Mongolian Hedging Strategy

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Abstract

The aim of this text was to evaluate Mongolian foreign policy by applying the hedging strategy. We have arrived at the conclusion that the way Mongolia strives to secure itself against insecurities and risks in the fast-changing environment of East Asia corresponds to main principles of the hedging strategy and in basic outlines that it is not different from procedures applied by countries in Southeast Asia. After 1990, Mongolians enrolled in the Non-Aligned Movement; they voluntarily enlisted their country in the nuclear-free zone and started to apply to a friendly relation policy towards powers in their neighbourhood. These are basically same methods copied by all ASEAN member states. In its foreign policy, Mongolia applies a full range of hedging options: both acceptance and rejection of China’s power. In the context of East and Southeast Asian smaller state strategies, we consider Mongolian efforts as a light form of hedging.

Keywords

Mongolia, foreign policy, hedging strategy, China, Russia, Third Neighbor Policy

Introduction

The struggle for power between China and the USA in East Asia,1 which has increased in intensity in recent years, has induced a wide debate among academics regarding the consequences of expected changes (Betts, 1993–1994; Friedberg, 1993–1994; Kang, 2003; Katagiri, 2015; Ross, 1999). Conclusions can be expressed with a great level of generalization. However, it turns out that smaller or weaker states neighbouring China act—at least viewed by a European

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observer—rather strangely. On the one hand, they manifest their willingness to intensify the political, economic and cultural engagement with China, but on the other hand, they strengthen their security links with the USA and other significant powers. Theories of international relations created several names for this foreign policy strategy—which consists of elements of constraint and defiance, as well as engagement and deference (Hiep, 2013, p. 334; Segal, 1996, pp. 107–108). However, the term ‘hedging’ has been asserted most frequently (Chung, 2004, pp. 35–37; Fiori & Passeri, 2013, pp. 8–12).

It has been argued by some that ‘a classic case of weaker-state hedging behaviour’ (Kuik, 2016, p. 4) is represented by ASEAN member states. If this is so, Mongolia is literally far from a ‘classic case’. While almost all the states of Southeast Asia have direct access to the sea,2 Mongolia is a landlocked country, which shares borders with only two neighbours (Russia and China) and has no navigable rivers that flow into the sea. Mongolian foreign policy options are more limited than those of a classic ASEAN member state. Despite these differences, Mongolia has all reasons to hedge against undesirable risks. It is ‘a prototype of a buffer state’ that ‘operates under the geopolitical and economic forces of rising China, reactive Japan and Russia and retrenching America’ (Mendee, 2015, pp. 1–2).

If we consider the growing strategic insecurity in the region of East Asia and the geopolitical position of Mongolia, it comes as a surprise that many authors dealing with the topic of hedging overlook Mongolia (Fiori & Passeri, 2013, p. 11; Graham, 2013; Roy, 1994, 2005; Tow, 2004; compare with Acharya, 1999; Barno et al., 2012; Foot, 2006; Koga, 2018; Medeiros, 2005–2006). It is not easy to determine reasons for the relative lack of interest in Mongolia. We can only agree with Jeffrey Reeves from the Centre for Asia Pacific who once noticed (Reeves, 2012a, p. 591) that theoretical analysis of Mongolian foreign policy was ‘largely absent from Mongolian studies.’

Despite the relatively limited debate, most authors agree that Mongolia is not willing to confirm its foreign policy to external actors (Bulag, 2017; Krishna, 2017; Lkhaajav, 2019; Mendee, 2015; Narangoa, 2009; Radchenko, 2013; Reeves, 2012a). When advocating for its national interests, it seeks its own path, which does not copy the strategy of pure balancing, but also does not copy the strategy of pure bandwagoning. However, such widely conceived bases of Mongolian foreign policy offer a rather broad area for interpretation, especially in relation to the growing power ambitions of China.

Some authors tend to point out that Mongolia does not contest the Chinese rise of power at all. This is an opinion expressed, among others, by the American political scientist, Stephen Chan (2012, pp. 60–62).3 In his opinion, putting up resistance in the form of active resistance would be too expensive for Mongolia, and even if it did take place, it would not yield desirable results. According to Chan, Mongolia represents a typical example of an East Asian country, which applies no elements of balancing policy, as it has no reason to see China as a real or assumed enemy. The author documents this claim with the example of military expenses, among other things. Such data (expressed in percentage of GDP) reveal that Mongolian expenses kept decreasing after the end of the Cold War, and they
are currently (2018) at their second lowest level. Chan (2010, pp. 400–403, 2012, pp. 72–76) also believes that the absence of any balancing can be found in the history of Mongolia–China trade. If there had been any concerns on the Mongolian side regarding the abuse of trade profits by the Chinese, or even regarding any pending mutual conflict, the government in Ulaanbaatar would have started limiting trade and investments with the aggressive opponent. However, nothing like that happened. On the contrary, over the 15 years after the end of the Cold War, Mongolian imports from China (expressed in percentage of overall Mongolian imports) increased by approximately double and exports increased 2.5 times (Chan, 2010, p. 81). Chan demonstrates that Mongolia does not practise a strategy of balancing because it is not afraid of China’s growth of power, and on the contrary, it views this growth as a means for its own enrichment.

On the other side, there are authors implicitly arguing with such a statement. Korean political scientist Jae Ho Chung believes that not only has Mongolia begun to fear China, but it has even started to do everything in its power to compensate for China’s growth in power. Chung claims that no other continental state in East Asia ventured as far as Mongolia in its ‘explicit expression of security concerns [of China]’ and ‘conscious efforts to prepare for unfavourable contingencies [with the United States]’ (Chung, 2009–2010, p. 660). Chung does not argue with the fact that Mongolia never asked for any security guarantees from an external power. Yet, it never prevented the Mongolians from—according to Chung—‘actively seeking to strengthen strategic ties with the USA in recent years’ and very likely ‘providing platforms for intelligence-gathering and reconnaissance for Taiwan and America’ (Chung, 2009–2010, p. 664).

Based on the above, we have been asking the following research questions: How active are the Mongolians in cooperating with states competing for power in East Asia? Are the Mongolians in their foreign policy leaning more towards acceptance of China’s power as indicated by Stephen Chan? Or, is it the opposite—towards a rejection of China’s power as indicated by Jae Ho Chung? Mongolia’s attempt to define its position in relation to China occupies most of our text, but we are not limited only to this topic. We also seek to identify the role of other regional and world powers in this process (especially Russia and the USA). And finally: Are there any specific features of the hedging policy, differentiating Mongolia from ‘classical’ hedgers?

We are trying to apply hedging strategy on the development of Mongolian foreign policy after 1990. Our observations and conclusions are based on a set of different data. Most of all, we are drawing our statements from the wording of strategic documents of Mongolian foreign policy. After the end of the Cold War, the Mongolian Parliament drafted two main documents: ‘National Security Concept of Mongolia’ (NSC) and ‘Foreign Policy Concept of Mongolia’ (FPC). They were both initially approved in 1994, and then, revised in 2010. Last, but not least, our findings are based on the field research we undertook in Mongolia in the summer of 2018. During our stay, we conducted a series of semi-structured interviews with politicians, academics, diplomats and students from the National University of Mongolia, with whom we had the chance to discuss, both formally and informally, our views.
Hedging Strategy: Theoretical Framework

The hedging strategy entered the field of international relations in the 1990s as an alternative to mainstream (mostly realist) theories of IR (Waltz; Walt; Schweller) that suggests only two principal approaches: either balancing against the more powerful or threatening state or band-wagoning with it (Hiep, 2013, p. 335; Kuik, 2016, p. 1). Hedging rejects such a dichotomy and instead, highlights ‘the possibility of employing a peculiar mix of the two, as an ‘insurance policy’ against the uncertain present and future intentions of target states’ (Fiori & Passeri, 2013, p. 8).

