



**The Asia Foundation**

# Mongolia's Political and Economic Transition: **Challenges and Opportunities**

A Conference in Celebration of the Tenth Anniversary  
of The Asia Foundation's Mongolia Program

Ulaanbaatar, Mongolia | September 11-13, 2000

The Asia Foundation is a private, nonprofit, nongovernmental organization dedicated to supporting programs that contribute to a peaceful, prosperous, and open Asia-Pacific community.

Drawing on 47 years of experience in Asia, the Foundation collaborates with partners from the public and private sectors in the region to support, through grants and other programs, the development of institution, leadership, and policy in four broad program areas: governance, law, and civil society; economic reform and development; international relations; and women's political participation.

The Asia Foundation was the first private U.S. organization to support Mongolia's transition to democracy and a market economy. Since 1990, The Asia Foundation has supported programs in representative government, legal reform, development of civil society, women's participation, and Asia – Pacific economic cooperation.

The views expressed in this conference report are those of the presenters and do not necessarily represent those of The Asia Foundation.

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**The Asia Foundation  
Conference on  
Mongolia's Political and Economic Transition:  
Challenges and Opportunities  
September 11 – 13, 2000  
Government House**

**September 11, 2000 (Monday)**

2:00 – 2:30 PM

***Welcome and opening remarks***

William P. Fuller, President, The Asia Foundation

Remarks on Hon. N. Bagabandi, President of Mongolia, delivered by Amb. B. Doljintseren, Foreign Policy Advisor to the President of Mongolia

2:30 – 3:30 PM

***Dynamics of Political and legal reform in the 1990s, part 1***

Comments and moderation: Robert A. Scalapino, Robson Research East Asian Studies, Professor of Government Emeritus, Institute of University of California, Berkeley, and Asia Foundation Trustee

Hon. Joseph E. Lake, First Resident U.S. Ambassador, "Perspective On Early Political Change"

B. Chimid, Advisor to the Parliament, "Constitutional and Legal Reform"

Baabar B. Batbayar, former Member of Parliament, "Concurrent Transitions"

3:30 – 4:00 PM

Discussion

4:15 – 5:15 PM

***Dynamics of political and legal reform in the 1990s, part II***

Comments and moderation: Susan J. Pharr, Edwin O. Reichschauer Professor of Japanese Politics, Harvard University, and Asia Foundation Trustee

R. Narangerel, Chairperson, Center for Citizenship Education, “Evolution of Civil Society in Mongolia”

Sheldon R. Severinghaus, Former Representative, The Asia Foundation, Mongolia, “Perspective on the Nongovernmental Sector”

J. Zanaa, Chairperson, Women’s NGO Coalition, “Participation of Women in Democratic Development”

5:15 – 6:00 PM

Discussion

**September 12, 2000 (Tuesday)**

1:00 – 2:30 PM

***Luncheon***

Speaker: Hon. N. Enkhbayar, Prime Minister

2:30 – 3:330 PM

***Emerging challenges in political reform***

Comments and moderation: S. Bayar, Chief of Staff, Office of the President

R. Gonchigdorj, former Speaker of the Parliament, “Opportunities and Challenges in the Second Decade of Reform”

S. Oyun, Member of Parliament, “Future Opportunities and Challenges in Political Reform”

Katherine S. Hunter, Representative, The Asia Foundation, Mongolia, “Perspective on Political Reform”

3:30 – 3:45 PM

Coffee break

3:45 – 5:00 PM

Discussion

5:00 – 5:30 PM

***Summary and conclusions, “Political and legal reform”***

Harry Harding, Dean, Elliot School of International Affairs, George Washington University, and Asia Foundation Trustee

7:30 PM

***Dinner***

Speaker: Hon. P. Ochirbat, former President of Mongolia

Introduction by Mr. Paul Slawson, Business Leader and Asia Foundation Trustee

**September 13, 2000 (Wednesday)**

9:00 – 10:00 am

***Economic transition and 21<sup>st</sup> century challenges***

Comments and moderation: T. Ochirhuu, Chairman, Economic Policy Standing Committee

Ts. Adiya, Advisor to the Prime Minister, “Coordination of Social and Economic Policies”

P. Jasrai, Member of Parliament and former Prime Minister, “Economic Change in Mongolia”

Steve Saunders, President, U.S. – Mongolia Business Council, “The Changing Climate for Private Sector Development from the U.S. Perspective”

10:00 – 11:15 AM

Discussion

11:15 – 11:30 AM

Coffee break

11:30 AM – 1:00 PM

Discussion, continued

1:00 – 2:30 PM

***Luncheon***

Speaker: Hon. N. Tuya, former Minister of External Relations, “Dimensions of Mongolia’s National Security”

2:30 – 4:00 PM

***Dynamics of regional relations***

Comments and moderation: Harry Harding, Dean, Elliott School of International Affairs, George Washington University, and Asia Foundation Trustee

Hon. Alphonse LaPorta, U.S. Ambassador, “The Changing International Role of Mongolia”

Marohito Hanada, Japanese Ambassador,  
“Development of Japan – Mongolia Cooperation  
During the Transition Period”

Professor Rhee Sang-woo, Sogang University,  
“Security Issues in the Region”

Dr. Zhang Minqian, Associate Professor, Division  
of North American Studies China Institute of  
Contemporary International Relations,  
“Security Issues in the Region”

T.s. Batbayar, Deputy Chairperson, Mongolian  
National Committee for Pacific Economic  
Cooperation, “Evolving Asia – Pacific Economic  
Linkages”

4:00 – 4:15 PM

Coffee break

4:15 – 5:30 PM

Discussion

5:30 – 6:00 PM

### ***Conference Summary***

Robert A. Scalapino, Robson Research Professor of  
Government Emeritus, Institute of East Asian  
Studies, University of California,  
Berkeley, and Asia Foundation Trustee



**The Asia Foundation  
Conference on  
Mongolia's Political and Economic Transition:  
Challengers and Opportunities  
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Government House**

**September 11, 2000 (Monday)**

***Welcome and Opening Remarks***

**William P. Fuller, President, The Asia Foundation**

On behalf of The Asia Foundation, it is a great pleasure to welcome you to this conference on Mongolia's Political and Economic Transition. I also want to say what a pleasure it is to be in Mongolia again and to see old friends including President Ochirbat and Professor Chimid. My last visit here was in August 1992. Since then, there has been remarkable progress in Mongolia's transitions to democracy and to an open market economy.

I think that many of you know that The Asia Foundation and our colleagues in Mongolia are celebrating the tenth anniversary of Asia Foundation programs. These programs, over the years, have supported Mongolian initiatives in several fields related to Mongolia's Transitions -- parliamentary development, legal reform, women's program, the development of a nongovernmental organization (NGO) sector, and international relations, including Mongolia's membership in the Pacific Economic Cooperation Council.

I would like to say how much the Foundation has appreciated the close cooperation and working relationships with Mongolia's leaders and institutions.

The purpose of this conference is to review Mongolia's experience with reform over the decade of the 1990s; to consider what reforms have worked well and perhaps those that have not worked so well; and then, to conclude the meeting with an assessment of opportunities and challenges for the reform process as Mongolia looks to the future. Therefore, you will see that the agenda represents a comprehensive set of topics related to reform, including political and legal reform, the development of the nongovernmental sector; economic reform; and Mongolia's role and relations in the region.

Returning to Mongolia after eight years, from my perspective progress is very much in evidence. Three free and fair and national elections; an economy that has demonstrated growth in recent years; a reduction inflation; several legal reforms; and the development of several thriving NGOs working on a variety of social issues are just a few examples.

Having said that, as our Mongolian colleagues remind us, there are difficult challenges ahead, such as improving the effectiveness of democracy; strengthening the judicial system and government accountability; deepening relations between voters and elected leaders; enhancing the investment climate and increasing employment; and decreasing the gaps in opportunities and incomes that exist between urban and rural areas.

But the main point I want to make in opening this conference is to say that in historical terms Mongolia has done a remarkable job in advancing its two transitions. And I am sure that there are lessons to be learned that can be helpful in other parts of the world. Working through one transition is hard enough but two? That is a real achievement. This conference provides an excellent opportunity to gather perspective on the past decade of reform efforts.

We are pleased today to be joined by several distinguished international participants including the first resident U.S. Ambassador to Mongolia, Joe Lake; scholars from China and Korea, Dr. Zhang Minqian from China's Institute of Contemporary International Relations, and Professor Rhee Sang-woo from Sogang University in Seoul.

We also have four of The Asia Foundation's Trustees with us – Professor Bob Scalapino from the University of California, Dean Harry Harding from the Elliot School of International Affairs at George Washington University, Professor Susan Pharr from the Harvard, and Paul Slawson from the American business community.

We are also joined by Dr. Shel Severinghaus who deserves enormous credit in helping to bring the Foundation to Mongolia and serving as our representative here 1993 – 1998.

And finally, our thanks to Kim Hunter, our current representative in Mongolia, and our wonderful staff here who helped with all the arrangements for this conference.

Before turning to Professor Bob Scalapino who will begin and moderate the first session, I want to report to you that we have been honored by the President of Mongolia who has delivered a letter to us which will be read by the Foreign Policy Adviser to the President, Ambassador Doljintseren. Thank you, Mr. Ambassador.

**Remarks of Hon. N. Bagabandis, President of Mongolia, delivered by Amb. B. Doljintseren, Foreign Policy Advisor to the President of Mongolia**

Let me send my sincere greetings to the dear participants and guests of the conference, "Mongolia's Political and Economic Transition: Opportunities and Challenges," organized by **The Asia Foundation of the U.S.**

This conference initiated by The Asia Foundation, an organization that provides support to nations of Asia, on the occasion of the tenth anniversary of its programs in Mongolia brings a good opportunity to exchange views and perspective on the reforms of the previous years as well as to project future development of the country. In the last ten

years, we Mongolians have made a challenging but irreversible choice of future development toward democracy, market economy, and respect of human rights and freedom. In managing the challenges of democratic reform processes. **The Asia Foundation** has participated with its own distinguished features. Particularly, the efforts of the Foundation in training and capacity building of civil servants, and enabling a legal framework in the context of new market economic relationships have been highly appreciated. Moreover, the support and assistance provided by the Foundation for the development and promotion of **NGOs** in Mongolia has played an important role. Programs and projects undertaken by The Asia Foundation not only facilitated the democratic reforms in Mongolia, but also contributed to the Mongolia – **U.S. bilateral** cooperation between our two nations.

It is believed that this conference will provide new methodological and research recommendations and suggestions for advancing the transformation of Mongolia toward democracy and market economy in the 21<sup>st</sup> century. Let me wish much success to the course of the conference.

***Dynamics of Political and Legal Reform in the 1990s, part I***

**Comments and moderation by: Robert A. Scalapino, Robson Research Professor of Government Emeritus, Institute of East Asia Studies, University of California, Berkley, And Asia Foundation Trustee**

**Hon. Joseph E. Lake, First Resident U.S. Ambassador to Mongolia, “Perspectives on Early Political Change”**

Nineteen ninety was a heady moment in Mongolian history. Mongolia went from the world’s second oldest community country to the first Asian communist country to join the democratic revolution sweeping the world. Those of us who watched the events of that fascinating period, and I am sure those who participated in them, focused on the excitement of the moment, the changes that were occurring and the vision of the future. We are here today to discuss how the events of 1990 helped create the reality of today.

To understand what happened in the 1990s and what is happening today, it is important to recognize the forces at work as 1990 dawned. Most foreign observers focused on the December 10, 1989 rally which began a series of demonstrations ultimately forcing the resignation of the government and arrival of democracy in Mongolia.

However, it is important to recognize that December 10 was the public beginning of change and also the final event of a political process which reached back at least to May 1986 when the Mongolian People’s Revolutionary Party (**MPRP**) 19<sup>th</sup> Party Congress officially brought *glasnost* to Mongolia.

The changes that came to Mongolia were more than just political. Mongolia was changing and many of the social and economic factors that contributed to the change were the foundations for the challenges Mongolia still faces today.

In 1990 an estimated **70** percent of the Mongolian population was under age **35**, and those entering the workforce were finding it increasingly difficult to fit into the rigid economy developed under central planning. In 1989 *Novosti Mongoli* estimated that **140,000** young Mongolians were expected to enter the working population between 1986 and 1990, but only **66,770** jobs were created. Only **48** percent of those leaving school were being employed. Fifty-two percent of those finishing school were not expected to have jobs!

Mongolia enjoyed a seemingly strong economy. But the foundation of that economy was built on unstable sand. On a per capita basis in 1989 Mongolia was one of the largest recipients of foreign aid in the world. Between 1960 and 1990 an estimated 30 percent of Mongolia's Gross National Product (**GNP**) was foreign economic assistance.

In addition to direct aid projects, the Soviet Union and its allies provided credit to cover the financial gap between imports and exports, creating a huge debt while sustaining the image of prosperity. On March 1, 1990, *Isvestiya* reported that the total Mongolian debt to the Soviet Union was **9.5** billion rubles—second only to Cuba's debt. Mongolia was essentially a colony of the Soviet Union which produced raw materials and semi-processed goods in return for almost everything that it required to sustain the relatively modern urban society and improve the quality of life for the rural population. In February 1990, **10,000** Mongolians were studying in the Soviet Union and more than **30,000** had already been trained there.

In January 1990 an estimated **19,000** Soviet civilian specialists were working in construction, plants, and factories, and unidentified number of Soviet experts worked in **14** different ministries. That number was expected to be reduced by **40** percent in 1990. Soviet aid was being reduced. Economic problems were increasingly obvious to individual Mongolians in their daily lives.

A December 1988 **MPRP** Plenum had been followed by the announcement of new reforms. Multi-candidate elections for all levels were to be held. In the economy, decisionmaking authority was to be decentralized and enterprises allowed to retain a share of hard currency earnings. A new foreign policy approach discounting ideology in favor of national interests, and featuring greater interaction with Western economies and Asian neighbors was initiated.

But in November 20, 1989, a *Tass* article reported that polls by the Institute of Social Science under the **MPRP** central Committee showed that 43 percent of the workers, 41 percent of the intelligentsia, and **35** percent of the cattle breeders believed that *perestroika* had slowed down and that forces opposing renewal were strong. The **MPRP** Party Plenum and the Great People's Hural meeting in December 1989 reflected efforts to bring change from within the party.

The times were ripe for change; the real issue was whether change would be driven from within the **MPRP** or from the outside. It is important to remember that the forces which brought change to the fore in Mongolia in 1989 were the same issues which haunted Mongolia's attempts to build a democratic society and free market economy in the 1990s.

The roots of the opposition political movements and parties can be traced to 1987 and 1988 when young intellectuals began to meet about the issues of change and create unofficial organizations to discuss the issues. The December 10, 1989 and subsequent public demonstrations brought together a variety of people and forces from within Mongolian society.

It was easy to agree on the ideas:

- Democracy
- Ending bureaucratic control
- Market oriented economy
- Pluralistic elections

While these public pressures and demonstrations led to the resignation of the leadership on March 12, 1990, they did not provide the foundation for understanding and creating a new civil society and political process. Neither the **MPRP** nor the new opposition groups understood the political forces, which they had unleashed, or the economic and social changes that provided the background.

The initial effort to bring Western-style democracy was a series of fits and starts as the **MPRP** and the opposition forces sought to negotiate changes to existing laws to their own advantage. Numerous political groupings emerged, and none were true political parties in the Western sense. Only the **MPRP** had a real structure, but one based on Leninist principles, not on Western democratic ones.

The July 29, 1990 parliamentary election was an ideological struggle over a single issue—reform. But it was a battle between different forces which had little understanding of what they were fighting about beyond the basic goals enunciated in the winter demonstrations. They did not understand even the definition of these basic goals.

The number of competing parties was relatively small – the **MPRP**, three young, optimistic and relatively strong opposition parties, and two other minor parties. While the **MPRP** won only 60 percent of the vote, they controlled 80 percent of the seats in the Parliament because the rural areas were overly represented. It was the first lesson in the process of democratic government. Votes at the ballot box are not always translated into governing power.

Mongolia was also soon to learn its second lesson. The slogans of democracy and a free market economy are easy to utter. The reality of its implementation is difficult to accomplish.

I vividly remember the first meeting of the first Great People's Hural on September 3, 1990. The orchestrated sessions of the past were replaced by the chaos of competing voices as the newly elected deputies demonstrated the independence they had earned in a democratic election. The concept of party discipline had not yet taken root. No one was in control. It was the chaos of democracy.

There were four parties in the new parliament:

- MPRP
- Party of National Progress (PNP)
- Mongolian Democratic Party (MDP)
- Social Democratic Party (SDP)

There were a significant number of independents in the new Parliament, 9 percent.

To understand the forces at work, it is useful to look at who the deputies were:

- 87 percent of deputies were elected for the first time
- Almost 50 percent (48 percent) were 45 or younger

Change had clearly come to Mongolia, but change brought new, inexperienced leadership to face problems with which even the most experienced leaders in the world would have had trouble.

As someone who sought to work with these new political parties and leaders in this early period, it was clear that personal differences often played as important a role in the political process as Partisan or ideological issues.

Further, neither key government decision makers nor opposition leaders understood non-Marxian economics—a severe handicap to managing their rapidly changing environment. First Soviet Assistance ended, then trade was disrupted, and finally, the Soviet Union itself collapsed. While no one anticipated, or could be expected to manage the magnitude of these changes, Mongolia was especially hampered in its efforts to cope because of the lack of understanding and experience.

If there was any fault at that moment, it was not Mongolians'. The fundamental problems were recognized by the Mongolian decision makers. We received numerous requests for education and information in order to help Mongolia advance its economic and political restructuring.

The non-communist world failed to respond adequately. Initially, Western assistance was aimed at facilitating Mongolia's transition from colonial status in the Soviet empire to a market economy based on Mongolia's natural wealth. The underlying assumption of this approach was that the Soviet economy would continue to function well enough to allow this transition.

Further, the West failed to understand and respond adequately to Mongolia's needs – just as was true later in the former Soviet Union. While money was an issue, it was not **THE issue**. As only time can provide experience, the real challenge was the desperate need to offer training and help provide the opportunity for experience.

**The Asia Foundation** was one of the first organizations, which came forward to help. They did an excellent job. But given the breadth and depth of the problem it was not enough to address all the issues. The challenge for Mongolia was how to gain overnight the experience which we had developed over a period of 200 years in the United States.

By the spring and summer of 1991, the new parties and **MPRP** were on the verge of splintering and reorganizing. The economic crisis was, in the words of one economist, “unprecedented” in Modern economic history. Given the crises in the states of the former Soviet Union, this may only have been the first of the many for the world.

Until January 1, 1991, economically Mongolia had been as much of a part of the Soviet Union as any of its constituent republics. Over 90 percent of its trade was with the Soviet Union and 25 percent of its **GNP** was directly attributable to Soviet aid. Suddenly, with the end of the relationship, Mongolia was an economic orphan.

The severing of this relationship was a critical element in the crisis of change in the 1990s. In the first ten months of 1990, Mongolia imported approximately \$250 million – a 65 percent drop! Imports from the Soviet Union declined 73 percent.

Soviet imports were not supplements to Mongolian production. In virtually every case there was no Mongolian production. The imports no longer available from the Soviet Union included everything needed to sustain modern life from toothbrushes and window glass to gasoline and computers.

The Mongolian economy, and to an increasing extent, society was ceasing to function in the face of such drastic changes. The incredible optimism of the Mongolian national character was vital to survival.

But the optimism which was vital to survival also blinded many to the rapid deterioration of the Soviet economy and their bilateral economic relationship with Moscow. There was a failure to understand the fundamental nature of the economic problems facing Mongolia. As a firm believer that an educated populace is better than one that did not understand what was happening. I tried to persuade various key leaders to explain the depth of the problem created by the end of Soviet Economic assistance and the changing economic relationship between Ulaanbaatar and Moscow. I did not succeed.

There was a resurgent effort to reverse some economic changes in the belief that somehow the past could be restored. The challenge to change brought the opposition parties together to agree on the direction of economic reform and the importance of privatization. However, there was disagreement on the process.

Frankly, it is a tremendous testimony to the determination of the Mongolian Government and people to continue with reform that the political process did not collapse in the summer of 1991. However, the fragility of the democratic process and political party building process was demonstrated as the fall began. Factions emerged within the **MPRP** and there were splits within the opposition parties.

