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## **Geopolitical Tug-of-War: Mongolia's Foreign Policy Amidst Russian and Chinese Pressures**

### **1. Introduction**

Mongolia's foreign policy is shaped by its strategic position between Russia and China, presenting both opportunities and challenges. The conflict in Ukraine has led Mongolia to strengthen ties with both nations, with Prime Minister Luvsannamsrai Oyun-Erdene advocating for high-level discussions to advance critical infrastructure projects like new railways. This aligns with its participation in China's Belt and Road Initiative. Mongolia's heavy reliance on China for market access and Russia for energy is compounded by recent border restrictions. In response, Mongolia employs strategies such as "sheep diplomacy" to build relationships and is pursuing renewable energy projects to enhance economic stability and energy security. Despite a limited diplomatic presence, Mongolia's cultural and political resilience is vital in shaping its foreign relations and economic diversification efforts.

### **2. Mongolia's Geostrategic Dilemma: Balancing Between Russia and China**

Mongolia, a rare democracy in Northeast Asia, faces increasing pressure from its neighbors, Russia and China, to align with anti-Western forces amid the ongoing Russian-Ukrainian war 2022. Despite these external pressures, Mongolia remains steadfast in its pursuit of neutrality and economic diversification to protect its independence and unique culture. As a former Soviet satellite, Mongolia remains cautious due to its economic reliance on China for copper and coal exports.<sup>1</sup>With a population of 3.48 million, half residing in Ulaanbaatar, Mongolia's strategic balance is crucial for its sovereignty.<sup>2</sup>

Diplomatic relations with Russia were established in 1921 after Mongolia gained independence from China with Soviet support, solidifying decades of close ties. Similarly, China-Mongolia relations normalized in 1949 after the Chinese Civil War. Currently, Mongolia navigates its foreign policy carefully, given its landlocked position between these two powers. It maintains strong economic and political relations with both, with Russia providing energy resources and China being Mongolia's primary trading partner. To balance their influence, Mongolia employs a "third neighbor" policy, strengthening ties with countries like the U.S., Japan, and the European Union. This approach is essential given the regional tension stemming from the Russian-Ukrainian war in 2022, which has strained Russia's international standing. Mongolia, while

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<sup>1</sup> See: <https://www.scmp.com/economy/china-economy/article/3249585/between-china-and-russia-landlocked-mongolia-eyes-summit-enhance-ties-geopolitical-pressures-mount>

<sup>2</sup> See: <https://www.theguardian.com/world/2022/may/31/mongolia-under-pressure-to-align-with-russia-and-china>

economically dependent on its neighbors, seeks to avoid over-reliance and foster independent diplomatic engagements. Maintaining neutrality in the conflict and avoiding entanglement in sanctions against Russia is crucial to Mongolia's balancing act in its foreign policy.<sup>3</sup>

Russian President Vladimir Putin's visit to Mongolia in September 2024 marks a significant test of Mongolia's foreign policy neutrality amidst its complex geopolitical situation. Officially linked to historical commemorations, the visit puts a spotlight on Mongolia's tightrope diplomacy. The country, while maintaining close relations with Russia and China, has fostered ties with "third neighbor" countries like the U.S., Japan, and Germany to bolster its independence. However, Russia disapproves of Mongolia's deepening relations with these nations, seeing it as a shift away from its sphere of influence.<sup>4</sup> Mongolia's challenge lies in balancing these external pressures. The visit highlights Mongolia's vulnerability as it continues to assert independence while navigating competing expectations. Its annual Ulaanbaatar Dialogue aims to strengthen its role as a neutral diplomatic ground, hosting discussions on security and regional stability, and advancing its third-neighbor strategy. Yet, as Putin's trip reveals, this balancing act is becoming increasingly difficult with geopolitical tensions heightened by the war in Ukraine.

