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MONGOLIA'S MINERAL BOOM AND JAPAN

Yasuyoshi Ichihashi

In recent years, Mongolia has come into the limelight internationally due to its underground mineral resource development. In January, 15 business entities from such countries as Japan, China, Russia, the United States, Australia, Brazil and India submitted bids for the country's South Gobi coal mine, one of the world's largest of its kind. Long-neglected resource development was accelerated two years ago when a contract with Canadian and Australian mining companies on the development of copper and gold porphyry deposits in the South Gobi, considered the world's largest, provided a framework for the development of mineral resources in Mongolia.

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Mongolia is also home to untapped deposits of rare metals, rare earths and uranium. Given the expected economic growth of emerging economies and the international circumstances surrounding natural resources, resource development in Mongolia and international competition over it will no doubt pick up speed. Mongolia is in the midst of a mineral boom.

Mongolia's gross domestic product (GDP) grew by six percent in real terms last year, with stock prices continuing to soar in the country's yet small-scale stock market. When the mining projects actually get started, it is expected that the growth rate will be boosted by an unprecedented 20 percent. For a resource-strapped Japan, Mongolia's mineral resources development is no doubt important.

Because of its geographical standing and historical experience, Mongolia does not want to see Russia and China alone gain the high ground and may want to avoid the overwhelming influence of the major powers to the north and south by welcoming the increased presence of "third neighbors," including Japan, out of diplomatic and national security concern. Mongolia outpaces the other former socialist states in democratization and is thus expected to have a relatively rational and stable framework for international negotiations. Japan will be able to cooperate with Mongolia, with which it shares basic values in many aspects of international affairs, not just from the economic security standpoint of diversifying the sources of natural resources but also from diplomatic and national security standpoints as well.

Nonetheless, Mongolia is still in an early stage of development and much still needs to be done in developing the country's legal system and in expanding national capacity. There are various risks as well. Japan should help Mongolia overcome these difficulties by assisting in the area of human resource development in particular. With the Mongolian economy expected to grow rapidly thanks to mining projects, particular attention should be paid to the treatment of nomads, who still account for 20 percent of households and provide a basis for Mongolians' ethnic culture. The gap between concentrated wealth and poverty can distort social structures and create insecurity. Random distribution of mineral wealth just to satisfy the people lacks a basic state-building perspective. Amid

the mining boom, the kind of assistance expected of Japan may be to help Mongolia develop a balanced state policy.

Mongolia sits in a unique position geopolitically. Despite at one point in history having brought China and Russia under its control as the Mongol Empire, the country has long been bordered by China to the south and Russia to the north. All the while, the Mongolians have maintained a traditional nomadic lifestyle in the Mongolian Heights surrounded by the Gobi Desert and precipitous mountains. After some 200 years' rule by the Qing Dynasty, the country gained independence from China in the wake of the Russian Revolution and became the second socialist state after the Soviet Union despite having no experience with capitalism and market economics.

For the next 70 years until the 1991 democratic revolution, Mongolia built its economy at its own pace with aid from the Soviet Union. Mongolia had no option but to be faithful to the Soviet Union during this period, which included World War II and the tense Sino–Soviet split, to the point of being called the Soviet Union's 16th republic. The country's modernization was limited, however. Despite urbanization, industrialization and collectivization efforts in agriculture and cattle farming under successive five-year plans, Mongolia's economic structure remain unchanged, with the majority of the population leading traditional nomadic lives over an extensive territory.

Such history differentiates Mongolia from both Central and East European countries, which became socialist states after World War II, and Central Asia's New Independent States (NIS), which became independent after the collapse of the Soviet Union, making the Mongolian state unique in more ways than just being surrounded by China and Russia. Mongolia had to start again from a lower level of economic and social development than Central and East European countries at the start of economic reforms toward a market economy, which caused severe damage to the traditional economy and prolonged economic stagnation. There was no system or infrastructure at the time to utilize the country's rich but undeveloped mineral resources.

Unlike Central and East European countries, Mongolia had no motivation to accelerate domestic reforms in a bid to obtain membership to the

European Union because it was outside the debate of EU enlargement. On the other hand, Mongolia stands out in the stability of its political and economic democratization when compared with the NIS countries, Russia and China. Mongolia does not have at all a regime as authoritarian, to varying degrees, as those that have ruled these countries. The reason is not necessarily clear, but this might be attributed to national pride in having maintained independence during the Soviet era and placing a high value on honor. Economically, however, Mongolia has not had a successful legacy; Mongolia's resource development and infrastructure investment lagged behind resource-rich Soviet republics such as Kazakhstan, Uzbekistan and Azerbaijan.

Mongolia is not immune from the nepotism and corruption commonly observed in transitional economies in their early stages. These problems, however, will be overcome as Mongolian society matures further. There is no sign of frustration about to explode. There were public demonstrations and protests against fraud in the latest round of parliamentary elections held in 2008, but the situation stabilized under the current coalition government. A small percentage of the population is Muslim, mainly comprising Kazakhs, but unlike in Tunisia and Egypt, they are not a destabilizing factor.

Twenty years since Mongolia began a modest move toward democracy and a market economy in the wake of the revolution in Eastern Europe, the country is finally grabbing a major chance to make an economic leap. I hope that this is not a passing boom and that it brings stable, sustainable growth to Mongolia. It is my great wish that Mongolia grow into a good partner of the international community, including Japan, as it builds a balanced state.✳

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