New parties began to emerge in the fall and winter of 1991. Some reflected personality splits; others ideological differences and frustrations with the economic problems. As a foreign observer, there appeared to be little correlation between the political parties and the issues involved in drafting a new constitution. In fact, it appeared there was a significant community of agreement among the parties on the direction in which they wanted to move.

The key struggle was psychological one, accepting that Mongolia had to leave its past behind if it wanted to change. Interestingly, the agreement in the constitutional debate to change the country's name from the Mongolian People's Republic to Republic of Mongolia seemed to be the psychological focus of the struggle. With that behind them, the major constitutional battle was focused on the question of a parliamentary versus a presidential system rather than on the nature of the reform process.

By the time of the election in 1992, there were at least thirteen parties competing, rather than the six which had participated in the 1990 election.

Meanwhile, the major foreign donors had a high level of frustrations with the Mongolian Government. There was a strong feeling that the government was simply looking to the West to replace the massive Soviet assistance program of the past, rather than effectively analyzing its difficulties and trying to overcome them.

The June 28, 1992, State Great Hural elections reflected a very different mood from the 1990. Increasingly, the people began to see a difference between the goal of reform and the government's reform policies.

Two hundred seventy-five candidates representing 13 parties, running as 10 coalitions and parties, and 18 independent candidates, competed for 76 seats in the State of Great Hural. The multiplicity of parties was a testimony to the struggle to establish a democratic framework for the political process in Mongolia.

The results were a surprise to the **MPRP** and a shock to the opposition. The **MPRP** received only 56 percent (56.9) of the votes, down from 61 percent (61.74) of the votes cast in 1990.

However, the three major opposition parties, which had won 35 percent (35.8) of the vote in 1990, won only 27 percent (27.6) of the votes in 1992. (The remaining votes were split among the independents [3percent] and the numerous opposition parties.) As a result, the **MPRP** won the 70 of the 76 seats.



As a foreign observer, the message was very clear. The major opposition parties had failed to organize themselves as parties and had paid the price. One of the positive effects of the opposition's loss was an effort to unify the parties. Ultimately in 1994 a coalition which won the 1996 election emerged.

Meanwhile, a political battle took place inside the **MPRP** as the victor struggled to control its direction and select its candidate for the new Prime Minister. A struggle eventually led to the nomination of Tudev as the **MPRP** candidate in the 1993 presidential election.

The backdrop for these changes was the continuing downward spiral in the Mongolian economy. As reforms continued, life got worse for the average Mongolian. Some leaders moved to mobilize popular discontent outside the political party structure in the winter of 1992-1993.

Mongolia's efforts to build a political party structure and a civil society with a firm foundation built on democratic principles had not yet succeeded. The efforts of organizations such as **The Asia Foundation** were even more important in this crucial period than ever before.

The June 6, 1993 presidential election was a key milestone in reforms in Mongolia. First, then President Ochirbat was not nominated by the **MPRP**. But the major opposition parties came together and nominated him as their candidate. President Ochirbat became a symbol for reform both inside and outside the **MPRP** while Tudev became identified as the standard barrier for the conservative, anti-reformers. In the end Ochirbat won 57 percent (57.8) of the popular vote and Tudev only 38.7 percent.

The pressures that helped bring about the opposition unity and ultimately the victory for President Ochirbat in 1993, also helped lay the foundation for their victory in the June 30, 1996 parliamentary election.

However, I suggest that the forces that contributed to the difficulties in laying democratic Foundations in these first three years were also at work when these fledgling opposition parties came to power in Parliament. Six years of experience in dealing with democracy and its political process were not adequate preparation for the reality of governing.

In understanding this period, it is useful to recall the underlying principle of the victorious 1992 Bill Clinton campaign in the United States: "It's the economy, stupid." The economic challenges faced by Mongolia were the critical backdrop for the efforts to build democracy in Mongolia in the 1990s.

It is important to understand and remember that neither the **MPRP** nor the opposition parties which emerged in the 1990s were prepared to understand the changes that were happening in Mongolia—politically or economically. The democratic concepts which are taken for granted in the Western world had no precursors in Mongolia. Decades of

education in central and Marxist economics did not prepare new leaders to manage the economic shift. The fundamental question was “How to unlearn Marxism?”

Unfortunately, neither the Mongolians, nor most of those who came from the West to help, fully understood the question, much less the answer. Fortunately, **The Asia Foundation** was among the minority which addressed the basic challenge faced by the Mongolia. The success of **The Asia Foundation’s** efforts and the commitment to democratic change has been amply demonstrated in the peaceful transfers of power Mongolia has witnessed over the last decade. Mongolia of the 21<sup>st</sup> century is not the Mongolia of the 20<sup>th</sup>.

Returning to Ulaanbaatar ten years later, I see tremendous changes. I am inspired by Mongolia’s continuing commitment to move toward a market-oriented economy and democracy. The peaceful transfers of power that occurred in the decade of the 1990s reflect the success of democracy in Mongolia.

These changes are the result of the dedicated commitment to change among Mongolia’s political leaders. I congratulate you on your success.

## **B. Chimid, Advisor to the Parliament, “The New Constitution of Mongolia and Legal Reform”**

1. What is Legal Reform? In the framework of the overall democratic reform process in Mongolia, legal reform is on going. This comprehensive process was launched in the 1990s and has gone through several phases.

What is meant by legal reform? What is the content and scale of this process? Is there an international standard as well as particular Mongolian features of reform? We encountered these kinds of questions at the beginning of the reform process.

The reform process can be considered in both narrow and general meanings. These relate directly to the interpretation of the legal systems but also have a practical impact.

In a comprehensive approach, the general interpretation of the legal system considers the sum of such factors as legislation, legal norms, and approach as well their applied practice. On the other hand, it is interpreted in a narrow meaning as the comprehensive sum of legal norms. In any case, the reform of legislation, their proper understanding, and effective application are all based on the demands of society. A more complete understanding of the demand will lead to more effective results.

Therefore, the implementation of legal reform can be divided into five categories:

- **Reform of legislation.** This is a core of the reform process. It is also implies the reform of sub-legal acts (legal norms of government, governmental organizations and also of local government) in compliance with the new laws. But the question is still who is responsible today for guiding this reform process?
- **Ensure the system to enforce laws, to restructure the system and the methods of implementation of laws.** Of course, this is a complicated process. It includes the restructuring of all forms of executive power and the judiciary, redistribution of functions at all levels of organizations, and model and styles of people working there. New laws can be enforced only by the new administration and applied in a correct manner only by the new judiciary. The issue of human rights attracts special attention.
- **Reform of legal education.** Of course, there are many problems in restructuring the system, curriculum, manuals, teaching methods, and teaching staff. A lawyer is an “engineer” of social relations who may develop laws at the request of politicians, and also interprets and applies them. To develop and train such lawyers must be one of the objectives of reform policy.
- **Reform of management and of the methodology of legal research.** Legal science is of course one of the oldest branches of science in the history of mankind, but for Mongolia it is one of the youngest branches. We have a challenging task to free it from Marxist theory and approaches and develop a new approach. There are number of issues to create new units and forms of research works in public and private sectors. But it is still one of the weakest fields and there is no clear vision of what to do.
- **Establishment of the new legal mentality in the society.** This is the most complicated and time-consuming task of legal reform. Until now no one paid attention to this task, to objective analysis of laws and any legal cases, to their interpretation, and to proper application. It requires development of appropriate concepts and feelings. In other words, politicians should be responsible and start from themselves. I would like to note that public organizations should lose the nostalgia for the past and nihilistic approach to law, and start creating a new legal psychology and ideas. It is especially important to change people’s mentality toward the respect of the new, democratic Constitution.

If we consider seriously the issue of legal reforms one must take into consideration the above discussed five distinguished matters. There is no doubt that Mongolia has taken initial steps in this direction and has already achieved results.

2. The Reform of Legislation, Some Lessons: The above-mentioned five groups are each separate complex issue. Due to time constraints let me discuss some suggestions about the on-going legal reform and its lessons.

The legal reforms implemented in Mongolia during the last ten years can be divided into three phases:

**First phase**, 1990 –February 1992. The period of laying down the political, economic, social, and intellectual preconditions for legal reform.

In 1990 the Mongolian people abolished the totalitarian regime and rejected the planned economy, and started a comprehensive transition toward mankind's new development tendency. This new choice is to develop a country respecting human rights, democratic values, market economy, and rule of law. From a narrow perspective, that led to the complete reform of the legislative system and structure. This reform has not taken place all at once, it is an on-going and gradual process.

In March 1990, one party rule was abolished. Political pluralism was recognized and the shift toward a multi-party system was put in place. This is the kind of shining 'star' that launched reforms. In May 1990, an Amendment Law with two separate chapters, "Amendments to the Constitution of Mongolia," was adopted. Based on this Amendment Law the first-ever democratic elections of the State Great Hural took place in July 1990 and a permanently operating Parliament called the Small Hural with a multi-party system was established. The Small Hural proclaimed the legitimacy of private property, and determined new financial, economic, and loan relationships through adoption of 35 new laws and amendments to existing laws. All these laws became a solid base in the further process of adopting the new Constitution. The new Constitution, as it was pointed out, "mobilized the intellectual capacity of the country." The new Constitution was adopted on January 13, 1992.

**Second phase** of legal reform between 1992-1997. For instance, the Attachment Law of the Constitution, equally valid with the Constitution itself, passed on January 16, 1992. The Attachment Law identified the ways for the country to shift from the Constitution of the People's Republic of Mongolia to the complete and comprehensive enforcement of the new Constitution of the Republic of Mongolia. In other words, this step abolished the previous legal system and enabled overall legal reform in compliance with the new Constitution.

The 1992-1996 Parliament worked well from the quantitative point of view in further promoting legal reform. From the data of the Parliament Secretariat Research unit,

between July 1992 and July 1996 the Parliament adopted 137 sectoral laws, 142 amendment laws, 40 international conventions and abolished 46 laws. The next Parliament, between July 1996 and July 2000, passed 110 sectoral laws, 255 amendments laws (duplicate figure), and 71 international conventions.

Although these laws were continuation of legal reform in a post-Constitutional period, they reflect the current social demands.

**The third phase of the reform** occurred during the second half of the second Parliament (1996-2000). In particular, in January 1998 the Parliament approved the program “Legal Reform of Mongolia,” along with an action plan and a list of activities. The plan indicates that within two years about 50 new laws and 120 amendments will be passed.

What are the lessons of these three phases of reforms?

**First**, until the end of 1997 legal reform occurred in the absence of a comprehensive program with a solid theoretical and methodological basis. In a majority of cases laws were drafted by non-professional organizations, a factor that affects the quality and impact of laws. Adopted laws were not well integrated, there was a different interpretation of concepts and notions, and central and local authorities, economic sectors, and organizations simply copied each other’s laws to protect institutional interests via law. In some cases regulations and rules were proclaimed as law, and rather administrative norms were dominant in laws. Hence, complicated social relationships were ignored in those laws.

**Second lesson.** Thanks to the expansion of international cooperation, many members of parliament, senior officials, and scientists travel abroad to study experience elsewhere. Upon their return they proclaim the efficacy of this or that model without solid analysis. On the other hand, many laws are formulated with the assistance of international consultants of different legal systems. This is encouraging news in terms of learning the new experience but the problem is the appropriateness of those laws in the context of Mongolia. Hence, laws based on different legal systems have a rather negative impact. In order to prevent problems from the mixture, there is a need to develop a specific concept. Thus, the necessity is development of comparative justice. To make a comparison with what Lawrence Friedman said in his book: “Justice in America took a long period of time in order to become American, and it is a product of American experience.”<sup>1</sup> Similarly, the justice of Mongolia should become a Mongolian product.

The above-mentioned are some of the lessons learned. The Legal Reform Program lasted until the end of 2000. The Parliament must evaluate what has been done and identify the future tasks, say in 2001-2004 and further. In the Government Action Plan there is an encouraging statement indicating that the Government will formulate the national guidelines to deepen legal reforms until 2004.

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<sup>1</sup> Lawrence Friedman, *The History of American Law*, New York: Simon & Schuster Inc., 1985, p. 19.

Research came to a conclusion that the objective of further legal reform is to index or code adopted laws on a basis of comparative analysis. That is, as Dr. William Fuller pointed out, “a difficult challenge.”

The quick changes in laws have a much more negative impact than the change of governments. One must avoid the extreme tendency to change law whenever possible. The changes in taxation, education, and cooperation laws have a negative impact on a number of people’s business, agreements, deals, etc. Hence, the necessity is to stabilize laws, to be more tolerant of laws, and ensure their full enforcement.

One cannot underestimate the significant role of international organizations, among them The Asia Foundation, the American organization that is celebrating the tenth anniversary of its programs in Mongolia, in playing a substantial role in support of democratic reform. In 1990 The Asia Foundation arranged a study tour for Mongolian parliament staff in the United States to study the practice of legislative processes.

The Foundation contributed to a large extent in formulating the new Constitution, and training of Parliament staff, judiciary staff, and lawyers. In other words, they made an “intellectual investment” into the democratic reform process in Mongolia.

The wide scale of Asia Foundation programs has achieved some specific results. In the course of discussion of the draft Constitution of Mongolia, with the financial support of The Asia Foundation, Professor Joseph Grodin and Martin Shapiro made substantial contributions by providing specific recommendations and suggestions. Taking this opportunity I would like to wish much success in further generous programs supporting development of democracy in Mongolia to Dr. William Fuller, President of The Asia Foundation, and Dr. Sheldon Severinghaus, the first Resident Representative of Asia Foundation, as well to Ms. Kim Hunter, the current Representative.

### **Baabar B. Batbayar, former Member of Parliament, “Concurrent Transitions”**

The creation and establishment of new states, their evolution as nation-states, the processes of democratization and of becoming civilized, the common peoples’ aspiration toward leading their lives in the way they wish, and tendencies toward globalization, integration, and internationalization have taken place at a dramatic and rapid pace in the twentieth century bears testimony to the fact that there were also colossal advances in science and technology, as well as amazing changes and progress for societies at large.

The world, at the crossroads of the present two centuries, looks more prosperous, brighter, and a more hope – inducing cradle for human kind after two world wars, colonial collapse, fascism, and communism. Even though democracy is a relatively recent phenomenon compared to the history of humankind and civilization, yet it has historically proven its legitimacy and advantages with concomitant results. Many countries and nations have made a transition to this system in the past 10-20 years. These, first of all, include the underdeveloped countries of Africa, Latin American countries under the control of the military, Asian countries that suffered under strict

dictatorships for many years, and post-communist Asian European countries. The collapse of the Soviet Union in the 1990s and the dismantling of apartheid in South Africa served as a catalyst for democracy to become a truly global phenomenon. At present, there are over 100 countries worldwide which are making a transition from a politically oppressive regime to a democratic state system. The transition toward social reforms that these countries are making has been rather stable, especially for the past ten years. Attempts by some countries of Asia, Africa, Latin America, and even of Europe to make transition to democracy in the fifties, sixties, and seventies were unstable and fell short of success. Perhaps it was due to the direct and indirect influences of objective and subjective factors of the Cold War, as well as the opposing views of powerful international actors. One of the common features of societies' current transition toward democracy is that it is being undertaken by peaceful means. It is no wonder that having experienced the Cromwell War, the French Revolution, and the American Civil War, to name a few, humankind is now renouncing bloody revolutions.

Looking at the countries that are currently making democratic reforms one can conclude that, by general statistics, they are making a peaceful and stable transition. In case-by-case scrutiny, however, the level of success for each country varies. In this case, the success factor depends above all upon human factors such as the people's education level in the country concerned, their mentality, and their preparedness to embrace democratic values. The next factor determining success is economic capacity and level of development of the countries.

Enormous advances in science and technology, as well the formation of a more positive climate after the end of the Cold War, and the worldwide processes of integration and globalization are attributable to the principal structural changes in the present world economy. Some scholars have even labeled this tendency as a total triumph of capitalism. As economy and finance are becoming more globalized, a trend toward making corresponding adjustments in domestic economies on the part of countries is imminent. At this time, when the world is moving toward a single market, attempts to stay aloof from this tendency are fraught with immense cost and create a paradoxical situation. That is why the formation of an economy similar in basic principles, basic structures, and mechanisms by countries reveals the dual, concurrent nature of the present transitions. With the exception of a few countries like North Korea, the global economic transition has involved every country of the world. Still, being subject to different starting conditions, order of technological advancement, and human factors, the results of the transition vary from one country to another.

Related to the above, let us first consider the structural changes taking place in some of the rich democratic countries of the West in which socialist elements have been commonplace for many years. Countries such as England and Japan have facilitated privatization over the past few years, and are now increasingly distancing themselves from their traditional state policies of caretaker, participant, and regulator. Some leaders, namely Tony Blair, have suggested that there is third way, which seems to be the common tendency of the world economy.

Asian and Latin American countries are making a second-level transition. In order to attain higher technological order, these countries are emphasizing mechanisms that will accelerate economic development, placing the society's democratization in second place. Only after reaching a certain level and stage will they undertake social reforms.

A third type of economic reform is taking place in post-communist countries and, as one can see, the transitions they are making are painful and difficult. The reason is that common market relations were long abandoned and the so-called centrally-planned economy, completely new to humankind's entire history, operated in these countries. These new economic relations were fairly similar to those of ancient Egypt's slavery-based economic system in many ways, but the principal difference between them is that the former one involved a whole population. It is undeniable that there were differences between the countries under this system. For instance, Poland did not place agriculture under state ownership, whereas Hungary, beginning from 1968, had introduced elements of market economy in some sectors of its economy. Although a very small percentage of land in the Soviet Union was under private ownership, it was the private sector that provided the most vegetables, fruits, and berries in the market. By contrast, nearly all the properties in such countries as Mongolia, North Korea, and Cambodia were under 100 percent state ownership. The level of development of these countries was different when they embarked on the path to communism. Today, 40-odd post-communist countries are undertaking concurrent socio-economic reforms and are in transition. These transitions involve the following basic types:

**Economy-based transition:** China and Vietnam are among the countries that are implementing this type of transition with considerable success. These countries are seeking to withdraw gradually from communist ideology, and to get rid of ideological straps and buckles by peaceful means. Their main focus is liberalization of economy. Even though some countries like North Korea and Cuba would like to employ this method, nonetheless their unwillingness to abandon the communist ideology acts as a major obstacle for a successful transition to market economy.

**Economic and political transition:** Middle Asian countries, particularly Turkmenistan, Uzbekistan and, to varying degrees, Kazakhstan and Kyrgyzstan are, apart from undertaking deep economic reforms and liberalization, trying to emulate the "tiger's path" of Southeast Asian countries through conduct of social reforms by the way of replacing a former order or substituting one dictatorship by another. In this regard, Belarus and Yugoslavia can also be counted.

**Political and economic transition:** Most East European countries, on the basis of firm democratic reforms pertinent to society, are carrying out economic reforms through the mechanism of Constitutional polity. The Czech Republic, Hungary, and Poland are



illustrious examples of the above. In addition, the Baltic countries, Slovenia, Croatia, and Mongolia have chosen this difficult yet promising type of transition.

**Political transition:** This category includes countries with the objective of political and economic transition as stated above but lack two important characteristics: their principal political transition has not yet been successful and domestic disputes do not take place within the legal framework. It encompasses Russia and, in some aspects, the Caucasian countries, Bulgaria and Romania, which are infused with conflicts between domestic subjects and where a constitutional crisis is present.

What is the global trend of socio-economic transition in the post-Cold War years? First of all, democratization of society has involved most of the world's population. Dictatorship at both local and regional levels is being checked and, where possible, tamed. Following the checks and disapproval of dictatorship regimes by the international community with regard to Iran, Iraq, North Korea, Cuba, Libya, Yugoslavia, and Burma and, due to external and internal factors, these countries can no longer hope for a sustained existence. Since the Cold War is over, it is at the initiative of, and by the support of from, the international community that economic and political sanctions as well as military strikes against these countries are occurring. China, though strongly liberalized and Russia, though democratized, increasingly becoming the targets of criticism for human rights abuses and domestic strife. Elections in Nigeria and Indonesia, and the military coup in Pakistan are at the center of attention from the globalizing world. The time has now come when dictatorships are being confronted with resistance and criticism from the whole world.

