

Chapter 3

Mongolian Economic Background and Political Destiny

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Editor's introduction: It is rare for a high ranking government official, including especially a National Security policy advisor to a sitting President, to offer candid remarks for publication that combine scholarly background, critical analysis, practical concerns, and poignant strategic analysis of changes desired in the existing political system. Migeedorj Batchimeg's contribution here is positively striking in just these regards. Considering Mongolia in the comparative context of what is effectively known about the economic correlates of the development and sustainability of democracy, she considers both the exceptional strides that Mongolian democracy has taken and the grave risks that it still faces. On the one hand is the striking florescence of democratic Mongolian governance sandwiched geopolitically between autocratic China and Russia - as well as smaller undemocratic regional neighbors.

On the other is the potential curse as well as benefit of great mineral wealth within Mongolia, including the threats, which she frontally addresses, of great wealth disparity, continuing poverty among one-third of the population, and a political system that structurally privileges those running for office to promise short-term welfare payments to constituents rather than supporting longer term national growth of a diversified and sustainable economy. At issue is whether the benefits of economic growth will rise and be equitably distributed fast enough to ensure the sustained continuation of Mongolia's robust democracy.

At the conclusion of her contribution, Ms. Batchimeg makes a ringing endorsement at once for optimistic belief in the positive power of Mongolian democracy and also for the hard-edged critical understanding that promotes informed citizens to make their politicians and policy makers act responsibly.

On the world map of the Freedom House, Mongolia looks like a single green island amidst a broad sea. What were the underlying reasons that enabled Mongolians living in the heart of the Eurasian mainland surrounded by mostly non-democratic countries, to long for democracy and freedom and indeed succeed in building them?

Researchers have identified many factors that facilitate emergence, sustainability and further strengthening of democracy, or its regress and collapse. For instance, geographic proximity to mature democracies, political heritage and experience, levels of economic and social development, size of the middle class relative to the overall population are often highlighted as important contextual factors for establishing and strengthening democracy.

Researchers who studied underlying factors and conditions of Mongolian democracy have offered interesting observations; some of them have even assessed Mongolia as “the least likely place” for democracy to flourish.¹ Indeed, Mongolia is physically isolated from Western and Eastern democratic systems, lacks historical traditions of building a democracy, and back in the 1990s in the midst of a strong push for democratization, Mongolia was suffering from widespread poverty and unemployment, and the country’s economy was struggling with the shocks of the collapsing socialist system. But in 1992, when the entire Mongolian society was actively engaged in building a democratic society, and the Parliament adopted the first democratic Constitution, inflation reached 325 percent. While acknowledging the existence of many important factors that act as necessary preconditions for democracy, this presentation will focus on economic factors and will attempt to offer a brief analysis of the Mongolian case.

¹ Fish, M. S. *Mongolia: Democracy Without Prerequisites*. Journal of Democracy - Volume 9, Number 3, July 1998, pp. 127-141.

A pre-eminent social scientist Seymour M. Lipset, well known for his analysis of the conditions for democracy, developed a theory emphasizing a clear link between socio-economic factors and a country's political development. He claims that economic prosperity and expansion of a middle class play an important role in the process of establishing and maintaining democracy.² Younger generations of scholars have further developed his idea and, in the process, have come to differentiate between reasons for democracy to succeed and preconditions for democracy to sustain and strengthen. In this respect, some scholars argue that economic prosperity is not an obligatory rationale for democracy to be initiated but a necessary condition for its further strengthening and development. This observation is deeply relevant to the Mongolian situation and an important issue for all Mongolians.

Many scholars contend that economic growth can become a source of increased well-being of all, decreased inequality, diversification of social life, and increased public participation, thus creating conditions for stronger democracy. But does economic growth always bring such results? Mongolian economy has been continuously growing in the last few years, and GDP has increased 6-7 times compared to the mid-1990s reaching USD 3500 in per capita terms. More specifically, GDP per capita, which in 1996 was MNT 292.8 thousand, reached MNT 3050.6 thousand in 2010, increasing 9-fold in 14 years.³ Nevertheless, one of every three Mongolians is poor. Poverty threatens Mongolia's young democracy as it fuels inequality, corruption and election fraud.

² Lipset, Seymour M. 1959. Some Social Requisites of Democracy: Economic Development and Political Legitimacy. *American Political Science Review*.

³ National Statistical Office, Statistical Yearbook 2011, section on macro-economic indicators.

The most important question facing Mongolians today is whether or not we will be able to maintain and further develop democracy that we built at the times of all-encompassing difficulties of 1990s. Democracy is important for us not only because of its relative advantages over other political systems, and its inherent opportunities to strengthen human rights and individual freedoms, but also because it provides Mongolia, sandwiched as it is between two world powers, a better possibility to maintain its independence, thus acting as a foundation for our national security.

At these times of growing global concerns about increasingly scarce energy resources, and growing demand for metals and other natural resources, the Mongolian mining sector has come to play an increasingly important role in the country's economy, while the specter of faster economic growth is becoming a reality in Mongolia. The government of Mongolia has set the goal of increasing GDP per capita five-fold during the next ten years. Given abundant natural resources and taking into account growing global demand for minerals, this goal is very much feasible for Mongolia given its small population.

