In this 22nd year of South Korean-Mongolian bilateral diplomatic relations, prospects for economic and trade ties—particularly in the fields of civil nuclear cooperation, natural resource development, rail transportation, and construction—are vibrant and expanding. South Korea is Mongolia’s third largest trading partner, with bilateral trade volume amounting to $230 million in 2011, an 85-fold increase from $2.71 million in 1990.1 Mongolia is a landlocked country covering an area of 1.56 million square kilometers, and the 17th largest country in the world with a small and young population—only about 2.8 million in 2010, two-thirds under the age of 35.2 Today the nation has a $10 billion economy, two-thirds of which comes from foreign investment, mostly in its mineral resources.

The growth in ROK-Mongolian ties is especially noteworthy within the context of the continuing strength of Mongolia’s historical relationship with the DPRK. In 1948 Mongolia became the second country after the Soviet Union to recognize the Pyongyang regime. Since then, Mongolia and the DPRK have exchanged frequent high-level state visits, coupled with a strong tradition of people-to-people cultural and artistic contacts. The relationship survived Mongolia’s diplomatic recognition of the ROK in 1990, and the even greater shock of Mongolia’s public endorsement of Seoul’s “Sunshine policy” in June 1999.3 In the last decade the Mongols have worked assiduously to strengthen their DPRK relationship while growing their ROK economic ties.4 One successful example is the movement to import North Korean labor, instead of Chinese, into Mongolia for construction, textile and mining-related projects. In 2012 the Mongols, at the request of the North, hosted secret talks between Japan and the DPRK on March 17-185 and again on November 15-16,6 which are indications of the depth of trust the North holds in Mongolia.

Underpinning much of the Korean-Mongolian relationship is the shared view that these two nations have racial, linguistic, historical and shamanist religious connections. Both peoples cite the famous Mongolian blue spot near the buttocks of newborns, as well as the Mongolian Empire’s close relations with the Koryo dynasty in the 13th-14th centuries. However, it is undeniable that in recent years Mongolia’s relations with South Korea, as compared to the DPRK, have grown much wider and deeper in scope, and now are a crucial part of the Mongolian government’s “third neighbor” strategy.7 This multilateral approach seeks to strengthen Mongolia’s political, military, and economic engagement beyond its physical border neighbors of Russia and China to avoid dependence on any one partner. Thus, from the beginning of its turn to democracy in 1990, Mongolia has considered South Korea an important model to emulate as it embraced a free market economy and as a way to integrate more fully into the Northeast Asian region.

Background

The first summit meeting took place in 1991 with the Seoul visit of Mongolian President P. Ochirbat. In May 1999 ROK President Kim Dae-jung visited Ulaanbaatar and signed a number of treaties and trade agreements. He expanded economic cooperation projects and gave grant aid of about $10 million through the Economic Development and Cooperation Fund (EDCF).8 Kim explained his “sunshine” engagement policy toward North Korea and obtained public support from then Mongolian President N. Bagabandi. Three months later this incident was given by Pyongyang as the primary reason to close its embassy, which it did not re-open until 2005.9

This summit became the catalyst for expanding the scope of economic relations. The two countries established an Energy and Mineral Resources Cooperation Joint Committee to encourage cooperation in the field of mining, which continues to meet annually. In 1991 bilateral trade between Mongolia and the ROK was only $8.8 million and by 1997 it stood at only $23.5 million. During this time Mongolia imported Korean cars, SUVs and consumer products, but its exports to Korea were lesser in number and consisted mainly of minerals and ready-made garments. Although trade surged in 1998 to $46.3 million because Korean textile manufacturers moved to Mongolia to use its free trade status quota with the U.S., it fell back to $36.7 million in 1999.10 Kim’s visit sparked more investment, leading to a near four-time increase in trade volume in the past decade. South Korea is now...
Mongolia’s fourth largest investor with FDI of over $255 million. Moreover, South Korea became a key donor to Mongolia through KOICA (Korean International Cooperation Agency)’s grant aid and technical cooperation in 1991. As of 2011, it had provided about $137 million in committed loans and grants for energy-related projects, long-distance education and human resource development assistance. 