Externally, democratic establishments are becoming more and more secured. Internally, however, guarantees for their security and safety are contingent on the degree of success in economic reform. The sixties' and seventies' hypothesis about poor countries becoming poorer and rich countries becoming richer fails to be justified in today's globalized, integrated, and interdependent world. It is especially true of financial globalization where countries' economic tradition of depending on themselves will be further diminished. Poor countries should bring their economic and financial mechanisms up to the level international standards without delay if they are to become developed. This process has become binding on every country, and it is toward the above trend that richer countries are being engaged in backing and supporting less developed countries. The objectives of the World Trade Organization, World Bank, and International Monetary Fund have basically come to conform to the above. So has the goal of the worldwide movement against corruption.

Scholars argue that in the current setting of economic and financial globalization, countries that practice isolation from the rest of the world, partial attainment of international standards, and extreme localization will only kill their economy's future and propel them into the misery of poverty for a prolonged period. Some of the scholars have even gone to the extreme of saying that the above practice is a side effect of globalization. Rhetorically speaking, when a country spends not a penny on its

communications infrastructure and yet manages to become globalized and connected to the rest of the world, the country concerned would have neither the money nor sufficient technology and knowledge base to utilize it. It might even be the case where the country would not be aware of the very existence of such a possibility, a reminder of a primitive man dwelling in a cave with his bows and arrows.

Mongolia, along with making a transition from a totalitarian regime to a political and social democracy for the past ten years, is a country that has dismantled the old centrally-planned economy under which everything was state-owned and has now embarked on the path to market relations. It is due to this and to the fact that unpleasant start-up conditions and various external and internal factors have made Mongolia's concurrent transition a difficult one. It is not because Mongolia chose this particularly difficult type of transition on purpose but rather, there was no other choice left for her. Taking into account the Mongols' peculiarities, level of education, and character, as well as the relations with the outside world and issues concerning Mongolia's national security, one can safely assume that it was impossible for the country to follow the economic reforms with no change in ideology 'à la China. Or that of Kazakhstan's whereby one regime was replaced by another, while at the same economic reforms were undertaken at a vigorous pace.

Aside from these, Mongolia's starting level and assets were peculiarly bad and far from the standard of other communist countries, which made it altogether imperative to undertake complete and comprehensive reform. Mongolia was a country with a state budget composed largely of foreign investment—its share as high as 70 percent – usually being made as a favor for showing ideological solidarity, with the lowest **GDP** per capita in the communist world, and with biggest foreign debt in the world if compared to its population. Private property was not allowed even to a limited degree. In fact private ownership was strictly forbidden by law, which placed Mongolia in a very unique position in the communist world. Legal acts governing the regulation of the economy were almost non-existent, and all its regularity matters were handled by a few people and at the discretion of the *nomenclatura*. Since all properties were state-owned, there was no concept of management whatsoever and it is no wonder that the coefficient of capital utilization was remarkably low. In this country, which was isolated from the outside world for the better half of the century, nobody knew the basic principles of a market economy. In addition, the emigration rate of Mongols equaled zero. There was practically no person educated in the countries of the free world, nor were fixed assets placed abroad. The trade with hard currency that constituted one or two percent of **GDP** was not conducted in accordance with applicable international rules and norms. In a word, Mongolia was an isolated and surrealistic world on its own.

Yet Mongolia's transition in the socio-economic sector is, undoubtedly, one of the most successful cases. Though the transitions in Hungary, Poland, and the Czech Republic are indeed very successful, their higher starting level and various external and internal factors cannot be compared to that of Central Asian Mongolia. In general, however, this breathtaking success has not been without its mistakes and failures. This can be attributed both to the lack of experience and relations between the interest groups.

Ambiguity of laws, insufficiency of regulatory legal acts, and mixing of mutually contradictory systems hinder a complete political transition. According to scholars, there need to be not less than one thousand legal acts to regulate the social, political, economic, and ecological relations in an open and democratic society. At present, Mongolia has enacted about 300 legal acts in the past ten years. On the other hand, by virtue of not fully distinguishing the continental legal system from the Anglo-Saxon one and the parliamentary system from the presidential one, there have emerged many mechanisms that are contradictory in nature, which are present in and between laws, and which have even led to hostility in society due to misunderstanding. There is even a tendency toward assuming rights not provided for in the Constitution as one's own on the part of some citizens. All of these negative effects are due to the ambiguity of laws and their irresponsible drafting in an overly mongolized way. In this respect, instead of newly drafting laws, Hungary takes in the whole German legal system and just translates appropriate laws, which is more efficient and less time-consuming. In addition, by employing this method, that sought-after reciprocity between legal acts can be achieved.

With regard to economy, huge changes toward reforming the whole system in 1990-1992 laid a foundation for daring economic reforms. In 1992-1996, however, reform assumed a mere slogan-like rhetoric. Genuine reform had almost halted, which caused tremendous damage and a loss of precious time. A not-before-seen increase in the prices for principal export raw materials of Mongolia sedated people who did not know anything about market economy and led them to become concerned with battles of wit and ideological rhetoric rather than with the state of economy in Mongolia. Beginning from 1996, however, the reforms have resumed and much has been accomplished since then. Nevertheless, there is now a tendency toward slowing down the pace of economic reforms in view of the incomplete understanding of democratic mechanisms. The ambiguous status of legal acts that halted economic reforms in the past years is all part of the incomplete and irresponsible political action. During a concurrent transition, all aspects should carefully be balanced since any disparity between them will only contribute to an overall slow-down of the process. Also, it is obvious that a relaxed mood will result in a loss of capital and many opportunities. In 1993-1995, when market prices were higher, what we are now trying to do in the current setting of the economic crisis of Asia and the world could have been accomplished much more easily. If we had done that, today we could have taken our next steps. The fact that Mongolia has undergone the Asian crisis with the least loss owes to the bold and insightful economic steps that we took in 1996-1997. This fact has been acknowledged by even the International Monetary Fund. The rationale behind this is that if we do not lose precious time, we will gain money and, if we gain money, then we will save our country.

## *Dynamics of Political and Legal Reform in the 1990s, part II*

**Comments and moderation by: Susan J. Pharr, Edwin O. Reischauer Professor of Japanese Politics, Harvard University, and Asia Foundation Trustee**

Let me remark on the crucial role of nongovernmental organizations (NGOs) in a country's development. In the 1980s, one third of the world's countries were democracies, whereas by the 1990s, in great wave of change, two-thirds of the world's nations had become either democratic or were on a path toward democracy. In this process civil society is essential. By civil society, I mean the term quite broadly, to include all the groups, and organizations in a society, so long as they are to some degree outside the state, the family, and the market. Thus the term includes business associations and labor unions, environmental groups, and women's organizations. These NGOs are gaining significance as actors in decisionmaking in countries around the globe, and they increasingly linked to one another in transborder advocacy networks. The IT (information technology) revolution is a critical factor for boosting the role of NGOs—through, for example, making it easier for staffers to stay in touch with members and with potential sources of funding, and increasing an NGOs access to information about what is going on inside and outside the country. But governments also play a vital role by creating a legal and regulatory environment that allows NGOs to flourish. NGOs around the world are becoming linked to one another. Cumulatively one result is the rise of an international civil society. Mongolia is very much part of this process of the change that is going on in and among countries in Asia and elsewhere. A major development over this first decade of democracy in Mongolia has been the rise of NGOs to the point that today there are more than 1,500. These NGOs today are playing a vital role in the consolidation of Mongolian democracy.

### **R. Narangerel, Chairperson, Center for Citizenship Education, “Evolution of Civil Society in Mongolia”**

First of all, let me congratulate all of you, the staff and the people who work for the implementation of The Asia Foundation programs on the occasion of the tenth anniversary of programs in Mongolia.

**The Central Asia Development Foundation**, which is now called the Center for Citizenship Education, was one of the first organizations to collaborate with The Asia Foundation. As the person who started operations of this organization and collaborated with **The Asia Foundation** over the last ten years from the commencement of their programs, I am very pleased to participate in this conference. Especially I am pleased to have this opportunity to make a presentation.

The main topic of my presentation is the development of a civil society in Mongolia. I am not a researcher and do not have a specific area of study in this field. However, as a person who participated from the beginning in the process of establishing a democratic society, and was not just a simple observer let me share my perspective on this issue.

Let me start with what we understand by the notion of civil society. In simple words, it means that every citizen of this country has an equal right to participate in all, however big or small, events and to have an opportunity to influence them. In other words, a citizen must be not an object but a subject of society.

The adoption by the first Parliament of the new Constitution declared the fundamental principles of the new democratic and civil society. In the last ten years a number of laws guaranteeing human and civic rights have been passed. But the basis of establishment of a civil society is the degree of implementation of rights and responsibilities by citizens as determined by those laws. The degree of citizenry is defined by the level of influence of the political and economic reforms on the everyday life of citizens, whether these reforms become the norms of life.

Today, most people criticize the fact that laws are not implemented in practice, and that those adopted laws do not fit the context of Mongolia. For the people, two or three generations of whom lived under a totalitarian regime for the last 70 years, the most difficult challenge is to learn to live under the new system, by new regulations. One may say that the political and economic changes had a rather mechanical feature, that their declaration and legalization on paper were relatively easy tasks. However, the most complicated task was the transformation in the minds of people, the change in methods and ways of people's participation in completely new social relations. In other words, there is a wide gap between the new political and economic system and the capacity of people to live in a new environment and to participate in new relationships.

One of the reasons for this problem lies in the bureaucratism of government officials and organizations. The arrogant character of officials is a very common feature, also the widespread attitude of people in considering themselves unimportant, and the habit of respecting officials for their positions and not as individuals. The fear of officials and all these negative phenomena are inherited from the socialist period of development. The sarcastic saying, "A mouse died for state affairs," is still a valid principle for many people and hence, constitutes the major obstacle for the development of civil society.<sup>2</sup> Civil society will be genuinely established when all people are active in big or small matters for himself, his family and children, for his country, and the nation.

In a society where democracy is proclaimed as fundamental goal, no initiative or reform will be successful without the active participation of citizens. The creation of these conditions is a prime goal of government organizations. Such principles as openness of any kind of information, accountability of governmental organizations to citizens, and responsiveness to the opinion and suggestions of citizens' organizations are the main mechanisms for the establishment of a civil society. In other words, governmental organizations should be under the control of citizens. It is called a check and balance system. There is a saying of a prominent politician that "there are no bad people but there is bad government." If there is no control, or the control exists only on paper,

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<sup>2</sup> This is a Mongolian proverb. An individual is powerless and unable to influence state affairs. The only action open is suicide, which will be ignored by the state.

corruption and the abuse of power will flourish. In the context of Mongolia, where equal relationships between the state and citizens have not yet been established and the government does not respect citizens, citizens criticize the government only among themselves but in fact they fear the government and government officials. But these are the problems usually occurring in a transition period. If we compare the situation with that of ten years ago, it is obvious that there is a substantial increase in citizen's initiative and participation.

NGOs play a crucial role in the establishment of a civil society. The creation and successful programs and activities of NGOs are examples of the solid foundation for further development of civil society in Mongolia. Many citizens are unifying their efforts and creating volunteer organizations to initiate activities that the government, in this economically difficult period of time, cannot handle. NGOs are people's voices. Particularly today, in the conditions of Mongolia, when power is in the hands of one political party, NGOs should take on its shoulder the responsibility of the opposition. Thus NGOs will act as arbitrators with the government. If rulers ignore this role of NGOs, then talk about democracy will not be genuine.

Another very important indicator of civil society is a free mass media. The openness of citizens to express their opinions is a fundamental principle of democracy. Mongolia has achieved major progress in this field.

Human rights are a separate but large issue but since we are discussing the essence of civil society one should touch this topic as well. If one looks at a documents ratified by Mongolia, the Constitution and organic laws as well as international conventions, it may be concluded that human rights in Mongolia are well guaranteed. But in reality, the widespread tendency to commit abuse of human rights, from a street policeman, prison staff to a high level judges and prosecutors, is a warning signal.

For further development of civil society, NGOs and citizens should play a critical role in the establishment of proper social relationships. I think that governmental organizations, especially the Ministry of Education and educational organizations at all levels, should organize civic education training. It is also very important to support these efforts and cooperate with them. Civic education programs are very important not only for students but also for civil servants, especially police court, customs, and tax officers.

State and private legal counselors should offer their services not only concerning crime and financial issues, but should also focus on social and political matters faced by citizens in daily life, including how to enjoy their rights in a new legal environment and how to defend themselves from abuse of power by governmental organizations and civil servants.

Responsiveness to citizen's organization initiatives and support of their efforts are the main means of recognizing citizen's participation, a cornerstone of civil society.

We have learned from recent history about totalitarian regimes calling themselves democratic. It is not sufficient to simply declare that our country is democratic or someone is democratic. Unless the country has implemented the fundamental democratic principles recognized by the international community in a comprehensive manner, it is not sufficient to call ourselves democrats.

We have been striving for democratic development over the last decade. We have a number of accomplishments. Neither the Mongolian people, the ruling party, nor the opposition have a right to step back from this choice and from achieved accomplishments. However, it is very important to guarantee this choice. For this purpose we should not make enemies of each other by dividing into extremes. If every citizen respects rights, takes responsibility, and works hard, it will benefit the common interest.

Finally, on behalf of the trainers, students, and staff of our **NGO**, I would like to thank The Asia Foundation. It established the resident office in Mongolia ten years ago, trusting a young democracy and making a significant contribution to the democratic and civilized development of Mongolia.

**Sheldon R. Severinghaus, First Resident Representative, The Asia Foundation, Mongolia, “Perspective on the Nongovernmental Sector”**

Thank you, Professor Pharr, for your kind introduction. It is a great pleasure and privilege for me to speak on this special occasion. — The tenth anniversary of The Asia Foundation’s Mongolia program. I would like to thank the Foundation for inviting me to speak and to share my observations on the development of the nongovernmental sector in Mongolia over the last ten years.

Since time is short, I wish to focus on the evolution of citizen-initiated **NGOs (CINGOs)**. By that I mean non governmental organizations which are established by groups of people coming together voluntarily to pursue common interests. The first **CINGOs** to emerge after Mongolia began its transition process in 1990 appeared in 1992. I remember meeting with three women from the Liberal Women’s Brain Pool (**LEOS**) at my hotel in 1992. They talked almost non-stop for two hours; words tumbling out like the torrent of a waterfall. They were so full of excitement and energy for their new idea. They had a vision, a dream. But, they said, “We have nothing. We have no office, no money. Nothing! Just our ideas and our excitement.” That’s when The Asia Foundation’s involvement with the citizen’s groups began in Mongolia.

The Foundation was probably the first foreign donor to support such groups as part of a larger effort to encourage the development of civil society in Mongolia.

Let me now identify some trends in the development of **NGOs** and civil society as I have observed them over the last 10 years:

**(1) From partisan to non-partisan:** Some of the earliest **NGOs** came out of political parties and were partisan in nature. Overtime, they became non-partisan and focused on issues of concern to them in a non-partisan manner. Party affiliation was no longer a criterion for membership in **NGOs**.

**(2) From NGI to NGO:** A number of citizens group were started by charismatic, energetic leaders. Their programs and activities were guided by a single individual around whom people rallied. There was little breadth or depth in their staffing or organizational structure. I called such groups **NGIs** (nongovernmental individuals). Today, these **NGIs** are transforming into true **NGOs** with a more complex organizational structure, broadening and deepening of staff positions, and mechanisms for succession of the **NGO** leader and the **NGO's** board.

**(3) From urban to rural:** Citizen-initiated **NGOs** started in Ulaanbaatar. In the early stages, their efforts were focused on getting themselves established organizationally and dealing with their specific issues in Ulaanbaatar. As time went on and the new **NGOs** grew stronger, they began to establish branches all over the country to deal with their interests in rural areas as well. The Asia Foundation was perhaps the earliest donor to support rural programs of **NGOs** and the development of civil society in rural areas. Other donors have since followed.

**(4) From competition to cooperation:** With the flush and excitement of freedom which came in 1990, everyone was eager to do his or her own thing. **NGOs** sprouted like mushrooms, many of them with similar interests but competing with each other for a piece of the turf. As time went on, competition turned to cooperation. **NGOs** with similar interests began to form coalitions. There is strength in like-minded numbers. A women's coalition was established in 1996 to promote women for parliament. Today the **NGO** Coalition exists comprising 13 women's **NGOs** whose objective is to promote gender equality in the political process.

**(5) From distrust to trust:** When citizen's groups first emerged in 1992, they emerged as a force to promote citizen's interests, independent of state control. These citizens recognized that their rights had long been suppressed by the State, and they did not like the State. And the State saw such citizen's groups as a threat to their authority. This mutual distrust between governments and **NGOs** is common in post-authoritarian systems. In Mongolia, this distrust gradually eroded and now there is increasing cooperation between **NGOs** and the government. A good example is the **NGO**-led initiative to draft an **NGO** law which involved close cooperation with all branches of the government. And, indeed, the law itself allows and encourages cooperation between **NGOs** and the government. The government also increasingly sees **NGOs** as an effective system of service delivery.



*(6) From advocacy to oversight:* When the new **NGOs** emerged in 1992, they were eager to promote their own causes. They were advocates for things in which they believed. After all, this was the first time ever in Mongolia that people had the right to press for their own interests, independent of or against the state. In time, citizens began to realize that they should not only advocate their interests but also monitor the government's performance of its policies and programs related to their interests. Within the last few years, this has led to emergence of the first oversight **NGOs** such as the **CEDAW-Watch Network**, a consortium of NGOs that is monitoring the government's implementation of the U.N. Convention on the Elimination of all Forms of Discrimination Against Women.

*(7) From domestic to international:* At the beginning, naturally, Mongolia's young NGOs concentrated their efforts on their own organizational matters and focused their activities on domestic concerns. Now, many **NGOs** are widely connected regionally and internationally, both through their activities and through the Internet. This has been an important trend in linking Mongolia to the broader community of nations from which it had been isolated for seven decades.

Here are a few observations on the above trends: It was my experience that women's groups have led the way in the development of civil society in Mongolia. But women's NGOs were not necessarily focused on gender issues. Some women's NGOs addressed concerns of general public interest. The Women for Social Progress, for example, runs a Voter Education Center which provides information and education to the public on elections and on the activities of the parliament. The goal of the Center for Citizenship Education (founded and run by women) is to develop civic education in the fundamentals of democracy for the public and for secondary schools.

The new NGOs in the Mongolia provide an important outlet for the voice of the people and an important source of information for what their government is doing. This is particularly important when the country effectively has a one-party government, as Mongolia does now. When citizens are not properly represented in parliament, there need to be other channels for them to voice their views and to receive information. NGOs provide one channel for that. A free and independent media provides another. The government oversight function of NGOs becomes even more important with a one-party government in power where transparency and accountability may be limited. Mongolia's experience in the nongovernmental sector over the last eight years has much to offer other countries, including the United States. According to legal experts, Mongolia's NGO law is a good one and can be a model for other countries. Mongolians involved in the development of the NGO community have a deep understanding of the role of NGOs as a vital part of a democratic system of government and a civil society. Their views and experiences should be shared with other countries. The Asia-Pacific Philanthropy Consortium (coordinated by The Asia Foundation) might well include Mongolia as part of its program.

My remarks here only scratch the surface of **NGO** development in Mongolia. But I hope they provide some overall perspective on general trends in this important aspect of the evolution of Mongolia's young democracy.

**J. Zanaa, Chairperson, Mongolian Women's NGO Coalition, "Participation of Women in Democratic Development"**

Thank you, Kim Hunter, the Resident Representative of The Asia Foundation, for this introduction on behalf of individuals and women of Mongolia.

I was invited to share opinions on women's participation in democracy. The topic is very wide, and the time is limited, so I would like to provide a brief overview on women's issues by providing some clear examples of events which occurred in the lives of Mongolian women and happened to me.

We heard the word "democracy" at the end of 1989. At that time, I attended meetings supporting democracy every week. Days without meetings were very boring and even my husband used to say the same thing. At the beginning of 1990, activities of young people who started the democratic movement were actively developed. I would like to talk about one example. This story is now very funny but for those days very dangerous.

At that time, the winter was very cold. We had put up agitation leaflets on the corruption of high levels officials. But we did not have glue to put up the agitation leaflets and we had no money to buy glue. So we used our own saliva to post the leaflets. Women participated in this action.

Meetings and demonstrations, attended by thousands of people who held in their hands banner with democratic slogans and statements about the corruption of the former government, were organized in Sukhbaatar and Victory squares of Ulaanbaatar. The main purpose of these meetings and demonstrations was to explain to the people about the idea that is impossible to establish justice without overthrowing the revolutionary state.

