

Mongolia's Development And Increasing Dependence On China

Moğolistan'ın Gelişimi Ve Çin'e Bağımlılığının Artması

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Makale Başvuru Tarihi / Received: 14.11.2024

Makale Kabul Tarihi / Accepted: 30.12.2024

Makale Türü / Article Type: Araştırma Makalesi

Keywords:

Mongolia,
Democratic
Transition,
Dependence,
China,
Sustainability.

ABSTRACT

The collapse of the Soviet Union brought significant economic hardship to Mongolia, with its national gross domestic product (GDP) declining by approximately one-third, plunging the country into a deep recession. However, this transition enabled Mongolia to democratize its political system and shift from a socially planned economy to a market-based liberal model. By the early 2000s, Mongolia's economy began to recover, achieving rapid progress in subsequent years. Over the past two decades, its GDP has expanded from approximately 2 billion USD in 2004 to over 19.87 billion USD by the end of 2023. Simultaneously, per capita income increased from 785 USD to 5,765 USD. Mongolia has significantly reduced poverty, enhanced citizens' well-being, and attained upper middle-income status. Despite these notable achievements, Mongolia faces limitations due to its reliance on neighboring giants for security, trade, and economic stability. While Russia's influence has declined, Mongolia remains dependent on Moscow for fuel and electricity. In contrast, Beijing's influence is steadily rising, with China accounting for over half of Mongolia's total trade and more than 91% of its exports. This growing dependence on China renders Mongolia increasingly vulnerable to external shocks.

Anahtar Kelimeler:

Moğolistan,
Demokrasiye Geçiş,
Bağımlılık,
Çin,
Sürdürülebilirlik.

ÖZET

Sovyetler Birliği'nin çöküşü Moğolistan'a ekonomik sıkıntıları beraberinde getirmiştir. Ulusal gayri safi yurtiçi hasılası yaklaşık 1/3 oranında düşmüş ve ekonomisi derin bir durgunluğa girmiştir. Ancak bu, Moğolistan'ın siyasi sistemini demokratikleştirmesine ve sosyal planlamaya dayalı ekonomisini piyasaya dayalı liberal bir ekonomiye dönüştürmesine olanak sağlamıştır. 2000'li yılların başında Moğolistan ekonomisi toparlanmış ve o zamandan bu yana hızlı bir ekonomik ilerleme kaydetmiştir. Son 20 yılda, GSYH'si 2004'teki yaklaşık 2 milyar ABD dolarından 2023 sonunda 19,87 milyar ABD dolarının üzerine çıkmıştır. Aynı zamanda kişi başına düşen gelir 785 dolardan 5765 dolara yükselmiştir. Moğolistan yoksulluğunu azaltmış, vatandaşlarının refahını büyük ölçüde artırmış ve üst orta gelirli ülkeler statüsüne girmeyi başarmıştır. Önemli başarılarla rağmen Moğolistan'ın dev komşularla çevrili olması, güvenlik, ticaret ve ekonomi açısından onlara oldukça bağımlı olması ülkenin gelişmesinin sürdürülebilirliği açısından endişeler barındırmaktadır. Rusya'nın etkisi azalmaya devam etse de Moğolistan hâlâ büyük oranda Moskova'nın yakıt ve elektriğine bağımlıdır. Moskova'nın aksine Pekin'in Moğolistan'daki etkisi hızla ve istikrarlı bir şekilde artma eğilimindedir. Günümüzde Çin, Moğolistan'ın genel ticaretinin yarısından fazlasını ve ihracatının %91'inden fazlasını gerçekleştiriyor. Moğolistan'ın bağımlılığının artması onun ilerlemesini dış şoklara karşı savunmasız hale getiriyor.

1. INTRODUCTION

Mongolia is located in the northern part of Central Asia and is one of the largest landlocked countries in the world. It has a proud history of being a key part of great powers such as the Huns, Kok Turks, Uyghurs, and Mongol empires that shaped the geopolitics of Asia. But in recent centuries, the Mongols gradually lost superiority and fell behind surrounding nations. They fell under Manchurian control in the late 17th century and survived as their subjects. The Mongolian revolution came shortly after the fall of the Manchu Qing empire and it gained recognition with the Treaty of Kyakhta in 1915 signed by Mongolia, Russia, and China (Hookham, 1980: 753-754). While Mongolia declared independence shortly after the collapse of the Manchu Qing dynasty, it became a satellite state of the Soviet Union in 1924 (Bondaz, 2014: 8).

Modern Mongolia's social economics and politics were largely defined by its geopolitical environments and internal and international developments. Despite its vast geographical size of about 1,564,116 square kilometers, nearly four times Germany's, it is sparsely populated. Population in 2024 reached 3.55 million (National Statistics Office of Mongolia, 2024). This demographic disadvantage has adversely affected its development of self-reliance and independence. In 1919, new Mongolia faced an invasion by China, and in 1921, Mongolians were able to defeat the Chinese with the help of Russian military support. They once again declared independence in 1921 and with the help of the Soviet Union, they officially formed the revolutionary Mongolian People's Republic in 1924 (Thomas, 1980: 399). Since then, Mongolia became the second socialist state in the world and sustained its existence under strong Soviet influence until the 1990s.

