

Resource Management in Mongolia: Missed Opportunities and Future Prospects

By Richard Pomfret

Richard Pomfret, Senior Adjunct Professor in International Economics at the Johns Hopkins University and Professor of Economics Emeritus at the University of Adelaide, explains that Mongolia is successfully balancing the influences of Russia and China, "the country has been less successful in exploiting its mineral resources and its location in the Eurasian transport network."

Mongolia is sandwiched between Russia and China and abundant in minerals. The situation poses challenges but also presents potential opportunities, which Mongolia has failed to take full advantage of during the last three decades. Mongolia has been successful in ensuring power alternates between its major parties and striking a balance between the influence of Russia and China. However, the country has been less successful in exploiting its mineral resources and its location in the Eurasian transport network.

Mongolia's peaceful overthrow of Communism in 1990 and transition away from central planning were widely seen as a success story from an unpromising beginning. Despite an extreme recession following the end of Soviet support and central planning, by 1995 the economy was growing. [A democratic two-party political system, rapid privatization, and a market-based economy were established in the 1990s.](#) However, from 1995, after recovering from its transitional recession, Mongolia experienced a period of sluggish economic growth and accelerated inflation that ended with a harsh downturn in 2000.

In the 2000s, the economy was saved by successful prospecting and an inflow of foreign investment targeting the country's mineral resources. The south Gobi region has huge reserves of coal, copper, uranium, and other minerals. The extent of the massive Oyu Tolgoi copper mine was discovered by Canadian maverick Robert Friedlander of Ivanhoe Mines. Subsequently, mining companies from China, Japan, Korea, Russia, and the USA invested in Mongolia.

While the economy boomed, wealth became more unequally distributed. Economic growth peaked at 17% in 2011, and luxury brands like Louis Vuitton opened stores in Ulaanbaatar. [Mongolia was branded as a mineral superpower and the crossroads of the steppes.](#)

The boom of the 2000s was largely an investment boom as the mines had not yet produced much. Oyu Tolgoi, now owned by Rio Tinto–Zinc Corporation (RTZ) who signed a thirty-year deal with the government in 2009, was subject to frequent contract renegotiations. The open-pit portion of Oyu Tolgoi began operating in 2013, but most of the reserves still lay in the ground as the government continued to renegotiate with RTZ, including a major dispute in 2019 over electricity supply. [Underground production at the mine did not start until 2023.](#)

Amidst poor macroeconomic management, increasing corruption, and squabbling over mining revenues, foreign investment collapsed between 2012 and 2015, the Louis Vuitton store closed in 2014. Mongolia turned to the International Monetary Fund (IMF) for a 2017-2020 loan. The country faced anemic growth rates in the early 2020s.

With the world's largest new copper mine, Mongolia should have become prosperous during the resource boom. The price of copper increased from less than \$1 per pound in the early 2000s to over \$4 in 2011 before falling to \$2 in the first half of 2016.

The opportunity was missed because political parties competed by appearing tougher on foreign investors, especially over the magic 51% ownership share for the state, fanning belief among voters that foreign investors would exploit the nation's resources without benefiting Mongolians. This political posturing delayed the exploitation of resources, caused Mongolia to miss the boom in world mineral prices, deterred new investors from the mining sector, and distracted the government from other matters.

Mongolia's geostrategic advantages are underutilized. For example, Mongolia straddles the shortest rail route between Beijing and Moscow. However, [Mongolia's transport and logistics sector has been allowed to languish](#) through poor maintenance of rail track and inadequate investment in rolling stock. The north-south line from Russia to China is hampered by lengthy delays at both ends and a change of gauge point at the Chinese border. The rail line also suffers from a lack of available locomotives, congestion around Ulaanbaatar, and poor infrastructure. This hampers Mongolia's exports and has also led to the country missing out on the growth of Eurasian transit trade.

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By contrast, after the initiation of direct rail services between western China and Germany in 2011, Kazakhstan improved its rail system and the change of gauge facilities at the Chinese border. In a virtuous circle of improved routes and services, traffic through Kazakhstan roughly doubled every year from 2011 to 2021, when Kazakhstan was earning over \$2 billion in transit fees. Mongolia could have dominated routes between northeast China and Europe but lost out to longer routes that crossed the China-Russia border east of Mongolia. After Russia's invasion of Ukraine and ensuing sanctions, the northern Eurasian rail route has lost its dynamism as freight forwarders seek China-EU routes that avoid Russia.

Export of minerals and rail transit services could both have been drivers of sustainable Mongolian prosperity in the 2010s but were stymied by poor governance. Does the past failure condemn Mongolia to future slow economic growth? The answer depends upon whether the government and the electorate can accept the necessity of compensating foreign mining companies for expertise and capital investment. Favorable copper prices, which climbed above \$4 in 2021 and have remained there through the first half of 2023, offer Mongolia a chance to take advantage of world mineral prices. Future fluctuations are hard to predict but the ongoing transition from fossil fuels to electricity generated from renewable energy sources should be positive for copper. Depending on how the Russia-Ukraine conflict is resolved, the demand for efficient Eurasian connections is likely to resume its growth in the 2020s.

[The immediate need is macroeconomic prudence with better control over public expenditures](#); fiscal policies to help the poor while ensuring the rich pay a fair share of taxes, and corruption reduction measures. The deeper need is for both political parties to accept the need to promote mineral production rather than argue incessantly over the division of future profits and to improve infrastructure.

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