

Mongolia's Vanishing Stability: The Rise and Retreat of the Middle Class

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Mongolia, the landlocked country with a tiny population, developed from a post-socialist into a market state, and the emergence of a solid middle class held potential for domestic stability and democratic resilience. In the past decade, however, foreign economic shocks, domestic policy stagnation, and overreliance on natural resource exports have exposed this middle class brutally to extensive vulnerability. While the country is fighting against rising inequality, unstable commodity prices, and foreign debt, Mongolia's middle class, once a prime example of economic balance, now hangs by a thread as it inches towards shrinkage.

This article considers the development of Mongolia's middle class, from its meteoric ascent in the 2010s to stagnation and probable decline in the 2020s. Relying on official statistics, expert analysis, and recent international experience, we examine how domestic mismanagement combined with global economic shocks undermines one of the most promising developments in Mongolia.

Introduction: A Decade of Rising Expectations

As Mongolia became a democratic nation during the 1990s, it had to combat the thorny issue of economic liberalization with sparse industrial capacity. Mineral product identification and exportation of copper, coal, and gold during the early 2000s revolutionized the nation's economic status profoundly. GDP growth rates between 2011 and 2014 proliferated above 10%, and household income levels accordingly. This period set the stage for building a small but increasing middle class—bureaucratic officials, tiny entrepreneurs, teachers, financiers, and natural resource specialists³. World Bank data and Mongolian national statistics showed that more than 30% of urban households by 2019 earned between \$10 and \$50/day, the global standard for middle-class identification. Since the economic trajectory of Mongolia became increasingly tied to Chinese consumption and mercurial world markets, its middle class came to be rendered very susceptible to exogenous shocks as well. The COVID-19 pandemic, inflationary tensions, and overhangs in debt have erased much of what was gained during the past decade.

Defining the Middle Class in Mongolia

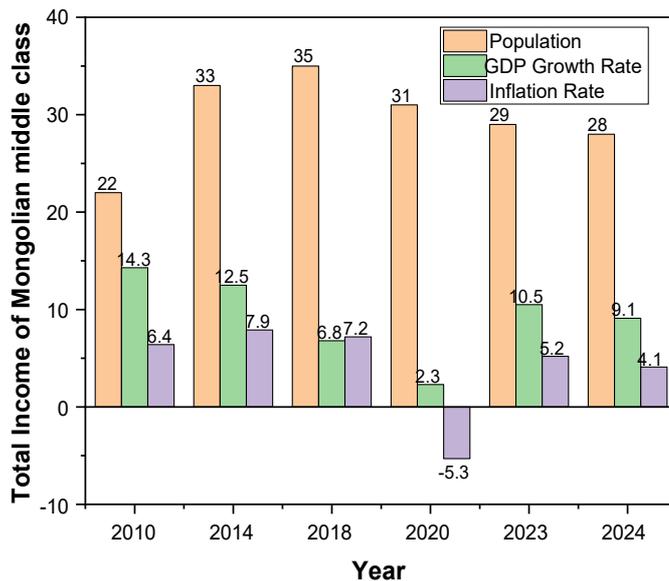
No single definition of the middle class exists, but the Asian Development Bank (ADB) and World Bank tend to define it according to daily per capita income (for example, \$2–\$20 per day in 2005 PPP)⁵. The middle class in Mongolia would typically be defined as:

- Stable wage employment (more than likely in urban areas) for people.
- Access to tertiary sectors like education.
- Home ownership or better housing.
- Consumption of non-essential goods and services.
- Growing involvement in the formal economy⁵.

Trends for Expansion (2000–2019)

World Bank statistics put 38.7% of Mongolia's population below the national poverty line in 2010, compared to 28.4% in 2018. The middle class expanded from an estimated 15% in 2002 to 35% by 2018, most dwelt in Ulaanbaatar. Household consumption patterns changed, with more education, health, and consumer durables expenditures, as shown in Graph 1⁶.

Graph 1: Mongolia's Middle Class Trajectory (2010-2024)



Source: National Statistical Office of Mongolia, World Bank Data

The Aspiring Middle: Signs of Progress and Limits

Before Genghis Khan, Mongolia consisted of warring tribes. Through armies and federation, in the early 13th century, Genghis Khan united the tribes into a single nation, the Yeke Mongol Ulus, ending centuries of tribal internecine strife. He created a system of merit by which jobs were achieved based on talent and hard work, as opposed to birth, destroying ancient tribal castes. This enabled excellent social mobility and the creation of a more unitary and equal society. His law code, the Yassa, instilled rigorous discipline and loyalty, reinforcing Mongolian cohesion and harmony⁷.