After the collapse of the Soviet Union, Mongolia underwent a democratic revolution and successfully transitioned its political system to democracy. Its transition was peaceful and free of electoral fraud (Batbayar and Bingöl, 2022: 14). Moreover, the fall of the Soviet Union brought Mongolia economic hardship. Despite a short period of economic difficulties, Ulaanbaatar transformed its socially planned economy into a market economy.

Mongolia under the democratic governments allowed free enterprise, carried out privatizations, and began to attract foreign investments. After a short period of economic hardship during the 1990s, the Mongolian economy was recovering and began to rapidly grow in the 21st century. Over the past thirty years, Mongolia has transformed its economy into a market economy and achieved substantial economic progress. In a short period, Mongolia made great achievements in reducing poverty and increasing its per capita income. Along with building a vibrant democracy, it created a dynamic economy by tripling its GDP. In 2024, Mongolia was classified as an upper-middle-income country status by the World Bank (World Bank, 2024).

Despite its significant socio-political achievements and economic progress, the Mongolian economy faces different challenges. These include high inflation, persistent trade disruptions, tighter external financing conditions, and complex geopolitical risks (Mongolianembassy.us, 2024). Moreover, the Mongolian economy is highly dependent on producing raw materials and minerals. Its lack of modern infrastructure and industrialization is minimal. Despite Russian influence declining, Mongolia still highly depends on Moscow in terms of fuels and electricity. Contrary to Russia, the Chinese influence in Mongolia is rising very rapidly. Mongolia is becoming more highly dependent on its imports and exports from China. More than half of Mongolia's foreign trade is carried out with China. This casts shadows on Mongolians' future economic well-being and limits their maneuvering capabilities as an independent state.

2. LITERATURE REVIEW

Mongolia's socio-economic development and its geopolitical dynamics have drawn significant scholarly attention due to its strategic position between Russia and China. The collapse of the Soviet Union in 1991 marked a turning point in Mongolia's political trajectory. Transitioning from a socialist planned economy to a market-based democracy, Mongolia adopted a new constitution in 1992. Scholars highlight the peaceful nature of this transition, achieved despite economic challenges (Batbayar & Bingöl, 2022; Lkhaajav & Maire, 2021). However, Cheng (2003) notes that GDP declined drastically during the 1990s, with inflation surging above 250%, underscoring the difficulty of such transformations.

Post-transition, Mongolia's economic growth has been driven largely by its rich mineral resources. The mining sector, central to its economy, has enabled rapid GDP growth but also poses risks to sustainability (Eskenazi, 2020; World Bank, 2024). Reliance on mining and raw material exports makes Mongolia vulnerable to external shocks (Bilskie & Arnold, 2002). Additionally, wealth distribution disparities and regional imbalances remain persistent challenges (Macrotrends, 2024a).

Mongolia's geopolitical location significantly shapes its economic dependencies. Historically dominated by Russia, this influence has waned since the Soviet Union's dissolution, with China emerging as Mongolia's primary economic partner, accounting for over 91% of exports (Ministry of Commerce of the PRC, 2024). Wallenböck (2024) and Bondaz (2014) argue that China's economic leverage extends into Mongolia's political decisions, exemplified by trade restrictions following the 2016 Dalai Lama visit (Namjilsangarav, 2016). Mongolia's "third neighbor policy" aims to diversify partnerships but faces significant limitations due to infrastructural and geopolitical constraints (Grieger, 2024).

Economic growth in Mongolia has also come at an environmental cost. The mining sector exacerbates land degradation and water scarcity, while urbanization highlights disparities between Ulaanbaatar and rural areas (Macrotrends, 2024a). Climate change further complicates agricultural productivity and herding practices (IMF, 2024). Addressing these challenges requires balancing growth with sustainability.

While Mongolia's democratic and economic transformations are noteworthy, heavy reliance on China poses risks to sovereignty and sustainability. Future research should focus on strategies to diversify Mongolia's economy, strengthen its third-neighbor policy, and mitigate environmental impacts for a resilient development trajectory.

3. MONGOLIA'S TRANSFORMATION TO MODERNITY

Russia and China have greatly influenced modern Mongolian socioeconomics and politics. Especially during the 20th century, Moscow and its policies towards Mongolia were the primary external determining forces shaping Mongolian societies and policies. Even the survival of Mongolia as an independent state was inseparable from Moscow's political and military support. Like the Chinese, Tibetans, and Uyghurs, the Mongolians were also colonized by the Manchurians and gained independence shortly after the collapse of the Manchu empire. The main threat to Mongolian sovereignty came from nationalist China, which gained independence by revolting against Manchurian rule in 1912.

Russia was involved in the First World War in 1914 and the civil war in 1917. China exploited these opportunities and invaded Mongolia. Mongolia lived under Chinese occupation from 1919 to 1921. When the Red Army overcame the White Army in Russia, the communist government of Moscow found an opportunity to help Mongolia against the Chinese occupation. In 1921, with the help of the Russian army, Mongolia expelled the Chinese from outer Mongolia, but they failed to reintegrate southern Mongolia. In 1921, the People's Revolution won in Mongolia with the help of the Russian Red Army and thus Mongolia became the second socialist country in the world. On November 25, 1924, the Mongolian People's Republic was proclaimed (Mongolianembassy.us, 2024). Since then Moscow again became the major outside influence on Mongolia.

