

EU-Mongolia Relations: Toward a Strategic Partnership

Raúl Villegas

INTRODUCTION

Building on its Partnership and Cooperation Agreement, the EU is poised to strengthen ties with Mongolia, a country eager to broaden its international partnerships and reduce overreliance on its powerful neighbours. This Policy Brief examines Mongolia's development and the current state of EU-Mongolia relations, proposing actionable steps to intensify bilateral cooperation. By promoting Mongolia's economic diversification and global connectivity efforts, the EU can enhance its economic security and support Mongolia as a strategic partner.

BACKGROUND – EMERGING ON THE WORLD STAGE

Mongolia, a landlocked nation of 3.4 million, is strategically placed at the crossroads of Central and Northeast Asia. Wedged between powerful neighbours – Russia and China – it carefully balances their influences to foster national development and preserve its autonomy.

Since the collapse of the USSR, Mongolia has undergone radical political transformations, transitioning – through a remarkably peaceful process – from its Soviet satellite status to a constitutional, pluralistic, and democratic state. In shifting to an open market economy, it has faced major upheavals, leveraging its main resource (mineral wealth) with mixed success while striving to diversify its economic base.

To offset the influence of the great powers encircling it, Mongolia has sought to build strong ties with distant powers through its Third Neighbour Policy,¹ including with the EU and its member states, which have

supported Mongolia's transition with developmental and humanitarian aid (most recently during COVID-19), and increasingly, through connectivity and green energy investment.

The building of EU-Mongolia ties

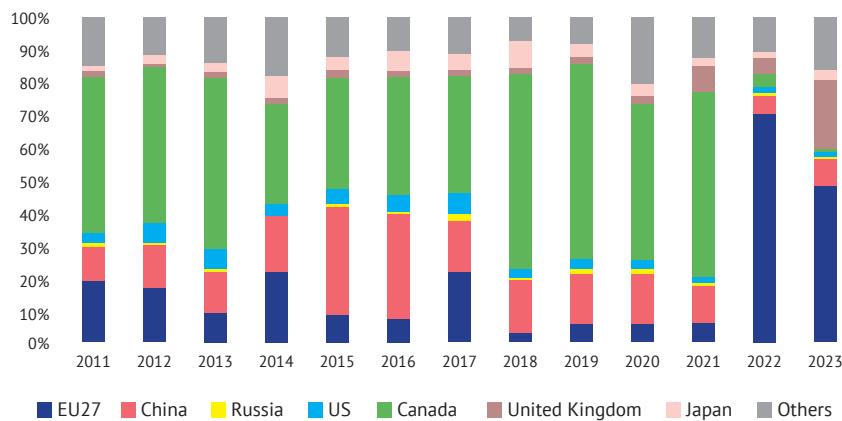
Since the 1990s, Mongolia has tried to hedge against its reliance on exposure to its powerful neighbours by forging partnerships and cooperating with several countries and international organisations. These include major global powers like the US, Japan, the UK, and Germany; rising middle powers such as India, Türkiye, and Brazil; and the EU, OSCE, and NATO.

Initially, the EU provided modest aid and investment compared to Asia Development Bank partners such as Japan, but over time, it has come to play a sizable role in Mongolia's economic activity.² Mongolia has also demonstrated value affinity with the EU, committing to nuclear non-proliferation,³ hosting a Northeast Asia security dialogue to foster stability in the Korean Peninsula,⁴ and making imperfect yet significant strides in human rights,⁵ judicial independence,⁶ and anti-corruption reform.⁷

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Figure 1

ANNUAL PERCENTAGE SHARE OF FOREIGN DIRECT INVESTMENT (FDI) FLOWS INTO MONGOLIA BY COUNTRY OF ORIGIN



Source: The author, via the National Statistics Office of Mongolia

Closer EU-Mongolia ties have been typified by the Partnership and Cooperation Agreement, which establishes a framework for developing trade and investment ties; by EIB investments (circa 50 million EUR) into sustainable urban and agricultural development;⁸ and by the EU-funded Trade Related Assistance project, which supported Mongolia’s economic diversification by boosting non-mining exports and aligning the country with WTO standards.⁹ Ongoing negotiations over geographical indications for consumer goods have further demonstrated the EU’s commitment to enhancing Mongolia’s competitiveness in European markets.¹⁰

Balancing in a pluripolar world

Mongolia adopted an extra-regional balancing strategy after the fall of the USSR and the rise of an asymmetrical international system under US hegemony. Now, a more conflict-prone, pluripolar world has again changed the country’s strategic calculations. Russia’s annexation of Crimea in 2014 and its full-scale invasion of Ukraine in 2022 (on which Mongolia has adopted an officially neutral stance), growing Russia-China alignment, and trade tensions between the West and China have complicated Mongolia’s neutrality and balancing efforts.