Korean cultural and educational programs have impacted Mongolia from the beginning of the bilateral relationship. In fact, in 2009 Prime Minister S. Batbold declared that “The most important aspect of Mongolia-ROK relations is human exchanges.” The Korean government has provided hundreds of college scholarships. Seoul National University and Dankuk University have set up Mongolian language departments and exchange professors and students with Mongolian universities. Korean tourism to Mongolia has sharply increased. Most importantly for Mongolia, beginning in the second half of the 1990s, Korea has permitted Mongolian citizens to work in low wage factories. It is estimated that there are 38,000-40,000 legal workers, as well as many thousand illegal workers. This situation is the source of strain in the relationship because Mongols claim that these workers are often subjected to abusive working conditions, and the ROK Government is concerned about the illegal overstay problem. Other irritants have been problems about expanding air flights and how to establish a no visa policy.

KOREAN ECONOMIC INVESTMENT ON THE RISE

Early Korean investors were Hyundai, Kia Motors, and Sky Shopping Center. Samsung has been working with Mongolia’s largest operating copper mine, Erdenet, since the early 1990s. The major South Korean investments today include: Skytel—a JV with SK Telecom; Unitel Corporation—a 50-50 percent Korean-Mongolia JV providing global cell services since 2006; Mongolian Telecom—40 percent Korean-owned since its privatization; Seoul Group—a property company specializing in public luxury residential housing; and Mongolian Development Bank—the Korean Development Bank will be part of the management team in this new institution to fund major investment projects. Although Mongolia’s trade turnover with the ROK has increased to 4.2 percent in 2009 from 0.1 percent in 1990, the South accounted for only 0.8 percent of Mongolia’s total exports in 2009, primarily in gold and textiles. Imports from the ROK increased to 7.3 percent in 2009 from 0.1 percent in 1990. These were in cars, machinery, textile fabrics, and foodstuffs.

In August 2011 as part of a three-nation tour of Central Asia, President Lee Myung-bak made a three-day state visit to Mongolia. Mongolian President Ts. Elbegdorj and Lee upgraded the level of bilateral cooperation to a “comprehensive partnership.” The two leaders agreed to a mid-term action plan in developing energy and natural resources and to expanding Korean investment in Mongolia’s infrastructure and construction sectors by building 100,000 apartment units. They also increased high-level personnel visits to bolster diplomatic cooperation and to hold annual foreign ministerial talks and increase exchanges between lawmakers and officials. Among the important new agreements were a preliminary deal between Korea’s Ministry of Knowledge Economy and the Mongolian government to strengthen technological exchanges for thermal power generation, development of renewable energy and eco-friendly fuels, joint forestation project to prevent desertification in Mongolia, and natural resources exploration. Visa simplification and Mongolian support for “Seoul’s efforts to resolve the nuclear issue and resume dialogue with Pyongyang” were discussed.

FUEL AND CIVIL NUCLEAR COOPERATION

Mongolia’s Ministry of Mineral Resources and Energy in April 2012 established a long-term contract with a new non-profit partner called M-Oil Group (Hyundai Oilbank and SK Energy) to supply low sulphur dioxide fuel products. In April 4,000-5,000 tons of oil were imported from South Korea, and the Mongolian government is studying its techniques for refining crude petroleum. This deal is part of Mongolia’s plan to diversify from Russian suppliers.

Dr. Enkhbat Sodnom, director-general of the Mongolian Nuclear Energy Agency, made an official visit to the Korea Nuclear International Cooperation Foundation (KONICOF) in February. Previous ROK-Mongolian discussions on nuclear issues were conducted through third parties such as the IAEA. Another example of this was secret negotiations in Tokyo in May 2011 between the Japanese government and US Department of Energy officials with Mongolian nuclear experts on nuclear reactor technology and nuclear waste management. Sodnom indicated that Mongolia was interested in obtaining Korean radiation-monitoring equipment, joint projects to look for isotopes in the water supply, assistance with cancer diagnosis, and learning about techniques the Korean government employed to educate its public about the usefulness of nuclear energy. On July 2 officials from Mongolia’s Nuclear Energy Authority and academics at the Nuclear Research Center of Mongolian State University attended an international seminar in Seoul on the infrastructure development of nuclear energy.


Twenty nuclear power specialists from the Korea Atomic Energy Research Institute and the Korea Institute of Radiological and Medical Sciences discussed ROK nuclear power development and technology. Both sides examined potential areas for cooperation including nuclear power safety and training, SMART small and medium-capacity nuclear reactors, nuclear medicine, and radiations technology. The next meeting to discuss bilateral nuclear power cooperation is scheduled in Korea around May 2013.
MINERALS

On October 15-17, 2008, Mongolian Prime Minister S. Bayar paid an official visit to Seoul. On that visit Mongolia’s Anod Bank and KCH Industry Development Co., Ltd, Korea’s biggest investment company, signed a Memorandum of Understanding (MOU) to facilitate mineral investment opportunities. A Korean group led by state-owned Korea Resources Corporation, POSCO, trading firm LG International, Daewoo, and Korea Electric Power Corporation bid in early 2011 to participate in the development of the Western Tsankhi section of Mongolia’s Tavan Tolgoi coal and gold deposit. This site is the world’s largest untapped coal mine with an estimated 6.4 billion reserve tons. When this group’s bid was not short-listed, the shocked Korean companies complained. The Mongols encouraged them to join forces with a larger Russian consortium with Japanese members that was short-listed.