### **3. The Russia-Ukraine War 2022: Implications for Mongolia's Foreign Policy**

The ongoing conflict in Ukraine has placed substantial pressure on Mongolia's economy, primarily due to its heavy dependence on imported petroleum. In 2022, Mongolia saw a staggering 52% increase in the value of petroleum imports, even though the volume only grew by 3.9%. The surge in global prices has contributed to an alarming inflation rate of 16.1% in June 2022, the highest recorded since 2014. Food and energy prices have driven much of this inflation, contributing 9.2% to the overall rate. Low-income households have been particularly affected, facing an inflation rate of 18.2%, while wealthier households experienced a comparatively lower rate of 12.9%. In response to rising costs, the Bank of Mongolia implemented a tighter monetary policy, increasing the policy rate to 13% throughout 2022. Moreover, foreign exchange reserves declined by 7.7% between February and December 2022, further complicating the economic landscape. As the war continues, families, farmers, and small to medium-sized enterprises are feeling the squeeze.<sup>5</sup> Transportation delays through Russia and reduced imports from China have exacerbated supply chain issues. The ongoing global economic fallout from Russia's invasion has created an environment of uncertainty, leaving Mongolian citizens and businesses grappling with rising costs and diminished purchasing power. Vulnerable populations, such as herders and farmers, have seen their operational costs skyrocket, forcing them to reduce essential purchases and sell livestock to stay afloat. The long-term impacts of this conflict may continue to challenge Mongolia's economic stability.<sup>6</sup>

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<sup>3</sup> See: <https://umbc.edu/stories/putins-visit-to-mongolia-defies-icc-warrant-and-tests-neutral-nations-third-neighbor-diplomacy/>

<sup>4</sup> See: <https://thediomat.com/2024/07/why-did-china-mongolia-and-russia-skip-their-trilateral-leaders-summit-at-this-years-sco-gathering/>

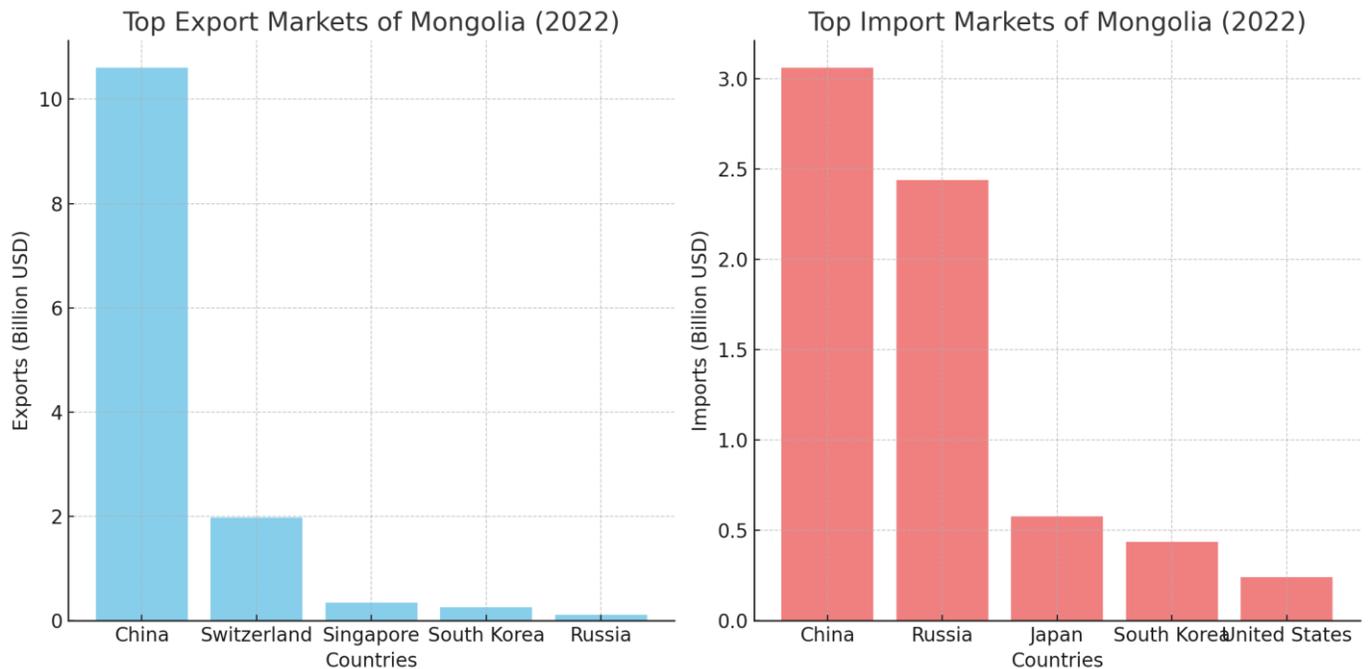
<sup>5</sup> See: <https://eastasiaforum.org/2023/04/01/mongolia-in-the-middle-of-the-russia-ukraine-war/>

