010. His wife is reported to have taken over his business interests in a leading hotel, a mobile telephone company, and cashmere and gold ventures.

Chairman of the State Great Hural: Damdin Demberel of the Mongolian People's Party (since 9/2008)

Born in 1941, Demberel had an early career with the Mongolian Revolutionary Youth League, followed by a long career in senior posts with the Mongolian People's Revolutionary Party, both before and after the 1990 democratic revolution. He is a 1977 graduate of the Soviet Communist Party Central Committee's Higher Party School.

An outbreak of violence two days after the July 2008 parliamentary election marked a low point for Mongolian democratization. After the MPRP claimed victory in the elections, protesters set fire to the MPRP's headquarters. Clashes between protesters and security forces claimed at least five lives and injured hundreds. Members of the legislature from the opposition Democratic Party subsequently refused to take the oath of office, claiming electoral irregularities. The MPRP was ultimately forced to accept the Democratic Party as a coalition partner.

Views of Mongolia's Democracy and Human Rights

The Economist Intelligence Unit's (EIU's) 2010 Democracy Index rated Mongolia a "flawed democracy." Among the flaws the EIU identified were elections that "are often turbulent and controversial affairs that can lack legitimacy;" political volatility, as evidenced by "frequent changes in the make-up of opposition parties, as well as the regular changes of prime minister;"

⁶ The party changed its name in December 2010.

⁷ Biographical data from Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010).

⁸ Uradyn E. Bulag, "Mongolia in 2009: From Landlocked to Land-linked Cosmopolitan," vol. 50, no. 1 (2010), p. 98.

concerns about the role of the police and security forces in upholding civil liberties; and the fact that many political parties “are not yet fully established.”⁹

The 2010 State Department Human Rights Report noted problems in the areas of “police abuse of prisoners and detainees; uneven enforcement of the law and official impunity; poor conditions in detention centers; arbitrary arrest, lengthy pretrial detention, and corruption within the judicial system; government interference in the media; continued refusal by some provincial governments to register Christian churches; secrecy laws and a lack of transparency in government affairs; inadequate measures to counter domestic violence against women; and trafficking in persons.”¹⁰

Corruption is a major concern for observers of Mongolia’s political transition, especially in light of the riches that are starting to flow from the development of Mongolia’s mineral wealth. In a September 2010 survey of 1,000 adult Mongolians funded by the U.S. Department of Agriculture and carried out by the San Francisco-based Asia Foundation, respondents ranked corruption the fourth most critical problem facing their country, after unemployment, inflation, and poverty. Mongolia has an Independent Authority Against Corruption (IIAC), established by Mongolia’s parliament in January 2007 and supported by the Asia Foundation under a contract with the U.S. Agency for International Development (USAID). In the same survey, 71.2% of respondents said they were “not confident” in its ability to fight corruption.¹¹ USAID blames the passage of a National Amnesty Law in July 2009 for undermining the anti-corruption work of the IIAC. In a review of foreign assistance in FY2009, the agency stated that the law, “negated much of the investigatory and prosecutorial work initiated under USAID’s partner, the Asia Foundation.”¹² Transparency International’s Corruption Perceptions Index for 2010 ranks Mongolia 116th of 178 countries in the index. Mongolia shared that ranking with six other nations: Ethiopia, Guyana, Mali, Mozambique, Tanzania, and Vietnam.¹³

Institutions and Electoral Procedures

Presidential elections are held every four years in May, with the next presidential election scheduled for May 2013. Each political party represented in Mongolia’s parliament is permitted to nominate one candidate, with the winner requiring a simple majority of the popular vote. The President serves as head of state, commander in chief of the armed forces, and head of the National Security Council. He can veto all or part of laws passed by parliament, although parliament may override his veto. He may serve no more than two terms of four years each. One of the quirks of the Mongolian system is that the President is required to give up his party affiliation upon taking office.

⁹ Economist Intelligence Unit, *Country Report: Mongolia*, February 2011, p. 14.

¹⁰ U.S. Department of State, *2010 Country Reports on Human Rights Practices: Mongolia*, April 8, 2011, <http://www.state.gov/g/drl/rls/hrrpt/2010/eap/154394.htm>.

¹¹ The Asia Foundation, *Mongolia Corruption Benchmarking Survey X*, The Tenth Semi-Annual Corruption Benchmarking Survey in Mongolia, 2010, <http://asiafoundation.org/publications/pdf/817>.

¹² U.S. Department of State and the U.S. Agency for International Development, *Mongolia: U.S. Foreign Assistance Performance Publication Fiscal Year 2009*, March 23, 2011, <http://www.state.gov/documents/organization/159166.pdf>.

¹³ Transparency International, *Corruption Perceptions Index 2010*, 2010, http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

Elections to Mongolia's Parliament, the State Great Hural, are held every four years in June, with the next election scheduled for June 2012. The State Great Hural has 76 members representing 26 multi-member constituencies. Once the State Great Hural is elected, members choose a speaker, the chairman of the State Great Hural, who ranks second in the state hierarchy and sits as an *ex officio* member on the National Security Council. The State Great Hural also nominates the prime minister and the cabinet, who are formally proposed to the State Great Hural by the president. The State Great Hural currently has seven standing committees and eight sub-committees. It meets semi-annually for sessions of at least 75 days.¹⁴

The State Great Hural is one of 13 parliaments world-wide that are partnered with the U.S. House Democracy Partnership, a bipartisan, twenty-member commission of the U.S. House of Representatives that works to support the development of "effective, independent, and responsive legislative institutions."¹⁵

Presidency of the Community of Democracies

In July 2011, Mongolia is scheduled to take over from Lithuania as President of the Community of Democracies. Founded in 2000 by former Secretary of State Madeleine Albright and Polish Foreign Minister Bronisław Geremek, the group describes itself as "a global inter-governmental coalition of democratic countries" dedicated to "promoting democratic rules and strengthening democratic norms and institutions around the world." In its two-year-term as president, Mongolia has said it plans to focus on democracy education, strengthening regional cooperation, supporting civil society organizations, and interacting and sharing experiences with other democracies.¹⁶ The United States has been conferring closely with Mongolia on its plans.

Economic Issues

Supporters of Mongolia's democratization efforts take heart from the fact that the country has vast mineral wealth which, if managed properly, should be able to sustain the country's continued political and economic development. Mongolia has significant reserves of coal, copper, gold, tin, and uranium, as well as reserves of molybdenum, silver, iron, phosphates, nickel, zinc, wolfram, fluor spar, and petroleum, only a small fraction of which have been developed. It also has reserves of rare earth elements, although their size is not yet known.¹⁷ The World Bank estimates that Mongolia's mineral reserves will propel its GDP to an annual growth rate of 10.3% in 2011, and to a sizzling annual growth rate of 22.9% in 2013, which could make Mongolia's economy the

¹⁴ *Parliament of Mongolia - State Great Hural*, webpage for the 19th annual meeting of the Asia Pacific Parliamentary Forum, Ulaanbaatar, Mongolia, 23-27 January 2011, text dated November 13, 2010, http://19appf.parliament.mn/index.php?option=com_content&view=article&id=13:2010-11-13-06-10-11&catid=13:2010-11-13-04-15-34&Itemid=26.

¹⁵ For more information, see the website of the House Democracy Partnership: <http://hdac.house.gov/>.

¹⁶ Website of the Community of Democracies, http://community-democracies.org/index.php?option=com_content&view=article&id=1&Itemid=23. For Mongolia's plans, see Minister for Foreign Affairs and Trade G. Zandanshatar, Opening Statement to 2011 OSCE-Mongolia Conference "On enhancing OSCE co-operation with the Asian partners in addressing common challenges through a comprehensive approach to security," Ulaanbaatar, Mongolia, May 23, 2011.

¹⁷ Experts note that China's largest rare earth deposits are just across the border, in China's Inner Mongolia Autonomous Region.

fastest growing in the world.¹⁸ If Mongolia manages its mineral wealth well, analysts believe Mongolia could evolve into an increasingly wealthy democracy.