Mongol nationalists tried to build a unified Mongolia in the early 20th century. Even the Pan-Mongolian movement under the leadership of Ataman Semenov organized a conference of Mongols in 1919 near Khyagta, and they agreed to create a unified Mongol government that included Outer and Inner/southern Mongolia, Buryatia, and Bargut (Tumurjav, 2005: 270). While they were trying to get foreign support, no country was willing to accept it. Even though some individuals were keen to support Mongol nationalism, the government of imperial Japan hesitated to support the Pan-Mongolian movements.

Most Mongols and historical Mongol residential areas have remained outside independent Mongolia. Building a strong and truly independent Mongol state without integrating with them is almost impossible. Especially, the vast majority of the Mongol population and territories controlled by China. Choibalsan who ruled Mongolia from 1939-1952 also dreamed of an independent Mongolia that could reach the Great Wall of China and the Tibetan mountains (Radchenko, 2012: 11). But his dream has remained a dream and has not yet been fulfilled. Both Russia and China feared the awakening of Mongol nationalism. They tried to increase their interest in Mongolia to weaken the Pan-Mongolian movement and protect their national interest.

Figure 1. Mongolia and Southern Mongolia



Source: Military Review, 2022.

Moscow and Beijing negotiated the fate of Mongolia without Mongolian involvement. China was not content with the occupation of Southern Mongolia and urged Moscow to assume control of outer, or present-day, Mongolia. But Moscow had different interests in keeping the status quo. After intense negotiations, Moscow and Beijing agreed to recognize Mongolian independence, but the Soviets allowed China to control southern Mongolia. In July 1945, Marshal Choibalsan was invited to Moscow. Stalin read out the draft of those notes to him. After listening, H. Choibalsan answered:

We will not have friendly cooperation with the Chinese. In China, the Mongols continue to face oppression in Inner Mongolia, Alashan, and Ordos (regions of China adjacent to Inner Mongolia - author's note). We'll present our bill to the Chinese. We will tell the whole world how they mocked us, and how they continue to mock the Mongols who remain with them" (Military Review, 2022).

The Mongolians thought after defeating Japan, the Soviets would help them to unify Southern Mongolia as a pro-Soviet state. On the contrary, excellent neighbors initiated different approaches according to their global agenda. Mongolians did not have enough power and capability to change the status quo and were forced to accept the bitter reality. As for China, after Stalin's death, they began to reconsider returning to Outer or independent Mongolia. Chinese, however, returned to the question of "reuniting" with Outer, saying "Mongolia's independence was one of Stalin's mistakes" (Radchenko, 2012: 31). The Chinese shadow of Mongolian sovereignty has remained one way or another.

The fear of China became one of the factors that caused Mongolians to lean towards Moscow. The Soviet-backed communist rule in Mongolia brought great socioeconomic changes. There was progress in reducing poverty, increasing literacy rates and education levels, and improving healthcare by reducing mortality rates, etc. Nonetheless, the Soviets did not allow Mongolia to pursue independent socioeconomic policies. The Mongolian leaders came under strong Moscow influence, becoming mere puppets to implement Soviet policies.

From the 1920s to the 1990s, communist rule in Mongolia almost destroyed the traditional way of life and oppressed Mongol nationalists, intellectuals, religious leaders, and faithful believers. The Soviet-style repression began in the late 1920s, targeting specifically religious establishments and aristocracies (Communistcrimes.org, 2024). The first phase of liquidating private property and collectivization was carried out as part of the social revolution. The collectivization provoked a massive slaughter of livestock as well as a wave of anti-communist uprisings. According to estimations:

During the 1930s and 1940s, about one-third of male citizens of Mongolia were killed by Moscow orders. Religious figures and intellectuals, who were considered threats to communism, were executed or banished to

Siberia. Monks from entire monasteries were shot and piled into mass graves, monasteries were destroyed, and much of Mongolia's cultural heritage was looted or obliterated. Out of 700 Buddhist monasteries in the country, only four had escaped complete destruction. Images of Chinggis Khan were prohibited while portraits of Lenin and Stalin were hung on the walls of families (Mongolian-ways, 2024).

After transforming Mongolia into a socialist state, the Soviets controlled Mongolia's social, economic, and political life. Under one-party communist rule, the Mongolian economy integrated into the Soviet economy. Consequently, Mongolia was isolated from the outside world and considered one of the poorest countries in the communist bloc (Bilskie and Arnold, 2002, 206-208). Mongolian economy was heavily dependent on various types of Soviet aid and assistance.

Beijing also aimed to increase its influence in Mongolia by labeling economic aid. Chinese President Mao wanted to help rebuild the Mongolian economy by sending up to 300 thousand Chinese workers in 1956. This was an excessive population for Mongolia, which had only about 800 thousand people. In request, the Mongolian side demanded ethnic Mongol workers in southern Mongolia instead of Chinese. This Mongolian demand was declined by the Chinese side (Radchenko, 2008, 341-342). The Chinese considered Mongolia as part of their territory and made no distinction between Mongolia and South Mongolia. The Mongolian side knows the Chinese intention to send up to hundreds of thousands of ethnic Han Chinese as aid workers, while reportedly hiding the real intention to retake Mongolia.