Cultural and Gender Changes

Genghis Khan's leadership also reshaped women's positions, providing them with more rights and a voice in politics, a phenomenon that few days had witnessed. The new society ensured the sense of common Mongol identity above tribe and laid the foundations for Mongolian national consciousness.

There had been a moment of hope in the 2010s. Foreign investment increased, spearheaded by the Oyu Tolgoi copper mine, developed by Rio Tinto and the Mongolian government in collaboration, and family earnings increased. Modern education, consumer goods, and housing became affordable to the majority. State social transfer schemes and tax policy also made income redistribution possible, benefiting the lower-middle rung.

But this upward mobility never took root. Even in its peak period, Mongolia's middle class was essentially urban, confined to Ulaanbaatar, and centered on government-segment salaries or commodity-oriented revenues. The economy did not broaden. Farming and services beyond mining failed to exhibit comparable vibrancy, so the middle class remained vulnerable to commodity cycles⁹.

Post-Pandemic Pressures: Why the Middle Class Is Shrinking

1. The COVID Economic Blow

In 2020, Mongolia's GDP fell by more than 5%, the most significant fall since the 1990s. Lockdown affected Small and Medium Enterprises (SMEs), particularly retail, construction, and tourism industries. Job loss disproportionately fell on service and informal workers, groups often hovering at the lower edge of middle-income status.

2. Real Income Decline and Inflation

Since 2021, Mongolia has experienced ongoing inflation of 12% in 2022. Housing, food, and fuel prices skyrocketed, reducing disposable income. A 2023 report by the World Bank found that while nominal wages increased by 7%, real wages fell by nearly 4% due to inflation. That encouraged most middle-class households to trim discretionary spending, delay education and housing plans, and take on more debt¹⁰.

3. The Other Factors

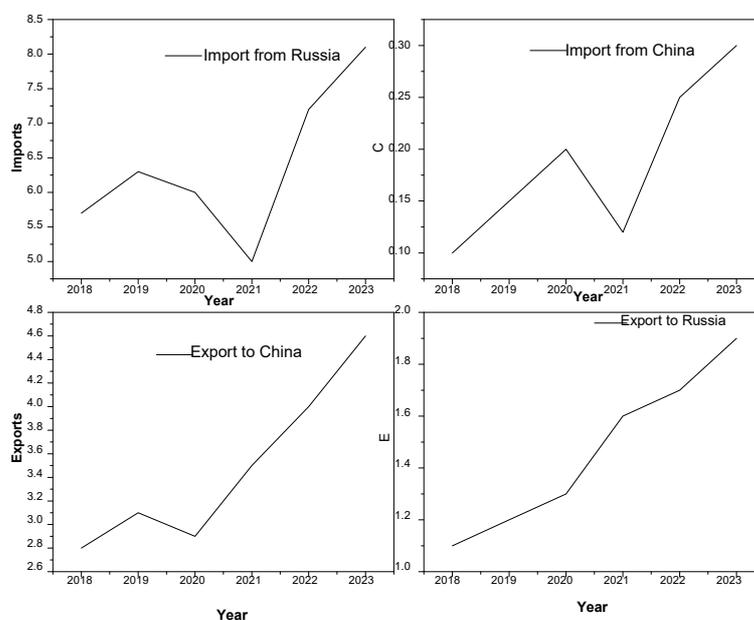
Over 90% of Mongolian exports are destined for China, in the form of coal and copper. Chinese economic slumps or trade bans ripple through the Mongolian economy. The delays in supply chains and border shutdowns in 2022 halved coal exports, leading to budget shortfalls and losses in currency reserves. This translated into slowed hiring in the public sector, subsidy reductions, and depreciation, directly impacting middle-class consumption. The trade partners are shown in Table 1¹¹.