One of Mongolia's challenges will be to avoid the "natural resource curse" that has afflicted some other resource-rich countries, involving such problems as currency pressures, ballooning government budgets, corruption, and environmental degradation. The World Bank is optimistic that Mongolia will escape the curse, in part because "Mongolia is a country with good economic and political institutions," so that, "a resource discovery is not likely to lead to resource capture by exploitative elites, but used to improve national welfare."¹⁹

Mongolia also faces major constraints related to its land-locked status and limited domestic transportation networks. All goods leaving or entering Mongolia must traverse the territory of one of Mongolia's two powerful neighbors, China and Russia. (Mongolia is separated from Kazakhstan in the west by 30 miles of Russian territory.) Mongolia is thus forced to allow both neighbors sufficient involvement in development of its mineral resources to ensure their cooperation. Within Mongolia, to get to either neighbor's border, goods must currently be either trucked on mostly unpaved roads, or transported on one of just two railway lines. Mongolia's main railway is a single-track, with passing places, which runs 690 miles from the Russian border in the north to the Chinese border in the south. The eastern railway runs 148 miles from Choybalsan to the Russian border. (See **Figure 1** below for a map of Mongolia.)

Mongolia has officially welcomed investment from other countries, including the United States, as a way to diversify its sources of foreign direct investment beyond Russia and China and to cement ties with other countries in a position to balance its two neighbors' influence. For many Mongolian politicians, staving off economic domination by China is a particularly urgent goal. China is currently both Mongolia's largest foreign investor and biggest trading partner. The \$4 billion in two-way trade between Mongolia and China is nearly four-times the volume of trade between Mongolia and its second largest trading partner, Russia. (See **Table 1** below.)

Involvement in the development of Mongolia's resources could be lucrative for U.S. companies. The U.S. Embassy in Mongolia, however, has raised concerns about Mongolia's unpredictable and non-transparent investment climate.

¹⁸ The World Bank, *Global Economic Prospects June 2011: Regional Annex*, p. 77, <http://siteresources.worldbank.org/INTGEP/Resources/335315-1307471336123/7983902-1307479336019/EAP-Annex.pdf>.

¹⁹ The World Bank, *Mongolia Quarterly Economic Update*, April 2011, pp. 5, 23-24.

Table I. Mongolia's Trade with Major Partners in 2010
(In USD millions)

Reporting Country	Imports from Mongolia	Exports to Mongolia	Total Trade	Increase in Total Trade in 2010 Over 2009
China	2,517.1	1,449.2	3,966.4	68.5%
Russia	77.6	943.2	1,020.8	43.7%
South Korea	38.8	191.6	230.5	22.35%
Japan	23.7	161.0	184.8	64.4%
United States	11.6	114.9	126.4	128.6%

Source: Global Trade Atlas

Notes: Trade figures are those reported by each country. They may differ from Mongolian trade figures.

Figure I. Map of Mongolia
Showing Railways and Major Mineral Reserves



Investment Climate

The U.S. Embassy in Mongolia's 2011 Investment Climate Statement reported a "very mixed" climate for foreign business in 2010, with regulatory and legislative trends "widely perceived as narrowing Mongolia's openness to FDI," or foreign direct investment. The report highlighted the impact of the 2009 Nuclear Energy Law of Mongolia on foreign business interests (see discussion of the Dornod uranium deposit below), and raised serious concerns about another 2009 law, the Law on the Prohibition of Minerals Exploration in Water Basins and Forested Areas. This law required the revocation or modification of licenses for exploration or mining of minerals located within 200 meters – or, at the discretion of local officials, more than 200 meters – of a water or forest resource. The report noted that some 240 gold-mining licenses were cancelled because of the law in late 2010, and that in total, more than 1,800 licensees will potentially be affected. The Embassy investment climate report stated that foreign and domestic investors see the two new laws and their implementation as "both non-transparent and potentially expropriatory."²⁰

To address the transparency issue, the United States and Mongolian governments are negotiating a bilateral transparency agreement. Among other things, it would require the Mongolian government to publish all regulations and provide written responses to queries about their implementation. The United States believes that although Mongolian bureaucrats may prefer the ambiguities of the current system, Mongolia needs to establish an impartial, transparent investment regime if it hopes to continue to attract foreign investors. The transparency agreement is seen as a necessary step toward a possible future free-trade agreement with Mongolia.

Flagship Mining Projects

Three major mineral deposits have dominated headlines about Mongolia for several years. The first two – the **Oyu Tolgoi** copper and gold deposit and the **Tavan Tolgoi** coking coal deposit, both in Mongolia's South Gobi Desert – account for a large proportion of Mongolia's hundreds of billions of dollars worth of untapped mineral reserves.²¹ The third deposit is the uranium deposit at **Dornod**, in the northeast of the country. Beyond the potential profits involved, all three projects have been widely viewed as important indicators of Mongolia's evolving attitude toward foreign investment. The U.S. government has expressed a particularly strong interest in Tavan Tolgoi because a U.S. company, St. Louis, Missouri-based Peabody Energy, is one of six companies shortlisted for the rights to develop part of the deposit.

²⁰ Economic and Commercial Section of the U.S. Embassy in Ulaanbaatar, Mongolia, *2011 Mongolia Investment Climate Statement*, U.S. Department of State, March 1, 2011.

²¹ In Congressional testimony in March, Assistant Secretary of State Kurt Campbell said that, "According to some estimates, Mongolia has about \$400 billion worth of minerals in the ground." The State Department says that figure does not include the value of Mongolia's so far largely un-surveyed rare earth minerals deposits. The same month, a Chinese coal analyst quoted in the official China Daily estimated the total value of the Tavan Tolgoi deposit alone at \$300 billion. Assistant Secretary of State Kurt M. Campbell, "Asia Overview: Protecting American Interests in China and Asia," Testimony Before the House Committee on Foreign Affairs Subcommittee on Asia and the Pacific, March 31, 2011, <http://www.state.gov/p/eap/rls/rm/2011/03/159450.htm>; Du Juan, "Shenhua Shortlisted in Bid to Develop Mongolian Coalfield," *China Daily*, March 24, 2011.

Oyu Tolgoi Copper and Gold Deposit

The Oyu Tolgoi deposit is believed to be the largest copper deposit in the world after the Escondido copper mine in Chile. In its 2011 Mongolia Investment Climate Statement, the U.S. Embassy in Mongolia described the Mongolian government's 2009 approval of the project to develop the deposit as "a landmark for foreign and domestic investment in Mongolia." Under the multi-billion dollar deal, the deposit is to be developed jointly by Ivanhoe Mines of Canada, the Australia-based Rio Tinto Group, and the Government of Mongolia, which holds a 34% stake. The approval of the deal showed, the Embassy report said, that, "Mongolia can say 'Yes' to key projects undertaken with foreign involvement and investment," that the government was committed to compensating private rights holders of most so-called strategic deposits, and that the government and parliament were willing to amend laws and regulations to make the project work. The Embassy report went on to note concerns, however, about recent calls by some members of the government and the parliament to renegotiate the Oyu Tolgoi agreement because of a belief that the deal is too favorable to the foreign investors. The failure of the government of Mongolia to "explicitly and definitively" reject such calls raised questions, the report said, about "the durability of agreements in Mongolia."²²

Tavan Tolgoi Coal Deposit

The Tavan Tolgoi deposit, commonly referred to as "TT," is believed to contain six billion metric tons of coal, including the world's largest untapped deposit of coking coal, which is in high demand from steelmakers in China, Japan, and South Korea. In late 2008, the Mongolian parliament authorized the government to negotiate with strategic investors for rights to develop part of the deposit. In March 2011, the government shortlisted six bidders for rights to develop the deposit's west Tsankhi block, which has an estimated 1.2 billion tons of coal. In addition to Peabody Energy, other shortlisted bidders include a Chinese-Japanese consortium, a Korean-Russian-Japanese consortium, and firms from Brazil and Europe.²³ Whatever bidder, or combination of bidders, wins the development rights, the multi-billion dollar development of Tavan Tolgoi is expected to generate significant demand for construction and mining equipment from foreign suppliers. Development will also generate investment opportunities in such areas as power generation, water supply, and rail transport. Currently, coking coal from Tavan Tolgoi is trucked to China on an unpaved road, although a paved road is reportedly scheduled to be finished by August 2011.²⁴ Perhaps reflecting Mongolia's ambivalence about the hungry Chinese market to its south, rather than build a rail line from Tavan Tolgoi to the nearby Chinese border, Mongolia signed a preliminary deal in March 2011 with a South Korean firm to build a 646-mile-long railway line from Tavan Tolgoi to the northeastern Mongolian city of Choybalsan. From there, the line would join with an existing rail line to Russia.²⁵

²² Economic and Commercial Section of the U.S. Embassy in Ulaanbaatar, Mongolia, *2011 Mongolia Investment Climate Statement*, U.S. Department of State, March 1, 2011.

