

◀ PRESIDENTIAL ELECTIONS IN MONGOLIA

Election of Ukhnaagiin Khürelsükh as President may help bring the political crisis in Mongolia to an end and open up the economy to investors

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Topics and sectors	Mongolia, Elections, Mining Sector
Stakeholders	China, Russia, countries of Asia Pacific

On 9 June 2021, Mongolia held Presidential elections in which Ukhnaagiin Khürelsükh, former Prime Minister from October 2017 to January 2021, won 67% of the vote (voter turnout was 52.7% with a required minimum of 50%). Since 1990, international observers have recognized all elections in Mongolia as democratic and have again confirmed these elections were free and fair.

Ukhnaagiin Khürelsükh is Chairman of the Mongolian People’s Party. Luvsannamsrai Oyun-Erdene, from the same party, has been Mongolia’s Prime Minister since January 2021: this situation is helping to reduce tension between the offices of the President and the Prime Minister, who had previously represented different political forces. Additionally, projects announced by Khürelsükh for diversifying the economy are likely to make the national government more open to investment from Russia and Western countries.

These elections are the first since the amended Constitution was adopted in 2019, significantly curtailing the powers of the President in favour of the Prime Minister; for example extending Presidential terms from four to six years¹. In April this year, the Constitutional Court (CC) ruled that former President Khaltmaagiin Battulga would not be eligible to run in these elections because of new Constitutional provisions.

The Presidential elections might mark an end to Mongolia’s long-running political crisis, with the following issues having dominated the political landscape since 2017:

- › Confrontation between the two biggest parties, the Mongolian People’s Party (MPP, centre-left) and the Democratic Party (DP, a moderate right-wing party). Before Mr Khürelsükh was elected President, the Prime Minister and the President represented different parties and were in constant conflict.

¹ While Presidential terms have increased from four to six years, incumbents are no longer allowed to run for a second term

- › Intra-party confrontation: the “generational change” is coming to an end within the Mongolian People’s Party, which is the country’s oldest and currently most powerful political force.

Additionally, the election of the new President could significantly influence both Mongolia’s domestic political life and its foreign political development.

DOMESTIC POLITICAL CONSEQUENCES

Khürelsükh is the leader of the MPP, which has an absolute majority in parliament (the Great Khural). The same party appoints the Prime Minister and approves the members of the Government. As a result, Mongolia’s domestic political situation is stabilizing.

Moreover, as part of his campaign, the newly elected President promised, among other things, to combat MANAN: this term stands for ties, often corrupt ones, between Mongolia’s elite from both dominant parties, the Mongolian People’s Party (*Mongol Ardyn Nam* in Mongolian) and the Democratic Party (*Ardchilsan Nam* in Mongolian). At the same time, the drawbacks of the current political system, economic imbalances and the consequences of the COVID-19 pandemic mean that Mongolia remains extremely vulnerable to further crises in the near future.

FOREIGN POLITICAL VECTOR AND OPENNESS TO INVESTMENT

Mongolia practices a “multi-support” foreign policy strategy, balancing the interests of its influential neighbours: China, Russia and “third neighbors,” or other influential states and alliances, including the US, the EU, Turkey, South Korea, Japan and Australia.

The rule of former President Battulga was largely pro-China and demonstrated a significant cooling-off in Russia-Mongolia relations. President Khürelsükh may attempt to change the balance of power by establishing closer contact with Moscow as a counterbalance to China and by opening up Mongolia’s economy to Russian investors.

KEY ISSUES BEHIND THE POLITICAL CRISIS

In 2016, the MPP, led by Miyegombyn Enkhbold, won a landslide victory in the elections to the Great Khural and Enkhbold was consequently elected Speaker of the Parliament. Yet, in 2017, Khaltmaagiin Battulga, a member of the Democratic Party, unexpectedly won the Presidential elections.

Battulga’s victory was preceded by a high-profile political scandal related to the “60 billion tugrik” case (over USD 21 m at the current exchange rate). The scandal involved recorded conversations between Enkhbold and his fellow party members discussing selling offices in the future government. These leaked conversations discredited Enkhbold, Battulga’s principal rival in the 2017 Presidential elections.

Later, attempts to remove Enkhbold from the office of Speaker sparked a parliamentary crisis that, in 2018–2019, largely paralyzed the Great Khural. In early 2019, Enkhbold resigned under pressure from President Battulga and some MPs, including fellow party members from the MPP, which found itself split into two camps: Enkhbold’s opponents and supporters. Enkhbold’s resignation produced a radical rotation of elites within the ruling MPP, with then President Ukhnaagiin Khürelsükh becoming leader.

In 2019, Mongolia’s Constitution was amended to limit Presidential rule to a single term. Meanwhile, mounting contradictions within the executive branch resulted in open conflict between the President and Prime Minister Khürelsükh over, among other things, influence on Mongolia’s judicial branch and appointments to key offices, including Prosecutor General and Head of the Anti-Corruption Agency.