Table 1: Mongolia's Top Trade Partners by Share of Total Trade (2024)

Country/Region	Trade Volume (USD, billions)
China	12.5
Russia	2.1
European Union	1.7
South Korea	1.1
Japan	0.9
United States	0.7
Others	1.6
Total	20.6

Source: National Statistical Office of Mongolia, World Bank Trade Statistics (2024)

Graph 2: Mongolia's Export and Import Distribution

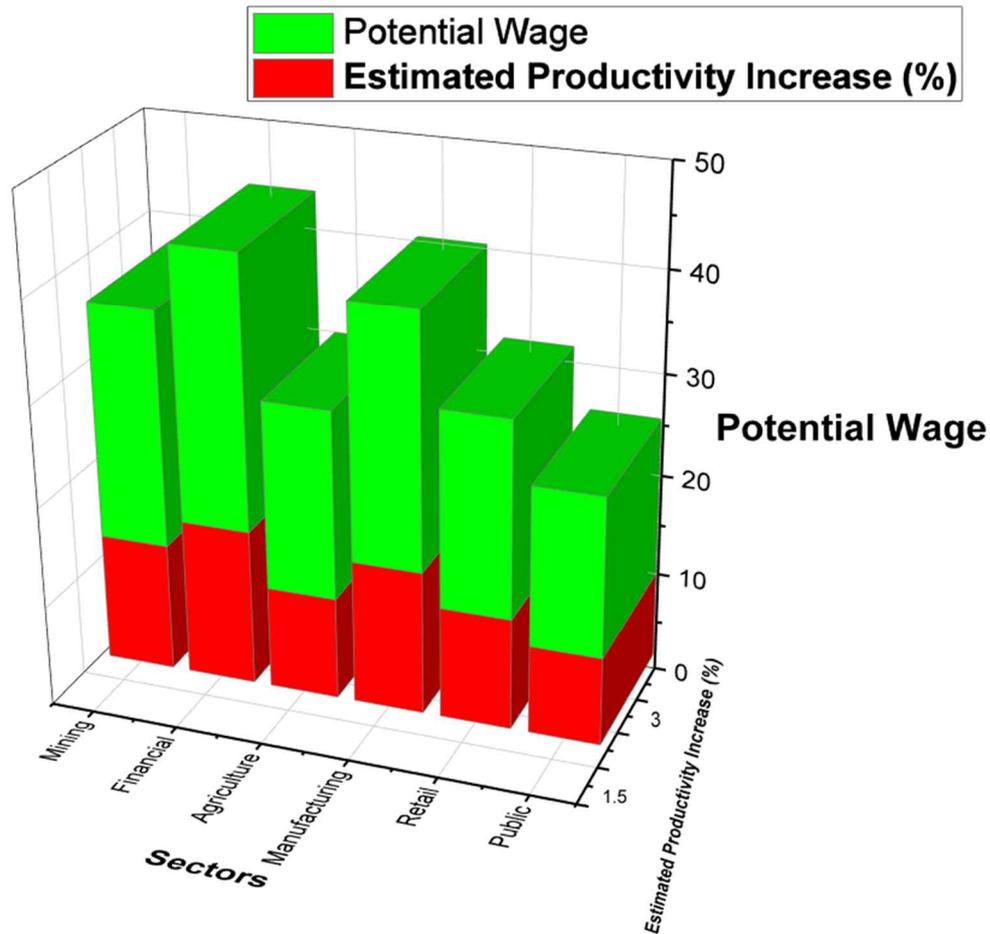


Source: UN Comtrade – Mongolia Bilateral Trade Statistics and Bank of Mongolia – Annual Macroeconomic and Monetary Statistics.

AI as a Force for Middle Class Transformation

Artificial intelligence is not merely technological progress; it promises a paradigm shift in middle-class prosperity, generation, and maintenance. In contrast to earlier technological revolutions that primarily benefited high-skilled professionals, AI offers distinct opportunities to increase access to expert knowledge and improve productivity across skill levels, as shown in Graph 3¹².

Graph 3: Productivity Gains from AI Integration by Sector in Mongolia



Source: Compiled from World Bank, ADB, and Mongolian Chamber of Commerce data.