²³ Min-Jeong Lee, "Six in the Running for Mongolia Coal Project," *The Wall Street Journal Online*, March 7, 2011. Du Juan, "Shenhua Shortlisted in Bid to Develop Mongolian Coalfield," *China Daily*, March 24, 2011.

²⁴ Tom Miles, "Mongolia resumes trucking coal to China - MMC," *Reuters*, May 16, 2011.

²⁵ The South Korean firm is Lotte Engineering & Construction. Ju-min Park, "S.Korean consortium says wins Tavan Tolgoi railway deal," *Reuters*, March 25, 2011.

Dornod Uranium Deposit

The third deposit to garner headlines – and controversy – is the smaller **Dornod** uranium deposit in northeastern Mongolia, near Choybalsan and the rail line to Russia. The Mongolian government issued a mining license for the deposit to a subsidiary of a Canadian company, Khan Resources, in 1997, and issued an exploration license to Khan Resources in 2005. After passage of the 2009 Nuclear Energy Law of Mongolia, which imposed new restrictions on the mining and processing of uranium, however, the government revoked the licenses, along with more than 100 other licenses for uranium exploration and mining.²⁶ The Mongolian government subsequently awarded the rights to develop the Dornod deposit to a partnership of Russian and Mongolian state-owned companies. Khan Resources has launched a high-profile effort to seek international arbitration and up to \$200 million in compensation for the loss of its licenses. The U.S. Embassy in Mongolia's 2011 Mongolia Investment Climate Statement was sharply critical of the Mongolian government's conduct in the matter, stating that "many observers" saw the government's actions as "a stripping of [Khan Resources'] rights to develop a uranium deposit without any apparent due process or compensation."²⁷

Mongolia's Engagement with the World

According to Mongolia's official formulation of its foreign policy, the Concept of Foreign Policy, first issued in 1994, Mongolia seeks foremost to maintain "a balanced relationship" with both its immediate neighbors, Russia and China, while not "adopt[ing] the line of either country." Russia is Mongolia's largest source of energy products. China is its largest export market, as well as its largest foreign investor. Because Mongolia is landlocked, it is dependent on both countries for the transportation routes that allow its goods to access world markets.

To balance the influence of Russia and China and ensure its independence and sovereignty, the second plank of Mongolia's foreign policy is the development of strong relations with "highly developed countries of the West and East such as the United States of America, Japan and the Federal Republic of Germany," as well as with India, [South] Korea, Thailand, Singapore, Turkey, Denmark, the Netherlands, Finland, Austria, Sweden, and Switzerland (listed in that order.) The foreign policy document does not use the term "third neighbors," but within Mongolian policy circles, Mongolia's diplomatic partners are referred to by that name. Mongolia's leading "third neighbors" are considered to be the United States, Japan, South Korea, Germany and India.

A third direction for Mongolia's foreign policy, according to the document, is "strengthening its position in Asia" and promoting regional integration, in part by "initiating dialogues and negotiations" on regional security issues. The document identifies as a top priority securing membership for Mongolia in the Asia Pacific Economic Cooperation (APEC) grouping. Mongolia also seeks to promote cooperation with the United Nations and with international financial and economic organizations, such as the International Monetary Fund, World Bank, and Asian Development Bank.

²⁶ For documents presenting Khan Resources' position in the dispute, see the firm's website, <http://www.khanresources.com/company/properties.html>.

²⁷ Economic and Commercial Section of the U.S. Embassy in Ulaanbaatar, Mongolia, *2011 Mongolia Investment Climate Statement*, U.S. Department of State, March 1, 2011, p. 6.

In relations with former socialist countries, Mongolia says its policy involves “reinforcing the positive legacy of our past relations” while adjusting relationships to match new circumstances. Priority relationships in this category include those with Poland, Hungary, the Czech Republic in Eastern Europe, and with Mongolia’s Central Asian neighbors: Kazakhstan, Ukraine, Belarus, Kyrgyzstan, and Uzbekistan. The last plank of Mongolia’s foreign policy is cooperation with fellow developing nations in support of common objectives, both bilaterally and through international groupings such as the United Nations, the Group of 77, and the Non-Aligned Movement.

Mongolia updated its foreign policy concept in 2011, but the text of the revised concept has not yet been released.

Deployments to Iraq, Afghanistan, and U.N. Peacekeeping Missions

Mongolia has won significant goodwill from the United States and its allies for its participation in the wars in Iraq and Afghanistan, as well as for its contributions to United Nations peacekeeping operations around the globe. Mongolia was one of the first countries to join the allied coalition for the Iraq War, rotating over 1,200 troops through 10 consecutive deployments in Iraq between August 2003 to September 2008.²⁸ Mongolian troops continue to serve in Afghanistan, where they have been deployed since 2003 in support of Operation Enduring Freedom and the International Security Assistance Force in Afghanistan. Of the 208 Mongolian troops currently in Afghanistan, an infantry company is performing fixed site security at Camp Eggers military base in Kabul, an infantry detachment is performing fixed site security with German troops outside the Afghan city of Faisalabad (also known as Feyzabad and Faizabad), and an artillery mobile training team is deployed at the Kabul Military Training Center, training the Afghan National Army in artillery and mortar systems.²⁹

While the United States and some of its allies are contemplating drawing down their troops in Afghanistan in the coming months, Mongolia’s President Tsakhia Elbegdorj stated in November 2010 that his country hoped to double its forces in Afghanistan to approximately 400.³⁰ Since then, Mongolia has deployed an additional 12 artillery trainers to ISAF’s Regional Command-North, led by Germany, and is scheduled to deploy a 40-person platoon to provide flight line security at Kabul International Airport.³¹ An unnamed U.S. Department of Defense briefer in June 2010 described Mongolia’s forces as “resolute and good partners in Afghanistan.”³²

²⁸ In Iraq, Mongolian troops performed fixed site security at several military bases as part of the Polish-led Multinational Division Central-South, in the Multinational Force Iraq.

²⁹ Details of Mongolia’s deployments in Iraq and Afghanistan provided to CRS by the Mongolian Liaison Team at U.S. Central Command, Tampa, Florida, in a May 26, 2011 email.

³⁰ U.S. Department of State, *Background Note: Mongolia*, Washington, D.C., March 8, 2011, <http://www.state.gov/r/pa/ei/bgn/2779.htm>.

³¹ E-mail from Mongolian Liaison Team at U.S. Central Command, Tampa, Florida, May 26, 2011.

³² John D. Banusiewicz, “Asia Summit to Kick Off Five-Nation Gates Trip,” *American Forces Press Service*, June 2, 2010.