Pre-empting both isolation and excessive encroachment by its neighbours, Mongolia has proactively sought integration in their initiatives by following a trilateral formula: joining the Shanghai Cooperation Organization (SCO) and the Belt and Road Initiative (BRI) on one hand; establishing a Free Trade Agreement with the Eurasian Economic Union on the other; and developing free economic zones at its borders with both Russia (Altanbulag) and China (Zamyn-Uud). However, despite this astute approach, Mongolia has risked being reduced to a transit zone for burgeoning Russia-China energy and commodities trade – through infrastructure projects such as Power of Siberia 2¹¹ – without reaping significant benefits.

STATE OF PLAY

Mongolia has tapped into its vast mineral wealth to drive growth and has attempted to mitigate its geographical constraints. However, despite significant progress in economic diversification, the country remains over-exposed to fluctuations in commodity markets and excessively reliant on specific trading partners, such as China. Moreover, global security developments have disrupted Mongolia’s connectivity options – albeit potentially opening doors to new opportunities.

Economic diversification and connectivity

Mongolia’s landlocked geography and significant distance from seaports mean that a high percentage of its export earnings are spent on transportation.¹² This has limited the global competitiveness of Mongolian exports and has historically placed stricter constraints on its choice of logistics partners than diplomatic ones. However, as East-West connectivity evolves into a major geopolitical scramble, the distinction between logistics and diplomacy is becoming increasingly blurred.

Since the mid-2010s, Mongolia has sought to capitalise on Russian and Chinese-led regional infrastructural initiatives to develop its lacklustre transport infrastructure. In the process, it has become increasingly integrated within the Eurasian Northern Corridor by connecting to Russia’s Trans-Siberian and Northern Routes and aligning with China’s BRI vision of a Silk Road Economic Belt.

Most of the ensuing investment has poured into the Trans-Mongolian railway, which crosses Mongolia from North to South and connects numerous mineral sites to the Trans-Siberian railway. Two other railway clusters have been developed or are being developed: to the North-East of the country, connecting the Gurvanbulag and Dornod uranium deposits to Russia’s Pacific ports, and the South, bringing major sites such as Tavan Tolgoi and Oyu Tolgoi – which previously relied on trucks for intermediate transportation – into the network.

Under evident geographical constraints, the EU cannot realistically become a dominant player in shaping the development and volume of these trade routes. Links to and through Russia, favoured for their cost efficiency and benefitting from pre-existing, Soviet-era infrastructure, will remain paramount. However, as shown by its adaptation to the current global logistic reconfiguration (instigated by successive challenges such as COVID-19, a draught-hit Panama Canal, Russia's invasion of Ukraine, and the Red Sea crisis), the EU has become a more resourceful connectivity actor – one capable of leaving a greater footprint on Mongolia.

Proof of this resourcefulness is the EU's mounting investment into the Trans-Caspian International Transport Route (also known as Middle Corridor),¹³ an initiative designed to connect Central Asia through Kazakhstan, Azerbaijan, Georgia, and Türkiye (among others) with Europe, halving transit times from 30 days to about 15 days and diverting traffic away from Russian segments of the Eurasian Northern Corridor.

Since they do not share a contiguous border, linking the Trans-Mongolian railway directly to the Kazakh line, and thus to the Middle Corridor, would be impossible. However, over the long term, a railway cluster in Mongolia's West could eventually connect to the corridor extending from China's Xinjiang to Kazakhstan, while simultaneously improving Mongolia's own domestic East-West connectivity, which is crucial for long-term development. Additionally, the Southern network of the Eurasian Northern Corridor, plugged into Mongolia through the Erenhot Pass¹⁴ could offer more flexible sea access (typically reliant on Chinese ports for access to global routes) by connecting to South Korea's Busan harbour, while also linking to the Middle Corridor through Westbound Chinese rail.