This theoretical concept spread rather quickly, giving rise to several different definitions (Lim & Cooper, 2015, pp. 696–697). For example, Evelyn Goh believes that hedging is ‘a luxury of the relatively weak only’ in the Asia Pacific and ‘it is not a particularly helpful term in understanding or making U.S. China policy’ (Goh, 2006). On the contrary, other authors use the term ‘strategic hedging’ (Medeiros, 2005–2006) to analyse the foreign policy of the USA, or eventually (Foot, 2006) as a strategy used by China to secure itself against unwanted possible scenarios, while adjusting to the current unipolar and US dominated global order.

According to Jürgen Haacke, the IR literature ‘has yielded at least four broad conceptualisations of hedging’ (Haacke, 2019, p. 377), plus Haacke himself added a fifth (his own). Various conceptualisations may lead to very different conclusions despite the fact that we are dealing with the foreign policy of one country in one specific period (Haacke, 2019; Hlaváček, 2016). Critics of the hedging concept believe that hedging needs to be redefined so that only security concerns are considered in the evaluation (Lim & Cooper, 2015) and ignore economic or political engagement. Other authors have suggested hedging as a response to ‘security risks’ rather than ‘security threats’ (Haacke, 2019, p. 381). In such a case, the indicator of a hedging strategy would be military enhancement capabilities, signals about possible alignment decisions and security perceptions.

If we were to apply these modified concepts to Mongolia, then we would have to legitimately ask ourselves whether Mongolia belongs to the category of ‘hedgers’. Since 1990, the country has minimal military capabilities, its economy remains highly dependent on its neighbours, and the government in Ulaanbaatar does avoid, in principle, sending any signals about possible alignment.

We are trying to achieve our goal by means of the hedging definition introduced by a Malaysian political scientist, Kuik (2015a, 2015b). His concept of a hedging strategy is one of the most widespread and his analysis includes a full range of foreign instruments through which the secondary state seeks its own ‘path’, including components of non-security concerns (that is political and economic engagements) toward potentially threatening great power.

Our text is built on hedging as the foreign policy strategy of a secondary state, which finds itself in ‘a region with two or more great powers competing for influence, where there is no effective institutionalised arrangement capable of preventing strong actors to encroach’ (Kuik & Rozman, 2015, p. 4). From this perspective, we can define hedging as ‘an insurance-seeking behaviour under high-stakes and high-uncertainty situation, where a sovereign actor pursues a bundle of opposite and deliberately ambiguous policies vis-a-vis competing...
powers’ (Kuik, 2016, p. 5). The main motivation of states resorting to hedging strategy is to ‘acquire as many returns from different powers as possible when relations are positive, while simultaneously seeking to offset longer-term risks that might arise in worst-case scenarios’ (Kuik, 2016, p. 5). The actual evaluation of the external environment is not apparent from structural conditions of the system that would determine the state’s foreign policy. The structure of the system is important, but nevertheless, it is subject to elements of home policy ‘in which ruling elites seek to justify and enhance their authority by acting (or appearing to act) in accordance with principal sources of their legitimacy at home’ (Kuik & Rozman, 2015, p. 5). In other words, political elites of a small state evaluate the expediency or harmfulness of a power’s growth impacts with respect to their own political survival. If they evaluate capacities of a great power as beneficial in the process of creating their own legitimacy, they will then want to include this approach in the state’s official documents. And the other way around: if it could hurt their ability to defend themselves, they will represent corresponding approaches on the state level as well.

According to Kuik, hedging differs from other forms of state acts in international politics (such as balancing, containment, bandwagoning, buck-passing, neutrality or non-alignment and other strategies) by three conditions, and a failure to meet these conditions ‘would signify a shift from hedging to some other strategy’ (Kuik, 2016, p. 5). The first condition requires the hedging state to refrain from joining one or another competing power. Instead, it tries to keep to a ‘middle position’ between a strategy of pure balancing and pure bandwagoning (Kuik, 2008, p. 160; Kuik & Rozman, 2015, p. 2; see also Chan, 2012, pp. 60–62; Hiep, 2013, p. 335). Evelyn Goh (2006) counters this argument in her definition of hedging as:

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\text{a set of strategies aimed at avoiding … a situation in which states cannot decide upon more straightforward alternative, such as balancing, band-wagoning or neutrality. Instead, they [small/weak states] cultivate a middle position that forestalls or avoids having to choose one side at the obvious expense of another.}
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This definition criterion of hedging is necessary, but insufficient as such. If we only insist on meeting this condition hedging would be identical in definition with non-alignment or neutrality. If we are to identify a state’s acting as hedging, there are two more conditions to be met as well.

The second condition requires the state to take opposite and contradictory measures in its foreign policy, the effect of which is complementary. They are opposite, because the hedging state tries to maximise benefits ensuing from close cooperation with a great power, but at the same time, it stresses the limitation of risks brought about by such cooperation. They are also contradictory in that; while one measure pleases the great power (‘at times by showing deference to it’), the other displeases it (‘at times by defying it’) (Kuik, 2008, p. 166; Kuik, 2016, p. 6; Kuik & Rozman, 2015, p. 3).

Kuik distinguishes a total of six components used by states for hedging. The basis of the hedging strategy is formed by economic pragmatism. It is based upon the liberal assumption that states, which intensify trade and foreign investments,
whether bilaterally or multilaterally, will not treat each other with aggression. It refers to a policy of maximum economic returns from a great or rising power, regardless of any political problems that might exist between the states involved (Kuik, 2008, p. 167). Economic pragmatism is balanced by the strategy of economic diversification, by means of which states try to compensate for disadvantages of economic exchange with a dominant power, preventing or, at least, limiting possible consequences of excessive economic dependence on it.

From this economic base, the hedging actor may decide what further direction it shall dictate in its foreign policy (see Table 1). If it prefers maximising possible benefits, he will complete economic pragmatism towards a great or rising power with the strategy of binding-engagement and the strategy of limited-band-wagoning. By the strategy of binding-engagement, we mean forming and maintaining contacts with a great power. It aims to ‘socialise and integrate a great power into an established order, for a goal of neutralising a revisionist tendency of the power’s behaviour’. Limited-band-wagoning aims to ‘maximise political benefit by selectively giving deference or selectively forging foreign policy collaboration’ (Kuik, 2008, p. 167; Kuik & Rozman, 2015, p. 3). If a state mostly concentrates on minimising possible risks in its foreign policy, it will put greater stress on dominance denial (‘political hedge’) and indirect balancing (‘military hedge’).

Dominance denial is a strategy to prevent a dominant power from excessive interventions in a development of a foreign state, imposing conditions that are not satisfactory for it (Kuik, 2008, pp. 169–170). Small or weak states struggle against external pressure by creating or maintaining ‘regularised institutional links with a great power, whether on the basis of bilateral or multilateral negotiations’.5 The strategy of indirect balancing also manifests itself by a smaller or weaker state seeking military cooperation with another power or a coalition of powers. The forms of cooperation are different; they often concern purchasing weapon systems to modernise the army, participation in military trainings, sending soldiers on joint missions, etc. The significant thing is that military cooperation is not declared as an effort to define itself against any other power by the smaller or weaker state. The military bond does not aim at balancing power or cause enemies with anyone. Its aim tends to be declared in different ways. For example, there is indirect balancing of China by means of the USA in Southeast Asia, while officially, this cooperation is usually substantiated as a form of the anti-terrorism struggle (the Philippines), the struggle against drug smugglers (Thailand) or as a means of normalising mutual relations (Vietnam).