Mongolia has also contributed troops to United Nations Peacekeeping Missions in Chad, Congo, Ethiopia, Eritrea, Georgia, Kosovo, Sierra Leone, Sudan, and Western Sahara.³³

Stance in International Organizations

Mongolia is an active participant in a wide range of international organizations, where it has frequently been supportive of U.S. positions. Since its 1990 democratic revolution, it has joined such varied organizations and groupings as the Asian Development Bank (1991), the World Trade Organization (1997), the Association of Southeast Asian Nations (ASEAN) Regional Forum (1998), the International Criminal Court (2002), and the Asia Europe Meeting (2009). In 2004, it became an observer in the Shanghai Cooperation Organization, a group in which China and Russia are the dominant members, but it has so far chosen not to pursue full membership in the organization. Mongolia is serving on the 35-member Board of Governors of the International Atomic Energy Agency (IAEA) for 2010 to 2011, and will begin a two-year term as chairman of the Community of Democracies in July 2011. (See “Presidency of the Community of Democracies” above.)

According to a State Department tally, at the 65th U.N. General Assembly in 2010, Mongolia voted with the United States on important votes and consensus actions 57.1% of the time. By comparison, Russia’s voting coincidence rate with the United States on important votes and consensus actions was 30.0%, and China’s was 18.2%. Japan’s was 88.9%.³⁴

As an example of Mongolia’s support for U.S. positions, U.S. officials cite Mongolia’s role in the International Atomic Energy Agency, where it has supported actions against Iran over its suspected nuclear weapons program. U.S. officials also credit Mongolia with playing a possibly pivotal role in helping the United States deny Syria a seat on the U.N. Human Rights Commission in the spring of 2011. With Syria accused of cracking down on peaceful protesters at home, the United States approached several nations to request that they challenge Syria’s right to one of four seats set aside for Asian nations on the Commission, but was rebuffed. The United States then turned to Mongolia, which agreed to help. Kuwait ultimately headed off Syria’s accession to the Commission in 2011 by taking the seat itself in exchange for an agreement to let Syria take Kuwait’s originally scheduled turn on the Commission in 2013. Mongolia’s willingness to challenge Syria may, however, have forced Kuwait’s hand.³⁵

Nuclear-Weapons-Free Status

Mongolia unilaterally declared itself a nuclear-weapon-free zone (NWFZ) in 1992, soon after the 1990 democratic revolution, and has sought to establish an international legal basis for the status ever since. The Law of Mongolia on Its Nuclear-Weapon-Free Status, which was adopted in 1992 and entered into force in 2000, makes it illegal to develop, manufacture, possess, control, station, transport, test, or use nuclear weapons on Mongolian territory. It also makes it illegal to “dump or

³³ U.S. Department of State, *Background Note: Mongolia*, Washington, D.C., March 8, 2011, <http://www.state.gov/r/pa/ei/bgn/2779.htm>.

³⁴ Department of State, *Voting Practices in the United Nations - 2010*, March 31, 2011, p. 21, <http://www.state.gov/documents/organization/162417.pdf>.

³⁵ Edith M. Lederer, “Diplomats: Syria won’t run for seat on UN Human Rights Council; will run in 2013,” *The Associated Press*, May 11, 2011.

dispose nuclear weapons grade radioactive material or nuclear waste” on Mongolian territory.³⁶ Mongolia’s declaration was significant in that it signaled a rejection of nuclear weapons by a country with perhaps the world’s second largest inferred reserves of uranium, an essential fuel for the nuclear power industry that can also be used to make nuclear weapons.³⁷ Mongolia’s Ambassador to the IAEA, Jargalsaikhany Enkhsaikhan, explained in a 2010 interview that a major impetus for the declaration was Mongolia’s experiences during the Sino-Soviet split of the 1960s, when the threat of nuclear war between the two giants loomed large and Mongolia, as a Soviet satellite state with Soviet troops and missiles on its territory, found itself uncomfortably on the Russian front line.³⁸

The Permanent Five (P-5) members of the U.N. Security Council – Britain, China, France, Russia, and the United States – welcomed Mongolia’s NWFZ declaration, but have stopped short of extending it formal recognition. In his 2010 interview, Ambassador Enkhsaikhan attributed the P-5’s reluctance to a concern that recognizing Mongolia’s single-state NWFZ, “would reduce or undermine the incentive for establishing traditional (i.e., group) NWFZs and set a precedent for others to follow suit.”³⁹ (Mongolia had no choice but to declare a single-state NWFZ because its only contiguous neighbors are both nuclear powers.) U.S. officials suggest that the P-5’s reluctance is also related to the P-5’s unwillingness to abide by all the legal commitments that formal recognition of Mongolia’s NWFZ would entail.⁴⁰

Mongolia’s nuclear-weapon-free status law gained new relevance in March, 2011, when a U.S. official told a conference that the United States and Mongolia had been in preliminary discussions with Mongolian officials about having Mongolia host an international repository for spent nuclear fuel.⁴¹ Establishing such an international repository is a cherished goal for those who hope to establish a nuclear fuel services industry that would support the expansion of nuclear power

³⁶ “Law of Mongolia on its Nuclear-Weapon-Free Status,” declared September 25, 1992, Inventory of International Nonproliferation Organizations and Regimes, Center for Nonproliferation Studies.

³⁷ The U.S. Geological Survey reports that, “Mongolia’s inferred uranium resources are expected to be second only to those of Australia.” Susan Wacaster, *2009 Minerals Yearbook: The Mineral Industry of Mongolia*, United States Geological Survey, Washington, D.C., February 2011, p. 18.3, <http://minerals.usgs.gov/minerals/pubs/country/2009/myb3-2009-mg.pdf>.

³⁸ Giovanni Verlini, “Keeping Nuclear Weapons Out: Ambassador Jargalsaikhany Enkhsaikhan spoke with the Bulletin’s Giovanni Verlini about Mongolia’s nuclear-weapon-free zone,” IAEA Bulletin, vol. 51-2 (April 2010), p. 44-47.

³⁹ Ibid.

⁴⁰ Mongolia has worked to institutionalize its NWFZ status in other ways. It concluded treaties with Russia (1993) and China (1994) in which each neighbor promised not to use Mongolia’s territory against the other. In the treaty with Russia, Moscow also promised to respect Mongolia’s policy of not allowing foreign troops, nuclear weapons, or other weapons of mass destruction to be deployed on its territory. China made the same pledge in a press statement. In 2007, Mongolia presented to Russia and China a draft trilateral treaty regarding Mongolia’s NWFZ status, but subsequent talks have not produced an agreement to move forward with it. The U.N. General Assembly did in 2009 adopt a resolution on Mongolia’s nuclear-weapons-free status, but simply “invited” member states “to continue to cooperate with Mongolia in taking the necessary measures to consolidate and strengthen Mongolia’s independence, sovereignty and territorial integrity, the inviolability of its borders, its independent foreign policy, its economic security and its ecological balance, as well as its nuclear-weapon-free status” (emphasis added). Giovanni Verlini, “Keeping Nuclear Weapons Out: Ambassador Jargalsaikhany Enkhsaikhan spoke with the Bulletin’s Giovanni Verlini about Mongolia’s nuclear-weapon-free zone,” IAEA Bulletin, vol. 51-2 (April 2010), p. 44-47; U.N. Resolution 63/56, “Mongolia’s international security and nuclear-weapon-free status,” adopted January 12, 2009.

⁴¹ Elaine M. Grossman, “Mongolia May Store Region’s Spent Nuclear Fuel, Senior U.S. Official Says,” *National Journal*, March 31, 2011. The senior official quoted was Richard Stratford, director of the State Department’s Nuclear Energy, Safety and Security Office.

around the world without increasing proliferation risks.⁴² To guarantee the security of such a repository, experts believe it would ideally need to be situated in a sparsely populated, inaccessible part of the world. Experts consider three locations leading candidates: the Siberian region of Russia, Kazakhstan, and Mongolia. Mongolia's democratic government and the extremely low population density of parts of the country make it particularly attractive – Mongolia is the most sparsely populated nation on earth, and its citizens are heavily concentrated in the capital, Ulaanbaatar. Mongolia's nuclear-weapon-free status law, however, expressly bars the dumping or disposal of nuclear waste on Mongolian territory.