The EU could assist Mongolia diversifying its exports by setting more ambitious Global Gateway targets, similar to those for its Central Asian neighbours, and cooperating on North-East Asia connectivity with partners such as South Korea (which is interested in Mongolia's rare earths).¹⁵ This would allow Mongolian exports to generate higher revenues by tapping into latent demand within the EU, thereby helping the EU insulate supply chains from Russian chokepoints and coercion. Nevertheless, China's gatekeeping of a greater flow of Mongolia's exports would also bring about its challenges, which should be anticipated and remedied through a more stable and predictable EU-China relationship.

The pitfalls of the resource curse

Like in other post-Communist economies, rapid 'shock therapy' liberalisation in the 1990s created significant economic trauma for Mongolia, whose initial transition to an open market economy is often described as a "lost decade."¹⁶ The country's vast reserves of gas, uranium, coal, gold, copper, and rare earth elements, powered a thriving export regime. However, they also led to a

relationship of monopsony (the oversized capture of the demand by a single buyer) with Chinese markets that has only become more pronounced over the years.

Indeed, by now, up to 90% of Mongolia's exports are absorbed by China.¹⁷ This dependency on non-diversified export commodities and target markets, compounded by near-total dependency on Russia for refined fuel imports,¹⁸ has rendered the Mongolian economy highly vulnerable to external shocks and fluctuations in commodity prices. Thus, although the mineral sector has propped up the country's GDP growth, its impact on long-term human development and Mongolia's geopolitical manoeuvrability have been ambivalent.

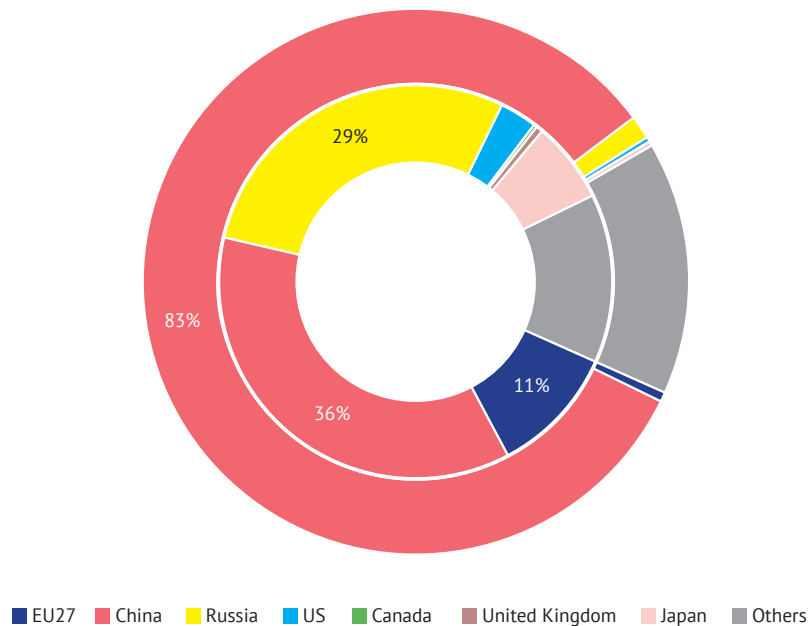
Mongolia's mineral and foreign direct investment (FDI) legislative track record reflects this ambiguity. Major foreign takeovers in the 1990s, such as the transfer (without the Mongolian authorities' endorsement) of significant oil fields from London-based SOCO to PetroChina,¹⁹ prompted an early recognition of the nexus between the country's resource ownership and its national security that recalls – although within very different circumstances – current debates on economic security. Despite attempts at protecting strategic commodities (without scaring FDI away), instances of outsized foreign influence continued to pile up in the late 2000s, including the attempted acquisitions of a majority stake in the uranium and coal-rich Tavan Tolgoi site by Chinese Shenhua Energy;²⁰ of coal-rich Ovoot Tolgoi by Chinese state-run Chalco;²¹ and a major stake in the Dornod uranium project by Canadian Khan Resources.²²

By the early 2010s, these predatory behaviours urged the State Great Hural, Mongolia's legislature, to rethink its reliance on mineral-based growth. Launching a 'wolf economy' strategy – a nod to the four 'Asian tigers' – Mongolia sought to apply its principle of diplomatic balancing to its economy: by capping any particular country's FDI at no more than a third of the total,²³ limiting investment in strategic sectors, establishing a national Development Bank to build multi-sectorial capacity,²⁴ and attempting to extract royalties²⁵ from some of its most profitable mineral sites, such as Oyu Tolgoi – a vast gold and copper mine licensed to the Australian conglomerate Rio Tinto which has inspired both international and domestic environmental criticism over the years.²⁶ Coinciding with the end of FDI's golden years in Mongolia, these more assertive policies fell flat but also – appropriately – left behind a Mongolia more sceptical of shortcuts and economic 'miracles'.