In March 1990, on behalf of the Mongolian Democratic Association and Mongolian Democratic Party, my comrades and I who were struggling for justice decided to go on a political hunger-strike with the purpose of pressuring the government of the Mongolian People's Revolutionary Party to resign. I know about this hunger strike because I was one of the organizers. This strike is part of the history of democracy. At that time, I was a coordinator of the City Council of the Mongolian Democratic Party. I had several responsibilities, including installation of a telephone to address the Administrative Office of Ulaanbaatar and supervision and examination of the condition of hunger-strike participants. We also were responsible for giving hot water with sugar and vitamins to the hunger-strike participants, preparing masks for protection from the spring soil and dust, and providing warm clothes and blankets.

The reason for our participation in these activities of democracy is now emerging. In those days, we had only a general idea, that we had no interest in living under another's command and without freedom. Now, I fully understand the freedom for which I struggled. In other words, we wished for all kinds of rights such as political, socio-economic, and cultural freedom. We are still struggling to enjoy all these rights.

Women's participation in democracy has developed with new meaning since 1992. Shel Severinghaus said earlier that he was lobbied by the Liberal Women's Brain Pool (**LEOS**) for two hours. Our leading women initiated the establishment of **LEOS**. The organization called up others and led women in participation in the life of a democratic society. One of the largest contributions of the organization was to join with each other, to work together, to create that thought and to implement it in our lives.

Mongolian women have been successfully living the life of a democratic society. However, the condition of women has not improved as much as they wished.

I would like to provide an example. The General Recommendation, which was released by the United Nations in 1997, states that "It is impossible to call a society that does not allow women to participate in the social and political life a democratic society." Another of my favorite quotations is, "**If society is not engendered, it is endangered.**"

Mongolian women's organizations organized forums in 1996, 1998, and 2000, and made demands on the Mongolian Government to strengthen the national program implementation on improving the condition of Mongolian women, but no government has paid attention.

Mongolian women's organizations have been successfully focusing on women's issues in political, economic, social, and cultural rights. The organizations have also been conducting surveys, collecting information, and participating in training, seminars, forums, and meeting at the national and international level.

Government organizations engaged in women's issues have not advanced to this level and have not fulfilled their duties as clearly specified by conventions. We do not consider any individual person guilty. This is connected to the government's failure to organize training among women to improve their knowledge.

In Mongolia, 1,700 nongovernmental organizations have been organizing activities, of which 40 are women's organizations. But they have been actively working compared with other **NGOs**. Many people, especially men, asked questions such as what do these women's organizations do? And which women's rights were violated?

Women's **NGOs** have been making contributions to progress of society in many ways, including preparing women for politics and improving their financial potential. If researchers study the techniques, and technology, they will find that the results exceed the value of the assistance and investment in Mongolia.

**September 12, 2000 (Tuesday)**

***Luncheon Speaker: Hon. N. Enkhbayar, Prime Minister of Mongolia***

On behalf of the Government of Mongolia let me congratulate The Asia Foundation, which is celebrating the tenth anniversary of its programs in Mongolia. The Asia Foundation has substantially contributed from the early years of democratic reforms in developing democratic values in Mongolia through strengthening of democratic institutions, capacity building of judiciary and Citizen's Council institutions, in development of **NGOs** as well as through various training programs. We greatly appreciate the efforts of The Asia Foundation in promoting Mongolia's more active participation in political and economic cooperation of the Asia and Pacific region. Let me wish more success in the generous good deeds of The Asia Foundation in development of mutual relationships and promotion of democratic values.

Taking this opportunity let me congratulate an old friend of Mongolia, Professor Robert Scalapino, for the award of the Mongolia Friendship medal for long-lasting efforts in promoting mutual cooperation of our two countries.

Now let me share perspectives on opportunities and challenges to be faced by the government and people of Mongolia in upcoming reforms in political, legal, and economic sectors in coming years of the new century.

I am committed to head the Government in the First years of the new century to overcome challenges of the reforms and enable the prosperity and development of the country. Recently the Parliament approved the program of Action of the Government.

In formulating the policy and objectives of the Government we have tried to take into consideration the existing situation and possible changes in the external environment of the country. The process of globalization is underway in the world community and no nation is able to avoid this phenomenon. The process of integration and political and economic cooperation in regions is rapidly developing. Countries of the Asia-Pacific region are making efforts to promote mutually beneficial trade and to establish a common favorable environment. One of the distinguishing features of the new century is the scientific boom in information technology and widening scope of its application.

Hence, on one hand these global changes and tendencies provide us with new opportunities for the country's development. On the other hand, to follow-up on these changes, and to have wide access to benefits and apply them efficiently, there may be challenges.

In the first decade of the new century, in terms of political reforms, Mongolia is an independent democratic nation aiming to further advance its parliamentary governance. The Parliament is the supreme state body established by the people's own choice and representing their interests. The destiny of democracy will largely depend on how the Parliament develops. In my view, it is a common phenomenon when the Parliament is

based on a multi-party system. However observing the political process of recent years it is seen that it is sufficient in a context of our country to have two to three accountable parties able to take responsibility. The fact that political parties have rather similar platforms demonstrates that all parties have a mission to promote and develop the country of Mongolia. However, these parties still differ in their proposed priorities and defined objectives as well as in ways and mechanisms of achieving those objectives.

In the coming decade of the new century, in terms of the economy it is projected that the country's economy will completely transform into a market-oriented system, the private sector will be dominant in the economy, infrastructure and industry in economic regions will be equally developed, the level of export-oriented economy will largely increase as well as products will be competitive and have their own segment in the world economy. Moreover, it is projected that thanks to comprehensive regional and local policy the regions will play a more substantial role in the country's development. In addition regional economic and free trade zones will be established. Economic policy will be based on flexible macro-economic policy in line with the extension of external economic relations.

In the coming decade, in terms of social policy, it is projected that substantial changes will take place in the social sector, including the guaranteed freedom of people, opportunities to acquire a quality education, and timely and high-quality health service. The government will cooperate with NGOs on the basis of partnership rather than conflict in order to solve jointly the challenging social problems. The level of employment as well as the level of living standard of citizens will largely increase.

Democratic Mongolia will move in the coming ten to twelve years of the new century toward prosperity and development through continuous drastic reform in all sectors of the society. The possible challenges in the fulfillment of this reform are lack of expertise and financial constraints. But the government fully trusts the people's dedicated labor, creativity, and efforts in developing the country.

### **Emerging Challenges in Political Reform**

**Comments and moderation: S. Bayar, Chief of Staff, Office of the President**

**R. Gonchigdorj, former Speaker of the Mongolian Parliament, "Mongolia's Opportunities and Challenges in the Second Decade of Transition"**

Taking this opportunity I would like to thank you for inviting me to take part in this conference. It is a great pleasure to see you, Dr. Scalapino, and many others once again. While working as the Parliament Speaker I became familiar with many of the people who are attending this conference.

I had a pleasure to meet personally Dr. Severinghaus as well other Asia Foundation representatives. That led to establishment of friendly relations between the Government

of Mongolia and The Asia Foundation. In particular, I would like to emphasize the good working relationship that exists between the Parliament of Mongolia and The Asia Foundation.

My understanding is that the Parliament Forum, held earlier this morning in celebration of the Parliament's ten-years anniversary, and The Asia Foundation Conference, "Mongolia's Political and Economic Transition: Challenges and Opportunities," are different approaches to the same issue, closely linked and complimenting each other.

I found it hard to develop and deliver a speech on the topic "Mongolia's Challenges and Opportunities in the Second Decade of Transition" as it is a very broad area. Mr. Bayar, who is now facilitating this conference session, helped me by narrowing the topic. I asked to stalk about the challenges and opportunities that I, as a politician, expect to face in the coming decade.

The first decade of democratic reforms provided background for a series of new opportunities to evolve in the second decade. Now I will refer to the words of Mr. Ochirbat, former President of Mongolia that he used during his election campaign: "The previous decade provided us with opportunities that contribute to successful completion of the process of transition in the next decade". I deeply agree with his opinion and consider that the first decade of democratic reforms has greatly promoted building solid ground for and creating broad opportunities for the coming years.

As we talk about political reforms, one of the main issues included in that concept is sustainability. This has not yet been accomplished but provides us with many opportunities. Political sustainability issues need to be administered and coordinated with the new legal system that regulates political relationship. In this sense, related legal regulations should be enforced in accordance with election law, Mongolian Law on Political Parties, and other legal regulations. Another important issue is that every citizen of Mongolia, as a voter or maintaining interest in political reforms, should get the so-called 'political immunization'<sup>3</sup> and be able to form his or her own stable political view. These are necessary prerequisites for building political sustainability in the country.

In other words, one essential component is legal coordination reform and other component is a more active and creative process that includes activities of nongovernmental organizations, interest groups, and community civic organizations, joint efforts of which will be directed to carry out the above mentioned opportunities in practice.

That is what I consider as the main challenge of the second decade of reform. While the stabilization of the election system used for the last two elections and especially stabilization of the recently adopted election system for local government are taking place, one of the realistic opportunities I see the transfer into a two-party political system.

Sustainability depends on the following: the extent to which political parties are willing to accept it and our capacity to throw away artificial differences between political forces

that had in the past a common goal of democratic reform. It depends only on those facts whether we are capable of realizing those opportunities. Democratic forces had one common united goal but they had problems in coming to consensus to create a coalition as they had some minor differences which each side considered to be important and about which they were unwilling to compromise. These forces should now work to eliminate those differences, within the scope of a sustainable development policy in the newly established international environment; work to abolish old traditional views and beliefs that divided us into western and eastern parts. We now have to admit the urgent necessity of accepting a common policy on sustainable development.

One more issue worth mentioning is that the results of election campaigns show how important it is to develop immunization skills [i.e., ability to resist control and influence] among voters. Here an important role is played by Freedom of mass media, which needs to be accepted by everyone, along with the wide opportunity provided by freedom. On the other hand, openness, transparency, and accountability of government are important features that should be accepted. In addition, they must become rules for all of Mongolia's NGOs, democratic educational organizations, and communities. Voters in Mongolia will have democratic choice if these conditions exist. It is necessary to take urgent steps toward this goal.

Today it is clear that uniting our efforts and striving to reach one common goal is one of the main prerequisites for sustainable and stable development of democracy in Mongolia.

**The Asia Foundation's** activities in Mongolia have always been concentrated on the most urgent and important aspects of social life. Therefore, I would like to stress that The Asia Foundation has always had a realistic perspective and consequently managed to follow a realistic strategy aimed at supporting the sustainable development of democracy in Mongolia.

Finally I would like to say a few words about the challenges we will face in the future and opportunities we might lose. At present single political party dominion has been established in Mongolia because one party has a majority of seats in the Parliament of Mongolia. Some of the activities that are being conducted today force me to conclude that this approach may, in some sense, influence and slow down the process of realizing some opportunities. The danger is that this kind of approach may not only slow down change. It may also create serious obstacles to new opportunities. Therefore the future of the country is fully in the hands of the ruling party, and depends on its ability to analyze, make decisions, and separate personal issues from more general ones.

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<sup>3</sup> The ability to resist control and influence.

In the process of reform, the most common experience is when a traditional way of thinking and work methods pass from one generation to another. It is still clear to me whether the ruling party has gained enough immunity against returning to the old methods of work used before the 1990s.

At first sight, it might seem to some of us that today people who are not able to guide themselves and therefore prefer to be guided by someone else have won and we are now back to the old system as with a magic spell. But this is not the reality. I would like to oppose that view as the transition from a guided mentality to a self-guided mentality is very slow and complicated. Therefore I expect the challenges of the next decade will take place chiefly within the scope.

I would like to assure the audience that I am not misusing my opportunity to deliver a speech to promote certain political purposes. I hope that everyone understands me clearly and correctly.

These are my conclusions based on values of democracy and democratic reforms. If we are able to accept these values we will be able to seize the opportunities and avoid future problems and difficulties. I have no doubt that this conference has the same aims and goals.

### **S. Oyun, Member of Parliament, “Future Opportunities and Challenges in Political Reform”**

I have been asked to make a short intervention on the main challenges for Mongolia in the coming decade. My strong view is that the main objective of the next decades is reducing poverty. Of course, both political and economic independence is of first and utmost importance, but that is true for Mongolia at any given time. Therefore, having that in mind, I think that the immediate challenge for Mongolia is to reduce poverty.

Today, one-third of Mongolia’s population lives below the poverty level. The other danger is that the gap between rich and poor is widening more and more. Mongolia’s Gini-coefficient, which is a measure of inequality, has increased from 0.31 in 1995 to 0.35 in 1998.

In order to reduce poverty, we need first of all economic growth: poverty reduction is closely associated with strong rates of growth. This means sound, efficient and sometimes brave economic policies and decisions. Unfortunately some of the main reform either has not started or was done only partially in the first decade (big privatization, banking and financial reform, land reform, etc.).

It is becoming very obvious that the economic growth in the 21<sup>st</sup> century, the century of globalization, requires engagement in the global economy.

**This means:**



- A much bigger effort (compared to the last ten years) should be taken by the Mongolian Government to try to attract more foreign investment, especially from reliable strategic investors (I think we failed to do this in the first decade);
- sound policies of international finance institution; and
- engagement in digital technology (the market for e-commerce was \$2.6 bln. In 1996 and is expected to grow to \$300 bln. By 2002).

The main point I was going to make during my short presentation is different: this is that growth is a necessary but not sufficient condition for reducing poverty and income inequality. The surest route to growth is through successful engagement in global economy combined with good governance and effective social policies. It is now widely accepted that economic success depends in considerable measure on the quality of governance that the given country enjoys.

For a long time there has been an implicit assumption that the “economic growth model,” as advocated during the seventies and eighties, would take care of poverty reduction and (economic) development. That is, when any given economy would grow sufficiently rapidly, benefits would automatically trickle down, each group and member of society would benefit. This means that the rich would get richer, and the poor would automatically get less poor, and would eventually enter into the ranks of the middle classes.

**First** of all, in times of very rapid economic growth such as experienced in the U.S. during the past decade, the gap between rich and poor has been widening.

**Secondly**, some empirical evidence from the studies done by the World Bank show that unless the economic growth is at least that various countries’ population growth. Twice assuming that the country enjoys good governance. At least three times if there is no effective good governance.

Good governance comprises the rule of law, effective state institutions, transparency and accountability in the management of public affairs, respect for human rights and the active participation of citizens in the decisions that affect their lives. While there may be debates about the most appropriate forms they should take, there can be no disputing the importance of these principles.

Governance vs. Government (an effective interaction of the state, including government and parliament, with private sector and civil society):

The international institutions like **World Bank** and International Monetary Fund (**IMF**) and regional development banks recently started major redirection of their policies and priorities to focus on poverty reduction. However, there is no clear indication that additional resources will be available for poverty reduction and there is still a conflict between poverty reduction policies and those required to achieve macro-economic stability.

The **IMF**, for example, replaced **ESAF** (the soft loan window for low-income countries) with the poverty reduction and growth facility. But its policy prescriptions continue to focus primarily on fiscal restraints and exchange rate adjustments.

My main conclusion is that economic growth is a necessary but not sufficient condition for reducing poverty and income inequality. The surest route to growth is through successful engagement in the global economy combined with good governance and effective social policies.

**Katherine S. Hunter, Representative, The Asia Foundation, Mongolia, “Perspective on Political Reform”**

The accomplishments of Mongolia’s transition to an open-market democracy are many. Three elections judged free and fair, smooth transfer of power after multi-party elections, establishment of a legal framework for ongoing political and economic reform, and the emergence of a concerned and committed community of **NGOs** are all positive characteristics of the first decade of Mongolia’s reform. In terms of institution building, the magnitude of the changes during the first year ten years of reform is reflected by the 500 new laws adopted by the Parliament during this period.

Building the institutions of elections, legislature, judiciary, government, and civil society in Mongolia has been the first and most significant step in the democratization process. An important corollary, the development of practices and customs that enable these institutions to work more effectively, is a slower process. But over the last ten years, Mongolia has made rapid progress in this area as well. As we heard yesterday, Mongolia has many citizen groups, primarily **NGOs** that are rapidly expanding their approaches to influencing the decision making process. They raise awareness on issues ranging from domestic violence and environment to gender equity and corruption. They comment on and mobilize support for proposed legislation, such as the recent hunting law, and monitor government implementation of existing legislation.

The Parliament is now more open to citizens, with opportunities for viewing parliamentary sessions and obtaining proceedings with individualized records of votes. Standing committees or working groups may have meetings on proposed legislation, such as that on the **NGO** law and the revised Family Law.

Rural communities are exploring new models of citizen participation that will increase the effectiveness and responsiveness of local decisions.

These factors represent a very positive growth in Mongolia's democracy, as they all promote accountability and transparency. At the same time, access to decision making processes at either the national or local levels can be unpredictable. It may be difficult to obtain a copy of draft legislation before the vote; to confirm the timing of the vote on a particular issue; or to contact a legislator or local **Hural** member in time for the vote. The lack of institutionalized practices is accentuated by the scattered population, which makes access under the present system even more difficult.

Consolidation of Mongolia's political transition depends on two important elements. The first is more regularized mechanisms for accountability and transparency, either by drafting new regulations or more effective implementation of existing legislation. For instance, regularly scheduled public hearings, posting of proposed legislation for comment by citizens and interested organizations for a specified period, and a broader access to proposed bills are all examples of "mechanisms for accountability." They have all occurred in Mongolia but the practice varies from bill to bill and issue to issue. For instance, the foreign investment law was printed in the newspaper for public comment over a period of weeks some months back. A former head of the Legal Affairs Standing Committee organized a seminar on the revised Family Law, which drew recommendations from both governmental and nongovernmental organizations and set the stage for the debate in Parliament. These are exceptions but they are examples of what can occur under current Mongolian law.

The reason for focusing on these mechanisms is not simply because they are prerequisites of a maturing democracy. They bring significant benefits to national development as well. Although compromise on some issues will be necessary, the greater openness caused by the establishment or refinement of mechanisms for accountability will lead to more sustainable decision making over the long term. When Mongolians have more and higher quality information on a range of issues, can freely comment or provide input on regulations affecting their lives, either as an individual citizen or member of a citizen-group, and have a predictable system in place, there is more likely to be broad-based consensus on major national issues over the longer term.

The challenge for Mongolia is regularizing or, in some cases, establishing, predictable mechanisms of accountability. These have a great potential contribution. In addition to building citizen trust in government and the new political and economic system, over the longer they could bring greater connections between the voters and the elected officials, build consensus on major issues in Mongolia, and help promote more effective development and growth. The opportunity is that a strong foundation for these mechanisms of accountability already exists because of the fine work of Mongolia's governmental and non-governmental organizations over the last ten years, and their recognition of the need for changes in this area. In this respect, Mongolia possesses significant advantages for the further strengthening of its open-market democracy.

### **Summary and Conclusion, "Political and Legal Reform"**

**Harry Harding, Dean Elliot School of International Affairs, George Washington University, and Asia Foundation Trustee**

Thank you, Mr. Chairman. I feel somewhat embarrassed to be asked to conclude a discussion which is just getting underway. But the hour is getting late and perhaps we have to draw some tentative conclusions about our conversations over the last day and a half. As you all know I am not expert on Mongolia. But I do have a real interest in this country, and would like to share the things I have learned from you about political and legal reform here.

I divide my remarks into three obvious headings: First, where Mongolia has come from over the last ten years; secondly, where Mongolia is today; and third, the challenges for the future.

I was particularly moved by the presentations of two of our panelists, Ambassador Joseph Lake and Ms. Zanaa, who gave first-hand accounts of dramatic developments in 1989-1990 period. From that initial democratic breakthrough Mongolia has obviously made great progress over the last ten years. I will not go into any details because Kim Hunter gave a very good summary of those developments in her presentation a few minutes ago. But I think it is particularly important to keep in mind something that has not yet been mentioned.

The democratization in Mongolia has occurred without any of the pre-conditions that some argue are necessary for democratic development. Apologists for authoritarianism say that a country with no democratic tradition cannot democratize. But Mongolia, which had no democratic tradition, did not democratize. Apologists for authoritarianism say that a country that is poor cannot democratize. Yet Mongolia in 1990 was one of the poorest of socialist countries and yet did democratize. Mongolia in 1990 was also a very isolated country without much interaction with the democratic world. It had not yet undertaken significant economic reforms. And yet it democratized. So the Mongol example supports those who argue for the universality of the democratic impulse, and the feasibility of democratization even under very unpromising circumstances.