In a strongly worded statement in April 2011, Mongolia's Nuclear Energy Agency denied that Mongolia had engaged in discussions on the subject with any government or organization, declaring that “no legal grounds exist to conduct such talks.”⁴³ The issue is politically sensitive in Mongolia, where, as in many other countries, popular opposition to idea of housing spent nuclear fuel is strong. Nonetheless, some analysts believe it possible that Mongolia's position could shift. One analyst notes that spent nuclear fuel could conceivably be defined as something other than “nuclear waste,” because of the energy content of the plutonium it contains.⁴⁴ Some Mongolia experts see an agreement for an international spent nuclear fuel repository as a potential way for Mongolia to expand economic ties with Russia to balance its economic relationship with China. Under such a scenario, Mongolia might agree to store spent fuel generated in Russia from uranium originally mined in Mongolia.

Relations with the United States

Mongolia considers the United States to be the most important of Mongolia's “third neighbors,” countries that do not share borders with Mongolia, but that Mongolia looks to for support of its independence and sovereignty and for balance against the influence of China and Russia. The United States established diplomatic relations with Mongolia in January 1987, after the rise of Mikhail Gorbachev in the Soviet Union produced a cautious warming in Soviet-United States relations. In that context, Moscow, which had previously objected to diplomatic relations between Mongolia and the United States, softened its position. The United States Embassy in Mongolia opened in September, 1988.⁴⁵ Washington at that time saw the post as a useful vantage point for monitoring the Sino-Soviet relationship and the new policies of *glasnost* and *perestroika* emanating from Moscow. From the embassy, however, American diplomats found themselves afforded an up-close view of Mongolia's 1990 democratic revolution.⁴⁶

⁴² If countries had a place to send their spent fuel, then it is thought that there would be less likelihood that reprocessing capabilities would spread to new states. Reprocessing technology can be used to produce fuel or to extract plutonium for nuclear weapons. For more information, see CRS Report RL34234, *Managing the Nuclear Fuel Cycle: Policy Implications of Expanding Global Access to Nuclear Power*, coordinated by Mary Beth Nikitin.

⁴³ Embassy of Mongolia in Vienna, Austria, “Mongolia denies talks about storing nuclear waste,” press release, April 7, 2011, http://www.embassymon.at/news/news_340.html.

⁴⁴ Pavel Podvig, “Conflicting reports about spent fuel disposal in Mongolia,” *International Panel on Fissile Materials, blog post*, May 10, 2011, http://www.fissilematerials.org/blog/2011/05/conflicting_reports_about.html.

⁴⁵ A \$30 million renovation of the embassy is now underway, intended to increase the embassy's size and improve its ability to handle classified information.

⁴⁶ For a detailed account of the negotiations leading up to the establishment of diplomatic relations, and of the early years of U.S.-Mongolian relations, see Alicia Campi and R. Baasan, *The Impact of China and Russia on United States-Mongolian Political Relations in the Twentieth Century* (The Edwin Mellen Press, 2009), pp. 375-397. Campi was a State Department official on temporary assignment at the U.S. Embassy in Ulaanbaatar at the time of the 1990 democratic revolution.

A sign of the United States' strong support for Mongolia's young democracy is the fact that democratic Mongolia has hosted visits by a U.S. President, President George W. Bush (2005); two Secretaries of State, James Baker (1990 and 1991) and Madeleine Albright (1998); a Defense Secretary, Donald Rumsfeld (2005); and a U.S. Agriculture Secretary, Mike Johanns (2006). (Baker chose to make his two visits to Mongolia before visiting neighboring China, a rebuke linked to China's then recent 1989 crackdown on protesters in Tiananmen Square.) Mongolia also hosted House Speaker Dennis Hastert in 2005 and House Minority Leader John Boehner in 2009. Mongolia's President, Tsakhia Elbegdorj, is scheduled to visit the United States in mid-June 2011. The last Mongolian president to visit the United States was President Elbegdorj's predecessor, Nambaryn Enkhbayar, in October 2007.

The Clinton Administration concluded a Bilateral Investment Treaty with Mongolia in 1994; the Senate ratified it in 1996 (Senate Treaty Doc. 104-10). The 106th Congress extended permanent normal trade relations to Mongolia in 1999, and the George W. Bush Administration concluded a Trade and Investment Framework Agreement with Mongolia in 2004. The most recent major agreement between the two countries is a 2010 memorandum of understanding on cooperation in peaceful uses of nuclear energy.

U.S. Assistance to Mongolia

The United States provided \$13.3 million in bilateral foreign assistance to Mongolia in FY2010. Country totals for foreign assistance under the continuing resolution, H.R. 1473, P.L. 112-10, signed into law on April 15, 2011, have not yet been finalized. For FY2012, the State Department has requested \$10.55 million in bilateral foreign assistance, a \$2.75 million reduction from FY2010.⁴⁷ (See **Table 2** below.)

Table 2. U.S. Bilateral Foreign Assistance to Mongolia FY2009-2012

(In USD thousands)

	FY2009 Actual	FY2010 Actual	FY2011 CR	FY2012 Request
Development Assistance	7,500	7,500	Not finalized	6,300
Economic Support Fund	12,000	0	Not finalized	0
Foreign Military Financing (FMF)	1,000	4,500	Not finalized	3,000
International Military Education and Training (IMET)	1,013	1,000	Not finalized	1,000
Nonproliferation, Antiterrorism, Demining and Related Programs	250	250	Not finalized	250
TOTAL	21,763	13,256	Not finalized	10,550

⁴⁷ U.S. Department of State, *FY 2012 Congressional Budget Justification - Foreign Operations*, April 11, 2011, <http://www.state.gov/f/releases/iab/fy2012cbj/pdf/index.htm>.

Source: U.S. Department of State, *FY 2012 Congressional Budget Justification - Foreign Operations*, April 11, 2011, <http://www.state.gov/f/releases/iab/fy2012cbj/pdf/index.htm>; U.S. Department of State, *FY 2011 Congressional Budget Justification - Foreign Operations*, March 2010, <http://www.state.gov/documents/organization/137937.pdf>.

Notes: Country totals for foreign assistance under the continuing resolution, H.R. 1473, P.L. 112-10, signed into law on April 15, 2011, have not yet been finalized.

Defense cooperation is a major component of the U.S.-Mongolian relationship. Funding for FMF for Mongolia jumped from \$1 million in FY2009 to \$4.5 million in FY2010. The FY2012 request drops the request for FMF funding to \$3 million. U.S. government funds from the FMF and IMET accounts are helping to ensure the interoperability of Mongolian forces with the forces of the United States and its allies worldwide. In addition to supporting professional military education and technical training and field medicine capabilities, IMET supports English-language training for Mongolia's forces.⁴⁸

The Mongolian and the U.S. militaries jointly host Khaan Quest peacekeeping exercises in Mongolia each summer. As of August 2010, 30 countries had either participated in or sent observers to the exercises.⁴⁹ The Department of Defense also supports annual Gobi Wolf exercises, aimed at improving Mongolia's disaster preparedness. The 2011 exercise will focus on the scenario of government response to a major earthquake.⁵⁰

The Alaska National Guard is partnered with Mongolia under the State Partnership Program, which pairs the National Guards of 48 states, three territories, and the District of Columbia with active and reserve forces in 62 countries around the world. Alaskan National Guard soldiers are serving as advisors for Mongolian troops in Afghanistan, and performed the same role in Iraq. Mongolia and Alaska have conducted numerous exchanges to build capacity in disaster response, health and medical care, and peacekeeping operations.⁵¹

The U.S. Agency for International Development (USAID) uses development assistance funds to support projects in two broad areas. The first, receiving the bulk of the funds, is economic growth. USAID-supported projects promote private sector competitiveness and strengthen the financial sector's ability to support growth in the mining industry. The second broad area of USAID support, "governing justly and democratically," includes projects in the areas of anti-corruption, administrative law, and judicial sector reform.