The third condition for hedging is ‘the use of opposite acts as instruments to pursue goals of preserving gains, while cultivating a fallback position’ (Kuik, 2015b, p. 18, 2016, p. 5). It is important that both tools—what Kuik calls ‘returns-maximising option’ and ‘risk-contingency option’—are applied at the same time ‘so that their effects would cancel each other out’ (Kuik, 2016, p. 5).

There are many ways in which individual states can apply the aforementioned hedging tools and at different levels of intensity. However, we can distinguish between two basic positions: Light and heavy hedging.

The light hedger does not view its more powerful neighbour as a threat, and it mostly views its power growth as an opportunity. It is motivated to enter into
<table>
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<tr>
<th>Balancing strategy (pure form)</th>
<th>Hedging Behaviour</th>
<th>Bandwagoning strategy (pure form)</th>
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<tr>
<td>To reject China’s power</td>
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<td>To accept China’s power</td>
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<td>Indirect balancing</td>
<td>Opposite and mutually counteracting</td>
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<td>To countervail it militarily</td>
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<td>Dominance denial</td>
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<td>To neutralise it politically</td>
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<td>Binding engagement</td>
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<td>To accommodate it diplomatically</td>
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<td>Limited bandwagoning</td>
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<td>To draw strength from it</td>
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| Degree of power rejection     | Neutrality point  | Degree of power acceptance |

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<tr>
<th>Risk-contingency Options</th>
<th>Opposite and mutually counteracting</th>
<th>Returns-maximising Options</th>
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<td>(‘cross bet’ transactions)</td>
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<td><strong>Indirect balancing</strong></td>
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<td>Khaan Quest Exercise (with the USA)</td>
<td>Dominance denial</td>
<td>Economic pragmatism</td>
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<td>+</td>
<td>Third Neighbor Policy</td>
<td>Economic links to China/Russia</td>
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<td>+</td>
<td>Strategic partnership/</td>
<td>Economic diversification</td>
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<td>Selenge exercise (with Russia)</td>
<td>democracy dialogue</td>
<td>Third Neighbor Trade Act</td>
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<td>+</td>
<td>(Japan, India, the USA, South Korea)</td>
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<td>Partnering USA/NATO</td>
<td>‘political hedge’</td>
<td>Good Neighbor Policy</td>
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<td>+</td>
<td>(‘military hedge’)</td>
<td>Strategic partnership/trilateralism</td>
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<td>UN peace-keeping missions</td>
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<td>(Russia, China)</td>
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Degree of power rejection  Neutrality point  Degree of power acceptance

Source: Authors according to Kuik (2008, p. 166, 2016, p. 3) and Kuik and Rozman (2015, p. 3).
close cooperation with the neighbour, because most of all, such exchange in its eyes yields possible gains at an economic level (making use of economic growth and increasing standards of living), on a political level (creating personal or institutional bonds) and on a diplomatic level (joint assertion of foreign policy goals). As long as the light hedger ‘gains’ from this type of behaviour, it can see no reason to create security checks against such development.

On the contrary, the heavy hedger believes that cooperation with a dominant power brings about risks against which it finds necessary to hedge. Risks it faces ensue from the particular situation of an individual state. In general, governments affected may incorporate three types of security checks in their foreign policies: economic (against the economy falling under the control of foreign capital), political (against an interference with internal affairs’ development) and military (against possible external intervention) (Kuik, 2015b, p. 18).

**Mongolian Hedging Strategy**

The Mongolian Republic is a relatively young country, which, however, reflects a very rich history in its foreign policy. Long ago (the thirteenth century), the Mongolians managed to create the largest contiguous land empire in recorded history, but they concurrently remained in a dependent position throughout most of their modern history, whether towards China or the USSR or Russia.

Throughout most of the twentieth century, Mongolia was a communist country. The Mongolian People’s Revolutionary Party governed from Ulaanbaatar, endorsing the ideals of Marxism-Leninism, harshly punishing any manifestations of free will, dogmatically obeying instructions from Moscow. With a few exceptions, Mongolia’s diplomatic and economic contacts were limited to the Soviet Union, countries of Eastern Europe and selected Third World countries. The country’s safety was provided by a 100-thousand contingent of the Red Army, supported by twice as numerous the Mongolian Army (Bulag, 2017, p. 121; Krishna, 2017, p. 406; Narangoa, 2009, p. 378). Only the end of the Cold War allowed the Mongolians to freely choose the further direction of their country.

‘After the end of communist period’, we were told by Davaasambuu Dalrai (2018), former Minister of Finance (1992–1995) and former Ambassador of Mongolia to the UK (2001–2008),

we all agreed that a democratic regime is the right way to go in order to avoid any extremes in the future. Half of the Mongolian population lives outside Ulaanbaatar, most of them living as nomads and herdsmen. There are as many horses as people. They are a very free-spirited people… For them, democracy is the best choice because other regimes restrict their free way of life. Therefore, there was general agreement that democracy and independence must work at the same time.

The legacy of a lack of freedom in Mongolia for many years is still virtually visible everywhere. Buddhist monasteries were eradicated in Mongolia and even today, some 40% of the population still professes no religion. Intelligence
was eliminated during communism and Mongols were forced (1946) to switch to Cyrillic alphabet. A lot of current political elites studied in the Soviet Union or another country of the socialist bloc, including former president Tsakhiagiin Elbegdorj (2009–2017), former prime minister Chimed Saikhanbileg (2016–2018) or former Chairman of the Parliament (The State Great Khural) Zandaakhüügiin Enkhbold (2012–2016). Ties to Russia are also evident in the architecture of the capital, infrastructure (e.g., track gauge or ownership of the Mongolian railways) and economic relations (e.g., up to 90% of oil products are imported from Russia).

Despite these experiences, the Mongols currently perceive Russia rather positively (Center for Insight in Survey Research, 2017). It is so partly because they see it as a credible counterweight to the growing assertiveness of the ‘southern neighbour’. Although China formally does not claim any territory in Mongolia, it did recognise the independence of Mongolia (1911) only after pressure from Moscow (1950) (Chien-Peng, 2001, pp. 234–235). Many Mongols fear—according to Enkhtsetseg Sosorbaram (2018), a Professor of International Relations at the National University of Mongolia—that since their country ceased to be a socialist country with Communist Party dominance, Russia is the only relevant obstacle to China’s re-occupation of Mongolia. They are afraid that if the current developments in East Asia continue, their country will become next victim to Chinese geopolitical ambitions after Hong-Kong and Taiwan. And, that all this will be completed before the 100th anniversary of the People’s Republic of China (2049) (Green, 2019).

Mongolian debate regarding the formation of foreign policy was influenced not only by historical experience, but also by the absence of ‘regional security organisation with a mandate to prevent regional disputes’ (Narangoa, 2009, p. 360), and its geographic isolation, as all communication and transport paths exclusively lead through Russian or Chinese territory. The geographic isolation is strengthened by the fact that Mongolia is in a deeply asymmetrical position toward both its neighbours, whether regarding its territorial extent, the size of the population or economic power, let alone military power.

