
MONGOLIA IN 2001

Political Consolidation and Continued Economic Reform

Christopher M. Finch

After having won a sweeping victory in its country's 2000 parliamentary elections, the Mongolian People's Revolutionary Party (MPRP) in 2001 consolidated its political power and demonstrated its resolve to keep market economic reforms on track. Incumbent President N. Bagabandi was easily reelected to a new four-year term in 2001 presidential elections. His election highlighted the democratic opposition's continued weakness, despite the unification of the democrats into a single party. The year also saw the country suffer its second consecutive *dzud*—extreme winter conditions following drought the previous summer—which killed about 10% of the nation's livestock, a repeat of the previous 1999–2000 winter. And on September 29, Mongolia's respected parliament speaker, Mr. L. Enebish, passed away after a stroke.

Politics

The most significant political event of 2001 was the May 20 presidential election. Despite democratic party appeals for a balance of power, MPRP incumbent President N. Bagabandi won in an election that was widely viewed as free and fair. The presidential election followed an MPRP landslide in 2000 parliamentary elections. In those contests, the MPRP won 72 of 76 seats in the Great Hural, Mongolia's parliament. Though the party captured just over 50% of the popular vote in the 2000 elections, Mongolia's majoritarian parliamentary electoral system gave the MPRP a sweeping vic-

Christopher M. Finch is Executive Director of the Soros Foundations' Mongolian Foundation for Open Society, Ulaanbaatar.

Asian Survey, 42:1, pp. 39–45. ISSN: 0004–4687

© 2002 by The Regents of the University of California. All rights reserved.

Send Requests for Permission to Reprint to: Rights and Permissions, University of California Press, Journals Division, 2000 Center St., Ste. 303, Berkeley, CA 94704–1223.

tory over the Democratic Coalition parties, which had split and run independent slates of candidates for the parliamentary elections.

After that defeat, the two main democratic parties, the National Democrats and Social Democrats, joined forces into a single Democratic Party. In the run-up to the 2001 presidential election, former Social Democratic party leader and 1996–2000 Great Hural Speaker R. Gonchidorj defeated former National Democrat and Prime Minister M. Enksaikhan to win nomination as the newly united Democratic Party's presidential candidate. A mudslinging presidential campaign followed, with the Democrats nearly withdrawing from the race amid accusations that the MPRP had not given them adequate time on the state-controlled broadcast media. Ultimately, however, the Democrats' newly found unity was not enough to unseat Bagabandi, who won handily with 58% of the vote, compared with 36.5% for Gonchidorj. The third contender, L. Dashnyam, representing the Civil Will Party, garnered 3.5% of the vote.

The presidential election victory enhanced the MPRP's political dominance. It illustrated the democrats' difficulties in rebuilding public confidence after their four tumultuous years in power. They made unpopular and painful decisions to liberalize Mongolia's economy during that time, but their rule was marked by four successive Democratic Coalition governments, a corruption case, political stalemate exacerbated by the MPRP, and failure to improve the standard of living. The MPRP, which adopted a social democratic doctrine in 1997, had worked to show the public and the world that the party had left its communist roots behind. They deepened the democrat-initiated economic reforms and generally maintained the environment of political and economic openness that Mongolia has enjoyed for the past decade.

Still there were hints of the party's past. The opposition parties, who hold only four seats in parliament, criticized the MPRP for raising taxes; adopting a more centralized, top-down approach to government; and having increased control of the state-run radio and television stations, the only national broadcast media in the country. The democrats accused the MPRP of trying to bring economic reform through the increased regulation and taxation of business, rather than by providing a facilitating environment for business. They also criticized the MPRP's continuing replacements of civil servants with MPRP party faithful, changes that extended down to the level of kindergarten school directors.

The election coincided with the end of a gridlock over constitutional reforms passed under the Democratic Coalition government in late 1999. In what was widely viewed as a political deal, the long-debated constitutional amendments were finally approved by the president in late April. The controversial amendments allow members of the Great Hural to simultaneously serve in the government cabinet, and reduce the president's power to block

the parliament's nomination for prime minister (powers that President Bagabandi used to reject Democratic Coalition prime minister nominations 11 times during the democrats' rule from 1996–2000).¹ Mongolia's Constitutional Court, with the support of President Bagabandi, steadfastly had rejected the amendments to the Constitution on constitutional and procedural grounds, even after the MPRP won the presidential elections. The amendments were reintroduced by the Great Hural in the spring. This time, the same Constitutional Court raised no objections and the president signed the amendments into law. Amendments also came to legislation in 2001, with the MPRP changing much-criticized provisions in a controversial new law on foreigners, passed in late 2000, to ease requirements that even short-term visitors must register with the police.