The position of Mongolia was like a walking tightrope between two giant neighbors. Both of them want to keep Mongolia under their grip. During the Cold War, China was not a peer of the Soviet Union and Mongolia, as it was not part of the Soviet Union but remained strong in Moscow's sphere of influence.

Before 1990, discussing and writing about the Mongolian Empire and Genghis Khan were banned. There was no freedom for people, including the expression of ideas and the practice of religion. Thus, individuals were informed by misinformation and an altered historiography grounded in communist ideology. They were very unsatisfied due to this pressure of ideology (Batbayar and Bingöl, 2022: 14).

The sociopolitical developments of the Soviet Union during the Gorbachev period also incite the desire for change in Mongolia at the end of the 1980s. But it never came true until the collapse of the Soviet Union at the beginning of the 1990s. The disintegration of the Soviet Union brought Mongolia both opportunities and hardships. Mongolian people find an opportunity for change and democratization. People protested against one-party communist dictatorships. The government at that time demanded that protesters respect orders but refrained from using force, saying, "These demonstrators, participants, and protestors are our children" (Lkhaajav and Maire, 2021). Mongolia, without bloodshed, transformed its political system into a multiparty democratic system. Economically, Mongolia embraced a free market economy and abandoned a planned economy.

Mongolia adopted a new democratic constitution in 1992 and initiated economic reform including privatizations and rapid liberalization (Marshal, 2004: 8). The transition did not go smoothly and brought socioeconomic hardships. For several decades, Mongolian economy was heavily dependent on Moscow and its economic aid. After the collapse of the Soviet Union 1/3 of Mongolia's GDP disappeared overnight, and Ulaanbaatar was forced to find ways to overcome economic hardships and find a democratic way to grow. One of the biggest challenges to Mongolians was the lack of able men who were trained in democracy and a free market economy. Almost all intellectuals and bureaucrats received Marxist ideology and communist education. None of Mongolia's neighbors have a democratic experience from which it can learn and receive support during the transition. Mongolia's geography, surrounded by Russia and China, restricted it from directly connecting with the democratic world.

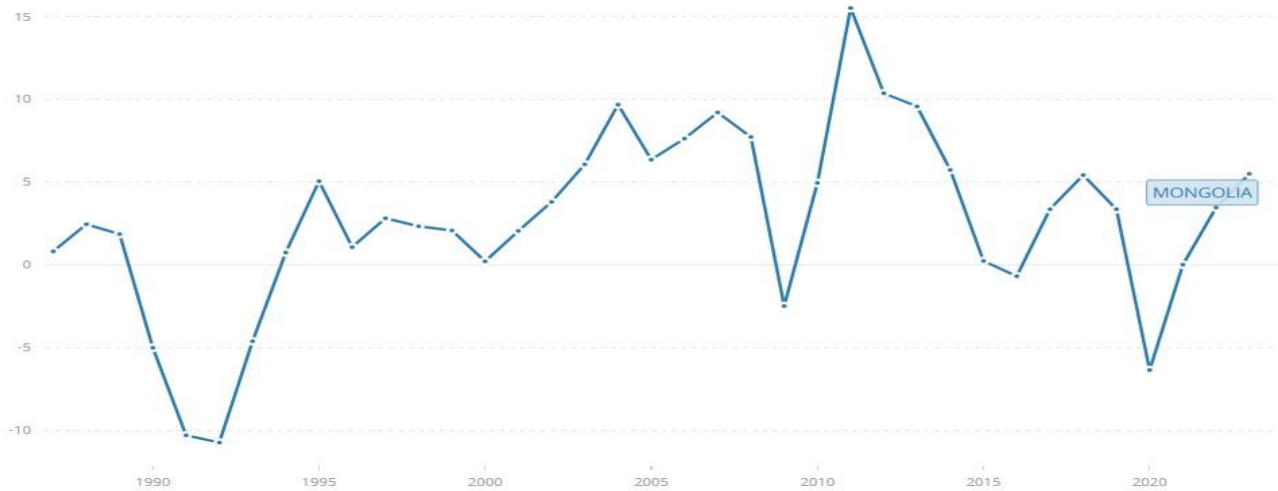
During the transition, the real GDP of Mongolia declined rapidly and it never recovered to the level of the pre-transition period until 2000. Similar to other transitioned economies, Mongolia also faced high inflation, and in 1993 it reached over 250%. From 1994, inflation began to decline and reached a single-digit rate by 2000 (Cheng, 2003: 5-6).

4. ECONOMIC GROWTH AND DEVELOPMENT OF MONGOLIA

Many communist countries began to implement market reforms after the 1980s. This was common in post-Soviet states and other socialist states including China and Vietnam. However, the Mongolian case is different from most of them. Most of these countries made economic reforms and did not change the political systems. Many of the post-Soviet states fail to transform their political systems into democracies. However, Mongolia is one of the few countries that successfully made both economic and political reforms.