The fact that Mongolia did not pursue any alliances with other countries after 1990 can be attributed to three factors. First, Russia and China, both neighbours, acknowledged the existence of independent Mongolia and did not pursue any territorial disputes with it. Any open balancing restricting it towards its surroundings would lose its substance under such a constellation. Nota bene, balancing would not pay off from purely economic reasons either, because Mongolia’s neighbours might view any alliance with another power as a provocative gesture. And that could have a significant impact on mutual trade and financial relations.

Second, although Mongolia lies at the crossroads of Russian and Chinese interests, both Mongolia’s neighbours are de facto satisfied with the existence of a ‘buffer state’ between them. Similar to countries of Central Asia (like Kazakhstan) or North Korea, Mongolia’s neighbours have no interest in destabilising their mutual relations just to get its territory under their control in any other than economic way.

Third, there are no ideological fault-lines alongside the Mongolian borders, as it was the case during, for example, the Cold War. Mongolia is viewed as a country
with a stable and democratic political system. This is what differentiates it from its neighbours, as well as from all Asian countries forming a part of the communist block during the Cold War. The government in Ulaanbaatar does seek support from actors of the same ideological affiliation (such as the USA, Japan, India, the EU or South Korea), but so far, this was not interpreted as an effort to make Mongolia ‘a proxy state for rivalry with either great power’ by China or Russia (Mendee, 2015, p. 6).

From the Mongolian perspective, a pure form of balancing would lose its justification, as the Mongolians do not perceive the growing power of China and assertive actions of Russia as acute threats, and therefore, they do not feel the need to balance them. Nevertheless, it is also true that the exact opposite,—that is, a pure form of band-wagoning—would yield just as little benefit. While it is possible to imagine that unilateral and unconditional concessions to Chinese and Russian interests might have economic benefits for Mongolia, such a strategy would nevertheless be unsustainable in the eyes of the Mongolian public, which is very sensitive when it comes to its own independence. And eventually, Mongolian political elites themselves would not very wisely act from the strictly strategic point of view if they satisfied all Russia’s or China’s needs, because by doing so, they would limit the autonomy of their own decision-making in Mongolian matters.

**Economic Pragmatism and Diversification**

Mongolian hedging in the economic sphere takes place both in the sense of creating conditions for the intensification of mutual trade and investments (the strategy of economic pragmatism) and in searching for further economic partners to limit the growing power of primarily Chinese foreign companies over the Mongolian economy (the strategy of economic pragmatism). China plays the key role here, as approximately 90% of Mongolian exports passes through its territory. From an economic point of view, all other powers are in a secondary, yet not insignificant, position. The Mongolian Government faces the greatest challenge in the area of economic hedging in searching for a balance between opening up to foreign capital—which is essential for the country to develop—and at the same time, delimiting it so that it cannot become the target for potential blackmail by any of the powers.

This dilemma has its specific development, because prior to 1990, Mongolia was economically tied to the Soviet Union (and politically), and due to these bonds, Mongolia faced de facto the same problem as post-Soviet republics after the breakup of the USSR. China became an indispensable economic partner of Mongolia as early as during the 1990s. While it was difficult to continue economic cooperation with Russia, economic links with China were strengthened on a continuous basis. The gradual displacement of Russian capital by Chinese capital went hand in hand with the transformation of the traditional Mongolian agriculture-based economy (mostly pasturage) to an economy profiting from rich deposits of mineral resources (coal and copper, gold, molybdenum, fluorspar, uranium, tin and tungsten).
The growth of exploration and export of mineral resources meant a significant acceleration of the national economy of Mongolia, especially after the year 2000, when the average annual growth of GDP increased from approximately 1% at the beginning of the millennium to more than 10%, which Mongolia achieved in the years 2004 and 2007 (World Bank, 2020a). The effort to maintain economic growth at the same time raised questions beyond the borders of Mongolia. Leaving aside the world-wide economic recession after 2008, the Mongolians were forced to deal with investment in an underdeveloped and often obsolete traffic infrastructure, which limited the options of transporting Mongolian export commodities to world markets. According to the recommendation of the World Bank and the International Monetary Fund, new corresponding traffic infrastructure (roads and railways) should be built in the short-term and medium-term horizons, heading south to allow for intensifying trade with China, thus keeping the Mongolian economy above water. In the long-term perspective, Mongolia should have focused on building traffic infrastructure and product paths heading north, in order to connect with the Trans-Siberian railway system, and in this case, Russian investments were taken into account. Mongolia would thus decrease its dependence on the Chinese market and at the same time, it would become a functional and reliable transit area for Russian-Chinese trade exchange, and a part of the wide Euro-Asian transit zone (Campi, 2014, p. 4).

No later than by a turn of millennium, a deepening economic dependency on China became a key political topic, as well as a search for a means of the greater diversification of Mongolian economy. For the first time, the Mongolians began to realise that growing economic bonds with China might bring about prosperity, as well as markedly negative phenomena, such as corruption, non-transparency of state administration, politically forced obedience or environmental degradation (Krishna, 2017, pp. 410–411; Reeves, 2012a, p. 591; Rossabi, 2005).

The effort to diversify the economy manifested itself in 2010, when Mongolian legislators discussed the revision of the National Security Concept of Mongolia dated from 1994. Following numerous discussions, a passage was added in the new wording of this document, according to which the investment of any foreign country must ‘not exceed one third of overall foreign investment in Mongolia’ (NSC, 2010, p. 3.2.2.2). This condition did not formally name any country, yet it was approved at a time when the share of Chinese investments in Mongolia’s strategic sector amounted to more than 50%, and no other state has come even close to the one-third share (Pardo & Reeves, 2014, p. 1163).

Similarly, in 2012, a law limited a share acquirable by companies owned by foreign states in the Mongolian mining economic sector (MSC, 2012). Mongolian delimitation against the growing influence of Chinese capital was well visible in the cause brought about by the effort of the Chinese company, Chalco to purchase a 60% share in the company, South Gobi Resources, one of the largest coal producers in Mongolia, bonded in capital with the Rio Tinto Group. The planned change in property relations induced strong indignation within the Mongolian government, and in the end, the Chinese withdrew from the deal (Hook, 2012).

The last case mentioned shows rather well that Mongolia, the economy of which depends on foreign investments and raw material exports to China in...
particular, was willing to risk the deterioration of relationships with the most important business partner, and at the same time, the reputation of a state open to foreign investments, to prevent the further strengthening of Chinese influence on the fundamental sector of the Mongolian economy. The said measures had a shattering impact on the Mongolian economy (together with other factors, like the drop in the Chinese economy and the drop in prices of mineral resources on global markets)—between the years 2012 and 2013, Chinese foreign direct investments (FDI) in the Mongolian economy dropped by half (with respect to the fact that overall, the volume of Chinese FDI was not reduced, it is possible to explain the Mongolian case by the clause limiting foreign investments). In 2012, Chinese FDI accounted for nearly 9% of Mongolian GDP (Brunner, 2015). While in 2013, Mongolian GDP grew by more than 11%, in 2014; it was nearly 8%, in 2015; it was less than 2.5% and the next year, it only amounted to approximately 1% (World Bank, 2020a).