In 2020, the MPP again won the elections to the Great Khural (Mongolia is a parliamentary republic and so elections to the Great Khural are more important than Presidential elections). In early 2021, Khürelsükh resigned as Prime Minister following public protests over a new mother and her newborn child having been transported without warm clothes to a coronavirus hospital.

In April 2021, the Constitutional Court ruled that then President Battulga was ineligible to run again. Subsequently, Battulga attempted to disband the ruling MPP via an executive order accusing the party of usurping power and militarizing party activities (by which he meant the establishment of the Association of Mongolian Warriors connected with the MPP).

The Supreme Court rejected the former President's attempt to disband the party. As a result, Khürelsükh's main rivals in the elections were former MP Dangaasurengiin Enkhbat and former head of the Democratic Party Sodnomzundui Erdene.

OVERCOMING ECONOMIC IMBALANCE

Since 2010, Mongolia's GDP has essentially doubled and, in [some years](#), growth has been exceptionally high (over 10% in 2011–2013). In 2019, GDP grew by 5.1%. The impressive growth rate was due to a low base effect combined with the launch of significant mining projects (coal, copper, gold, rare earth metals, etc.). At the same time, economic growth has been highly unstable due to the sensitivity of the global commodity market, forcing Mongolia to rely on IMF loans.

In 2020, amid the COVID-19 pandemic, Mongolia's economy slumped by 5.3%. Foreign debt is currently double GDP and the budget deficit has breached double figures (in 2020, the parliament approved a budget of MNT 11.8 trn in revenues - USD 4.1 bn - and MNT 13.9 trn in costs (USD 4.9 bn)). The situation is further exacerbated by Mongolia's skewed foreign trade: over 80% of its exports go to neighboring China, making Ulaanbaatar economically dependent on Beijing. At the same time, China is the biggest investor in Mongolia's economy and its biggest state creditor.

THE ELECTIONS AND FOREIGN INVESTORS

The economic and political crises in Mongolia have exacerbated the tense relations with foreign investors (see sample case below):

In February 2021, the Government initiated a revision of the existing contract between Mongolia and Australia's Rio Tinto (one of the world's three biggest mining companies) on building an underground mine at Oyu Tolgoi, the world's largest gold-copper ore deposit. In 2019, this gold mine accounted for up to 90% of all foreign investment in Mongolia.

The agreement was signed in 2015 but has not yet been ratified by the Great Khural. As of today, Turquoise Hill, a subsidiary of Rio Tinto, owns two-thirds of the project; the remaining third is owned by the Government. The Parliament is putting pressure on the MPP and the Government to revise the plans for an underground mine (so far, gold and copper have mostly been produced in an open pit) to the benefit of Mongolia. Since April 2021, Mongolia's Government and Rio Tinto have been seeking agreement on new cooperation terms (including on payment of dividends to the state, tax payments by the investor, etc.).

Generally, there is consensus between the ruling Mongolian Peoples' Party and the Democratic Party on foreign political priorities, one of which is to eliminate foreign trade imbalances. This applies primarily to relations with Mongolia's two principal trading partners, China and Russia. The high share of Mongolia's exports to China (over 80%) is the key problem as it dictates Mongolia's economic dependence on China's imports. Another problem is the imbalance in Mongolia's trade with Russia, with Mongolian imports (primarily oil and petrochemicals) much higher than exports to Russia. Overcoming Mongolia's political crisis will make possible to step up business activities in several areas.

China

China remains Mongolia's main trading partner (accounting for 64% of trade turnover at the close of 2019). The scale of this trade imbalance remains a significant problem.

China actively participates in environmental projects in Ulaanbaatar, which is currently one of the world's most polluted cities, providing a promising area for investment, especially since Mongolia's capital is home to more than half the country's population.

Also, Chinese seaports (along with Russian ports) are important for Mongolia in terms of moving goods to new export markets.

Russia

Mongolia remains an important transit hub for Russia in its relations with China and Asia-Pacific countries. A boost to infrastructure projects with Russia's participation can be expected.

In particular, plans were announced in 2019 to build a pipeline from Russia to China via Mongolia. Russia is also participating in projects for modernizing Mongolia's TPPs and developing the country's railways.

Promising projects include Russia and Mongolia jointly exporting goods to third states and making use, among other things, of the opportunities afforded by Mongolia's free trade agreements (such as that with Japan).

For Mongolia, developing business ties with Russia could be a way to reduce its economic dependence on China.

“The Third Neighbor”

By collaborating with a broad circle of investors from various countries, Mongolia remains an open economy.

The potential for investment in its mining sector is far from exhausted: up to 75% of deposits have yet to be drawn into economic turnover.

Investment by western countries has so far been restrained by the relatively high political risks, the dominant influence exerted by China and Russia on Mongolia's economy, and by low awareness of Mongolia on the part of investors.

In summary, Ukhnaagiin Khürelsükh's election victory reduces the risk of political crises and creates a more favourable climate for investment. At the same time, a significant strengthening of the ruling Mongolian People's Party positions in all branches of government may be the first step towards a more dominant, even authoritarian approach to leadership and governance.

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