During the communist era, Mongolia was one of the poorest and least developed countries. Its economy and politics highly depend on foreign assistance and aid. From the 1990s to 2000, Mongolia transformed itself into a free-market economy and democratic political system (Bilskie and Arnold, 2002, 205). Mongolia opened its economy to the world and allowed free enterprise, foreign trade, and investments. Mongolians experienced positive effects on their economic growth. Its economy entered into a phase of high growth since the beginning of the 21st century.

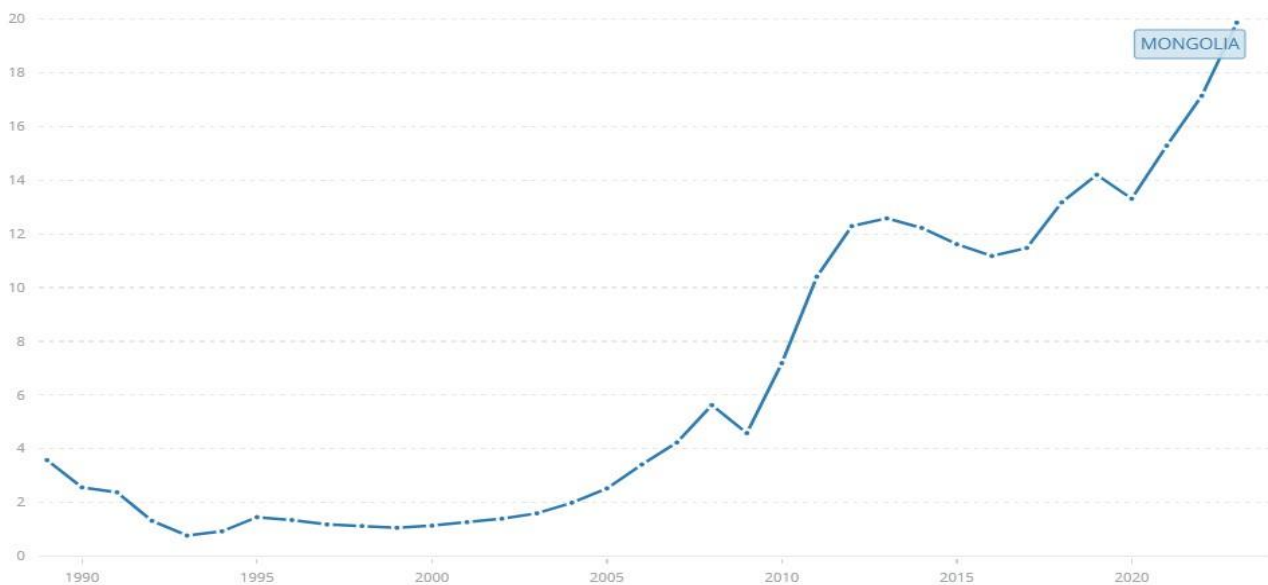
Figure 2. Mongolia Annual GDP Growth 1990-2023 (%)



Source: Data World Bank, 2024.

The opening up of the Mongolian economy created many opportunities to develop key economic sectors, particularly the mining industry (Eskenazi, 2020: 4). After the Cold War period, the world entered a unipolar order and a relatively peaceful era without major wars. Development and prosperity became the top priority of the world nations. Especially Asia, except for some war-torn Middle Eastern countries, caught this opportunity and achieved high economic growth. Over the past two decades, Mongolia has achieved a high economic growth rate. And its economic growth projections remain strong. While its economic growth expectations are down from 7.2% in 2023 to 5.3% in 2024, its economic growth is expected to average 6.3% in the coming years of 2025 and 2026 (World Bank, 2024).

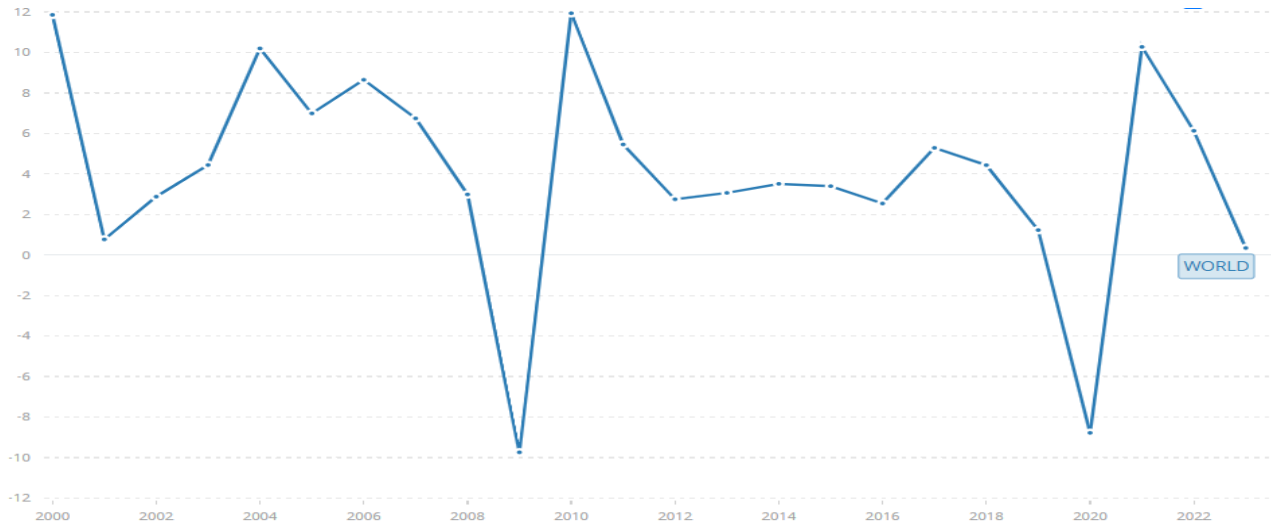
Figure 3. Mongolia GDP Growth 1990-2023 (Billion US dollars)