The Mongolian policy of limiting Chinese influence begins to change in 2014, when both countries signed the Comprehensive Strategic Partnership Agreement. The change in the Mongolian approach to China was primarily given by the strive for the country’s economic development. It turns out that despite repeated efforts at diversification, Mongolia’s dependence on China as an export outlet and a source of foreign investments is so fundamental that no other actors are capable of replacing it. China only was willing and was able to provide Mongolia with sufficient technological and material capacity and a corresponding amount of labour power, which on a larger scale provided for the realisation of large projects, such as the construction of railways, roads, power plants or industrial plants (Mendee, 2015). The wording of Mongolia Government Action Plan for 2016–2020 also corresponds to the described status, as it clearly counts on China’s essential role in selected procedures—such as the acquisition of foreign investments, macroeconomic stabilisation or mining sector development (MFAM, 2016). At the same time, Mongolia started to stress its role as a corridor between Russia and China by means of railways, roads and pipelines. This is, for example, apparent in Mongolia’s effort to predominantly focus its foreign policy on its two neighbouring states, thereby, preventing its possible isolation outside the regional economic integration initiated by China by means of the Belt and Road Initiative project or Asian Infrastructure Investment Bank (Jargalsaikhan, 2018).

A smaller impact on the diversification of Chinese influence on the Mongolian economy after 2014 does not necessarily mean that Mongolia completely abandoned the strategy of economic diversification. As an example, there is the construction of a railway between the Tavan Tolgoi coal mines and the border with China, which was supposed to be implemented based on an agreement from 2014. The Chinese investor planned for the standard (narrow) track gauge, but the Mongolian parliament (The State Great Khural) blocked the agreement on grounds that the track gauge identical with narrow track gauge would represent a threat to Mongolian safety (Sinclair, 2018). The railway plan was subsequently changed to a broad track gauge, typical for Russia, the post-Soviet zone and also, Mongolia. However, the debate on the track gauge seems not to be finished. The Mongolian government has recently indicated its willingness to make few exceptions,
including the proposed link from Tavan Tolgoi to the PRC border with standard gauge (CAREC, 2021, p. 20).

Mongolia’s effort to limit Chinese influence also manifests itself in foreign investment. Regarding the entry of foreign capital into the Mongolian economy, a fundamental theme was represented by the Oyu Tolgoi mine. Despite the fact that Chinese companies, among others, endeavoured to acquire a property share, Chinese entry into a project so fundamental for the entire economy was not acceptable by the Mongolian side. The mining is currently provided for by a Canadian company, Turquoise Hill Resources at a 66% share (the majority is controlled by the British-Australian corporation, Rio Tinto), with the Mongolian government holding a 34% share. The actual mining industry and projects associated with mining (e.g., infrastructure) attract a continuous flow of investment, and that is why Canada (together with China) represents the most important foreign investor in the country. However, projects associated with copper mining attract other investments, too. Among them, there is one of the largest investment projects in Mongolia of the last few years (2018)—the building of a power plant for fossil fuels in Oyu Tolgoi. The first Mongolian oilfield represents another significant project supported by the so-called third neighbour (the means for construction amounting to approximately USD 1 billion was provided by the Indian Government by means of loans). The oilfield project is supposed to be completed in 2022, and this would give Mongolia a chance to shed its dependence on the import of oil products, at least in part (UNCTAD, 2019).

Mongolia is also trying to diversify its trade and investment among its major long-term customers, such as Japan, the USA and South Korea. Japan was the first ‘Western’ country Mongolia entered into an agreement on strategic partnership with (EPA, 2015). Within the framework of this agreement, there was, among other things, a series of dedicated loans amounting to USD 500 million, used for the construction of a new international airport in Ulaanbaatar. Entering into the agreement was in accordance with very good relations between both countries on a long-term basis. For example, Japan represented the most significant source of development aid for Mongolia in the era following the collapse of the USSR, when Mongolia’s economy was transformed. Current relations between countries are primarily based on trade, whereas Mongolia supplies mineral resources to Japan (mostly coal) and wool products, while mainly importing automotive industry products. Mongolian export to Japan is very low, compared with other countries, but in the case of import, Japan represents the third most significant partner for Mongolia (after China and Russia). Cultural ties are also worth noting; every year, hundreds of Mongolian students study in Japan. Japanese investments are important for Mongolia. It is necessary to point out that the style of Japanese investment differs from China in many aspects—Japanese funds mostly come by means of multilateral organisations, that is, from transparent sources, and they are connected with technical assistance and sustainable development, while Chinese investments usually lack international oversight, they are based on bilateral agreements and are politically conditioned (Chen, 2018).

An agreement on strategic cooperation with the USA was signed in June 2019. The signing of the contract symbolised a shift in economic relations between the
USA and Mongolia from the level of development aid to the area of investment and mutual trade. Consequently, Mongolia was designated as a US strategic partner in the Indian-Pacific area, which included a commitment to bilaterally cooperate to promote national security and stability in the Indo-Pacific region. According to the US Department of Defence (DOD, 2019, p. 32), ‘The United States and Mongolia have a comprehensive partnership based on common values and shared strategic interests in protecting and promoting freedom, democracy, economic openness and human rights worldwide’ (Almond, 2019). In this respect, Mongolia’s participation in American-lead operations in Afghanistan was appreciated; the US government also acknowledged Mongolia’s contributions to UN peace-keeping missions in Africa and the fact that Mongolia was the first Asian country to accept the Millennium Challenge Corporation. The text of the contract stressed common democratic values, protection of human rights, etc. Another issue addressed by the agreement on strategic cooperation was the strengthening of Mongolia’s economic safety by means of increasing American FDI (Lkhaajav, 2019). By signing the agreement, the Mongolian side expected to enter the Mongolia Third Neighbor Trade Act (2019), with the USA, which would allow for duty-free import of Mongolian cashmere products and other textile industry products to the American market, which would give Mongolian suppliers an advantage over the Chinese. The Mongolian economy could also benefit from tensions in bilateral trade relations between the USA and China; it was even hoped that Mongolia could replace China as the supplier of rare Earth elements to the USA (Sayan, 2019).

Confirmation of Mongolia and South Korea’s long-term cooperation, especially in economic and cultural fields, was the conclusion of a strategic partnership between the two countries in September 2021. During the on-line summit, the mutually beneficial connection of Korean advanced technology and Mongolian rich natural resources was mentioned. The Joint Declaration further stated that South Korea will support the Mongolian economy affected by the pandemic with development assistance projects and investments (Lkhaajav, 2021). The Mongolian economy was negatively affected by the COVID-19 pandemic, mainly due to declining demand for mineral resources on the world market and the closure of the border with China. In the first 9 months of 2020, the Mongolian economy contracted by 7.3% (one of the worst figures since the 1990s) and the budget deficit and government debt increased due to the fight against the pandemic and government measures to mitigate the impact of the pandemic on households and the national economy (World Bank Group, 2021). Although the Mongolian economy revived during 2021 and recorded modest but stable growth (mainly due to rising mineral resources prices on the world market), any form of economic support after the difficult year of 2020 was very important for Mongolia, which was reflected during the announcement of the strategic partnership with South Korea.

The development of Mongolia’s economy during 2020 once again clearly confirmed the crucial importance of the export of mineral resources and China as a major customer. At the same time, however, results of a long-term strategy for building good relations with neighbouring countries and third neighbours have also been felt. This was reflected, among other things, in the fact that Mongolia
was able to obtain vaccines against COVID-19 and other forms of support in the fight against the pandemic relatively quickly not only from Russia and China, but also from India, USA, Japan and South Korea (Tiezzi, 2021).

**Mongolian Return-Maximising Options**

If we focus on the return-maximising components of the hedging strategy—and leave aside the strategy of economic pragmatism described above—we can observe the application of strategies of binding engagement and limited-bandwagoning on a reduced level in Mongolian foreign policy decisions.