The nation mourned the death of Mongolia's speaker of parliament, L. Enebish, of a stroke on September 29. Ruling party and opposition leaders alike recognized the former MPRP secretary general as a statesman who balanced partisan politics with the needs of the country. Another tragedy occurred when a helicopter on a U.N. mission investigating the effects of the winter livestock disaster crashed on January 14 in Uvs Aimag, a remote western Mongolian province. Nine people perished in the crash, including well-known member of parliament Sh. Otgonbileg, the former head of the Erdenet copper mine and long-time political ally of President Bagabandi; four U.N. staff; two Japanese journalists; and two other Mongolian nationals.

Economics

The MPRP government largely followed the liberal economic reform agenda of its democratic predecessors. The government made progress in stabilizing Mongolia's macroeconomic situation, but improvements came against a backdrop of slow economic growth, exacerbated in 2001 by winter livestock losses and falling prices for key exports, including cashmere and copper. The official statistics on 2001 economic growth have been poor. As of the end of the third quarter of 2001, growth in the gross domestic product (GDP) stood at 1.1%.² The Asian Development Bank (ADB) forecast 2% growth for the year, a slight increase over the 1.3% reported in 2000. At year's end, over a third of the population remains in poverty, the national debt stands at 90%–95% of GDP, and foreign investment is still low.

On the positive side, major donors including the International Monetary Fund (IMF) and World Bank credited the MPRP-led government with improving Mongolia's overall economic situation, mostly through increased revenues and better control over government finances and fiscal data. Infla-

1. *Mongol Messenger*, June 6, 2001.

2. *Ibid.*, October 10, 2001.

tion, at 8.1% in the first three quarters of 2001, was expected to remain in the single digits for the year.³ The government passed an ambitious plan for the privatization of Mongolia's largest state-run enterprises and launched international tenders for its largest bank and the Gobi cashmere company. The government met IMF conditions to improve fiscal data quality and reporting, strengthen management of the state treasury, take action to reduce the budget deficit, and introduce reforms in the energy sector. This paved the way for the eighth donors' meeting, held in Paris in mid-May. Led by the ADB, the government of Japan, the World Bank, and the IMF, donors showed their continued commitment to Mongolia, pledging \$330 million in support for Mongolia for the ensuing 12-month period.

However, an increase in the value-added tax (from 13% to 15%) increased regulation on business, and continued stagnant economic growth contributed to the public perception that Mongolia's standard of living did not improve during the MPRP's first 18 months in power.⁴ Public opinion polls in the third quarter of 2001 showed a sharp decline in public support for the MPRP in Ulaanbaatar, Mongolia's capital and largest city. However, the same polls showed that the democrats and other opposition parties so far had failed to gain from the MPRP's loss; rather than an increase in approval ratings for the opposition, the MPRP decrease instead brought a dramatic rise in the number of Ulaanbaatar respondents who said they would vote independently or did not know whom they supported.⁵

There were strong advances in Mongolia's long-ailing banking sector in 2001. Loans doubled from the year before, led by the revitalized state Agriculture Bank. A management team supported by the U.S. Agency for International Development took over the troubled bank in late 2000. The bank began to offer short-term loans throughout the country and others followed suit. For many rural residents, it was the first time they had access to credit offered on a competitive basis. Not only did the demand for credit exceed the bankers' expectations, but so did the high repayment rates—over 97%, according to a survey by the Mongol Bank.⁶ The Great Hural's February 2001 adoption of legislation allowing nonjudicial foreclosure on late loans improved banks' willingness to offer loans.

Other economic developments included the discovery of a major copper and gold deposit in the south Gobi. But there were serious economic setbacks, too. Mongolia lost its bid to have a new oil pipeline from Russia to China pass through Mongolian territory, for example. Worse, the nation's herders suffered the second consecutive *dzud*, a natural disaster that results

3. Ibid.

4. Sant Maral Foundation, *Politbarometer*, Ulaanbaatar, November 2001.

5. Ibid.

6. *Mongol Messenger*, November 28, 2001.

from a combination of drought conditions in the preceding summer, reducing the forage available for livestock, followed by the normally severe Mongolian winter. Winter conditions were worse than normal due to extreme cold in December and January and heavy snows in the late spring, at the time when livestock are most vulnerable. Though initial forecasts of livestock losses of up to six million animals for the 2000–01 winter fortunately did not materialize, the 2000–01 *dzud* brought a reported loss of 3.4 million animals.⁷ This was even worse than the previous winter's *dzud*, when 2.6 million animals perished, although many question the official numbers because of inconsistencies in how the losses are reported and tabulated. Be that as it may, according to the official statistics over 7,000 herders lost their entire herds, three times more herders than in the previous winter.