Source: Data World Bank, 2024.

The economic size of Mongolia has dramatically increased in the new millennium. Along with national reforms, international developments also significantly contributed to Mongolians' economic success. Developments in the world economy, especially the rapid rise of the Asian economy, have increased demand for raw materials and mineral resources. This provides an opportunity for countries like Mongolia, which has abundant natural resources, to find export markets. Mongolia, while it achieved some economic progress in the communist era, failed to transform the traditional agrarian-based economy into an industrialized modern economy. Because of a lack of modernization and diversification in its economy, Mongolia can export almost nothing except raw materials and natural resources.

Figure 4. Mongolia Export Growth Rate from 2000-2023 (%)



Source: Data World Bank, 2024.

As shown in Figure 4 above, except for the world economic crisis in 2008-9 and the COVID-19 pandemic in 2020, Mongolia generally maintained positive export growth over the past two decades. The export of goods and commodities became the main driving force of the Mongolian economy. About 15 billion US dollars in total exports in 2023 constituted approximately 78% of Mongolia's GDP (Data World Bank, 2024). Booming exports have contributed to increasing income and decreasing poverty rates. In 2024, Mongolia entered into higher middle-income countries status.

The rapid economic growth also brings some challenges to Ulaanbaatar. The gap between the poor and rich has increased. There are disparities between regions in terms of investment, welfare standards, and development levels. The population of the Ulaanbaatar metropolitan area increased rapidly from 897,000 in 2004 to 1.69 million in 2024 (Macrotrends, 2024a). And this is equal to nearly half of the Mongolian population. There is also a significant gap between the capital center and the traditional portable yurts, known as the Gers area. The Gers area still lacks contemporary infrastructure and essentials such as heating. These areas are not connected to urban sewage, water, and energy systems. Use of coal is primarily for energy sources like cooking and heating. This fuels the capital city's air pollution, causing health issues and a comparatively low median life expectancy of 72.9 years in 2023 than in other Asian countries (Grieger, 2024: 3).

Taking into account Mongolia's massive geographical size and sparse population density, the concentration of nearly half of the citizens in a small portion of its territory brings socio-economic challenges to the country. Climate change and pollution adversely affect agricultural development. The harsh climate is limiting intensive crop cultivation (International Monetary Fund, 2024: 2). Traditional herds such as feeding sheep, horses, cattle, and camels are also adversely affected by worsening pollution and increasing desertification.

Mongolia mainly exports minerals and agricultural products. While it achieved high economic growth and prosperity over two decades, Mongolia is still far from maturing its economic modernization and achieving industrialization. Despite Mongolia's efforts to achieve economic diversification, it has not yet succeeded. In its development, the mining sector has flourished (Eskenazi, 2020). Modern industries and non-mining sectors are lagging and Mongolia is highly dependent on importing manufactured and high-tech products from foreign countries.

5. MONGOLIA'S INCREASING DEPENDENCE ON CHINA

Mongolian economy is traditionally agrarian, and the share of industrial output has been small. While some progress was made during the communist rule, the main characteristics of the national economy were not changed completely. Apart from its political system and strong influence from Moscow, Mongolia's geographical characteristics of being landlocked and distant from the world's most dynamic and liberal economies have hindered its economy from reaching the global market.

Mongolia is "an 'oasis of democracy'; it is sandwiched between its two expansionist authoritarian neighbors, China and Russia. This has required it to walk a delicate geopolitical tightrope of non-alignment and a 'third neighbor' foreign policy to preserve its sovereignty and independence" (Grieger, 2024: 1). After the democratic reform and economic liberalization, Mongolia has been trying to diversify and modernize its economy. It made great progress in increasing trade and economic growth over the past three decades. But the economic growth is mainly driven by its exports. Total exports in 1990 equaled about 18.2% of Mongolian GDP, which increased to over 78% in 2023. Export growth from 0.47 billion US dollars in 1990 to 15.5 billion US dollars in 2023 (Macrotrends, 2024b).

Mongolia's high dependency on exports in economic growth is making its economy vulnerable to open external shocks. Moreover, Mongolian exports are concentrated on a few products mostly mining and raw materials. Mongolia's mining sector continues to grow strongly, and around 90 percent of Mongolian exports are related to the mining industry, notably copper, gold, and coal (Department of Foreign Affairs and Trade, 2024). The exports of mining are mostly relevant to the healthy growth of the world economy. When a crisis occurs in the world economy, such as the 2008-9 financial crisis and the 2020 COVID-19 pandemic, energy demand declines; consequently, the Mongolian economy, as a major exporter of mining products, suffers significantly.