Binding engagement is apparent in Mongolian diplomatic efforts that were shortly created after the end of the Cold War and that enabled Mongolian to engage Russia and China in three cooperative frameworks: Mongolian voluntary acceptance of non-alignment, legally binding nuclear-free zone, and Good Neighbor Policy. Narangoa (2009, p. 359) believes that these three platforms are a demonstration of preventative diplomacy, which the Mongolians adopted ‘to avert future conflicts with and deflect pressures from its two big neighbours, which both have threatened Mongolia during the last century.’ From the point of view of the hedging concept, all three elements of preventative diplomacy form an example of the binding engagement strategy: creating an institutionalised form of mutual communication, which socialises and integrates great powers into the established order.

The Mongolians immediately declared the concept of non-participation upon the break-up of the Eastern Block. The Constitute Project (1992) does not mention the term ‘non-participation’, but it does contain two articles that prohibit the building of foreign military bases and the presence of foreign soldiers on Mongolian soil (Constitute Project, 1992, Article 4/3). By doing this, the Mongolians send out a very strong signal to their surroundings: ‘we do not want to be members of any alliances, and we are voluntarily doing it to divert all your potential worries regarding our foreign policy’. The Concept of Foreign Policy states explicitly:

Mongolia shall pursue an open and non-aligned policy...[and]...shall pursue a policy of refraining from joining any military alliance or grouping, allowing the use of its territory or air space against any other country, and the stationing of foreign troops of weapons, including nuclear or any other type of mass destruction weapons. (FPC, 2010, p. II/9)

A unilateral declaration by Mongolia to becoming a Nuclear-Weapons-Free-Zone (NWFZ) represented another significant feature of Mongolian preventative diplomacy. This was the initiative of the Mongolian president, Punsalmaagiin Ochirbat at a time when the last Russian/Soviet soldier was leaving Mongolia (1992). This move was widely supported by the Mongolian public (Mendee, 2015, p. 3), but its fulfilment turned out to be difficult on an international level due to the fact that there were no internationally acknowledged NWFZ made up of only one state. Another complication occurred due to the fact that the Mongolians
proclaimed their non-nuclear status without being immediately threatened by the nuclear weapons of their neighbours (Narangoa, 2009, pp. 368–369). Nevertheless, these obstacles were dealt with successfully, and currently, the international acknowledgement of the NWFZ is complete (Mendee, 2018, p. 413). Not only does the NWFZ ensure the status of Mongolia as a non-participating state, but it also allows Mongolia to participate in global negotiations to reduce and remove nuclear weapons altogether. For instance, Mongolia was considered a possible venue for the summit negotiations between the American President, Donald Trump and the North Korean leader, Kim Jong Un (Taylor, 2018).

The Good Neighbor Policy represents the third pillar of preventative diplomacy. Its goal is to build a ‘special relationship’ between Mongolia and both of its neighbours, Russia and China. Mongolia has—similar to many other countries of ASEAN—entered into strategic partnership agreements with Russia and China. However, it is unusual to have efforts to form ‘special relationship’ become a national interest, incorporated into strategic foreign policy documents. According to The Concept of Foreign Policy (2010), maintaining friendly relations with Russia and China ‘shall be the priority directions of Mongolia’s foreign policy activity’ and that Mongolia ‘shall not adopt the line of either country but shall maintain in principle a balanced relationship with both of them’ (FPC, 2010, p. II/12a). The same pledge is contained in the Concept of National Security, which further states that ‘national interests and the history of bilateral relationships shall be taken into account, while regional peace and stability, as well as a general balance of relations with neighbours shall be sought’ (FPC, 2010, p. 3.1.1.4).

The key question for Mongolia is still how to be open enough towards its neighbours to always preserve a ‘good neighbourhood’, but at the same time, preserve the independence of the country—or at least, the semblance of independence—which is a condition required by the public. While political elites must conform to the legal framework imposed on them by the Constitution and the Foreign Policy and National Security Concepts in their formulations, Mongolian public opinion (including former politicians) is very sensitive to any potential servility towards its neighbours. In this formidable dilemma, if interests between ‘good neighbourhood’ and stress on ‘independence’ come into conflict, the Mongolians are willing to selectively give way to their neighbours.

Mongolian leaders have repeatedly resorted to limited-band-wagoning. There have been several politically sensitive cases in which the Mongolian government was willing to turn to strict non-intervention regarding internal matters of foreign states, in exchange for keeping autonomy in the matters of their own state. For instance, none of the Mongolian government representatives officially denounced the Russian annexation of Crimea (2014), or the covert military intervention in the conflict in East Ukraine (2014). The Mongolian government also did not officially comment on China losing the trial with the Philippines (2016) regarding the demarcation of precise borders in the South China Sea.

The most well-known case of limited-band-wagoning occurred at the end of 2016, when the Tibetan spiritual leader, Dalai Lama was invited to Ulaanbaatar. As expected, China considered the visit as an act of provocation and closed the border checkpoints through which trucks containing Mongolian mineral resources
go into China. The situation was only resolved when the Mongolian minister of foreign affairs made an urgent visit to Beijing, where he apologised to Chinese leaders and promised it would never happen again (Bikales, 2018). The Mongolian apology was accepted and the Chinese foreign minister replied: ‘We hope that Mongolia has taken this lesson to heart’ (Almond, 2019).

A similar case occurred when the Chinese government began to systematically prevent ethnic Mongol school children from the Chinese Inner Mongolia Autonomous Region to study in their own language. Several demonstrations took place and eight to ten thousand local people were arrested. Their demonstrators expressed concern that ethnic Mongols in China could meet the same fate as ethnic Tibetans or Uighurs (Campbell, 2021; Mendee, 2020a). Even the former Mongolian President, Tsakhiagiin Elbegdorj (2009–2017) denoted (2020) the Chinese policy of assimilation as an ‘atrocity that seeks to dissolve and eliminate Mongolians as an independent ethnicity’. However, the Mongolian Government did not comment on these matters. It followed the principle of strict sovereignty: that the rights of ethnic groups are a human rights issue that is an internal matter of a foreign country and therefore, does not pose any threat to the national security of Mongolia.

**Mongolian Risk-contingency Options**

We find all three insurance policies in Mongolian foreign policy. In addition to the economic hedge in the form of the economic diversification strategy described above, there is also a strong emphasis on the political hedge (the strategy of dominance denial) and to a limited extent also the military hedge (indirect balancing).

The Mongolian strategy of dominance denial is to ensure balance in the power-seeking interests of foreign powers and to prevent Mongolia from falling into a subordinate role. For this purpose, Mongolia has entered into relationships with states and institutions outside its immediate neighbourhood, which Mongolian foreign policy refers to as the ‘third neighbour’. The Third Neighbor Policy tries to connect Mongolia with other countries in the world so that Mongolia would not have to choose only between Russia and China. ‘As long as Russian and Chinese interests in Mongolia are balanced, they (Moscow and Beijing) will tolerate our relationship with other countries’ opined Bayartsengel Batjargal (2018), an international relations analyst at the National University of Mongolia.