The country has taken steps to evolve its economy beyond the resource-based model.

Figure 2

EXPORT AND IMPORT PARTNER SHARES OF MONGOLIA IN 2021, WITH EXPORT PARTNER SHARE REPRESENTED ON THE OUTSIDE RING AND IMPORT PARTNER SHARE ON THE INSIDE RING



Source: The author, via World Integrated Trade Solution, World Bank

Moving into the present, Mongolian economic policy has stabilised. After experiencing a dramatic collapse in FDI and mineral revenues during the mid-2010s, mostly as a result of declining commodity prices, and again in 2020 due to the impact of COVID-19, Mongolia has adopted less restrictive FDI regulations and toned down its resource nationalism, without reverting to the naive laissez-faire policies of the early 2000s. More importantly, the country has taken steps to evolve its economy beyond the resource-based model. It has set up a sovereign fund to reinvest mining revenues²⁷ and defined a long-term development plan (Vision-2050) aimed at enhancing industry through R&D, digitalisation, green energy, and decarbonisation, as well as powering the tourism sector.²⁸

Despite challenges such as high inflation, which stood at 10% in 2023,²⁹ and increasing national debt, Mongolia's economy has performed well in the post-COVID global economy, achieving a growth rate of 7% last year, and a projected 4.1% for 2024.³⁰ However, the economy remains heavily reliant on exporting primary products and is thus vulnerable to the volatility of commodities markets and their characteristic 'boom and bust' cycles.

Mineral wealth is no small part of what has increasingly drawn the EU's attention towards Mongolia. With its substantial lithium, uranium, and copper deposits, and untapped reserves of rare earths,³¹ Mongolia holds considerable geoeconomic potential for an EU keen on future-proofing its green and digital transitions and reducing dependency on single suppliers. Nevertheless, these strategic opportunities hinge on a horizontal engagement with Mongolia: a sustained interest in its

process of institutional reform, economic diversification, and modernisation; and a more detailed understanding of its strategic constraints and incentives.

PROSPECT: PATHWAYS TO STRATEGIC PARTNERSHIP

Elevating the relationship between the EU and Mongolia to a strategic partnership would offer substantial reciprocal gains. For the EU, it would facilitate access to Mongolia's critical raw materials reserves – essential for the EU's green and digital transitions – and strengthen a democratic partner in a key region. For Mongolia, it would boost both economic and diplomatic diversification, fostering the country's autonomy.

Building on their Partnership and Cooperation Agreement, in effect since 2017,³² and EU initiatives like Global Gateway focusing on more sustainable transport links between Europe and Asia, there is potential for greater alignment between EU action and Mongolia's autonomy, connectivity, and development goals. To move toward a strategic partnership, a concrete roadmap, increased investment, and Mongolia's sustained commitment to economic diversification will be essential.

The EU, which has devoted scant attention to Mongolia in its Central Asia and Indo-Pacific strategies, will need to prove more observant and far-sighted. For example, an often-overlooked mechanism in Mongolia's future balancing capacity and its return to a Third Neighbour could lie in greater transregional integration

Figure 3

FOREIGN DIRECT INVESTMENT INTO MONGOLIA, NET INFLOWS (% OF GDP)



Source: The author, via World Development Indicators, World Bank

with Central Asian countries, which are themselves confronting the challenge of a balanced, ‘multi-vector’ foreign policy.³⁵ The EU’s development and external action, which generally frame Central Asia and Mongolia as entirely distinct, separate entities – thereby missing the point of much of Mongolia’s cultural and political consciousness – will need to be revised accordingly.

To move toward a strategic partnership, a concrete roadmap, increased investment, and Mongolia’s sustained commitment to economic diversification will be essential.