As its economy and export products have not achieved diversification, the Mongolian export market also is not diversified. China's major threat to Mongolian sovereignty held limited importance during the Cold War period. When China began to reform its planned economy to a market economy in 1978, it moved toward becoming one of the world's industrial hubs (Tuerdi, 2014: 143). Following the growth of its economy, the demand for fuel and raw materials also continues to grow. As China has limited resources to fulfill its increasing demands, countries like Mongolia and Russia, which are rich in mineral resources and raw materials, are increasingly benefiting from it. Over time, China replaced Russia and became the main trading partner of Mongolia.

Table 1. Mongolia's Main Export and Import Commodities in 2022 and its share in total

Exports	%	Imports	%
Coal	38	petroleum products	27
Copper	36	Cars and buses	23
Gold	12	Mechanical equipment, electronic products	17
Other Mining Products	9	Steel, steel structures	10
Animal husbandry	3	Food and Chemicals	10&8

Source: Ministry of Economy and Development, 2023.

Mineral products account for most export products, and Mongolia mainly imports fuel and manufactured industrial products. Mongolia's economy lacks industrialization and modernization. The number of high-value products in Mongolian exports was nearly zero. Foreign direct investments are also highly concentrated in the mining sectors, which occupied about 73% of FDI in Mongolia in 2022 (Ministry of Economy and Development, 2023: 10).

Table 2. China's Share Imports and Exports of Mongolia 2024 January to September

Mongolian Exports To China (billion US dollars)	Share in overall exports %	Mongolian Imports From China (billion US dollars)	Share in overall imports %
10,7	91,6	3,4	40,1

Sources: Ministry of Commerce of the People's Republic of China, 2024.

Mongolia has trade relations with the majority of countries in the world. In 2024, until September, its trade with 154 countries totaled over 20.3 billion US dollars, an increase of about 13% compared to previous years. Trade with China is over 14.1 billion dollars, which increased by about 8.8% from the earlier years (Ministry of Commerce of the People's Republic of China, 2024). It can be seen from the table above that while Mongolia is making trade with numerous countries, it heavily depends on a few countries. Especially its reliance on China is significant and continues to grow steadily. China currently occupies 67% of Mongolia's overall trade.

Mongolia has a low level of trade integration with the world and is highly dependent on trade with its neighbors. Economic recovery is therefore strongly contingent on border openness and port capacity (Borodyna, Mami, and Nijhar, 2023: 6). With the decline of Russian influence in Mongolia, Chinese influence is rising. The two countries elevated relations to a comprehensive strategic partnership in 2014. There are fourteen pairs of ports along 4.7 thousand kilometers of the Mongolia-China border. Trade is increasing because of the complementary characteristics of their economies; Beijing has a vast market, technology, and capital, while Ulaanbaatar has abundant natural resources (Shang Wubu, 2023: 5).

Unlike China, the characteristics of the Russian economy are similar to those of Mongolia. Moscow also heavily depends on energy and raw material exports and lacks diversification and industrialization in its economic activities. There are limitations to deepening bilateral trade in the long term. Moreover, Russia has been increasingly lagging behind its southern neighbor China in economic, technological, and diplomatic arenas. Without enough national resources and capabilities, it's difficult for Russia to compete with China.

Russia increasingly lost its historical influence in Mongolia. During the Cold War, Moscow was the most influential power in Mongolia and Beijing had very limited influence. But, after the dissolution of the Soviet Union, the geopolitical balance of power began to change in favor of Beijing. In 1995, Beijing accounted for only 13.6% of Mongolian trade, while Russia was considered the leading trading partner with a share of 32.4% of Mongolia's overall trade and more than 50% of its imports (Bayasakh, 2000: 76-77). Russia was not able to sustain its influence in Mongolia and was later replaced by China.

Nowadays, except for fuels and some mineral industries, Moscow has limited influence on Mongolian socioeconomics. With the treaty signed in 2019, Russia aims to increase its influence in Mongolia, covering energy, defense, and railway infrastructures (Wallenböck, 2024). However, the Russian war with Ukraine adversely affected both the Mongolian and Russian economies, but the Mongolian economy maintained positive growth, primarily relying on the mining sector, with most exports going to China. In January-July 2024, the foreign trade of Russia with Mongolia was over 1.4 billion US dollars and Moscow has been the second biggest trading partner of Ulaanbaatar after Beijing (Russian News Agency, 2024). While Mongolia is part of the Russian-led Eurasian Economic Union (EAEU), there is no e-commerce conduct among member states. Moreover, the trade between Russia and Mongolia favors Moscow, with Mongolia importing 95% and exporting only 5% of the total trade (Amarsaikhan, 2024).