The concept of the ‘third neighbour’ in Mongolian foreign policy did not immediately occur upon the end of the Cold War, but gradually evolved. The term was used for the first time by the American Secretary of State, James A. Baker when he visited Mongolia in 1990 (Chen, 2018). By the ‘third neighbour’, Baker meant the USA, and he meant to express symbolic support to the democratisation of the Mongolian society and polity. The Mongolians liked this term so much that they began to use it and included it in official government documents. According to NSC (2010, p. 3.1.1.5), the policy of the third neighbourhood focuses on maintaining ‘bilateral and multilateral cooperation with highly developed democracies
in political, economic, cultural and humanitarian affairs.’ At present, any country or institution that has ‘an interest in Mongolia and supports its democratic and market-oriented policies’ can be included in the category of ‘third neighbours’ (Rolle, 2013, p. 6) or—in the most general sense—any legal actor that is ‘willing to support Mongolia’s continued independence and security’ (Narangoa, 2009, p. 372). Most frequently, Mongolia’s ‘third’ partners, in addition to the USA, include Japan, South Korea, India and more recently, also Canada and Australia (Rolle, 2013, p. 8; cf. Narangoa, 2009, p. 372). However, there are only four countries with which Mongolian ‘third neighbourhood’ was promoted to the level of strategic partnership: Japan (2010), India (2015), the USA (2019) and South Korea (2021).

The effort to minimise the excessive influence of foreign powers manifests itself not only in bilateral relationships with selected states (24 world countries have their embassy in Ulaanbaatar), but also, on a multilateral level. Mongolia is a member of approximately five dozen regional or international institutions. By participating in them, it tries to attract and include as many actors as possible—far beyond the framework of its two neighbours—into dealing with problems of its region. The strategy of dominance denial may take the form of the exact opposite: avoidance of full membership in regional institutions controlled by one of Mongolia’s neighbours.

A good example is Mongolia’s approach towards the Shanghai Cooperation Organisation (SCO). This group, alsolabelled as ‘the Shanghai Pact’, associates eight Asian countries, including China, Russia, Kazakhstan, India and Pakistan. Mongolia obtained an ‘observer status’ in 2004 and since then, it has not been changed. For a casual observer, the failure to aspire to full membership may seem strange. Mongolian territory literally seems like an island surrounded by a ‘sea’ of SCO member states. With respect to the complicated and often, conflicting past shared by the Mongolians and their neighbours, full membership in SCO may seem very beneficial. According to the establishment of the SCO, its member states adhere to the ‘principles of the United Nations Charter, principles of mutual respect for independence, sovereignty and territorial integrity, equality and mutual benefit’ (SCO, 2001). Besides this, some Mongolians believe that full membership would be useful because it would (a) facilitate contact with representatives of SCO member states, (b) increase economic turnover with its neighbours and (c) encourage participation in regional law-enforcement activities (Mendee, 2020b, p. 8). Even former President, Khaltmaagiin Battulga (2017–2021) admitted that Mongolia was ‘studying the possibility to upgrade the level of its participation’ (Battulga, 2018). Therefore, it cannot be ruled out that Mongolia will change its attitude. Yet, none of Mongolian governments actively sought to do so. There are several reasons for this.

Firstly, the main agenda uniting SCO member states—fighting terrorism, separatism and religious extremism—does not reflect major concerns of Mongolia. Secondly, the SCO often articulates authoritarian (if not explicitly anti-Western) values. If the Mongolians agreed to full membership, it would undermine the principle of balance and the effort to strictly remain neutral in its foreign policy. Also, the Mongolian public might see the application for full membership in the
SCO as excessive subordination to interests of China and Russia. Finally, any change in Mongolia’s observer status may have undesirable economic side effects. The SCO is mostly controlled by Chinese capital, and therefore, a deeper cohesion of Mongolia would necessarily also strengthen the influence of Chinese economic interests (Dierkes, 2021; Mendee & Dierkes, 2018; Narangoa, 2009, p. 372).

Military hedging forms a relatively new element in Mongolian foreign policy, but its significance continues to grow. For Mongolia, the classic form of balancing would totally lack sense since the border of the Mongolian state is non-defensible from a military standpoint. There are about ten thousand soldiers in the Mongolian army, and if China or Russia wishes to occupy Mongolia, they may be able to do so within a few days or weeks. Therefore, it was not surprising that Mongolian military expenses were significantly reduced after the end of the Cold War; today, military expenses are still at the barest minimum level. Over the past decade, total military expenses have fluctuated around 1% of Mongolian GDP (World Bank, 2020b), which is far below the average annual military expenses of ASEAN member states.

After the end of the Cold War, many Mongolians asked whether the army should be completely disbanded; a large number of people viewed the army as a redundant institution, which would drain much needed funds for Mongolia’s economic development (Mashbat, 2012, p. 109). However, this discourse began to change at the turn of the millennium, especially after the USA initiated its war against terrorism and the Mongolian government was willing to provide its soldiers for foreign missions (over 4,500 military personal for Afghanistan and 1,200 for Iraq; Mendee, 2021). Since 2001, Mongolia and the USA have organised a regular international military exercise, Khaan Quest, involving over 30 countries; Mongolia has also offered personnel for the UN peace-keeping mission in West Africa (UN News, 2018). In 2012, Mongolia also entered into an agreement with NATO called the Individual Partnership and Cooperation Programme (Almond, 2019; Lkhaajav, 2017a).

However, Mongolia’s military cooperation with the USA and other Western states and institutions must not be understood as an attempt to balance the power of China or Russia. Mongolian military units are trained for peace-keeping and anti-terrorism missions, humanitarian assistance and building cyber-security. Together with deepening military contacts with the USA and other NATO states, military cooperation with other non-NATO powers has also intensified (Lkhaajav, 2017b; Reeves, 2012b). For example, Mongolia and Russia have held joint military exercise Selenge in Mongolia since 2008. The ‘Selenge-2021’ was attended by approximately 1,600 Mongolian and Russian military personnel, and involved over 300 pieces of military equipment and eight MI-helicopters (Erdenejargal, 2021). Mongolia was also invited to participate in the Russian military exercise ‘Vostok 2018’, which is reserved only for very close strategic partners of Russia (TASS, 2019).

The military insurance policy is of irreplaceable significance, but the main security challenges of Mongolia after 1990 are not of a military nature. It is an indirect form of balancing, aimed at modernising the army and improving the ‘image’ of Mongolia as a state that strives to abide by principles of the UN Charter.
Joint military exercises with regional and world powers and providing soldiers for UN missions represent a way for the Mongolians to secure experience and funds needed for the modernising their equipment and training, which the government could not afford (Mashbat, 2012, p. 109). Participating in peace-keeping missions has further confirmed Mongolia’s position as a reliable and non-confrontational country that promotes themes of preventative diplomacy in its foreign policy, such as safety, international law and human rights ensuing from the UN Charter.

**Mongolia: A Passive but Highly Innovative Hedger**

Based on the above arguments, we arrive at several conclusions. First, we can see that the way Mongolia tries to secure itself against uncertainties and risks in the fast-changing environment of East Asia corresponds to main principles of the hedging strategy and in basic outline, it is not different from the processes applied by countries of Southeast Asia. After 1990, the Mongolians enrolled in the Non-Aligned Movement, they voluntarily enlisted their country in a nuclear-free zone and started to apply a policy of friendly relations towards the powers in their neighbourhood, which are basically same methods copied by all the member states of ASEAN. In this regard, we do not need to view statements of Chan (2010, 2012) and Chung (2009–2010) as contradictory. Mongolia applies a full range of hedging options in its foreign policy: both acceptance and rejection of China’s power. Mongolian political elites know that the well-being of Mongolian citizens is inherently linked to good relations with its neighbours (China, primarily), but at the same time, they do everything in their power to make sure their decision-making is not controlled by external actors (see Table 2).

The only difference, however fundamental, is that ‘classical’ hedging states mostly seek security bonds with the USA and other states, including Russia, Japan or India. The Mongolians, who have no access to the sea, divide their hedging strategy between their two neighbours (Russia and China) and ‘third actors’. However, it does not prevent us from including Mongolian foreign policy in the same category of hedging states together with other countries of Southeast Asia.