Aid or Austerity? Government's Tightrope Act

Mongolia's debt totals more than 70% of GDP, and the IMF and lenders have urged fiscal adjustment. The consequence is lower subsidies, civil service freezes on hiring, and the slowing of social infrastructure 12. While cutting public programs, the government risks reducing the middle class even more. In 2022, the government cut energy subsidies, disproportionately affecting fixed-income urban households. Education and healthcare, once subsidized, have experienced increasing out-of-pocket expenses—another drain on middle-income families. Mongolian National Chamber of Commerce retail data indicate a change in consumer behavior 13. Car sales, electronics, and home lending grew between 2016 and 2019, though they leveled off post-pandemic. Domestic tourism saw a slight surge in 2023, but mainly due to the inability to pay for foreign travel as opposed to growing prosperity. To these, add the fact that debt-to-income levels have also risen. As a 2023 Bank of Mongolia report has it, 41% of middle-income families were carrying some consumer credit or mortgage, up from 28% in 2018. Combined with the increasing cost of borrowing and income volatility, financial viability becomes impossible for many.

The Demographic Cliff: Youth Disillusionment and Migration

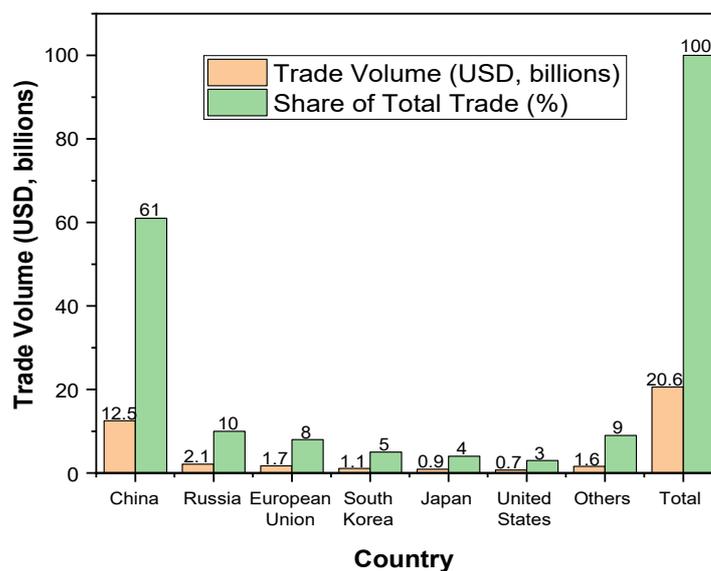
The youth unemployment rate is over 15%, and numerous Mongolian youth, particularly graduates, are hampered in external employment opportunities in Ulaanbaatar. This has pushed outward migration from Mongolia to South Korea, Japan, and Germany. Middle-class human capital exportation (engineers, nurses, IT specialists) disentitles Mongolia from long-term

domestic economic growth. With decreasing fertility and a rapidly increasing rural aging population, Mongolia is confronted by demographic stagnation, tightening further middle-income expansion¹⁴.

Globalization's Double-Edged Sword

Mongolia's access to global markets was its economic passport to development. However, the same openness has subjected it to price volatility, capital flight, and supply chain uncertainty. Foreign direct investment in mining is still strong, but it has not yet translated into extensive middle-class jobs because of the capital intensity of extractive sectors. In addition, attempts to diversify trade through nations such as Japan, South Korea, and the European Union (EU) have also been hindered by logistics and infrastructure limitations, as shown in Graph 4¹⁵.

Graph 4: Mongolia's Top Trade Partners by Share of Total Trade (2024)



Source: National Statistical Office of Mongolia, World Bank Trade Statistics (2024).

Policy Actions and Implementation Plan

1. Economic Diversification

- Towards agriculture, tourism, IT, and renewables instead of mining.
- Assist SMEs in creating jobs that would provide a measure of income security and quality jobs.

2. Social Protection and Inclusive Growth

- Mongolian people can broaden the targeted acquisition of welfare among poor households.
- Expenditure on low-cost housing, transport, healthcare, and education to alleviate cost-of-living pressures¹⁶.