But concerns remain. The main question is whether or not all Mongolians would be able to access the benefits of economic growth, which will create conditions for developing civil society and public participation, and increasing governance capacities for further strengthening Mongolian democracy. Or will the benefits of fast economic growth based on vast natural resources be used by few politicians and oligarchs for keeping and reinforcing their powers for generations to come, which will inevitably lead to social discontent and instability, provide reasons for unjustified use of arms, and take us down the road of undemocratic development?

The current Mongolian situation does not yet allow even the most hardcore optimists to claim that we have

completely ruled out a possible turn into a more pessimistic perspective development path. The worst news for us is that there are many real-life cases and empirically proven research findings showing that sudden economic growth based on vast mineral riches can have a negative impact on democracy, and may even become a reason and condition for undemocratic developments. The current situation is very fragile, and there are many reasons to believe that a “resource curse” is possible. In sum, just as a choice of democracy over other political systems has fascinated and puzzled many researchers, the question of whether Mongolian democracy will survive in these times of delicate equilibrium has spurred the interest and imagination of political scientists and others.

I would like to highlight some of the important concerns.

First of all, the persisting high level of poverty and increasing inequality among Mongolians is seen by social groups as a normal social phenomena. Revisiting successive elections, we can see that instead of proposing effective economic policies aimed at improving this situation, political parties often attempt to secure their access to power by manipulating the immediate needs of the poor electorate through cash promises and ineffective social welfare policies. Display of such behavior by political parties often has a counter-effect of public distrust and disillusionment.

Secondly, some processes taking place in Mongolian society further expand the above reasons for concern. Since our democratic revolution, almost all political elections in Mongolia followed the majoritarian electoral system (sometimes called “first past the post”). Some elected politicians have often chosen cash distribution and other populist actions in their constituency as a way to strengthen their popularity. Unfortunately, such actions, which are reinforced by our existing election system, have fuelled ‘constituency-oriented politics’, diverting politicians away from large-scale national

policies, wide-ranging poverty reduction goals, and national economic security and social development aims. For example, fuel crisis is just one of many significant issues for Mongolia's economic security. It is alarming that despite obvious risks faced by current Mongolian society, the Parliamentary majority – which is well-aware of these risks – has chosen once again the majoritarian electoral system, which further complicates the situation.

Przeworski et. al. have arrived at an interesting conclusion after studying a link between economic growth and political systems in 135 countries. By comparing multiple cases of democratic development – including democratic strengthening, the weakening of democracy, and its slippage into totalitarian regimes -- they observed that a country that reached per capita GDP of \$6055 never reverted to a totalitarian regime. Researchers claim as well that totalitarian regimes in which this level of GDP was attained were not able to keep running sustainably.⁴

The period 2012-2016 will be one of great economic growth in Mongolia, and during this timeframe, Mongolian should reach its critical threshold of GDP USD \$6055 per capita. According to international experience, the political situation in Mongolia during this critical time will determine the fate of Mongolian democracy.

Rapid expansion of welfare programs in Mongolia are another reason for concern. Government spending now constitutes half of national GDP. This year's national budget income was 3,304.6 trillion tugrug or 42 percent of GDP, of which budget spending was 4,084.1 trillion tugrug or

⁴ Przeworski, Adam and Fernando Limongi. 1997. Modernization: Theories and Facts. *World Politics*. 49 155-183.

52.1 percent of GDP.⁵ The size of Mongolia's government is growing exponentially, as is its scale of welfare programs. These spark the potential image of the Mongolian economy as a rachitic child (a child with rickets and a deterioration of the spine). Though state participation in social development is indeed important, empirical research shows that government spending in excess of 30 percent of GDP limits economic growth, further suppressing employment rates and desire for self-sufficiency by increasing dependence on welfare. The long-standing market experience of Western economies has demonstrated the inability of welfare economies to persist sustainable for long periods of time. Therefore, we fear that the existence of a welfare economy in Mongolia may further limit development of the diversified free economy that we all ultimately desire.

In closing, I would like to note that of the many geopolitical, political, social, cultural and economic factors important for Mongolia's political development, I have here been able to consider only a few of the domestic economic factors that I believe are critical for our political future.

The future of Mongolia's democracy in future years is closely linked to factors of economic process and development. Mongolia's future will be directly impacted by the economic policies that Mongolian political parties, politicians, and the Mongolian government chose to implement. If political economic policies continue to support the intention of securing power by means of expanding welfare programs, relying on mining sector income at the expense of neglecting other economic sectors, and serving the interests of wealthy, the future of Mongolian democracy that we believe to be the

⁵ Accessed at the website of the Ministry of Finance <http://www.iltod.gov.mn/?p=805>.

foundation of our national interests and national independence will suffer in the long run.

I have never doubted the sense of independence and national interest among Mongolians, both individually and collectively. This encourages me to believe in the better and more positive future of Mongolia. I firmly believe that we will overcome our risks and obstacles. But at the same time, my optimism does not prevent me from critically assessing the current situation. Optimism cannot serve as a reason for overlooking critical issues. Critical thinking makes us more concerned citizens who can more effectively claim responsibility from our policymakers.