Now secondly, where is Mongolia today? Frankly, when I arrived in Ulaanbaatar, I was a bit concerned that the celebratory nature of these two conferences would hinder a frank discussion of problems facing Mongolia. But I think one of the distinguishing features of a truly democratic culture is that we can simultaneously celebrate our achievements and yet at the same time give a candid assessment of our shortcomings. I think we have had a remarkably objective assessment of norms under which they operate. Equally impressive, this was constantly being placed in a broader conceptual and comparative perspective. For example, when I heard President Ochirbat's presentation this morning, I thought that I was hearing one of my colleagues give a lecture on basic constitutional structure in a comparative politics class.

Let me summarize, under five headings, the problems that seem to concern you about Mongolia's present political situation.

**First, the basic constitutional structure of the country.** As President Ochirbat pointed out this morning, Mongolia's constitution provides for a mixed parliamentary and presidential system. This is similar in some ways to France and Taiwan but has its own special characteristics. The contradictions in such a system may become especially clear when the presidency and the parliament are controlled by two different political parties. But even when the same political party controls both the presidency and the parliament there can still be problems.

In the Mongolian case, these contradictions have been apparent in the president's power to veto the parliament's choice of prime minister, without the parliament having the ability to override that veto. Mongols are now debating whether the constitution should be amended to reduce these contradictions between the president and the parliament. And, if these contradictions do require constitutional change, should it be in a direction of expanding the power of the president or, conversely, expanding the power of the parliament?

**Second, the parliamentary and electoral system.** The question on everyone's mind since the 2000 elections has been whether it is reasonable that a party that won 52 percent of votes should have 95 percent of the parliamentary seats, because the opposition was so divided. If one finds that outcome to be unfair, then Ms. Oyun pointed out there are two possible solutions. One is to adopt a system that has elements of proportional representation. The other is to follow the logic of a majoritarian system and have a consolidation of political parties into two: a ruling party and an opposition party.

The relative merits of a majoritarian system and a system of proportional representation have been debated by political analyst and political practitioners for many decades. However, the more immediate question is how the party that has 95 percent of the seats in the parliament can remain responsive to the electorate. And here I would simply remind you of the variety of concrete proposals that we have heard for increasing the accountability of members of parliament to their constituencies, ensuring that members of the **Ikh Hural** actually attend sessions of parliament, and providing for greater internal democracy within the ruling party itself.

Beyond these structural issues of the parliament there are also issues raised concerning what might be called the norms governing parliamentary life. For example, should parliament members be subject to party discipline, or should they be free to vote on the basis of their own judgment of what is in the best interests of their constituency and the country? To what extent should members of parliament be obliged to attend the sessions of the parliament? To what extent should decisions be made on a basis of a simple majority, as opposed to a broader consensus among members of the parliament? Should cabinets be partisan, bi-partisan, or non-partisan?

My impression was that many of the speakers in the session this morning on the tent anniversary of the Parliament looked back to 1990-1992, the era of the so-called "**Small**

**Hural,**” as a kind of “golden age,” in which the norms of parliamentary life were somehow healthier than they are today. I will come back to this question in a few minutes.

I can discuss the remaining three issues much more briefly because our conversation devoted less time to them.

**The Legal System.** It is clear that Mongolia has witnessed rapid legal development over the last ten years. However, we heard the view that in some areas these developments have proceeded too quickly and in a way that is not appropriate to specific Mongol conditions. On that basis there was a call for revision of some legal codes but few specific proposals.

**Administrative Structure.** There were some complaints about corruption and allegations that the administration fails to adequately implement laws that have been adopted by the Parliament. We also heard the view that the bureaucracy is insensitive to the public. As one panelist put it, “the state ignores the citizen even though the citizen can criticize the state.” There was also some discussion of what might be called the structure of local governance, and whether Mongolia should be re-divided into larger regions or whether the present structure of local government is suitable.

**Non-Governmental Organizations.** The key to the solution of many of these problems will lie in the area of **NGOs** or **civil society**. But the general message I heard was that although the numbers of **NGOs** are rather impressive, some of them exist only on paper, and others are not run in professional ways. I would also have to say that our discussion did not adequately analyze some very important parts of civil society. I would very much like to have heard more about the situation of the media in Mongolia. I was also very interested in Ms. Oyun’s comment that there is an inadequate independent policy research capability in this country.

So, in our analysis of Mongolia’s present situation, we discussed five issues: the **constitutional structure**, the **parliamentary system**, the **legal system**, the **administrative structure**, and **NGOs**. But as I suggested in a question I raised yesterday, the consolidation of democracy is not simply matter of constitutions, laws, and organizations. Nor is it even a question of the norms under which these institutions operate. It is also a question of public attitude: whether or not public attitudes are supportive of democracy.

Here again, I heard some grounds for concern. Although public opinion in Mongolia is more satisfied than dissatisfied with the political system, most Mongols say that their economic life is worse today than it was ten years ago.

Inequality, unemployment, and poverty all appear to be increasing. One has to ask whether democracy can survive and prosper over the long term when people are so dissatisfied with their economic conditions.

**Secondly**, my impression is that more Mongols are satisfied with the ideal of democracy than they are with their specific democratic institutions. Some of their most negative evaluations are of the organizations that together make up Mongolia's civil society. This raises another question: can democracy survive and prosper when key democratic institutions do not have public support?

**Third**, the notion of a "golden age" that allegedly existed in the early 1990s raises the question of how comfortable Mongols are with what some people would regard as core democratic norms. Those who are nostalgic for the early 1990s say that in those years the country's leaders enjoyed a high level of consensus, rather than the conflict over policy that is seen today. And yet democratic institutions are rooted in the idea of competition and conflict among contending political forces. Similarly, when describing the "golden age" some have implied that Mongolia was then governed by technocratically competent professionals, rather than by politicians as it is today. And yet many would argue that democracy means precisely rule by professional politicians, not by technocrats.

**Finally**, where does Mongolia go from here? Professor Scalapino raised in a suitably delicate way the question that is in many people's minds: does the return to power of the **MPRP** [Mongolian People's Revolutionary Party] mean a possibility of a U-turn in Mongolia's national life? We have heard candid presentations of different views on this issue, based largely on different assessments of the policy preferences of the **MPRP**, and the political and technical possibility of reversing economic and political reforms. I would simply add one further point: the possibility of a U-turn depends not just on intentions of the ruling party, but equally on the willingness of pro-democratic forces to defend the democratic system.

This having been said, in terms of prescriptions for future, we heard two sets of recommendations this afternoon. Some called for further political change, with regard to the Constitution, political institutions, and laws. Others stressed the importance of economic and social development, particularly the need to reduce levels of poverty and inequality in Mongolia. Together, these recommendations suggest the relevance of what might be called a new paradigm of development. That is, development depends not simply on hard physical infrastructure but what also on soft infrastructure, particularly social and human capacity. Fortunately, we will have an opportunity to talk more specifically about economic issues tomorrow morning.

One last point. I have heard several speakers emphasize the importance of democracy in achieving other objectives. This afternoon we heard that if Mongolia wants to reduce poverty, it needs good governance; and that if it wants good governance, it needs political

participation by all its citizens. Those of you who heard the Prime Minister's speech at lunch know that he said that if Mongolia is to preserve its independence, democracy is also necessary. So many of you have argued that democracy is important not just as an end in itself, but as a vital means to achieve other national objectives. This is a significant conclusion.

This is but a brief summary of what I have learned over the last day and a half. Fortunately, we still have another full day for us to learn more from each other.

***Dinner Address: Hon. P. Ochirbat, Former President of Mongolia***

Let me offer congratulations on the tenth anniversary of Asia Foundation programs in Mongolia. It is a pleasure to point out the inseparable connection between programs of The Asia Foundation in the last ten years with the democratic reform process in Mongolia. The theme of problems discussed in the course of the conference, "Mongolia's Political and Economic Transition: Challenges and Opportunities," is very important. The conference will have a significant impact.

Taking this opportunity let me share some perspective in selected areas from the wide scope of democratic reforms in Mongolia:

- 1) Political reform in the context of the new Constitution;
- 2) The democratic, peaceful handover of power as a result of democratic and fair elections;
- 3) Civil Society development; and
- 4) Some results of cooperation with The Asia Foundation.

**First Issue.** Mongolia is the **first Asian country** transforming itself from a communist regime to a democracy. In 1990 the first-ever amendment to the Constitution abolished the statement, "MPRP is the major force leading and guiding the society," and was a starting point for further reforms. Mongolia is also the **first Asian country** undertaking both political and economic reform, transforming the country into a democracy and market-oriented economy.

Mongolia has made its choice of future development and gone through ten challenging years of transition toward democracy. The adoption of the new democratic Constitution by the democratically elected People's **Great Hural** and "**Small Hural**" was the most significant success of the democratic reforms.

The adoption of the new democratic Constitution through consensus, which declared a republic with parliamentary governance, and the peaceful battle for democratic, open society, is the Mongolian people's greatest achievement.



The basic change in the political system of the country was the transformation of the state role from being the means of fulfilling one party's extreme ideology to a state with core values of democracy, freedom and pluralism as guarantors of development.

The fact that people have gained the right to participate directly and indirectly in the democratic process and in legislative, executive and judiciary powers is the guarantee of the new democratic state respecting human rights. In the last decade the initial objectives of the transformation, to lay down the foundation of democracy and market economy, have been achieved through wide-scale reforms in political, economic, and social sectors, and people's mentality. The state accepted both public and private types of ownership and guaranteed the legitimate rights of an owner by law. The provision of the Constitution stating that Mongolia shall have a multisectoral economy has been ensured and today about **70** percent of **GDP** is being produced by the private sector.

Every citizen had an equal starting point and was provided with vouchers worth 10,000 tugriks; livestock was privatized to herdsmen; and accommodations were privatized to owners. To mention just one example, the total number of livestock has reached 33 million. Tremendous reforms have taken place in the education sector. In 1990 Mongolia had eight universities and higher schools with 15,000 students, whereas in 2000 there are more than 100 universities and colleges with more than 70,000 students. Most of these institutions are private.

Out of 700 monasteries and temples destroyed in the 1930s only **Gandan** monastery was operating in a rather ceremonial way. Now, there are more than **140** temples and monasteries, and the **Janraisag** idol has been newly erected and hence, people enjoy the freedom of religion.

The freedom of media is guaranteed and state censorship has been abolished. During the socialist period there were five daily newspapers, whereas today there are more than **300** newspapers, thus ensuring the freedom of speech of citizens.

Although political, economic, and social reforms face a number of risks, the positive aspects are rather dominant and the overall frame or direction of the reform process is right. However, such negative phenomena as unemployment and poverty have become rather common and, given the lack of knowledge and expertise in dealing with these problems, the country was not able to prevent let alone limit the negative consequences of the problems.

That is why the problem of income inequality among various social groups is deepening. The major factor that affects poverty is that prices of goods and services have reached the level of international markets, whereas the level of compensation and labor cost remain at the same level, hence, the purchasing capacity of people has declined dramatically. For instance, in the past the amount of one's income was sufficient to feed three to four people, whereas today it is sufficient to feed only one to one and a half people. The promotion of policy and programs for job creation, and labor productivity increase are

basic conditions for income generation and poverty alleviation. It is requested that the programs of The Asia Foundation may be directed toward this important field.

**Second issue.** Since 1990 a number of elections have taken place, including those for the State Great Hural (1990), the Small Hural and the Ikh Hural (1992, 1996, 2000), and the President (1990, 1993, 1997), where there was a handover of power from one political force to the other. As a result of these elections, the power handover was legitimate and peaceful demonstrating Mongols' high degree of political culture.

At the moment of handing over the state stamp, whether it is for Parliament, President or Government, it is good tradition of Mongols to present a blue *hadag* (blue piece of cloth expressing respect) and a silver bowl with milk wishing the best to the successor of that position. This demonstrates the high level of heritage and cultural connection to traditions of Mongols in a new context of democratic reforms.

The conflict and competition between majority and minority, and among different interest groups within the Parliament, affect the stability of the state, the citizens' attitude toward the state, and the results of elections. In a situation where instead of consolidation of political parties for genuine national interest political parties exhaust themselves in the fight for power, it is necessary to identify the most suitable election system ensuring a Parliament with a strong opposition. It is clear that the existing majoritarian system is more suitable in a context of several mature political parties.

**Third issue.** In terms of civil society development, as provided in the Constitution, Mongolia shall have a mission to establish a humanitarian, civil and democratic society. One form of citizen participation is that citizen can join non-profit, non-governmental, or self-governing citizen's organizations, called **NGOs**, on a voluntary basis. The **NGO** is playing a crucial role in promoting citizens participation in social life through enabling citizens to enjoy rights and assume responsibility, hence facilitating the development of a democratic state and civil democratic society.

The state, regardless of all efforts cannot reach every citizen, on the other hand, a market economy assumes that one who is rather solvent can enjoy more, so that those vulnerable groups of people may turn for protection to different kinds of voluntary and generous organizations. It is necessary to enable mechanisms of delegating some of the state's functions to **NGOs**, as well as to enhance the mutual relationship and cooperation between the **Government** and **NGOs**.

Taking into consideration the necessity of advancing the scope and scale of **NGOs'** role in a civil democratic society, in 1997 the Law on **NGOs** was adopted enabling a legal framework to regulate the establishment of **NGOs**, the frame of activities, and the relationships between the state and **NGOs**. It is a pleasure to point out the support of **The Asia Foundation** in formulating and discussing this law. Currently, there are more than **500 NGOs** operating in Mongolia.

Finally, let me say a few words with regard to Asia Foundation programs in Mongolia. **The Asia Foundation** is the first American **NGO** to support the reform process toward democracy and market economy in Mongolia.

The wide scale of **Asia Foundation** programs has achieved some specific results. In the course of discussion of the draft Constitution of Mongolia, with the financial support of **The Asia Foundation, Professor Louis Filler, Professor Joseph Grodin, Charles Freed, Martin Shapiro, and Dr. Sheldon Severinghaus, Resident Representative of The Asia Foundation**, made substantial contributions by providing some specific recommendations and suggestions. As the chair of the Commission on Formulating the New Constitution, I had a chance to exchange views and discuss matters with these scholars several times.

**The Asia Foundation** programs played an important role in the Legal reform of political, economic and social relationships. Moreover, programs of The Asia Foundation aimed at building capacity of institutions as well as of civil servants at different levels have played a significant role.

As one of the beneficiaries of The Asia Foundation programs, let me express my sincere gratitude to **Dr. William Fuller, President of The Asia Foundation**, on the occasion of the tenth anniversary of Foundation programs in Mongolia.

Finally, let me wish more fruitful cooperation between The Asian Foundation and Mongolia in further programs aimed at participation of Mongolia in economic cooperation in the Asia-Pacific region as well as in regional development initiatives. Let me wish the best to all participants of Asia Foundation programs.

**September 13, 2000 (Wednesday)**

**Economic Transition and 21<sup>st</sup> Century Challenges**

**Comment and moderation: T. Ochirhuu, Chairman, Economic Policy Standing Committee**

**Ts. Adiya, Advisor to the Prime Minister of Mongolia, “Coordination of Social and Economic Policies”**

Our country's future development depends directly on formulation of economic policy aimed at macroeconomic stabilization, production growth, and an export-oriented economy. On the other hand, a comprehensive social policy aimed at social sector development and resolving challenging social problems is also important. The eventual results of development will be determined by the degree of coordination and correlation of these two policies, and their proper balance in a given period of time.

Economists have different viewpoints on this matter. Some researchers argue that in the early stages of a transition, the economy should play a crucial role. Thus, it is vital to carry out economic policy toward development and promotion of national businesses. As these researchers argue the focus on social aspects of the country will not encourage economic development. At the same time, social problems will remain unsolved and hence the country cannot prosper and remains a poor country. Therefore, only economic development can help develop the financial capacity to solve emerging social problems.

Other researchers argue that considering social problems as a priority will ease the resolution of economic issues. These researchers argue that well-educated, qualified experts who compete on the labor market will eventually lead to an increase in productivity, and the growth of industry and services. The above mentioned viewpoints are extremes in terms of coordination of economic and social policies.

Today is not the appropriate time to discuss which of the policies should be a priority. The point is the most effective coordination of economic and social policies, as well as their interbalance and support of each other.

Let me consider two issues with respect to macroeconomic stability and resolution of social problems. First, the creation of domestic accumulation, and second, the enhancement of working contacts of the accounting-auditing –tax systems.

In terms of economic policy, the restoration of national industry, and the increase of processing of agricultural raw materials and products are considered priorities. Without development of national industry and export of products it is impossible to create sufficient financial resources to resolve a number of economic and social problems. Therefore, it is necessary to establish a comprehensive system of raw materials collection and a manufacturing complex through stimulation of enterprises' collaboration on a basis of their technological coordination. The past years' experience demonstrates that small entities are not be able to manage the whole chain of the process starting from materials collection, primary processing, and production of the final product. As industries that have business connections fulfill committed obligations, then there will be opportunities for technological and technical advances, increase of productivity, and improvement of product quality. The experience of developed countries that gain a comparative advantage proves this assumption.

The restoration of national industry requires a substantial investment that cannot be provided by **FDI** (foreign direct investment) or foreign aid and assistance only. It is naïve to rely on the enabling legal environment, and creating favorable conditions as the only prerequisites for attracting **FDI**. Instead, intensive efforts must be undertaken in order to attract **FDI**.

**First**, to decrease the substantial amount of irrational and wasteful consumption and ensure the most efficient use of resources. There is a common tendency among the government and budgetary organizations to exceed expenses, to try to reach the level of a

developed country in terms of consumption regardless of backwardness in terms of development. A large amount of resources is wasted in unnecessary, duplicated international visits, in travel expenses as well as in largely celebratory first, second, fifth, or tenth anniversaries.

**Second**, both government and private sector organizations have a tendency to make up more expenses and lower income, thus to decrease the amount of taxes to be paid. In contrast to the level of the country's development, public organizations enjoy large comfortable offices, expensive furniture, office cars and vehicles, communication devices, relatively high salaries and bonuses at the management level as well as foreign travel whereas enterprises cannot operate at full capacity and employees' salaries are very low. Business plans must be well designed and justified and the earned resources and accumulation should be used in industrial expansion and the solution of employees' social problems.

**Third**, among individuals as well, instead of saving and creating accumulation, there is a tendency to enjoy high consumption. This was observed not only by international experts but also by passing travelers. Today there are a number of entertainment places in Ulaanbaatar and other cities where you can find many users of these services. It is observed that these people waste money and entertain themselves, as they do not earn that money by hard effort. Moreover, an obvious tendency among Mongols is to compete by acquisition of expensive cars and luxury consumer items. On the other hand, look at the surrounding environment and the way the majority of people live. There is a Mongolian folk saying: "The unhappy person is consuming much, the non-thinker is sleeping much." One can see the truth of the saying in today's people lives. In other words, a culture of saving and making accumulation to change the mentality of people, otherwise in the long run, an economy cannot prosper without sufficient accumulation.

Another problem in terms of macroeconomic policy is the issue of optimizing the taxation system and tax collection mechanisms. Today the interaction and correlation between accounting-auditing and imposing taxes is very low. The existing accounting system is outdated, the balance sheets and the reports are merely formally submitted in a new form for tax offices. Although auditing takes place there is a need to enhance the accuracy and the quality of those checks and controls. However, a widespread tendency among entities is to provide inaccurate balance sheets, to underpay taxes and moreover, to avoid tax payment. Whereas tax offices focus on collection of taxes reflected in those reported balance sheets, it is therefore vital to ensure the correlation of tax office, auditing and accounting, and to optimize their cooperation. It is true that without their effective cooperation the country's budget revenue cannot be collected. Moreover, the government will not be able to make investments and hence, to solve encountered social problems. What is missing is comprehensive training on business entity accounting and auditing. Without a good accountant, and qualified and honest auditors, a specific area of macroeconomics stabilization will not be fulfilled.

Along with restoration of national industry and advancement of equipment, human resource development will require substantial investment. As most of our industries do not operate, engineers and technicians cannot work in their specialty and have to transfer to the trade and service sectors. Therefore, in line with training of new employees, efforts must be made to attract those qualified engineers and technicians. This will reduce unemployment caused by economic decline and, on the other hand, will allow an increase in the standard of living for specific groups in society.