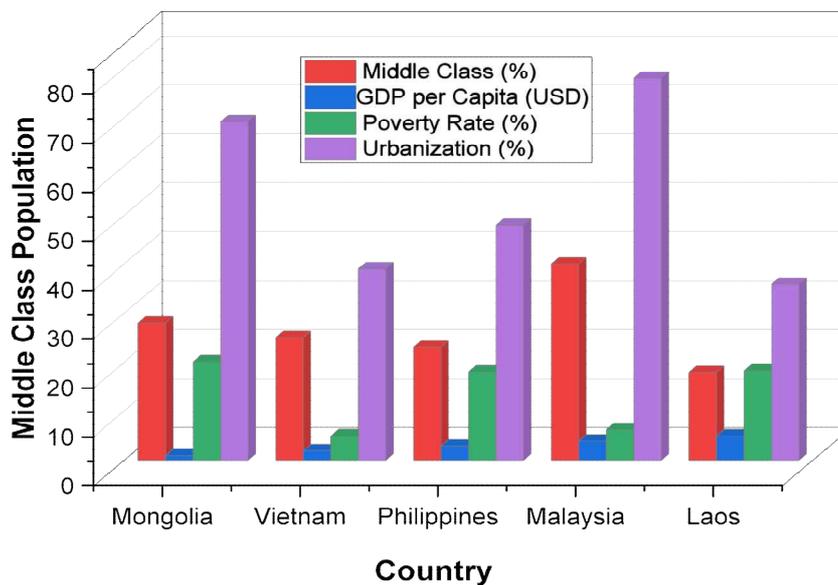
3. Financial Sector Reform

- Protection for consumers, good credit standards.
- Encourage savings and financial education, safeguarding the household.

4. Urban Planning and Infrastructure

- Enhance public transport, services, and anti-pollution facilities in Ulaanbaatar.
- Comprehensive urban development to suit the requirements of the ger districts as shown in graph 5¹⁷.

Graph 5: Key Socioeconomic Indicators (2010–2024)



Source: NSO, World Bank, ADB, ER.

Improving Worker Productivity Across Sectors

AI significantly increases their productivity, making middle-skilled workers more valuable to employers, with potential consequences for wages and job security.

- *Agricultural Sector Innovation*
AI-driven weather forecasting instruments offer herders greater capacity for making decisions on pasture issues and migration patterns. Computer vision robotics technologies for livestock-monitoring applications provide herders with the early warning capacity from winters (*dzud*) to detect animal health issues and enhance the lost productivity of animals¹⁸.
- *Manufacturing Development*
Mongolia's nascent manufacturing industry stands to benefit greatly. AI solutions facilitating quality control assist employees in detecting defects better than human eye inspection alone, improving product quality, and minimizing wastage. AI-optimized production scheduling enhances the efficiency of Mongolian producers, allowing them to compete more effectively in global markets despite their geographical handicaps¹⁸.
- *Diversify Export Markets*

Mongolia needs to diversify trade channels and FTAs with other countries concurrently. Increasing economic interaction with Japan, South Korea, India, and ASEAN nations can serve as a buffer against over-reliance on China and Russia¹⁹.

- *Invest in Regional Infrastructure Connectivity*
By cooperating with programs like the Asian Highway Network or the Asian Development Bank (ADB), a key partner in the Central Asia Regional Economic Cooperation (CAREC) Program, Mongolia can eliminate the bottlenecks of logistics and access markets to new trade hubs through Central Asia or Kazakhstan. With some countries already having oil reserves, Mongolia can construct food and fuel strategic reserves to protect against unexpected import shocks and stabilize domestic price levels²⁰.
- *Promote Domestic Substitution*
Promote domestic production of strategic commodities (e.g., textiles, processed foods, generic pharmaceuticals) through low-interest lending to SMEs, tax benefits, and public-private innovation centers. Use e-commerce tie-ups and fintech to enable small and medium-sized enterprises in Mongolia to sell directly overseas. Digital technologies can add value to trade and overcome geographical distances²⁰.

Conclusions

The growth of Mongolia's middle class in the last two decades has been an impressive success, a testament to the nation's resilience and capacity for change. But today's convergence of economic, social, and environmental risks threatens to undo these gains and drive many households back into risk. Policymakers must aggressively diversify the economy, bolster social protection programs, and invest in green urbanization. The future of Mongolia's middle class will decide not only Mongolia's economic future but also its democratic resilience and social stability. By combining indigenous wisdom, rural innovation, and cultural pride with AI, Mongolia can create a distinctive path-one that builds its economy and maintains its people's soul. This proposal provides a blueprint for policymakers, civil society, and the private sector to work together to create a 21st-century Mongolian middle class that is modern and grounded in its ancestral heritage. Introducing pilots in provinces with rich indigenous traditions (Bayan-Ölgii, Arkhangai).

The article concluded by highlighting the importance of Mongolia's trade agreements to tap new markets and learn from Malaysia's and Vietnam's export-led growth models.

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