<sup>6</sup> See: <https://www.nrupa.gov.mn/en/new-recovery-policy>

#### 4. Economic Diplomacy and Cooperation

Mongolia heavily relies on Russia, with 28% of its imports coming from there, particularly in petroleum. This vulnerability has been highlighted historically, as seen in 2008 when Rosneft's proposal to establish gas stations was initially rejected but later accepted, recognizing the company's critical role as a fuel supplier. Mongolia's strong historical ties to Russia compel it to maintain a politically neutral stance regarding the Ukraine conflict, abstaining from UN resolutions against Russia, unlike some former Soviet states that have deepened their dependence amid sanctions.

**Graph 1.** Top Export and Import Markets of Mongolia in 2022.



Source: Observatory of Economic Complexity (OEC), Available at <https://oec.world/en/profile/country/mng>

On the left, the graph 1 illustrates Mongolia's top five export destinations. China is the largest export market by a significant margin, with exports totaling \$10.6 billion. This reflects Mongolia's reliance on China for selling key resources like coal briquettes and copper ore. Following China, Switzerland ranks second, primarily due to Mongolia's gold exports, valued at \$1.98 billion. Singapore and South Korea are also notable export markets, receiving \$346 million and \$259 million, respectively. Finally, Russia, with \$112 million in exports, rounds out the top five export destinations. The chart on the right showcases Mongolia's top five import partners. China again leads the list, supplying \$3.06 billion worth of goods, including refined petroleum, machinery, and vehicles. Russia follows closely with \$2.44 billion in imports, predominantly in the form

of energy products like refined petroleum and natural gas.<sup>7</sup> Japan, South Korea, and the United States contribute smaller but still significant shares, providing essential goods such as vehicles, electronics, and industrial machinery. These charts emphasize Mongolia's heavy trade dependency on China, both as a major export destination and its largest source of imports. Mongolia's energy and economic dependencies create a precarious situation amidst growing Sino-Russian alignment. The country relies heavily on Russia for nearly all its gasoline, diesel, and a significant portion of its electricity. Soviet-era agreements give Russia 50% ownership in key infrastructure and mining projects, making the relationship critical for Mongolia's energy security.<sup>8</sup> Conversely, Mongolia is dependent on China for the majority of non-energy imports, including food and consumer goods, with China being the destination for 90% of its exports, primarily coal and copper. As Russia and China strengthen their ties, Mongolia faces the risk of increased leverage exerted by both powers, complicating its efforts to maintain independence and neutrality in a rapidly changing geopolitical landscape.