Now let me discuss social sector reforms from the perspective of their support for economic development.

First of all, let me start from the education field. The goal of education reform is to train well-educated, well-mannered, and capable-of-work citizens. For this reason, the curriculum of secondary schools, vocational schools, colleges, and universities must be correlated with the specific demands of the market, so that graduates will be able to start work right after graduation. For instance, secondary schools in a region can integrate into its syllabus training for a given business industry that is critical for future regional development. Higher education public and private universities and colleges considering the demands of the market can expand the training programs for engineers and finance experts and enhance training content and quality. The existing situation is that universities and colleges focus on majors such as law, management, foreign language, and diplomatic affairs and hence, graduates face problems in finding employment. If the educational system can move toward meeting the demands of the country and the labor market, that will promote economic development which in turn will lead to an increase of investment in the education sector.

Another way to strengthen the education system without a substantial centralized investment is to transform secondary schools into training centers. This is the best new practice and experience widely applied in industrialized countries in recent years. City and local schools are well equipped in terms of available space and accommodation. It is true that a school building is usually the best in given a *soum* (county). In recent years much has been done in terms of school building renewal and extension. The existing situation is that school buildings are shut during the three summer months and classes are held mostly during the daytime for nine months.

The available building, equipment, and qualified staff can be used during the entire year for training of local people and professional training programs for the unemployed as well as Internet service provision. In addition, local business should be involved in the school development initiatives. In fact, business will be interested in doing so. Hence, transformation of schools into local training centers as well as place of partnership between business and citizens will facilitate the achievement of economic objectives.

Today health organizations are dealing mainly with either sick people or with the recovery of seriously ill patients. However, the focus should shift toward regular preventive analysis and inspection of citizens, and the early diagnosis of disease. This will have a significant impact in terms of the treatment of a patient, and the saving of

resources as well as for those healthy people who will be productively working to create social wealth. If the preventive system of health organizations is optimized then the country can save financial resources needed for economic growth and citizen's productivity will be increased for greater economic development. Thus, the programs of the social sector, including the poverty alleviation programs, can be directed toward promotion of economic development.

Above I have discussed some aspects of the problem of economic and social policies' coordination and the opportunities for mutual support.

**P. Jasrai, Member of Parliament, and former Prime Minister, "Specificity of the Economic Transition in Mongolia"**

Until recent times, world nations have been distinguished as market economy countries versus centrally –planned economy countries. In the last decade of the 20<sup>th</sup> century a new group of countries with transitional economies has emerged. This group covers more than **40** nations and Mongolia is among these countries.

Previous presenters thoroughly described the economic situation of Mongolia in the early transformation period, so there is no need to reiterate it. Instead, let me elaborate on a couple of rather subjective factors that affect the country's economy.

**First**, the economy of Mongolia was at the level of middle age when the country swept away Manji colonial dominance and fell under Comintern influence. There was no developed market. To illustrate just one example, tea served as a medium of exchange until 1930 in settled areas and until the 1940s in rural areas of the country.

On the other hand, economic entities established in early 1990 were from the beginning in the form of the "socialist economy" public entities. The human natural materialistic interest was suppressed first by feudal ethics, then by the communist regime. The immediate conclusion is that by the time of drastic economic reforms in the 1990s, Mongols lacked the experience and practice of living in a market economy context. Simply speaking, they lacked the mental and psychological readiness to accept the scale of reforms.

**Second**, the policymakers of the early transition period lacked knowledge in market economy theory, particularly lack of comprehensive strategic and tactical knowledge suitable for the context of Mongolia. It is not said to blame any specific political force or policymakers that was simply the objective real situation. Moreover, as it has been outlined by others, foreign trade has been playing a critical role in the economy of Mongolia. Economic relations with former economic partners have declined due to the collapse of the previous economic system.

On the other hand, the country was not able to build relations with new partners. These were the objective conditions when the transition process was launched.

The last decade can be evaluated as rather successful, considering that three-quarters of **GDP** is comprised of the private sector and the economic mechanisms suitable for the market economy have been put in place.

**One. Privatization program.** The basis of market relationships is private property. Privatization is on going in both experienced market economies and economies in transition. To present an example:

- In 1984, the portion of the public share of the economy in nineteen European nations declined for the first time since the end of World War II. In other words, in the 1980s privatization in Europe intensified. Within 20 years in England, companies and corporations with 6000,000 jobs were transferred to the private sector. Among them, the freight transport company National Freight Consortium has given 83 percent of shares to employees. The result was immediate: in the next year labor productivity increased by 30 percent and profit grew dramatically. The per share price increased 40 times. There are a number of similar examples.
- The consequent question is why privatization in Europe was so successful? Two reasons can be identified. First, privatization took place in a favorable legal and market economy framework. Second, companies were not dismantled and the technology lines were retained.

On the other hand, why was privatization in Mongolia so ineffective? Again, there are several examples:

- With privatization, small entities simply disappeared. For instance, watering systems, milking farms, and pasture well system are examples of entities that no longer exist. This had a negative effect on livestock security and environmental balance. Moreover, it negatively affected the population's food security. Today the challenge is to restore, in reality to create, these small entities. There is demand from clients and, on the other hand, a number of entities operating in this sector increased. But the problem is no resources. So that the option is to design a project and turn to international assistance funds.



The required amount of funds is far more than that used in establishment of the initial entity.

- The majority of privatized big entities simply closed down. A few entities that continued to operate after privatization include Altantaria flourmill, Mahimpex (meat), Bread and Candies, and Spirit bal Buram. The level of production and out put in these enterprises has decreased a dozen times from the level prior to privatization.
- Industries and entities recently privatized pay less taxes than prior to privatization. This conclusion is drawn from a comparative analysis of tax terms, and adjusted level of changes in tax level in different companies.

In sum, privatization was a failure except in the animal husbandry sector. What are the reasons? What are the lessons learned? What is the impact?

**First**, the market economy is based on private property. For an economy in transition privatization may be compared to the planting of the seed into soil. Let me illustrate the process in the arable sector. Simply planting seeds will not lead to a good harvest. In other words, complex measures of care are needed. For instance, fertilizing, watering, and clearing waste are also required.

We, being fully aware of privatization, have not provided conditions for sustainable development of those entities. In 1991, large-scale privatization undertaken in a context of the old socialist legal and economic frameworks was deteriorating from the beginning. The price and exchange rate liberalization undertaken in 1993 were rather late measures but brought positive outputs. However, the urgent need for an enabling economic legal framework was delayed. A consequent conclusion is that creating a favorable business environment is far more important than the privatization itself.

**Second**, good management is required for running a private entity. It was primarily people who made money from revolving funds leading the private sector. But most of them were not good managers and, moreover, they did not recognize the need to recruit strong skillful managers. Thus, in first years of privatization, expertise and money were in separate hands.

**Third**, inherited experience, practice and tradition play key roles in running a private enterprise. Then why was privatization in animal husbandry so successful? Because it is a traditionally inherited sector.

And why did the arable sector collapse? Because this sector originally developed as a socialist industry during the socialist period of time. Only 30 years of history are behind this sector.

**Fourth**, above I illustrated privatization with an example from the arable sector. One of the key conditions for a good harvest is to clean up garbage and stop deterioration. In the economy, the most hazardous garbage and deterioration is corruption. It can be concluded with no exaggeration that corruption has taken hold on a wide-scale basis and transformed into mafia type in this country. On the other hand, civil servants without property and without living guarantee are living in poor conditions. So that it is common for civil servants to abuse their power and position for private profit. Hence, the reputation and prestige of the civil service are damaged and widespread suspicion is taking place.

**Two. Foreign economic relation.** Businessmen should think first for whom and what volume of product will be produced before deciding what and how to produce.

Light and food industry products are targeted to consumers of cooler climate regions. Domestic market capacity is too small and there is no room to enter market in the **U.S., Canada, Europe, and Japan**. In addition high transportation costs limit possibilities. Therefore, Siberia and China are future potential markets for our country. However, China and Russia impose overly high customs duties on consumer goods and exempt taxes from raw materials. Hence, except for Gobi Corporation industries that produce end-products cannot respond and profit. Mongolia is a member of **WTO** and it can initiate tariff negotiations with **Russia** and **China** and make **23** percent the top tax level. Alongside negotiations with these two neighbors, talks should be held with other **WTO** member countries. On the other hand, our products must be competitive.

**Three. Sound monetary and credit policy.** Is a prerequisite in developing market economic relationships. In the last four years more than ten private banks have become bankrupt. Today there are three operating commercial banks, two of which are public. Clients are limited to **Ulaanbaatar, Erdenet, and Darkhan** cities. Thus, in the countryside, exchange comes back into Middle Age forms. Namely, the common medium of exchange is sheep for flour and flour for sheep. The solution is to strengthen accountability and control systems in commercial banks and the possible privatization of public banks.

**Steve Saunders, President, U.S.-Mongolia Business Council, "The Changing Climate for Private Sector Development from the U.S. Perspective"**

Let me start off with my central hypothesis that in order for the new government to achieve its stated goals of social spending, capital investment, economic growth, and

extension of infrastructure, it is absolutely necessary to aggressively seek foreign direct investment (**FDI**) and to proceed immediately with the privatization of the most valuable state enterprises (**MVCs**). To that end, I would like to talk about two specific areas.

First is Mongolia's position in global competition for **FDI**. Second is Mongolia's culture of dependence and how it must be changed.

Let me preface these comments with two caveats. The U.S.-Mongolia Business Council (**USMBC**) is the oldest and largest trade association linking Mongolia and the West. Our council is composed of the **CEOs** or other senior executives of Canadian and American companies and organizations trading with, invested or active in Mongolia, independent of any government support of any kind. We are totally supported by the North American private sector. I offer this clarification, because there is another business group in Ulaanbaatar, which was founded by the **U.S Embassy** that has a similar name in the Mongolian language. So I emphasize that the views I am expressing are of those of the North American private sector and are not necessarily shared by the U.S or Canadian governments.

The second caveat is that regardless of whatever critical observations I may make, the bottom line is that Mongolia has made one of the most dramatically successful transitions in the world, over a period of ten years, from a socialist centrally-planned economy to a free market economy, especially to the extent that it has been achieved without along the way throwing democracy overboard. I think that is remarkable achievement.

Mongolia has come a long way in the last decade. For people who follow Mongolia closely, it is easy to recognize the dramatic change in comparison to the way things were previously, to evaluate it highly and to find reason for praise. However, when a foreign investor looks over the world for opportunities, he does not look at Mongolia and say, ah, I should invest in Mongolia because Mongolia is so much better than it was ten years ago. To the contrary, Mongolia is in a fierce comparative competition for foreign investment dollars with more than 180 other nations, economies, and territories.

In the 1980s, one form of protest in Indonesia against the "crony capitalism" of the Suharto regime was at the annual meeting of the Association of Economists. The entire audience of economists would burst into laughter when the Minister of Finance would say that foreign investment would increase because **Repilita** Four [i.e., similar to the "Five Year Plans" used in command economies] was so much more successful than **Repilita**, Three, or **Repilita** Three was so much better than the results of **Repilita** Two. During those times, their laughter was one of the relatively few protected forms of free speech.

In 2001, Mongolia is in competition with Indonesia 2001, China 2001, Laos 2001, Thailand 2001 and it is not being judged in a vacuum or merely in comparison to how much better Mongolia is today than 10 years ago. The decision on whether to invest is not binary, it is not on-and-off, it is not yes-or-no and most certainly it is not emotionally-driven; rather, it is a cold, comparative and analytical calculation of which one or more

than 180 opportunities am I going to take in order to obtain the highest return on my investment?

This means that the attitude and goal of the Mongolian Government must be: how do we restructure the Mongolian investment environment and opportunities so that they confer on Mongolia a comparative advantage over other countries which might otherwise be equally attractive to foreign investors?

For example, in the last government there was a discussion about adjusting the corporate income tax rate so that it was roughly the same in the U.S. On the surface, this rough equivalency might seem to be a very good way to go. But the real question is whether a company headquartered in the third largest nation on earth, with the world's largest national economy, with unfettered access to domestic market 280 million and to a three-country **NAFTA** market almost 40 million, would find it attractive to invest in Mongolia, a landlocked country with comparatively higher investment risks and a domestic market of only 2.4 million, where their company's profits would be taxed at the same rate as if the company had made an equivalent investment in the United States.

On that basis, an American **CEO** is going to say, hmm, should I stay in the U.S. where there are no substantial difficulties in expanding an investment or should I go 6,500 miles away where I would pay exactly the same tax rate and face substantial difficulties and higher costs in achieving a profit on that investment?

I have been an admirer of Mr. **T. Ochirhuu**, Chairman of the Ikh Hural Standing Committee on Economic Policy, for several years but my admiration was never higher than at our 10<sup>th</sup> Annual **USMBC** meeting earlier this week when he said that the Ikh Hural would be considering the possibility of adjusting the corporate tax rate down to a level approximating a 20 percent rate. If that is done, then all of a sudden, the taxation component of the decision to invest in Mongolia will offer a substantial comparative advantage attractive to foreign investors.

The essential formula for what has to be done in terms of creating an investment environment and a policy environment to attract **FDI** has been articulated in three words by **Bill Bikales**, an economist with the **Economic Policy Support Project/USAID** through Development Alternatives Inc., who has served as economic Advisor to six consecutive prime ministers of Mongolia.

That is, the commitment of the Government of Mongolia to **FDI**, if it is to succeed, *must be long broad and deep* (emphasis added). "**Long**," meaning consistent, stable policies that extend over a period of many years and that do not change every six months or every year. "**Broad**," in the sense that these policies do not cover single targeted sectors, selected through the political process instead of the market process, but instead policies that are applied across the broad range of the entire economy. "**Deep**," meaning that it is not limited to the top leadership of the Ikh Hural and the Cabinet, but which penetrates down to the lowest layers of the bureaucracy.

We had to do the same thing in the U.S. It took 12 years and two Presidents in order to persuade the border officials of the U.S. Customs Service and the Immigration & Naturalization Service that they should be nice to foreigners entering the country because the likelihood of their being terrorists was fairly low compared to the likelihood of their spending lots of money in our country, which was very high.

Membership in trade associations, especially in binational and multinational trade associations, is a good index of North American commercial interest in any given country. The **U.S.-Mongolia Business Council** was founded in 1991. By 1993, we had more than 75. There were great enthusiasm and high expectations of rapid change. Ikh Hural Chairman L. Enebish, who was then Deputy Prime Minister, gave a brilliant speech at the 1993 annual meeting, inviting and encouraging foreign investors to come to the New Mongolia. But the expectations, I think, of those North American investors were too high, their expectations of the amount of time it would take for the transition to occur were too optimistic. From a high of 75, membership plunged to 25 by early 1993.

Similarly, a **Canadian-Mongolia Business Association** founded in 1997 with more than 10 member companies, when expectations were high for liberalization in the mining sector, contracted to little more than a letterhead by 1999, after the Mongolian Government imposed a gold export tax that rendered Mongolia one of the most expensive places on earth in which to mine gold. Since then, several of those Canadian companies have joined the **USMBC**.

By the spring of the year 2000, **USMBC** membership had come back to 40. Further, I am pleased to report that our membership has increased by 10 percent since the July 2, 2000 parliamentary elections. Foreign investors looking for long, broad, and deep commitment to investment policy that favors foreign investment are demonstrating their renewed optimism for positive change in Mongolia. Whether those expectations are being fulfilled will be indexed by membership in bilateral trade associations such as ours.

Second, let me talk briefly about the culture of dependence, and the danger posed to Mongolia. During the socialist period, direct financial support to Mongolia from the Soviet Union and from the Soviet bloc was something in excess of 35 percent of **GDP**. Now that does not include the value of such things as 10,000 scholarships a year that were provided generously by Russia, East Germany, and other Eastern bloc countries. An average of approximately 4,000 scholarships were for university-level education and the remainder was for technical training.

Since the resignation of the Politburo and the beginning of the democratic period in Mongolia, that level of financial support, at least in terms of direct donor assistance, has been picked up by the Western countries to the tune of 30-35 percent of **GDP**. Mongolia has shifted from dependence upon Soviet aid to dependence upon Western aid. Unfortunately, Western and former Soviet bloc support for academic and technical training has dropped precipitously, to a level 90 percent lower than during the socialist period.

In my consulting business, we frequently caution corporations and governments not to fall into the trap of what we call “The Assumption of Stasis,” meaning the casual assumption that everything is always going to be exactly the way it is today. Starting in the mid-1980s, Japanese companies went on buying spree in U.S. real estate, frequently paying as much as 200 percent of the fair market value of landmark commercial buildings in the U.S. on the assumption that the rents would always be increasing 15 percent a year, as was then the case, and property values would always be increasing 10 percent a year, as was then the case.

The bursting of the American savings-and –loan bubble and the parallel Japanese real estate bubble proved they were wrong. Subsequently, most Japanese investors simply walked away from their real estate investments, either abandoning them to the bank or selling at huge losses.

In terms of the Government of Mongolia-as it plans infrastructure improvements, capita expenditures, spending for social needs and raising salaries and pensions-I think that relying on the assumption that foreign donor assistance will always be there to make up the shortfall is putting too much weight upon a thin reed.

There are strong signs already, strong danger signs of donor fatigue in the U.S., in Canada, even in Japan. In 1998, there was a little noticed but important watershed event in the Japanese Diet where a multiparty mini-rebellion forced the government to make a symbolic, token reduction in appropriations for both **overseas development assistance (ODA)** and for self-Defense Force spending.

The assistance levels of today are going down, the levels of support from international organizations and foreign **NGOs** will go down. The level of the total value of **FDI** in Mongolia is now something like US\$ 330 million, with only about US\$ 21 million from the U.S. But \$300 million in total capitalization of **FDI** is less than the highest total amount Mongolia has received in one year in foreign donor assistance.

The debt will burden the next generations of Mongolians. This has concerned every Prime Minister. I recall here the story that Prime Minister P. Jasrai and his Finance Minister would put their heads into their hands in anxiety every time Mongolia was offered some new soft loan, saying to the cabinet: before you tell me how you would spend it, first tell me how it would be repaid.

Let me give you just one example. The Japanese government has been astonishingly generous in providing soft loans just for repairs of Power Plant No. 4. Overall, **Japan** is by far the leading foreign national donor to Mongolia and the source of a majority of tourist income. But these loans are so substantial that even assuming the usual generous Japanese practice of rebating 50 percent of the repaid principal to Mongolia at the end of the terms of repayment that will result in a per capita debt equivalent to 16.80 percent of Mongolian **GDP**- and that is for only one power plant! The total debt for this single power plant will be more than the total sum of foreign donor funds given in 1999.

Let me conclude her. Other panelists raised some very interesting issues, which perhaps can be pursued during the discussion.

**Speaker: Hon. N. Tuya, former Minister of External Relations of Mongolia, “Remarks on Foreign Policy Dimensions of Mongolia’s National Security”**

I thank you, Professor Scalapino, for this introduction. I wish to congratulate everybody here, including Kim Hunter and her staff, the very distinguished trustees of The Asia Foundation, former U.S. Ambassador to Mongolia Mr. Joseph Lake, and Sheldon Severinghaus, the Foundation’s first representative to Mongolia, on the tenth anniversary of The Asia Foundation’s Mongolia program.

It was more than ten years ago that we in Mongolia started transforming and reforming this country. The transition from a communism to democracy, from command economy to a market-oriented one, from totalitarianism to freedom and respect for individual initiative has not been any easy one. But it has been, by and large, a successful transition, and much of the credit for this goes to our friends, including The Asia Foundation, who shared with us their knowledge and expertise in various areas. democracy, government, participation, operation of a market economy, free and fair elections, independent judiciary, the region and the world. We benefited a lot here in Mongolia from the programs of The Asia Foundation over the past years, and I am sure in the years to come these programs will continue as successfully as they have to date.

I was asked by the organizers of this conference to share my views on various dimensions of Mongolia’s national security. But because national security- and security, for that matter, is so broad a topic, and an evolving and ever complex one at that-I thought that, given the time limit, I would better confine my remarks to foreign policy dimensions of Mongolia’s national security.