The second consecutive *dzud* renewed national debate on the causes and possible ways to reduce the impact of this natural disaster, which affects specific regions of Mongolia every winter but not on the scale of the past two winters. Though it is a natural phenomenon, the *dzud* is exacerbated by human-caused factors. Herds have increased by approximately one-third—over 10 million animals—since the privatization of livestock in the early 1990s. At the same time, economic forces drive herders toward settlements and roads, where it is easier to get their products to market. The combination of more animals, concentrated in smaller areas, and reduced mobility of livestock brings increased herding pressure, reduced forage, degraded grasslands, and greater vulnerability to the natural causes of the *dzud*.

Following the 2000–01 *dzud*, Prime Minister N. Enkhbayar publicly stated that Mongolians should “stop being nomads”⁸ and discussed his long-term vision to urbanize 90% of Mongolia. His plan would move people into regional cities connected by modern roads and communications and shift livestock management from the current extensive mobile herding to intensive animal husbandry overseen by as little as 10% of the population. Whether or not this vision is realistic, the future of Mongolia's seminomadic herders, who make up over a third of the population, and the common land upon which they rely will be at center stage in continued public debate over a new draft land law that was published in 2001. Privatizing pastureland, which would reduce the mobility that herders need to adapt to the vagaries of the Mongolian climate, is not a desirable option. But there is widespread agreement that better ways must be found to manage fragile pastures, improve cooperation, and reduce risk for herders who have suffered for two consecutive winters.

7. U.N. Development Program (UNDP) Disaster Management Team, “Disaster Preparation Note,” Ulaanbaatar, October 30, 2001.

8. David Murphy, “No Room for Nomads,” *Far Eastern Economic Review*, May 31, 2001.

The September terrorist attacks on the U.S. also had negative effects on Mongolia's economy. Lower global discretionary spending is bad for luxury products like cashmere, a major Mongolian export. Lower cashmere prices hurt Mongolia in 2001 and may have reduced international interest in the tender—now extended—to privatize the state-owned Gobi cashmere company.

The year's economic developments occurred against the backdrop of an intensified debate over Mongolia's liberal economic reform policies of the past decade. A U.N.-funded report assessed "shock therapy" in Mongolia as a disappointing failure and criticized donors like the IMF and World Bank for promoting the idea that free markets alone can solve Mongolia's economic woes. The report noted that GDP still has not reached 1990 levels, over a third of Mongolia's population was in poverty, and per capita income was far below 1990 levels. Finally, the report alleged that donor aid amounting to 24% of GDP on average per year over the past decade has also failed to make a difference.⁹

Mongolian and foreign experts promoting liberal economic policies counter that following the major economic shocks that hit Mongolia in the early 1990s with the collapse of the Soviet Union and the resulting loss in trade and subsidies, the country had little choice other than to pursue major structural economic reform. These experts also say that official numbers do not capture the extent of market reforms, especially in Ulaanbaatar, a city where new building construction is now commonplace and traffic jams clog formerly empty boulevards.

Foreign Affairs

The foreign affairs highlight of the year was Prime Minister Enkhbayar's two-week-long visit to the U.S. in November. The visit indicated Mongolia's continued interest to build its ties with the U.S., despite the MPRP's traditionally close relationship with Russia, and the Mongolian people's increasing interest in the West. The prime minister was well received by U.S. President George W. Bush, who acknowledged Mongolia's democratic and economic achievements. In memory of the September 11 terrorist attack, the prime minister presented the president with a new Mongolian postage stamp memorializing those lost in the tragedy. In the wake of the terrorist attacks, in a spontaneous show of support, thousands of Mongolians visited the U.S. embassy to deliver their condolences.

Other foreign affairs events of the year included the prime minister's February visit to Japan, the visit of Korean Prime Minister Lee Han-Dong to

9. Keith Griffin et al., *A Strategy for Poverty Reduction in Mongolia*, report prepared for the UNDP, Ulaanbaatar, July 2001.

Mongolia in June, and the Chinese foreign minister's visit in July. President Bagabandi visited South Korea and Singapore. Mongolia also celebrated its 40th year of membership in the U.N., and Prime Minister Enkhbayar addressed the General Assembly in honor of the occasion. Finally, former U.S. President Jimmy Carter also paid a visit to Mongolia, including a stopover in the Gobi Desert, in September.

All in all, in 2001 the MPRP government was determined to convince the West and the international donor community that it would keep economic and political reforms in Mongolia on track. For the moment, it looks like they have succeeded.