At the operational level, funding will remain a core issue. But although there is a need to mobilise greater capital to Mongolia – primarily through initiatives like Global Gateway – alternative funding sources alone will not do. An alternative approach to funding will also be required: focused on long-term development and capacity building in contrast to the more short-term, ad-hoc gains that the country could extract by fully buying into a trilateral formula centred around Russia and China.

For the EU to offer a strong ‘third neighbour’ alternative and build a strategic partnership with Mongolia, the following steps will thus be in order:

Six concrete recommendations

Recommendation #1 – Pursue mutually reinforcing economic diversification: To enhance its economic security, the EU needs to secure alternative import supply chains of critical raw materials; likewise, Mongolia needs to diversify its range of exported goods and export markets. The Union should thus upgrade its Global Gateway ambitions to expand Mongolia’s export options while diversifying Mongolia’s energy mix. The latter should help to reduce over-dependency on Russian fuel and progressively phase out unsustainable rates of coal use.

Recommendation #2 – Establish a dialogue on economic coercion: Even in the most optimistic scenario for economic diversification, Mongolia will remain heavily reliant on Chinese infrastructural investment and export markets for the foreseeable future. Given past instances of economic coercion, such as punitive measures by the Chinese government following the Dalai Lama’s visit to Mongolia in 2016,³⁴ the EU should help Ulaanbaatar cope with this vulnerability. The EU should thus involve Mongolia in ongoing knowledge exchanges on economic security with Indo-Pacific partners such as Japan and South Korea.

Recommendation #3 – Advocate long-term economic thinking: To decrease Mongolia’s dependency on its neighbours and help position it as a significant commercial partner, the EU should assist Mongolia’s search for an equilibrium between short-term,

resource-based revenue generation, and the building of long-term competitive economic sectors and institutions. Encouraging value-added economic output, digitalisation, streamlining government bureaucracy, and improving the business environment for SMEs will be crucial. However, equal attention should be devoted to country-wide development and environmental sustainability. Around a quarter of Mongolia's population still practices a nomadic herding livelihood, and past experience – such as during the squalor of the 1990s – demonstrates their vital role in making Mongolia as resilient and adaptable as it remains today.

Recommendation #4 – Highlight human capital:

Mongolia's mineral boons have often overshadowed its human capital. To single out its engagement with Mongolia and ensure the country's future as a stable, democratic, and strategic partner, the EU should invest more in public sector technical assistance; encourage anti-corruption and transparency initiatives; and expand and facilitate people-to-people exchanges.

Recommendation #5 – Avoid geographic silos:

EU external action has typically compartmentalised Central Asia, Mongolia, and the rest of East Asia. But, as suggested by the affinity between the multi-vector policy of Central Asian countries like Kazakhstan and Mongolia's Third Neighbour policy, and the potential interplay with Middle Corridor infrastructure, cooperation with Mongolia should be understood within its larger regional context. This would entail incorporating Mongolia into the EU's broad regional strategies and linking it to Central Asian or East Asian-focused initiatives as appropriate.

Recommendation #6 – Don't pin a future strategic partnership on unrealistic expectations:

The EU should pursue a pragmatic approach to Mongolia, establishing a roadmap for a strategic partnership. This approach should not be transactional and grow fatigued in the absence of immediate progress. It should remain cognisant of the country's unique geographic and geopolitical constraints, and its logical choice for neutrality – all while helping reduce its chronic dependencies and boosting its capacity to act autonomously.

Against the backdrop of growing Russia-China alignment, a stable and autonomous Mongolia is bound to become increasingly important for the EU. The EU's capacity to factor Mongolia into its global strategies and stick to long-term commitments will be a touchstone of its adaptability in a more contested, pluripolar world.

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- ¹ The policy was informally adopted in the early 1990s, following a visit by US Secretary of State James Baker. It was formally incorporated into Mongolia's legislation in 2010. Cf. Ministry of Foreign Affairs of Mongolia (2010), "[National Security Concept of Mongolia](#)."
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- ²¹ Reuters, [Chalco Drops \\$926 Million Bid for Mongolian Coal Miner](#), 3 September 2012. To this day, the vast majority of foreign holders of mining licenses are registered in China: Mineral Resources and Petroleum Agency of the Mongolian Government (2024), "[Mineral Resources and Petroleum Statistics](#)"; p. 8.
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