Prior to the 1990s, in our foreign policy and in our national security policy we were, globally speaking, where everybody was at that time, that is, in the **Cold War**. Mongolia’s international actions were closely linked to-indeed were continuation, I believe, of-the strategic objectives pursued by the former Soviet Union. There was a serious need to improve relations with China, which could not simply do without the Soviets withdrawing their troops. We were a closed society unaware of the economic, intellectual and political processes taking place elsewhere in the world. Regionally speaking, despite our Asian location, we were utterly unfamiliar with the Asia-Pacific region where we belonged, and the rest of the region did not know anything about us. At the beginning of the 1990s this, of course, started changing-and at a very rapid pace at that. The effective dissolution of the Warsaw Pact made it clear that the **Cold War** was over, and for good. But nobody could tell with any certainty how international and regional politics, would-and- should-look in the absence of the Cold War animosity. But everybody, I think, felt more enthusiastic about the prospects for a better world. This enthusiasm was exemplified, for instance, by the much-discussed concept of the “new world order.”

As change was unfolding internationally, we in Mongolia were in the midst of a major domestic debate about who we are and where we are. Suffice it to go through the newspapers of those days to gain an idea about the intensity of the debate. We were learning new things, embracing new ideas, and unlearning old ones.

In foreign policy, in my view, a major break with past practices came with the outbreak of the Gulf War. It so happened at that time the U.S. Secretary of State was on a visit here, and I vividly remember Minister Gombosuren coming down to a room where the press was assembled together with Mr. Baker to condemn the Iraqi invasion. The feeling that I had when I was watching him speak was that of history in making, and I realized, for the first time since the start of the dramatic events here, that we, indeed, were a different country. Other important foreign policy developments, which only reinforced this feeling, were normalization of our relations with China, and diversification of our external relations, including building of closer relations with Western democracies.

In 1994 priorities of Mongolia's foreign and security policy were formally endorsed by Parliament in two documents called the Concept of Foreign Policy and Concept of National Security. I am sure you are familiar with these documents, so I will not be elaborating on their specifics. I would only say that despite the fact that things in the world and in the region have been -and still are- in constant evolution since their adoption, such principles enshrined in these documents as multi-pillared foreign policy, balanced relations with our two neighbors, fostering strategic interest in Mongolia of the world's major nations, remain of continued importance. Their importance derives from our history, location and size.

Mongolia's multi-pillared foreign policy, as translated into practical policy goals, aims to preserve and enhance Mongolia's national security by protecting our national interests and advancing our national prosperity. We have been doing this by, primarily, developing and enhancing our bilateral relations with multiple countries - with our neighbors, of course, and also beyond - but also by getting meaningfully engaged in multiple areas of multilateral interaction at the regional and international level such as peace and security, trade and development, environment, democracy, human rights, etc., to advance our small and developing country perspective. In the face of an increasingly interdependent world we thought it important for us to maximize the benefits offered by cooperative efforts of nations aimed at meeting the various and complex challenges posed to peace and prosperity. In our foreign policy we also sought to build a multi-pillared framework for Mongolia's security: maintaining stable, balanced and good-neighborly relations with Russia and China, building closer relations with other countries in the world, including such key nations as the U.S. and Japan and engaging ourselves in multilateral security processes in the Asia-Pacific region, through, in the first place, strengthening our bilateral relations with the countries in the region.

Our relations with Russia and China have been governed by such basic principles as balance, good-neighborliness, mutual benefit, and long-term nature. As both our neighbors and Mongolia are in the midst of momentous transformations we believe it's



important that these unfold in such a way as to contribute to the well-being of our peoples and to an enhanced sense of security here in Mongolia.

Our relations with Russia have been, in some ways, affected by domestic economic difficulties in both countries. Politically, efforts have been made by both sides to build our relations anew, to have a fresher look at each other. There have been quite extensive exchanges of visits at various levels, which have been helpful in enhancing our mutual understanding. I believe that, ultimately, expansion of our relations will depend on how quickly our economy improves, and on how quickly we increase and diversify bilateral trade, and translate into practice our goal of “developing mutually beneficial economic cooperation” with Russia. I would note that in the past years we have worked to develop broader economic ties with Russia’s regions across the border. My impression, however, was that in the past years Russia has been too busy dealing with its domestic problems, and such issues as **NATO** enlargement, China, Kosovo, etc., and did not-or could not-pay closer attention to relations with its neighbors. This seems to be changing as a result of the revision by Russia of its new foreign and security policy, which, notably, stresses the importance of neighbors. China’s foreign policy has always attached priority importance to relation with its neighbors.

**Mongolia** and **China** have worked over the past years to enhance mutual trust and confidence, and develop relations in a variety of fields. The various visits undertaken in the past years have increased the level of comfort in our relations. China is now Mongolia’s biggest trading partner. I believe that, in the years ahead, the way in which China manages its economic power will be critically important to its neighbors, including Mongolia, as well to the region as a whole. So far this has been managed, I believe, remarkably well.

In the past years Mongolia’s Foreign Ministry has started bilateral dialogues with Russia and China on regional security issues. So far we have conducted two dialogues with Russia and one with China especially on security issues. I think it has been a good start. In broader times, I believe that the way in which our neighbors, Russia and China, interact between each other, and pursue their national and international interests in an environment in which powerful economic, political and social forces are at work is of crucial importance to Mongolia, to the region, and to the world as a whole.

Few countries in the world, indeed, no other country in the world, share with us the same characteristics of geographical location. Our geography, therefore, which is well known, determines our policies, including our foreign and security policy in which bilateral relations hold a special place. Russia and China come first, but not in isolation from the rest of our bilateral relations, including with such key nations as the U.S. and Japan. Though we are a small nation, geography and history have taught us to attach greater attention than any other small nation would do to our relations with the world’s major powers, and to relations between and among major powers. It was only since Mongolia’s transition to democracy and a market-oriented economy that we have started building meaningful bilateral relations with industrialized democracies. I think there is every reason to say that we have been successful in strengthening these relations, and I would

note the immense support that these countries have provided to Mongolia to assist our transition to democracy and a market-oriented economy, to facilitate our integration into regional and international processes and organizations thus enhancing our sense of self-confidence in a changing world.

With the end of the **Cold War** international organizations have come to assume greater substance, and regional multilateral processes have been initiated. In the case of Mongolia, multilateral bodies have come to play an increasingly important role in advancing Mongolia's security and development goals. Mongolia has reinvigorated its work in the **U.N.**, and is increasingly coming to terms with its being an Asian nation. In the **U.N.** Mongolia is working to consolidate its nuclear –weapon free status, to promote the special needs of the land-locked developing countries, and to advance the goals of its socio-economic development. In the Asia-Pacific region we joined the **ASEAN** Regional Forum (**ARF**), gained guest status in a number of **APEC's** working groups, and became an associate member of the **Pacific Economic Cooperation Council**. This has been preceded by intensive preparatory work. And I wish to thank **The Asia Foundation** for the support it has extended to us in setting up the national trilateral **MONCPEC** [Mongolian National Committee for Pacific Economic Cooperation] and acquiring better understanding about the multilateral economic processes in the Asia-Pacific region.

Our participation in the multilateral security body of **ARF** provides us with an opportunity to be part of a regional effort to deal with current and prospective security concerns through confidence- building measures that is through non-military measures. The **ARF** includes major international and regional powers as well as smaller states and aims to build cooperative security in the region rather than serve as a forum for collective security. Ensuring peace and security through cooperation rather than competition is the **ARF's** emphasis. And it is an appealing emphasis. Since its membership Mongolia has taken part in a number of **CBM** activities, and has even hosted one here in Mongolia, a conference of defense colleges of the **ARF** countries. Building on **CBMs**, the **ARF** aims to move simultaneously toward preventive diplomacy. And I think this is a right direction because the international community, of which our region is a part, needs to develop active or proactive responses to situations that threaten peace instead of applying reactive ones. Multilateral settings such as the **ARF** can best serve as venues where consensus can be reached as to the nature and extent of diplomatic prevention.

Students and practitioners of foreign policy largely agree that in the 21<sup>st</sup> century security cannot be viewed and interpreted in military-political terms only. Economy, environment, population, lack of resources, disease, even bad governance and a host of other things can present security threats. This is a notion that came to be gradually embraced here in Mongolia. A seminar on human security which was held here some time ago has demonstrated our interest in the concept of human security which is an evolving concept and which stresses the linkages between security and development. In Warsaw last June Foreign Ministers of the world's democracies pushed the linkage further stressing the interaction between peace, development and democracy, and spoke for building a Community of Democracies. At the Millennium Summit in New York last week, as we could see, all the world's problems were discussed-from proliferation to

hunger-and the leaders committed themselves to dealing with them and spoke for cooperation. And I believe that in this age of globalization individual countries' security and prosperity can only be achieved through cooperation, bilateral, multilateral, and international. Mongolia is not an exception to this. The challenge before us lies in the domestic field. Pursuing further economic reform and ensuring the nation's prosperity is, in my view, the best away of ensuring Mongolia's national security.

### *Dynamics of Regional Relations*

**Comments and moderation:Harry Harding, Dean, Elliot School of International Affairs, George Washington University, and Asia Foundation Trustee**

**Hon. Alphonse La Porta, U.S. Ambassador to Mongolia, "The Changing International Role of Mongolia"**

Thank you very much. I just want to say at the start that I have been neglectful of The Asia Foundation Conference. "This was the week that was" in Ulaanbaatar and we have had, among many things, the U.S.-Mongolia Business Council (you have already heard Steve Saunders) and the same day arrival of U.S. Supreme Court Justice Sandra Day O'Connor. So, combined with other Parliament events it has been a truly busy time.

Let me just continue a bit with Minister Tuya's examination of Mongolia's political and foreign policy and to look at some economic dimensions of that, particularly as related to the phenomenon called globalization. Charles Morrison of the East-West Center came up with one that I will just lay on the table. He talks about globalization as "integrated forces knitting together a global society, including economic phenomena such as enhanced capital flow, technology transfer, trade goods and services and the movement of legal and illegal labor as well as non-economic forces such as the spread of ideas, norms and values." That sums up almost all human activity, except reproduction. It is a good definition; particularly the word "integrated" is a particular watchword that is very important for Mongolia.

Moving ahead, I would like to talk for a moment about globalization in the Asia region. I think some of the recent economic analysis, including the **World Bank** report on "**Assessing Globalization**" has focused on income distribution and poverty reduction. In East Asia poverty declined from 27.6 percent to 15.3 percent in the aggregate from 1990-1998. This is a World Bank measure. The report also observes that economic growth is the best answer to poverty. Normally, it is the most open nation that it is the fastest growing company.

Let me also mention the importance of **FDI** (foreign direct investment) as the most productive force in accelerating economic development. I think there is a direct correlation between **FDI** and the rate of economic expansion in many economies in the Asia region.

Now, obviously, trade is not the single answer, and there is no one answers how an economy can become truly competitive in regional and indeed in global terms. But I would submit that a greater inflow of **FDI** does provide a good basis for doing that. To make a long story short, we can sum up the kind of globalization phenomena as “the freer the economy and the more democratic a society, the greater prospect of significant and sustainable economic growth.” This perhaps is the most significant lesson for the new government to take abroad.

The U.S. Agency for International Development (**USAID**) has been engaged for about the past six months in what we call the Competitiveness Exercise. We found in doing some benchmark studies that Mongolia’s performance or economic indicators places in the aggregate about 31 percent among 130 countries surveyed. This does not sound too great. But on the other hand, there is good news. The Mongolian economy has been expanding at a steady 2.5-3.0 percent per year in most of this decade, essentially from 1994 on. Economic growth was kind of given a spike because of abnormally high commodity prices especially in 1994-1996. Basically, that there has been a steady 2.5-3 percent economic growth, despite the Asian financial crisis and other phenomena, is not bad.

Another very important factor for Mongolian is that the private sector’s share of **GDP** has shown an extra ordinary gain. In 1990 the private sector’s part of the Mongolian economy was 4 percent. By 1995 it was 55 percent and by 1999 it was 72.2 percent.

This shows that the “paradigm has shifted.” It is not a prospective shift; the shift of the Mongolian economy from a public sector-led economy to a private sector economy has indeed occurred.

I also mention in the same context that the public sector economic activity has steadily declined in the same period. So a 13-14 percent decline in the public sector has been registered in recent years, mainly because of outmoded technology, inadequate management skills, management inefficiency, and similar factors. But overall the economic research tells us that Mongolia’s greatest prospect for growth lies in an export-led strategy, promotion of **FDI**, banking sector reform, especially attracting an international banking presence, and privatization as a near-term engine of growth. It is not insignificant that these elements have been not only part of the former **Democratic Coalition** government’s economic brief, but also have been adopted as the main aspects of the new Government’s economic policy.

There are also two other factors that I want to add that are very important for Mongolia. One is development of Mongolia’s communications backbone. This is the “Internet Generation” and there has to be a tremendous emphasis on integrating communications and Internet technology throughout the economy and, I submit, the physical aspect of the country and society. Similarly, as Minister Tuya and I discussed many times, it is important to pay attention to human resource development. Or call it the social side if you will. But basic health and basic education, including vocational education, are an important basis for Mongolia’s participation in a global economy.

What are the ways that Mongolia can be competitive in a global economy? I am not going to talk about just cashmere. But that is one aspect. If you look at it from another prospective, Thomas Friedman in his superb book, *The Lexus and the Olive Tree*, poses a number of important questions. How wired is your economy? How wired is Mongolia into the global communications system? How fast or adaptable is Mongolia in shifting its production not new areas in meeting customer's demands? How light are Mongolia's exports? Traditionally Mongolia's exports, copper and gold, have been very heavy in weight and extremely price sensitive. That tells us that Mongolia has to move its export production into other areas in order to maximize added value.

Is Mongolia harvesting its knowledge? Is Mongolia putting its people skills and knowledge to work in promoting a new economy? The lightest export Mongolia can have is the knowledge-based industry. Not exporting abroad, but exporting a product of knowledge-based industry will score the greatest gain for Mongolian economic development over the long term.

Another consideration is how good Mongolia is at making hang friends. Minister Tuya gave us a good, solid example of Mongolia's greatest constituency around the world and in the Asia region. Most of you that Mongolia enjoys very strong support in **Washington** for its goals, very strong support in the **U.S. Congress** and there is a very strong willingness on the part of the U.S. to assist Mongolia in its political and economic development. In this regard, economic democracy is every bit as important as political democracy, because economic expansion and growth can bring social benefits to all Mongolian people.

The government must understand that it is not enough to deal simply with the economics or the political dynamics of the two near large neighbors. To seek opportunities in Southeast Asia and Eastern Europe, it is essential for Mongolia to establish **PPP** (public-private partnership), not government domination or direction in key sectoral areas.

Cashmere and fine fibers, garment production and export, high-value tourism and information technology are four areas that we are working on with the industry clusters at the moment in order to fashion new directions and new policies for the government to support. In addition, I would add high-value minerals, like tungsten, as well as domestic oil and gas production. It is also important to promote very forcefully Mongolia's energy corridor, not only to develop these onshore energy resources, but also to promote Mongolia as a location for pipeline development, high voltage transmission lines, and to begin the development of the **Northeast Asia Energy Community**.

There are just some of the challenges I see there and we all know what the answers are. Measures to improve the domestic economy are summed up in what I have called **TOPAC**. This little group of initials means: **T** for Transparency, **O** for Openness, **P** for Predictability, **A** for Accountability and **C** for Consistency.

If the new government and the economic leaders in the Parliament and business community of Mongolia can get these factors right, Mongolia will become competitive on a sustainable basis in the world economy.

**Hon. Marohito Hanada, Japanese Ambassador, “Perspective on Strategic Development of Mongolia in the Framework of Northeast Asia”**

Before all I would like to convey my sincere congratulations on the occasion of the tenth anniversary of The Asia Foundation’s Mongolia Program.

Today I would like to broach briefly the issues of a perspective for strategic development of Mongolia in the Northeast Asian region. Please note that the following is my personal view and not the position of the Japanese Government.

Today there are two main arguments in Mongolia. One is that Mongolia does not need **nomadism** and animal husbandry anymore, and it can exist by developing information and digital industries. **Nomadism** does not fit into modern life, which should flow in a urban environment and be enjoyed in the city. **Nomadism** requires heavy labor and, therefore, no one among the younger generation would go for it.

The other is that in Mongolia they have to protect **nomadism** and animal husbandry in order to protect their identity and their traditional way of living. Of course, as a foreigner I cannot choose either one of them but, having studied the Mongolian language for over 40 years, I can judge which is more suitable for the Mongolian people to live in the coming 21<sup>st</sup> century.

As part of my routine work I read many newspapers in Mongolian. Among them there are many official notes and documents, which are not literary works. But nevertheless I am deeply impressed with their richness with colorful expressions originating from nomadism. Translating them into a foreign language, at least into Japanese, is very difficult work.

Without **nomadism** the Mongolian people will lose their distinguished culture and the rest of the world will fail to meet such a wonderful creation. Protecting Mongolian **nomadism** is most important.

In 1992 I wrote an article entitled: “Today’s Mongolia in the Limelight: Heading Towards Democracy and Market-Oriented Economy,” in which I wrote a story about Mongolia in 2010.

**Its sense is as follows:**

Imagine Mongolia in 2010. They are developing their industries based on sightseeing, mining, and animal husbandry. Nomads are working at their farms, which are organized as farming companies.

The Mongolian meat industry has established its brand in the world and the Japanese recognize its products in the neighborhood. Nomads are using **GPS** (global positioning system) and mobile communications gear on horseback to access international information networks. They are able to observe Ulaanbaatar literal broadcasts on **GPS** showing current market prices for meat products in the capital city. Nomads simulate the balance of sheep and cattle by means of computers. T.V. and telephone are serviced by ground satellite stations supplied by Japan, but as it was built 18 years ago, new equipment is required. **Juulchin Company** is the biggest enterprise in the field of tourism and sightseeing, with a 10-story office building in Ulaanbaatar and 1,200 employees in the company working at their branch offices. It still cannot cover all customers' needs and is looking forward to hiring new employees. Lake Hovsgol is the site of the concentration of the company's tourist camps, and over 12,000 young people from Japan come to visit them in the summer season. Between Ulaanbaatar and Hovsgol they have constructed a new railways with red express wagons brought from Bernina Railway in Switzerland. Rental cars are available and anybody can enjoy driving in the vast grasslands or mountain areas. For the last ten years underground resources are exported through China. The railway gauge is adjusted and no transshipment at the border is needed.

Though it was only my personal prediction it is still somehow effective and being partly realized. Animal husbandry, mining industry, tourism, and sightseeing have been endorsed by the Mongolian People's Revolutionary Part in a recently announced document.

Any foreigner who is interested in investing his money in Mongolia would send his staff beforehand, and only then will he himself arrive in Mongolia. As he is a very busy leader, he could afford to stay only one night. This leads to a conclusion that there is a need for an all-weather airport able to land and depart airplanes in any direction and at any time. The existing airport allows landing and departing only in the northern direction depending on the north wind. Besides, about 23,000 commercial flights by such companies as Air France, Swiss Air and other pass over the Mongolian territory. Desire of these companies for making an interim landing in Ulaanbaatar ends with hesitation because of the unreliable condition of the existing airport. Anyhow Mongolia needs an airport, which will allow an investor to come and stay overnight, and go back to his country the very next day after completing his work.

To my mind, this issue is very important for this country. Otherwise investments by foreign investors will hardly increase. The international community should pay much more attention to this matter than before and I would like to stress that it is now high time for Mongolia to invest in construction of a new airport. On the other hand the Mongolian and international community should give proper attention to this matter as well.

Investors would invest in the sectors which manufacture leather and fur products, cashmere and woolen goods, and meat and dairy products, all based on animal husbandry. Or investment may be made in mining, which is based on natural resources.

Some of these products may be exported to the outside world. Most of them are bulky, and therefore, there is a need to have means for their transportation by surface.

Today Mongolia is using the **Tianjin** port in China for export and import purposes and so far nothing seems to be a problem. But it is said that the capacity of the access the seaport, which will enable foreign investors to make much easier decisions on investing than ever before. An alternative railway line to access the seaport should be built and transversal line is the best way to contribute to the Mongolian economy and its people's lives. The transversal line could pass through various sightseeing spots, both historical and natural, and from this point of view it is worth being constructed.

Mongolia is situated in the western part of the Northeast Asian region, which has population of 250 million. The railway should lie eastward to access these densely populated areas. We can imagine two railways lines beyond the city of Choibalsan. Between Ulaanbaatar and Choibalsan there may be an extension line from Baganuur.