Millennium Challenge Corporation Compact

In addition to providing annual foreign assistance, the United States in 2007 signed a \$285 million Millennium Challenge Compact with Mongolia, which runs through September 2013. Countries eligible for Millennium Challenge Corporation (MCC) support must perform above the median in their peer group in "ruling justly, investing in people, and encouraging economic

⁴⁸ U.S. Department of State, *FY 2012 Congressional Budget Justification - Foreign Operations*, April 11, 2011, <http://www.state.gov/f/releases/iab/fy2012cbj/pdf/index.htm>.

⁴⁹ Department of State, "Khaan Quest 2010 begins," press release, August 8, 2010, http://mongolia.usembassy.gov/news_080810.html.

⁵⁰ Department of State, "'Ambassador's Hour' Remarks by the Ambassador Addleton at the Mongolian Institute of Strategic Studies," April 15, 2010, <http://mongolia.usembassy.gov/soeches-041510.html>.

⁵¹ Email from Lt. Col. Stephen Wilson, Alaska National Guard, October 22, 2010; Staff Sgt. Jim Greenhill, National Guard Bureau, *Alaska, Mongolia partnership flourishes with shared challenges*, The National Guard, February 28, 2008, <http://www.ng.mil/news/archives/2008/02/022808-alaska.aspx>.

freedom.” The banner project in the original compact was a \$188.38 million project to upgrade Mongolia’s main railway, the single track Ulan Bator Railway, which runs from the Russian border in the north to the Chinese border in the south. Mongolia, however, owns only half the railway, with the remaining 50% of the railway’s shares in the hands of a Russian state-owned corporation, JSC Russian Railways. In April 2009, the Ulan Bator Railway’s Russian chairman refused to allow an international firm to audit the railway company’s books and withheld his approval of the MCC project. The MCC was forced to revise the compact and redirect the funds intended for the railway to other projects.⁵² The change of plans has led to fears that Mongolia will not spend all the funds allotted to it by the September 2013 deadline, and will, under MCC rules, lose the un-expended amount. At the end of 2010, Mongolia had committed 41% of its allotted funds, and spent 14%.⁵³

Included in Mongolia’s current revised compact are five projects to build infrastructure, strengthen vocational education for the unemployed and marginally employed, address environmental challenges, strengthen property rights, and support public health. The infrastructure project, the North-South Road Project, involves construction of a 110 mile-long road that will complete the last unpaved section of highway connecting Europe with East Asia.⁵⁴

Other U.S. Government Programs in Mongolia

The United States has approximately 130 Peace Corps volunteers assigned to Mongolia. They are involved in training Mongolian English teachers and teaching English, as well as in the areas of community-based health, community youth development, and community and economic development.⁵⁵

U.S. government support for Mongolia also includes programs under the Department of Agriculture’s Food for Progress and 416(b) programs to “bolster entrepreneurship, help with herder livelihood diversification, and improve veterinary services.”⁵⁶ The Department of Commerce’s International Trade Administration (ITA) organizes capacity building programs for Mongolian officials on trade issues, including intellectual property rights, and holds an annual United States-Mongolia business forum in the United States.⁵⁷ The Department of the Treasury’s Office of Technical Assistance (OTA) has been working with Mongolia’s Central Bank and with the Ministry of Finance to address banking and financial sector reforms.⁵⁸ Finally, the U.S. Trade

⁵² Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 731-732; Millennium Challenge Corporation, “Report on the Modification to the Millennium Challenge Compact Between the United States of America, Acting Through the Millennium Challenge Corporation, and the Government of Mongolia,” Congressional notification, December 11, 2009.

⁵³ Millennium Challenge Corporation, *Mongolia Compact*, <http://www.mcc.gov/pages/countries/program/mongolia-compact>.

⁵⁴ *Ibid.*

⁵⁵ For more information, see Peace Corps, *Peace Corps Mongolia*, <http://mongolia.peacecorps.gov/projects.php>.

⁵⁶ U.S. Department of State, *Background Note: Mongolia*, Washington, D.C., March 8, 2011, <http://www.state.gov/r/pa/ei/bgn/2779.htm>.

⁵⁷ Personal communication with Zhen Gong-Cross, Head of Mongolian Affairs, International Trade Administration, Department of Commerce, October 21, 2010.

⁵⁸ This work was funded in 2009 and 2010 by funds from the FY2009 global financial crisis supplemental funding to Mongolia. For more information about the Office of Technical Assistance’s work, see Department of the Treasury, “Office of Technical Assistance Mission Statement,” press release, <http://www.ustreas.gov/offices/international-affairs/assistance/>.

and Development Agency has also supported projects to promote economic reform and help Mongolia integrate itself into the regional economy. Examples include a \$771,600 project to assist Eznis Airways, a private airline, in devising a strategic expansion plan for its commercial aviation business, and a \$391,550 project to support a feasibility study on a proposed 86-kilometer branch railroad line that would connect a privately operated coal mine in south central Mongolia with the country's main north-south rail line.⁵⁹

Relations with Russia⁶⁰

Mongolia was a satellite state of the Soviet Union from 1921 until 1990. The relationship entailed one-party rule under the communist Mongolian People's Revolutionary Party, a foreign policy dictated by the Soviet Union, state-owned industry, collectivized livestock herding, suppression of Mongolia's Tibetan Buddhist religion, and rounds of political purges. With military backing from the Soviet Union, however, Mongolia was able to exist as a state in its own right, with its own membership in the United Nations (gained in 1961) and in the Council for Mutual Economic Assistance (Comecon), the economic organization for Soviet bloc countries (gained in 1962). Mongolians had opportunities to pursue advanced studies in the Soviet Union and Eastern Europe. The Soviet Union partnered with Mongolia to build the country's main rail line, a single track running from the Russian border in the north to the Chinese border in the south. The Soviet Union also partnered with Mongolia to develop the Erdenet copper and molybdenum mine, which opened in 1978 and was until recently Mongolia's top export earner.

With Mongolia's 1990 democratic revolution and the collapse of the Soviet Union, Russia cut off aid, withdrew its last troops from Mongolia in 1992, and began to demand the repayment of aid the Soviet Union had given to Mongolia between 1946 and 1990. The debt remained a thorn in bilateral relations until December 2010, when the two countries declared a final settlement of the dispute.

In recent years, Mongolia has sought to bolster ties with Russia, in part to balance China's influence. The two countries declared themselves "strategic partners" in 2005. Mongolia remains dependent on Russia for energy products, particularly diesel, as well as for access to international markets. Russia has been eager to cooperate with Mongolia in development of Mongolia's uranium resources, including the Dornod deposit. (See "Dornod Uranium Deposit" above.) The U.S. government is more comfortable with Russian involvement in Mongolian's uranium sector than with the involvement of other players with less developed protocols for management of uranium. The Russian government continues to be a joint owner of Mongolia's railway, through the state-owned company JSC Russian Railways, and of the Erdenet copper mine. The two countries have discussed further cooperation in railway infrastructure. Russian firms are also involved in the bidding for the right to develop the Tavan Tolgoi coal deposit, and have expressed interest in other investment opportunities related to the Tavan Tolgoi project. Military ties are warming, too. In November 2008, Mongolia and Russia held their first joint military exercises in Mongolia since the departure of the last Russian troops from Mongolian soil in 1992.

⁵⁹ U.S. Trade and Development Agency, "East Asia and Eurasia Region," press release, <http://www.ustda.gov/program/regions/eastasia&eurasia/>.

⁶⁰ Drawn from Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 616-625.