Compared to China, Russian trade with Mongolia was not significant. Mongolia's excessive dependence is casting a shadow on its economic sustainability and independent policymaking. Mongolia is trying to diversify its economic and trade relations with "third neighbor policies" by reaching out to America, Europe, India, Japan, South Korea, etc., to decrease dependence on its two expansionist neighbors. Mongolia's harsh geopolitical realities and struggle between two great powers are one of the main barriers to reaching diversification goals. Mongolia does not have many alternatives other than learning to survive and get along with both giant neighbors. Except for challenging geopolitical realities, its limited capabilities and economic conditions cannot match its ambitions. Because it is too dependent on the Chinese economy, Mongolia cannot turn its back on Beijing to prioritize relations with Washington and Tokyo (Bondaz, 2014: 10).

Economic dependence may threaten the political independence of a nation and lead to political dependence. This is even more true if a nation shares borders with strong, ambitious, and expansionist powers. The bilateral 'Comprehensive Strategic Partnership' treaty was signed with China in August 2014. In turn, "China wants

Mongolia to adhere to its positions regarding Taiwan, Uyghurs, and Tibet”, and seeks assurances from Mongolia of non-alignment in both military and political contexts (Wallenböck, 2024).

In 2016, the Dalai Lama visited Mongolia. For this, China closed border crossings, imposed tariffs, and demanded a promise that Mongolia would never again invite him to visit the country (Eskenazi, 2020: 7). China also said on Tuesday it hopes Mongolia has learned a lesson and will keep a promise not to invite the Tibetan spiritual leader the Dalai Lama again (ChinaFile, 2017). Mongolian Foreign Minister Tsend Munkh-Orgil expressed regret that the Dalai Lama's visit hurt ties with Beijing, and Mongolia assured the Dalai Lama will not be allowed to visit Mongolia even for religious purposes (Namjilsangarav, 2016). This was an example of Beijing using its economic influence to pressure its trading partners to adhere to Chinese policies. If they disagreed or took different actions that were non-aligned with Chinese interests, then Beijing would intervene in their policy-making by various means including economic punishments.

CONCLUSION

Over a thousand years, Altaic powers such as Turks, Mongols, and Manchus were dominant powers in Eurasia. Their southern and western neighbors were highly influenced by them. Similar to Russia, China was also forced to keep a low profile in the face of northern strong neighbors. The scientific transformation of the world, especially since the 17th century, fundamentally changed the fate of the nations. With the development of new weaponry and revolutionizing the military industry, the traditional cavalry warriors began to lose their advantages.

The Mongolians, once masters of the world, did not keep themselves away from the adverse effects of technological revolutions and geopolitical developments. Altaic nations including Mongols failed to catch up with the Industrial Revolution. On every front, they began to lose to their adversaries. The national unity and independence were threatened by Russia and the Chinese who were historical subjects of the Mongols. Mongols only kept their independence in modern Mongolia which is only one part of historic Greater Mongolia. During the 20th century, Moscow was the most influential actor and shaped the political, economic, and social life of Mongolia. While Mongolia was an independent country in literary terms, in reality, it was nothing more than a Soviet satellite state that initiated the Moscow order.

After the dissolution of the Soviet Union, Mongolia transformed itself from a single-party communist dictatorship to a democracy and embraced a market economy by abandoning a socialist planned economic system. After the pitfalls of communist heritage, Mongolia entered a stage of high economic growth in the new millennium. Over the past decades, Mongolia has achieved significant success in economic growth, reducing poverty, and improving the well-being of its citizens. In 2024, Mongolia attained higher middle-income country status.

Despite positive improvements, some harsh realities, including weak demography and disadvantageous geopolitical locations, hinder the sustainability of Mongolian success. Compared to its massive geographical size, Mongolia is sparsely populated and has only about 3.55 million people, which is not enough to be a strong state and create a large economy. On the other hand, Mongolia is located between two giant neighbors, both of which are authoritarian, ambitious, and expansionist. They have massive populations, large economies, and strong militaries. Landlocked Mongolia struggles to remain independent and protect its national interest by maintaining neutrality, without irritating its two neighbors and while acknowledging its limitations. Another major issue is that Mongolia's past economic success mainly comes from extensively extracting minerals, which has a significant environmental cost. These cast shadows on Mongolia's future economic growth and sustainability.

While Mongolia reduced its dependency on Russia significantly in recent decades, its dependency on China increased dramatically. China is nearly 10 times bigger than Russia demographically and over 400 times bigger than Mongolia, increasingly becoming dominant in Mongolia. China has risen so dramatically over the past several decades that even Russia is not considered its peer or rival due to its comprehensive national power, including economic, trade, diplomatic, industrial, and technological areas.

Mongolia's economy heavily depends on exports. Exporting minerals and raw materials accounts for over 95% of Mongolian exports. Beijing's share in overall Mongolian foreign trade reached over 67% in 2024. At present, Mongolian economic dependence on Beijing is so high that over 91% of exports only go to China. The same does not apply to China, Mongolia occupies a very tiny share of China's overall exports and imports. China's influence in Mongolia is not limited to trade; it also plays an important role in investment, providing loans and credits, and technology provision. China, using its economic influence, tries to shape Mongolia's political and security environments. Even though Mongolia tries to lessen its dependence on its neighbors and diversify its economic,

security, and diplomatic partners, limited progress has been made due to the constraints of the Mongolian geopolitical environment and heavy dependence on its neighbors.

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