Beyond Choibalsan, the east end of Mongolia, two lines are expected, one of which is the southern line passing through Tamsag. Here the existing narrow gauge railway is to be built, upon agreement with the Chinese Government, up to Arashan in China. From Arashan through Changchun and further through Yenji, the line comes to Hungchun and enters the Russian territory ending at the seaport of Posjet or Zarubino.

The other is the northern line to be laid from Choibalsan to Manchuria in China. From Manchuria through Harbin and crossing the border at Suifenhe it ends up in Vladivostok. From the seaports of Posjet, Zarubino or Vladivostok most big Japanese Sea lie with in a 450 to 480 mile distance.

These two lines will have to face international transport competition, including the competitiveness of the port of **Dalian**. Obstacles in using these lines are as follows. The first one is a rather technical one. The gauge of the rail is different. Mongolian and Russian rail gauge is rather technical one. The gauge of the rail is different. Mongolian and Russian rail gauge is 1,525 mm, and Chinese rail gauge 1,435 mm. At each border there is a need to change trucks or bogies. One answer to this question is to use a new type of freight cars with trucks able to automatically change their gauge. Another problem in using these lines is that international freight has to pass many borders where duties are imposed on it. One of the possible solutions to this problem could be the establishment by the governments of Mongolia, China, Russia and Japan, if needed, of an international Board of Transportation that will operate the Northeast Asian Cargo Express with its specific features and logo, such as carriages painted in zebra colors of green and navy blue. This Express will not have duties imposed at the borders, and each government will profit from the transportation charge according to a proportional distribution.

My personal view mentioned above was accepted informally by local governments in China and Russia who told me informally that the northern line would be more acceptable. I hope that it will find support of the Mongolian Government as well. So far the Japanese Government is keeping quiet, which is not concerned directly, of course.



I have been asked by many Mongolians and the Mongolian Government to promote investments by Japanese big capital. In order to invite Japanese big capital to make investments, there is a need for certain conditions that will at least keep frequent freight transportation to and from Ulaanbaatar outside seaport competition and flights as well.

Last year I was transferred from Shenyang in north east China, where I considered how Chinese farmers in the area could export their products to the outside world and how they could catch up with the urban life. My idea mentioned above was one of the possible solutions for them as well. If the Mongolian side agrees to extend its railway line up to the Chinese border, the local governments in China would gladly accept the idea of closer cooperation with Mongolia.

### **Professor Rhee Sang-woo, Sogang University, “Security Issues in the Region”**

In these final sessions we are supposed to talk about so-called “Dynamics of Regional Relations.” This means that we are supposed to assess the Mongolian Government’s efforts to expand its foreign relations and its contacts with foreign countries. Small countries like Mongolia, if they really want to succeed in transforming their systems.

For the past ten years the Mongolian Government has successfully reformed its policies of expanding its foreign relations. As one example, I want to assess the bilateral relations between Mongolia and Korea. As all of you may agree, in the short span of ten years, the Mongolian Government has established multifaced relations with Korea. This is a truly admirable success.

For about 700 years up until 1990 there had been no contact whatsoever between the two countries. That means Korea and Mongolia since the 13<sup>th</sup> century. In 1990 the Mongolian Government approached the South Korean Government to normalize diplomatic relations. Not **South Korea**, this was initiated by the **Mongolian Government**. I emphasize that part. And the Korean Government responded to the proposal quite positively. This was the beginning of our contact. To understand such rapid expansion of bilateral cooperation and cooperative relations between the two countries, you should account for the unique psychological and strategic elements, which exist between the two peoples.

**First** of all, there are strong ethno-cultural ties between the two peoples. Mongolians accept Koreans as their own people and Koreans too do not regard Mongolians as aliens. Even though there had been a long interval 700 years, the two peoples share many cultural heritages.

**Secondly**, Mongolia and Korea are the only two states in Northeast Asia that are surrounded by big powers and have suffered bitterly by their giant neighbors historically.

There is a sense of common destiny among the two peoples. You should be reminded of the fact that both Mongolia and Korea are countries, which share borders with China and Russia.

**Thirdly**, Mongolia is located in the center of the Euro-Asian continent, whereas Korea is located at the rim of the Pacific Ocean. Mongolia needs a bridge to reach the outside world and Korea needs a gateway into Inner Asia. These complimentary geopolitical aspects draw them close to each other.

**Fourthly**, Korea is an over-populated industrialized nation, whereas Mongolia has a huge land area with scarce population, which is now entering an industrialization period. So, Korea needs Mongolian natural resources and Mongolia needs Korea's know-how, how to promote rapid industrialization. Again, we can find some complementarity. For the past ten years, we have now achieved an impressive record of mutual cooperation in figures, but rather the two states have mainly endeavored to establish the institutional foundation to launch long-term cooperation in the future. In economic area, now we are expanding our trade volume but these are not so impressive figures.

Last year, in 1999, Mongolia imported about 40 million **USD** equivalent of commodities from South Korea. Korea imported only about 4 million **USD** equivalent. Accumulated **FDI** by South Korea in Mongolia reached only 25 million **USD** equivalent. The most significant achievement ever was expansion of communication channels between the two countries. One example is the air route that connects Ulaanbaatar and Seoul. Korean Airlines helped in that process, helping **MIAT**, the Mongolian International Transportation Company, to open a direct air route between Seoul and Ulaanbaatar. Now we Koreans can travel to Ulaanbaatar as in South Korea. It takes only three hours, a non-stop flight from Seoul to Ulaanbaatar. For ground transportation, as His Excellency **Ambassador Hanada** has just mentioned, we are now also considering direct connections between Seoul and Ulaanbaatar by railway. You may have watched the **TV** news or read in the newspapers, the South Korean Government is proposing to connect the broken railway between North and South Korea. If we accomplish it within one or two years, then you will be able to travel by train from Ulaanbaatar to Seoul. It may take about 20 hours, because the distance is about 2,000 km.

What Mongolia needs most badly in the economic area at the moment is training of its workers. Korea has trained several thousand so far in the past ten years but from next year we are considering the expansion of the program and trying to increase the number of trainees in Korea. Also, we have opened our Government's civil servants' training centers to Mongolian officials. This is the only exception that the Korean Government facilitates. So far, for the past 50 years, we have never opened our Government Training Center to foreigners. Now, on diplomatic cooperation. In the area of diplomatic cooperation, both governments, Mongolia's and Korea's, are eager to expand joint programs in international organizations like the United Nations, regional organizations, or regional **NGOs**. Since Mongolia has strong ties with the former socialist countries,

and South Korea has a strong network within the world's free societies and non-communist countries, again, we can find some complimentary here too.

In the security area, however, so far there has been no imminent issue, which requires close cooperation between us, but if a multilateral regional security arrangement is to be formulated in the future, I definitely think that both Mongolia and Korea will work closely to promote this.

I am not a prophet, but I can say that the future of Mongolia-Korea bilateral relations is very bright since both countries shares strong motivations to establish close cooperation or cooperative relations between them. And as I pointed out, there exist complimentary needs between them. Now we are entering a new era of close Mongolia-Korean cooperation starting from this year. Finally, I just want to suggest one thing. So far, government-to-government relations between the two nation nations have been successfully established. But to genuinely connect the two peoples we also have to pay attention to the roles of NGOs or **Trak II** contacts between the two peoples. So far, I can count more than 40 institutions that have been established to promote some kind of contact between the two peoples, but I think we need some kind of guiding frame to coordinate this kind of activities. This is my personal suggestion.

One futurist predicted that in the coming 21<sup>st</sup> century all human society will move into a new era, a new nomadic era. Human beings have evolved from what is called the nomadic period into the agricultural and industrial era. Now, starting from the 21<sup>st</sup> century we are again moving into the new era of nomads. A definition: What do you mean by nomadic era? In agricultural societies, what we need, we just fetch it from outside and bring it home.

So, it is my personal suggestion that Mongolia is revitalizing the nomadic spirit. Why don't you go out all over the world to achieve what you want? Don't try to bring everything into this piece of land that is located on the Mongolian heights. Rather you may go out and you may move around the world and obtain what you want.

**Dr. Zhang Minqian, Associate Professor, Division of North American Studies, China Institute of Contemporary International Relations, "Security Issues in the Region"**

Let me start by saying that it is honor for me to be invited by The Asia Foundation to come here and have this opportunity to talk. My topic is not directly related to Mongolia. But in order to take my topics closer to what Mongolia is concerned about, I want to focus on Northeast Asia security issues. From the global view, as you know there are many hot spots, but Northeast Asia attracts much attention especially form Asia-Pacific countries.

With the relaxation of tension in Korea, after the Democratic People's Republic of Korea and Republic of Korea summit held this year, scholars interested in security issues of this

region have shifted attention from the war to how a security structure can be constructed which could be helpful in creating a stable, peaceful environment in this region. From my point of view, every country, however big or small, has a right to defend their own interests within this region.

Now, for the role of big powers like the **U.S.**, **Japan**, and **China** in East Asia. Managing the triangle relationships among China, the U.S., and Japan are critical issues for regional security, so I want to talk about the basics for the triangle relations among these three countries. Looking forward to the new century, there are many positive factors that may further strengthen cooperative relations among them.

**Firstly**, the three countries share a strategic interest in maintaining peace and stability in Northeast Asia. Every country of the region should take responsibility for maintaining peace and stability in Northeast Asia. However, because each country is big or powerful there should, in practice, not be much difference in playing a role in regional security affairs. For instance, China and the U.S. are permanent members of the U.N. Security Council and Japan is one of the most developed countries in the world. Each of the three countries plays a distinguished role in the region that is the reality. In terms of policy the three countries focus on different aspects, but they share the same aim of maintaining peace and stability in the Northeast Asia region as well as the Asia-Pacific region.

**Secondly**, China, the U.S., and Japan have major cooperative potential in the field of the economy. In 1999 China became the 7<sup>th</sup> biggest trade partner of the U.S. and the 2<sup>nd</sup> biggest trade partner of Japan. The **U.S.** and **Japan** have been major trading partners for many years. **China** has experienced continuous economic development and enlargement of its market. Each of the three countries can complement each other economically.

**Thirdly**, the extension of the security concept makes it natural for the three countries to use non-traditional security. During the **Cold War** security was limited to the geopolitical category in many fields including non-proliferation, weapons of mass destruction, and so on. Only the **U.S.** remained a strong economic power and **Japan** is also an economic giant, whereas **China** is the world's most rapidly changing developing country. Nevertheless, non-traditional issues of cooperation are also involved.

Therefore, it can be concluded that the three countries have great potential for cooperation. Maintenance of basic cooperative relations by the three countries is cause for optimism. Of course this does not mean no trouble exist. Indeed there are problems among the three countries such as the Taiwan issue, issue of the U.S. and Japan bilateral military alliance, and human rights issues. Objectively speaking, the U.S. and Japanese military alliance has an historic basis. The Chinese Government is always worried about the level of Japanese militarism.

However, the Cold War no longer exists and multilevel cooperation is needed more than ever. The **U.S.** and **Japan** mutual alliance and enlargement of joint actions only makes China worry. **First**, the further enforcement of this kind of mutual alliance creates

suspicion among countries outside the alliance. This is absolutely harmful for mutual trust among the three countries.

**Second**, the extension of the U.S. and Japanese mutual alliance encourages arms expansion as well as development of military power. **Thirdly**, the fact that the U.S. and Japan are standing against China; this is destroying the strategic balance among the three countries.

I believe we should emphasize political factors in order to strengthen their cooperation with countries in this region. This trust is a route. The **Northeast Asia** region as a whole requires participation of all concerned countries in order to establish trustful relationships. Consequently, for long-term security in the region it is necessary to ensure the security guarantees system through establishment of bilateral or multilateral alliances by collective security. That is my basic point of view for the structure of this region.

This collective security system should be based on the following principles. One is equality. Theoretically all countries, whether big or small, strong or weak, should have an equal right to participate. The second principle is compatibility. Compatibility emphasizes the non-exclusivity of the structure. The third principle is extension that means the scope of cooperation is not limited only to military issues, it must also include economic, scientific and technological and cultural cooperation that produces direct or indirect influence on regional security. For the final principle, it is better to divide the whole structure into different periods. Establishment of a northeast Asian collective security structure should not be a time consuming or a complicated system. In the first period, the emphasis should be communication and mutual understanding in the region. The form of the structure can be diversified from bilateral of multilateral consultations. In the second period, all countries would clarify concepts of cooperation and principles of collaboration, including the public defense white paper based on the control of conventional weapons, official exchange system, systems of arms control and non proliferation and nuclear weapons, to set up norms and coordinate peacekeeping operations. Based on dialogue the countries can identify a formula for the institutional form of a Northeast Asia security organization. The formal members of the organization can be composed of each countries that are related could be invited to observe. The present and prominent member countries should change every four years. The Standing Secretary department should be set up and in charge of daily relations. In this way Northeast Asian security can be regularized. If it succeeds, I hope this model can be extended to the Asia-Pacific region.

**Ts. Batbayar, Deputy Chairperson, Mongolian National Committee for Pacific Economic Cooperation, “Evolving Asia-Pacific Economic Linkages”**

In my brief presentation I would like to talk about what we have achieved so far in our integration into Asia-Pacific economic and political processes.

Mongolia became a member of the **ASEAN Regional Forum** in 1998 and became an associate member of **PECC**, the Pacific Economic Cooperation Council, this year, 2000.

When we first started in 1990, the first immediate issue that we confronted was the issue of identity. As Minister Tuya pointed out we asked our selves who we are and where we are. So I remember in the early 1990s we had some heated debate on whether Mongolia is a Central Asian country or a Northeast Asian country or a East European country. We decided that we should put our efforts in integrating into the Asia-Pacific region. This foreign policy strategy was formulated in the national security concept adopted in 1994. So since then the government of 1996-2000 implemented this policy. The new government is just being set up. We consistently pursue this policy of integration into the Asia-Pacific. Being part of the Asia Pacific, Mongolia was committed to economic cooperation with the Asia Pacific region based on the principle of open regionalism.

As I said, we achieved our goal of joining the **PECC**, the independent policy forum for economic cooperation and integration in the Pacific. Last April, Mongolia was admitted as associate member of **PECC** at the standing committee meeting in Dalian, China.

However, eight years after Mongolia started its reform process we still have many questions asked frequently at these kinds of international forums. When we applied to **PECC**, the first issue asked was “is Mongolia a Pacific country, does Mongolia have a coastline on the Pacific Ocean, and also, how far is Mongolia’s economy?” I always answer that even though Mongolia is not a Pacific country, we can be considered a near Pacific country because we are only some one thousand kilometers from the Asia-Pacific coast. And of course the other reservation was that Mongolia is a landlocked country. If Mongolia is admitted to Asia-Pacific organizations this will set precedent for other landlocked countries to pursue the same goal as Mongolia. However, due to our own efforts and the consistent support of our friends we succeeded in becoming an associate member of **PECC**. Of course now the strategic goal for Mongolia is joining the forum for Asia Pacific Economic Cooperation or **APEC**. We pursue this goal in conjunction with advancement of economic and legal forum at home. Mongolia’s individual action plan was approved by the government and it was further elaborated by the Parliament. The new government outlined the joining of **APEC** as one of its future strategic goals in its action plan.

The second direction is Northeast Asia, which is very important sub-region for Mongolia in terms of political and economic development. Mongolia believes that development of multilateral cooperation in Northeast Asia is of special significance for economic development, strengthening cooperation, and mutual confidence among the countries of the sub-region.

Mongolia supports and contributes its own part to the government indicatives of the Tumen River project and numbers of other nongovernmental initiatives. In 1997 Mongolia hosted the Northeast Asian Economic Forum and last year, 1999, Mongolia hosted the intergovernmental meeting of countries participating in the Tumen River project.

Mongolia believes that without sufficient political stability there cannot be economic growth and prosperity. And as I mentioned, we became a member of the **ASEAN Regional Forum** in 1998. In this context we give special importance to motivating efforts on security cooperation in the Asia-Pacific region. We think as a small country, we can and should make our contribution to the course of confidence building and strengthening mutual trust. And we have released the Mongolian Defense White Book and issued the Foreign Policy Blue Book this year. Mongolia is fully determined to contribute to the development and the implementation of confidence building matters in the Asia-Pacific region.

### **Conference Summary**

**Robert A. Scalapino, Robson Research Professor of Government Emeritus, Institute of East Asian Studies, University of California, Berkeley, and Asia Foundation Trustee**

The key issues included the following:

- 1) **Political and legal reforms:** Mongolia has made extensive and promising changes, but in addition to passing political legislation, the issue of implementation is critical. A crucial aspect of the reform process, moreover, is the effective interaction between the government and the citizenry.
  
- 2) **Economic reforms:** A strong influence upon reforms in Mongolia as elsewhere is the impact of the IT revolution. Since this revolution promotes significant generational differences, it is vital to involve young people in the new economic era. In promoting privatization, moreover, the role of government must be to establish guidelines, and monitor possible abuses.
  
- 3) **Foreign policy:** Accompanying the rise of internationalism is a strong nationalist tide throughout Asia, a trend that emphasizes loyalty to the nation-state. At the same time, we are witnessing the important influence of communalism, with its emphasis upon religious, ethnic or localist identification. Mongolia, however, is a relatively homogenous nation, thus capable of participating constructively in international endeavors, both bilateral and regional. I am cautiously optimistic that Mongolia is now on a proper course, keeping a balance between its two giant neighbors and maintaining contact with other nations, particularly the United States and Japan, thus helping to build a new country.

*Asia Foundation Anniversary Reception*

**B. Chimid, Advisor to the Parliament**

Let me express my sincere gratitude for the invitation to this reception and the opportunity to participate in events celebrating the tenth anniversary of The Asia Foundation programs in Mongolia. Taking this opportunity let me share some of the nice memories from my cooperation with The Asia Foundation over the last ten years.

The Asia Foundation is no doubt the first foreign, nongovernmental organization that concerned itself about the destiny of the democratic reform process in Mongolia in the early months of its development and assisted by providing knowledge and expertise. I am one of the persons who benefited from this cooperation right from the beginning of the mutual cooperation. By the invitation of The Asia Foundation I had a chance to travel to the United States passing through London in June 1990 at that critical time of developing democratic reforms processes in Mongolia.

It was not tourist travel. Instead it was intense work getting acquainted with the election system in a democracy, with the correlation between the legislature and political parties, of learning from government and party staff, scholars, and election and local government employees. During those ten days in the United States, we had meetings and discussions with more than 30 people from federal and California state public and private organizations dealing with election research, organization, and finance matters; the U.S. Congress, the State Department, and National Committees of both Democratic and Republican parties. In addition, we were introduced to the basic principles of operation and function of the British Parliament and Ministry of Home Affairs as well as national parliamentary organizations and parties outside the Parliament.

The tour enabled us to increase our knowledge and expertise and facilitated the formulation and regulation of political issues in a new democracy. It is a pleasure to recall today those warm and frank discussions with Dr. William Fuller, President of The Asia Foundation and his staff at the headquarters of Asia Foundation in San Francisco that year.

It is a custom to present everything positively at celebratory events. Frankly speaking, at the time when we began reforms, those who attempted to contact the U.S. and Western countries were labeled as committing 'betrayal'. However, today we are living in a different society. It has taken ten years since the commencement of reforms but we laid down a solid foundation of democracy. People are changing and learning much from the outside world. Let me express once more my deep gratitude to The Asia Foundation for their generosity and good deeds through their intellectual investment into Mongolia.

In establishing the contact of Mongolia with The Asia Foundation, Ambassador **Dr. G. Nyamdoo** played a critical role to whom I would also like to express my sincere gratitude.



In the ten years since democratic reforms were launched in Mongolia one can see ‘swallows of democracy’ flying around in the blue sky of democracy. Among them one can also find “Asia Foundation swallows.” It is the culture of Mongols to equate frontiers with swallows. In this sense I compare Professor Sheldon Severinghaus with whom I have been cooperating for many years while he represented The Asia Foundation in Mongolia. I also mean Dr. William Fuller, President of The Asia Foundation, who ten years ago guided the programs of The Asia Foundation in support of the new democracy in Mongolia and was always concerned about democratic development in the homeland of **Genghis Khan**. Moreover, I would like to wish much success to the current Resident Representative, **Ms. Kim Hunter**, who is continuing this work.

Taking this opportunity at the tenth anniversary let me wish the staff and guests of **The Asia Foundation** more success in contributing to **Mongolian-U.S.** mutual understanding, to extension of bilateral cooperation, and to promotion of democracy in the Asia region and Mongolia.

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