Relations with China

Mongolia is committed to “balanced” relations with both Russia and China. China has become by far Mongolia’s largest trading partner, as well as its largest source of foreign investment. According to Chinese figures, China’s cumulative investment in Mongolia at the end of 2010 had reached \$1.38 billion. For China’s fast growing economy, Mongolia is an increasingly important source coal and of mineral inputs for industry. The two countries formally embraced a “good neighborly partnership of mutual trust” in 2003,⁶¹ and have engaged in bilateral peacekeeping exercises. The “Peacekeeping Mission 2009,” held in China in the summer of 2009, was the first joint peacekeeping exercise China had held with another country, as well as the first joint military training between the two countries.⁶²

Each side, however, remains wary of the other. Mongolia worries about economic domination by China, which is the destination for as much as 90 percent of Mongolia’s exports.⁶³ Sparsely populated Mongolia also worries about being overrun by immigrants from China, including from China’s Inner Mongolia Autonomous Region, which has a larger ethnic Mongolian population than the country of Mongolia itself. Mongolia has been rankled by China’s efforts to register elements of traditional Mongolian culture as Chinese with the United Nations Educational, Scientific, and Cultural Organization (UNESCO).⁶⁴ Wariness of China may be reflected in Mongolia’s failure so far to build better infrastructure to facilitate the transportation of its minerals to markets in China. For its part, China has lingering concerns about the potential for a “pan-Mongol” movement, linking Mongolians on both sides of the Chinese-Mongolian border, to undermine stability in Inner Mongolia. Some Chinese elites see Mongolia’s close ties to the United States as part of a U.S. effort to contain China. Beijing is also deeply uncomfortable with Mongolia’s close ties to Tibet’s exiled spiritual leader, the Dalai Lama, whom China blames for resistance to Chinese control in Tibet and Tibetan areas of China.

Mongolia and Tibet have a long shared history. A Mongolian ruler originated the institution of the Dalai Lama when he first conferred the title, meaning “Oceanic Lama,” on a Tibetan religious figure in 1578. In 1913, Mongolia and Tibet signed a treaty declaring themselves free from Manchu Chinese rule and recognizing each other as independent states. Despite decades of religious suppression during the Soviet era, lamaist Buddhism, and specifically the Dalai Lama’s Gelugpa order of Tibetan Buddhism, has revived in Mongolia in the democratic era and is Mongolia’s predominant religion. Mongolian monks train in the monasteries of the exile Tibetan movement in India, and the Dalai Lama has made five “private” visits to Mongolia since the 1990 democratic revolution, in 1991, 1994, 1995, 2002, and 2006, despite objections from China. In November 2002, in a powerful show of displeasure with Mongolia for hosting the Dalai Lama, China closed its side of the Chinese-Mongolian rail border for 36 hours, highlighting Mongolia’s geographic dependence on China’s goodwill.⁶⁵ Mongolians are deeply concerned about signals

⁶¹ Website of the Ministry of Foreign Affairs of the People’s Republic of China, “Mongolia,” http://www.fmprc.gov/cn/chn/pds/gjhdq/gj/yz/1206_21/.

⁶² “China, Mongolia launch joint peacekeeping exercise,” *Xinhua*, June 29, 2009.

⁶³ The World Bank, *Mongolia Quarterly Economic Update*, April 2011, p. 5.

⁶⁴ Mongolia objected in 2010, for example, to UNESCO’s listing of Khoomii, the traditional Mongolian art of throat singing, as an intangible cultural heritage of China. Jargal Byambasuren, “Mongolian throat singers defend tradition against China,” *Reuters*, February 11, 2010.

⁶⁵ Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 686-689; 156.

that China intends to control the reincarnation process for the current Dalai Lama, with many Mongolians rejecting the idea that Beijing should be permitted to select their spiritual leader.

Relations with Japan

Along with the United States, South Korea, Germany, and India, Japan is one of Mongolia's leading "third neighbors," countries that do not share geographic borders with Mongolia but to which Mongolia looks for diplomatic and other forms of support. Mongolia and Japan established diplomatic relations in 1972, but the relationship remained largely inactive until 1990. Shortly after the democratic revolution, the two countries exchanged prime ministerial visits and Japan organized a series of conferences for aid donors to Mongolia. In recent years, Japan has given an average of \$50 million a year to Mongolia in grants, in addition to loans that have ranged from \$4 million to \$38 million a year.⁶⁶ (See **Table 3** for data on Japanese aid to Mongolia from 2005-2009.) The Japanese government has expressed frustration, however, that its companies have struggled to gain a foothold in Mongolia. A February 2011 report on the website of the Japanese Ministry of Foreign Affairs complained that, "Japan's presence has been declining year by year, even though Japan is the greatest provider of ODA [overseas development assistance] to Mongolia." Faced with China and Russia's "overwhelming" economic presence in Mongolia, South Korea's "dramatically" increasing influence, Canada's large-scale mineral investments, and the United States' Millennium Challenge Corporation Compact, the Japanese foreign ministry concluded that, "it is extremely important that Japan engage substantially in the development of Mongolia's uranium and other abundant mineral resources, conduct large-scale investment, and create a mutually-beneficial relationship..."⁶⁷ In 1998, the Mongolia and Japan announced a "comprehensive partnership," and Mongolia pledged support for Japan's campaign for a permanent seat on the U.N. Security Council, a campaign that China opposes.⁶⁸

Table 3. Japanese Overseas Development Assistance to Mongolia 2005-2009
(In USD millions)

Aid Type	2005	2006	2007	2008	2009
Grants	42.1	51.1	52.41	54.7	52.49
Loans	22.28	4.24	9.88	20.17	37.89
Total	64.38	55.34	62.29	74.87	90.38

Source: OECDStat, development database on aid from members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD).

Relations with the Koreans

Mongolians have strong historical ties with the Korean peninsula, with many Koreans believing their ancestors came from Mongolia. In 1948, when Mongolia was a satellite of the Soviet Union,

⁶⁶ OECDStat, development database on aid from members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD).

⁶⁷ Ministry of Foreign Affairs of Japan, *Japan-Mongolia Relations*, February 2011, <http://www.mofa.go.jp/region/asia-paci/mongolia/>.

⁶⁸ Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 358-360.

it was just the second country to recognize the new Democratic People's Republic of Korea (North Korea), after the Soviet Union itself. In 1990, one of Mongolia's first foreign policy acts after the democratic revolution was to establish diplomatic relations with the Republic of Korea (South Korea). Mongolia, like China and Russia, therefore has official relations with both Koreas.

Mongolia sees South Korea as a model for free-market economic development and a source of technology and capital. It is also reportedly home to as many as one fifth of Mongolians living abroad, with 32,206 Mongolians living long-term in South Korea as of 2008.⁶⁹ South Korea has become a major Mongolian trading partner, although two-way trade figures are dwarfed by those for Mongolia's trade with China and Russia. Mongolia deems South Korea to be one of its "third neighbors," countries that do not share borders with Mongolia but share close ties with it.

With encouragement from Western governments, starting in 1996, a succession of Mongolian governments has reached out to North Korea, seeking to reduce North Korea's isolation and encourage the country to engage with multilateral efforts to address security issues on the Korean peninsula. Mongolia is also keenly interested in securing access to North Korea's Rajin-Sonbong port, which would reduce Mongolia's reliance on the Chinese port of Tianjin, although Mongolian goods would still need to travel through Chinese or Russian territory to reach Rajin-Sonbong. North Korea's response to Mongolia's overtures has been mixed. High-level contacts, which had dropped off after Mongolia's 1990 democratic revolution, resumed in 1998. A year later, however, Mongolia expressed support for South Korea's "Sunshine" policy, leading an angry North Korea to shutter its embassy in the Mongolian capital, Ulaanbaatar. When the embassy re-opened in 2004, a North Korean official suggested establishing joint farm operations in several Mongolian provinces. Several thousand North Korean agricultural experts and workers are now estimated to be employed on farms in Mongolia. Mongolian officials hope that North Korean workers exposed to life in democratic Mongolia might help change mindsets back in North Korea after their return, although some also worry that the North Korean workers' earnings may be lining the pockets of the North Korean elite. Mongolia's role as a transit stop for North Korean refugees arriving from China was a sensitive issue in Mongolian-North Korean relations for some years. Mongolia's former ambassador to the United States has been quoted as saying that between 1999 and 2003, more than 600 North Koreans who entered Mongolia from China were re-settled in South Korea. For reasons that remain unclear, however, U.S. officials say that in recent years, the flow of North Korean refugees from China to Mongolia has largely dried up.⁷⁰

Relations with the European Union

Mongolia's strong relations with the European Union were shaken in September 2010 by the arrest in London of the head of the executive office of Mongolia's National Security Council, Bat Khurts. He was detained at London's Heathrow Airport on a European arrest warrant issued by Germany charging that he had participated in the 2003 drugging and kidnapping of a Mongolian national suspected of involvement in a sensational 1998 Mongolian political assassination. Khurts allegedly helped kidnap the Mongolian national in France, drove him to the Mongolian Consulate

⁶⁹ The one fifth statistic is from Migeedorj Batchimeg, "Mongolia's DPRK Policy: Engaging North Korea," *Asian Survey*, vol. 46, no. 2 (March/April 2006), pp. 282. The number of Mongolians living in South Korea is from the website of the Ministry of Foreign Affairs and Trade of the Republic of Korea, http://www.mofat.go.kr/english/regions/asia/20070802/1_292.jsp?board=board&boardid=&key=1.