### **5. Harnessing Renewable Energy: Mongolia's Strategic Partnerships**

Mongolia's transition to renewable energy is crucial for sustainable development, as the country currently relies heavily on coal for over 90% of its electricity generation. In light of global commitments to reduce fossil fuel dependency, the Mongolian government aims for renewables to comprise 30% of its energy mix by 2030. This ambition is underlined by a commitment to reduce greenhouse gas emissions by 22.7% within the same timeframe. The Government of Mongolia has introduced a draft Development Plan for 2025, coordinating with key initiatives like "Vision-2050," the "New Revival Policy," and the "Five-Year Development Guidelines (2021-2025)."<sup>9</sup> The plan aims to ensure economic growth benefits for every household and highlights eight policy priorities: Sustainable Economic Growth, Human Development, Governance based on Science and Technology, Green Development, Regional Development, Ulaanbaatar City Zoning as a 20-Minute City, and National Resilience. The "New Revival Policy" of Mongolia aims to stimulate economic growth and recovery following challenges such as the COVID-19 pandemic. Despite the potential, challenges abound. Economic reliance on coal significantly hinders diversification efforts, while inadequate infrastructure complicates the integration of renewable sources. As of 2023, renewable energy accounted for just 18.3% of installed capacity, necessitating accelerated action to meet targets. Furthermore, only 50% of the population has access to clean cooking fuels, with this figure dropping below 20% in rural areas. The urgency of Mongolia's energy transition is compounded by pressing health concerns due to air pollution, especially in urban centers like Ulaanbaatar. Traditional coal-burning practices contribute significantly to hazardous air quality, highlighting the need for cleaner alternatives. Successful initiatives, such as the "100,000 Solar Ger Electrification Program," have already shown the public's willingness to adopt solar energy, with over 200,000 herder

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<sup>7</sup> See: <https://www.theguardian.com/world/2022/may/31/mongolia-under-pressure-to-align-with-russia-and-china>

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<sup>9</sup> See: <https://www.undp.org/mongolia/blog/mongolias-clean-energy-transition-pathway-sustainable-and-inclusive-development>

households benefiting from it.<sup>10</sup> Looking ahead, the government plans to further harness renewable resources through pilots and capacity-building programs targeting vulnerable communities, including women and youth. By strategically investing in renewable energy and developing inclusive policies, Mongolia aims to secure a cleaner and more sustainable future for its citizens, supported by organizations like the UNDP in this vital transition.

## **6. Sheep and Tea Diplomacy? – Sino-Mongolia diplomatic gestures**

Mongolia's "sheep and tea diplomacy" exemplifies the depth of Sino-Mongolian relations, particularly during challenging times like the COVID-19 pandemic. In February 2020, former Mongolian President Khaltmaa Battulga donated 30,000 sheep to China as a gesture of solidarity in combating the virus. This act was rooted in Mongolia's cultural values, where sheep symbolize warmth and sincerity, and was aimed at supporting the Chinese people's health and resilience. In response, China gifted Mongolia carefully selected tea bricks from Hubei Province, reinforcing the mutual respect and friendship between the two nations.<sup>11</sup> This exchange not only highlighted the bilateral ties but also served as a reminder of the interconnectedness of their fates in facing global crises. The dialogue surrounding this diplomatic gesture reflects broader themes in Sino-Mongolian relations, emphasizing mutual support, cultural understanding, and cooperative efforts to tackle common challenges. Chinese President Xi Jinping later acknowledged the significance of these gifts, indicating how such gestures foster deeper ties and enhance the understanding between the two peoples. Additionally, this diplomatic episode is a manifestation of Mongolia's strategic positioning between two major powers, seeking to balance relations while fostering economic and cultural exchanges.

## **7. Conclusion**

Mongolia's current foreign policy is characterized by a strategic balancing act between Russia and China, emphasizing neutrality while fostering ties with third neighbors like the U.S. and Japan. The ongoing Russia-Ukraine conflict pressures Mongolia's economy, notably in energy imports, leading to heightened inflation and supply chain challenges. Looking ahead, Mongolia aims to diversify its economy, particularly through renewable energy initiatives to reduce coal dependence and enhance sustainability. Strengthening regional partnerships and promoting cultural exchange will be vital for Mongolia to address future geopolitical challenges and secure its independence in a rapidly changing global landscape.

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<sup>10</sup> See: <https://eastasiaforum.org/2023/04/01/mongolia-in-the-middle-of-the-russia-ukraine-war/>

<sup>11</sup> See: <https://www.tandfonline.com/doi/full/10.1080/07075332.2023.2298745>

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