A question thus remains as to how to evaluate the level of intensity of Mongolian hedging. Similar to ASEAN countries, we can see that in a long-term perspective, there is a gradual intensification of hedging (Kuik, 2015b), although this is specific for each state, corresponding to different circumstances. The development of Mongolian hedging can be divided into three decades.

In the first decade, following the breakup of bipolarity, Mongolia focused on building return-maximising options with China. In this period, Mongolia was undergoing profound social changes, dealing with the loss of its ideological, military and economic allies (the Soviet Union and countries of the Council for Mutual Economic Assistance). All this created a power vacuum, allowing Mongolia to organise pluralist elections and create a democratic regime on one hand, but on the other hand, it provoked a great level of insecurity regarding the reaction of its neighbours. Mongolia responded to these challenges in two ways: it indicated to its neighbours that the existence of Mongolia is in their interest and
that Mongolia wants to keep above-standard relations with both of them (binding-engagement). The deep fall in GDP has been compensated for by means of growing economic exchange with China (economic pragmatism). During the 1990s, there were intensive discussions regarding the search for ‘third partners’ (dominance-denial). Although the idea of who should play this role is rather clear, it has not been included in the strategic documents on foreign policy so far.

Since the beginning of the twenty-first century, we observed Mongolia enhancing its hedging with risk contingency measures directed against China, which were supposed to lower the risk of economic, political and military overdependence on China. The first critical assessments regarding Mongolia-China economic cooperation appeared. That assessment expressed growing concerns regarding the ever-growing influence of Chinese corporations in Mongolia. This led to calls for implementing regulatory measures against the Chinese capital. Around this time, the USA and Russia also offered their assistance in different contexts. Due to the launching of the war on terror, the USA was looking for suitable partners for missions in Afghanistan and Iraq. Russia too expressed an interest in intensifying cooperation with Mongolia after the election of President, Vladimir Putin (2000), which soon led to a strategic partnership agreement between Russia and Mongolia. These developments induced the Mongolian government to start discussing main pillars of its foreign policy once again. And these discussions resulted in the revision of the National Security Concept and the Foreign Policy Concept in 2010–2011.

Another turning point in the development of Mongolia’s hedging strategy came about because of growing tensions in international relations in the middle of the second decade of the twenty-first century. The escalation in the form of the so-called New Cold War with the USA/West is most often placed in the context of the revisionist ambitions of China and Russia. While China announced its BRI initiative (2013) and began to more aggressively behave in the South China Sea, Russia occupied Crimea and part of eastern Ukraine (2014). Western states rejected such behaviour, which nevertheless contributed to the intensification in Russia-China bilateral strategic cooperation (Gaddis & Brands, 2021). It was crucial for the Mongolian government not to remain ‘outside’ the Sino-Russian rapprochement and to be able to participate in joint projects (particularly, in the connection of the railway and road infrastructures between Russia and China, the creation of a transit economic zone and the strengthening of Mongolia’s ‘image’ as a bridge-building country). For this purpose, Mongolian President, Elbegdorj suggested to his counterparts in China and Russia that regular meetings of heads of state take place (usually at the time of the SCO summit).

In addition to trilateralism towards Mongolia’s neighbours, President Elbegdorj also sought to deepen dialogue with the USA and Japan (and recently, South Korea). Elbegdorj’s role was to some extent facilitated by the fact that the two named countries declared their efforts to deepen their involvement in the Asia-Pacific, especially in relation to instability on the Korean peninsula. The establishment of a ‘democratic trilateralism’ (Campi, 2020) between Japan, Mongolia and the USA was originally proposed by the Japanese Prime Minister, Shinzō Abe (2013). However, during the reign of President Obama, it was not
given such importance. This changed especially after the USA got into a trade war with China, and Mongolia was included in the Free and Open Indo-Pacific Strategy of the USA (Campi, 2020).

The combination of trilateral diplomacy with neighbours (Russia and China) and intensified dialogue with ideological allies (the USA, Japan and South Korea) is a good example of how Mongolian hedging strategy is adapting to a changing international environment. If in the 1990s Mongolia primarily focused on ‘return-maximising options’ and in the first decade of the twenty-first century on ‘risk-contingency options’, then we are currently observing how Mongolia is trying to maintain a balance between these two options. While ‘trilateral diplomacy’ can be understood in the context of the hedging strategy as Mongolia’s efforts to raise the Good Neighbor Policy, the aim of ‘democratic dialogue’ is to elevate the Third Neighbor Policy from bilateral to multilateral level.

We, therefore, believe it is possible to include Mongolian foreign policy behaviour in the category of passive hedging because Mongolia cannot escape its geography and power asymmetry in relations with its neighbours. Mongolian independence and economic prosperity depend almost exclusively on China and Russia. However, we also consider Mongolian hedging to be highly innovative, because in the 30 years of its existence, it has managed to maintain a democratic regime and deepen cooperation with like-minded ideological allies.

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Notes

1. By East Asia, we mean China (including Hong Kong) and Taiwan, and then states of Northeast Asia (Japan, Mongolia, North Korea and South Korea) and Southeast Asia (Brunei, the Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam).
2. Laos is the only exception, but the Mekong River runs through this country as well, the largest traffic artery in the entire region.
3. This statement, according to which the states of East Asia have no ambition to balance China, has been expressed by numerous authors as well (e.g., Shambaugh, 2005, p. 18). However, only Chan mentions Mongolia explicitly in his publication.

4. The increase of conflict potential among states creates the potential for an increase in the intensity of hedging, but nevertheless, each state may respond to the same threat in a totally different way. According to Kuik (2015a, pp. 196–172), Malaysia, for example, is an exemplary country, which should count as a heavy hedger, purely theoretically, as it gets into conflicts with China regarding the islands in the South China Sea. Despite this fact, it has so far been rather passive in its hedging.

5. Dominance denial should not be confused with binding-engagement, even though, both can be seen as two sides of the same institutional coin. While ‘binding-engagement encourages a big power to play a larger regional role, dominance-denial creates countervailing checks’ (Kuik, 2015b, p. 14).

6. In 2010, 93% of Mongolian export went to China, and 38% of import came from China (Mongolian Statistical Information Service, 2019).

7. The year 2014 represents a milestone in this form of cooperation, when the Chinese president (Xi Jinping) initiated the China–Mongolia–Russia Economic Corridor as a part of the New Silk Road (Belt and Road Initiative).

8. The largest copper mine in the country, where approximately 200 thousand tons of copper is mined per year, but nevertheless, there are plans that when the mine reaches its full capacity (2021), it will produce 500 thousand tons of copper per year and its share in the Mongolian economy shall reach 1/3 of the overall volume. The mine’s service life is estimated at 75 years at the said volume of mining (SES, 2019).

9. Also the Foreign Policy Concept states that ‘Mongolia shall pursue an open and non-aligned policy … [and] … shall pursue a policy of refraining from joining any military alliance or grouping, allowing the use of its territory or air space against any other country and the stationing of foreign troops of weapons, including nuclear or any other type of mass destruction weapons’ (FPC, 2010, p. II/9).

10. According to Ganbat (2014, p. 92) ‘the relations and balance between Russia and China … have always been the pre-condition of the very existence of Mongolia’. Likewise Batchimeg, National Security Policy Advisor to the President of Mongolia and member of Mongolian Parliament, claims (Batchimeg, 2012, p. 16) that ‘a stable friendly relationship between Russia and China should be pointed out as the most important external security factors for Mongolia’.

References