⁷⁰ Migeedorj Batchimeg, "Mongolia's DPRK Policy: Engaging North Korea," *Asian Survey*, vol. 46, no. 2 (March/April 2006), pp. 275-297.

in Brussels, and then drove him to Germany, where the suspect was put on a flight to Mongolia. The case has thus complicated Mongolia's relations with no fewer than four European Union countries, including Germany, which Mongolia considers to be one of its leading "third neighbor" partners. Khurts is currently fighting extradition to Germany, claiming that he had traveled to Britain on a diplomatic passport for official meetings, and so should have been covered by diplomatic immunity when he arrived in Britain. His supporters have held well-publicized demonstrations outside the British Embassy in Ulaanbaatar. The political assassination to which the suspect was allegedly tied was that of Sanjaasuren Zorig, one of the most charismatic leaders of the 1990 democratic revolution. He was Mongolia's Minister of Infrastructure Development and a much-discussed potential candidate for Prime Minister at the time of his death.⁷¹

⁷¹ Katie Hodge, "Spy Chief Loses Extradition Appeal," *Press Association*, February 25, 2011; "Mongolian spy chief appeals British extradition ruling," *Agency France Presse*, February 25, 2011.

Appendix A. Select Legislation on Mongolia

Table A-1. Select Legislation on Mongolia from the 102nd Congress to the Present

Bill Number	Legislative Sponsor	Date Passed	Title/Description
S.Res. 192 (111th Congress)	Kerry	June 18, 2009	Expressing the sense of the Senate regarding supporting democracy and economic development in Mongolia and expanding relations between the United States and Mongolia.
S.Res. 352 (110th Congress)	Murkowski	October 18, 2007	Expressing the sense of the Senate regarding the 20 th anniversary of United States-Mongolia relations.
H.Res. 828 (109th Congress)	Pitts	June 7, 2006	Commending the people of Mongolia, on the 800 th anniversary of Mongolian statehood, for building strong, democratic institutions, and expressing the support of the House of Representatives for efforts by the United States to continue to strengthen its partnership with that country.
P.L. 106-36 (106th Congress)	Archer	June 25, 1999	Miscellaneous Trade and Technical Corrections Act of 1999. Extended permanent normal trade relations treatment to the products of Mongolia.
S.Res. 276 (104th Congress)	Robb	September 6, 1996	A resolution congratulating the people of Mongolia on embracing democracy in Mongolia through their participation in the parliamentary elections held on June 30, 1996.
H.Res. 158 (104th Congress)	Bereuter	September 18, 1995	Congratulating the people of Mongolia on the 5 th anniversary of the first democratic multiparty elections held in Mongolia on July 29, 1990.
P.L. 102-157	Gephardt	November 13, 1991	Approving the extension of nondiscriminatory treatment with respect to the products of the Mongolian People's Republic.

Bill Number	Legislative Sponsor	Date Passed	Title/Description
S.Con.Res. 21 (102nd Congress)	Cranston	October 17, 1991	A concurrent resolution commending the people of Mongolia on their first multi-party elections.

Source: Legislative Information System of the U.S. Congress

Appendix B. Mongolian Elections 1992-Present

Table B-1. Direct Presidential Elections

Date	Winning Candidate	Party	Percentage of Vote Won
June 6, 1993	Punsalmaagiin Ochirbat	Mongolian National Democratic Party and Mongolian Social Democratic Party	57.8
May 18, 1997	Natsagiin Bagabandi	Mongolian People's Revolutionary Party	60.8
May 20, 2001	Natsagiin Bagabandi	Mongolian People's Revolutionary Party	57.95
May 22, 2005	Nambaryn Enkhbayar	Mongolian People's Revolutionary Party	53
May 24, 2009	Tsakhia Elbegdorj	Democratic Party	51.21

Source: Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 585-586.

Notes: In September 1990, prior to passage of the 1992 democratic constitution, Mongolia's then parliament elected Ochirbat president for the first time as the candidate of the Mongolian People's Revolutionary Party (MPRP). The MPRP declined to select him as its candidate for the 1993 direct presidential election, so Ochirbat ran instead as the candidate of the Mongolian National Democratic Party and the Mongolian Social Democratic Party. He defeated the MPRP's candidate, 57.8% to 38.7%. (See Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 546-547.

Table B-2. Direct Parliamentary Elections 1992-Present

The State Great Hural has 76 Seats. Majority Party or Coalition is Highlighted

Date	Breakdown of Seats	Prime Ministers
June 28, 1992	<p>Mongolian People's Revolutionary Party (MPRP): 70 seats</p> <p>Democratic Union Coalition (the Mongolian Democratic Party, Mongolian National Progressive Party, and the Mongolian United Party): 4 seats</p> <p>Mongolian Social Democratic Party (MSDP): 1 seat</p> <p>Independents: 3 seats</p>	Puntsagiin Jasrai (7/20/1992-7/19/1996)

Date	Breakdown of Seats	Prime Ministers
June 30, 1996	<p>“Democratic Union” Coalition (Mongolian National Democratic Party, Mongolian Social Democratic Party, Mongolian Worshipers Democratic Party, and the Green Party): 50 seats</p> <p>MPRP: 25 seats</p> <p>Mongolian Traditional United Party: 1 seat</p>	<p>Mendsaikhany Enkhsaikhan (7/19/1996-4/23/1998)</p> <p>Tsakhia Elbegdorj (4/23/1998-12/9/1998)</p> <p>Janlavyn Narantstasralt (12/9/1998-7/22/1999)</p> <p>Rinchinyamyn Amarjargal (7/30/1999-7/26/2000)</p>
July 2, 2000	<p>MPRP: 72 seats</p> <p>National Democratic Party (MNDP): 1 seat</p> <p>Civil Courage Party: 1 seat</p> <p>Mongolian New Social Democratic Party: 1 seat</p> <p>Independent: 1 seat</p>	<p>Nambaryn Enkhbayar (7/26/2000-8/20/2004)</p>
June 27, 2004	<p>MPRP: 37 seats</p> <p>Motherland-Democracy Coalition (Democratic Party, Motherland Party, National New Party, Civil Will Party): 35 seats</p> <p>Republican Party (MRP): 1 seat</p> <p>Independents: 3 seats</p>	<p>Tsakhia Elbegdorj (8/20/2004-1/25/2006)</p> <p>Miyeeegombyn Ekhbold (1/25/2006-11/22/2007)</p> <p>Sanjaagiin Bayar (11/22/2007-9/11/2008)</p>
June 29, 2008	<p>MPRP: 45 seats</p> <p>Democratic Party: 28 seats</p> <p>Civil Will Party (CWP): 1 seat</p> <p>Green Party: 1 seat</p> <p>Independent: 1 seat</p>	<p>Sanjaagin Bayar (9/11/2008-10/29/2009)</p> <p>Sukhbaatar Batbold (10/29/2009 to present)</p>

Source: Breakdown of seats from Inter-Parliamentary Union, http://www.ipu.org/parline-e/reports/2219_arc.htm; prime ministers from Alan J.K. Sanders, *Historical Dictionary of Mongolia*, 3rd ed. (The Scarecrow Press, Inc., 2010), pp. 587-588.

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