RAIL CONSTRUCTION

Discussions on rail cooperation between the two governments began in 2009. In March 2011 a nineteen-member South Korean consortium, led by state-run Korea Rail Network Authority and top builders such as Daewoo Engineering & Construction, Hyundai Engineering & Construction, and Lotte Engineering and Construction, signed a preliminary deal with Mongolian Railways to build over the next five years a $3 billion 1,040-kilometer railway from Tavan Tolgoi mining site to Choibalsan City, which links to the trans-Siberian Railroad. The ROK is already the third largest purchaser of Mongolian coal. Completion of the rail link will allow Mongolia to diversify its mineral customers for copper, rare earths, and coal away from China to the ROK and other Asia-Pacific nations. This project also holds the potential to cement a strong ROK relationship with the Russian Railways, which owns a 50 percent stake in Mongolia’s Ulaanbaatar Railways and has been short-listed for the Tavan Tolgoi development project.

POWER AND CONSTRUCTION

In late September the media announced that South Korea’s POSCO Energy, together with GDF Suez of France (through its subsidiary Investment Power), Sojitz of Japan, and Newcom of Mongolia are negotiating the final details for construction of a $1.3 billion coal power plant that will supply power to Ulaanbaatar in 2015. The three foreign investors will each hold a 30 percent share, while Newcom will hold 10 percent. After 25 years of operation, the power station will be transferred to the state. This will be the biggest foreign investment in Mongolia outside the mining sector and will relieve Mongolia’s dependence on Russia for power. The power sector is not covered by Mongolia’s new foreign investment law, so it does not require prior parliamentary approval.

MEDICAL TECHNOLOGY AND TRAINING

For many years, the ROK has established a niche industry in training doctors and medical experts and funding new hospitals for Mongolia. In July 2012 the foundation for a National Diagnostic Centre was laid within the Second Central Clinical Hospital. The Korean government is providing $55.4 million in a soft loan from the Korea EXIM bank of the $65 million needed. Mongolian doctors will be trained in Korea and Korean doctors will come to Mongolia.

CONCLUSION

Throughout 2012, the Mongolian press has reported on delegations of ROK businessmen, representing construction, IT, electronics, tourism, sales, freight forwarding and hotel and logistics companies, visiting Ulaanbaatar to hold discussions on expanding trade ties with local businesses, government leaders, and the Mongolian National Chamber of Commerce. The Embassy of Korea in June organized a meeting with Mongolia’s National Development and Innovation Committee with Korean companies including KEPCO, Korean Air, Samsung, Hyundai, and Halla construction. In attendance were South Korean investment and business companies primarily interested in coal, rare earth minerals and molybdenum, construction of the Tavan Tolgoi railway and other transport infrastructure projects. That same month the Korea Institute of Public Finance discussed sharing financial management experience with Mongolian officials. In July the Korean Development Institute (KDI)’s delegation discussed export promotion ideas with Mongolia’s Minister of Finance in order to increase the number of Mongolian export products, reduce Mongolia’s dependence on the mining sector, support small and medium size enterprises, and increase agricultural exports. Finally, from November 26-27 Mongolian Minister for Foreign Affairs Lu. Bold visited Seoul for discussions on visa and business matters. This visit also likely included discussions about the recent DPRK-Japanese meetings and the future of the Six Party Talks.

For twenty years, Mongolian policymakers have felt they could utilize Mongolia’s connections to both the North and South Korean governments “as a facilitator of the inter-Korean dialogue and inter-Korean economic exchanges involving third countries in a way that [is] conducive to the stability in the Northeast Asia.” However, a new strategy of Mongolian policymakers is to encourage the ROK towards closer economic ties to Russia and even North Korea as a way for Mongolia to more successfully manage its economic development and trade. Although the Mongols understand that the ROK, like Japan, is a U.S. ally, and rely on the stability such relationships bring to the Northeast Asian region, they believe that the Russians hold the key to solving Mongolia’s rail transportation problems which inhibit diversification of trade to Asian partners other than China. Korean economic partnerships with American companies are not reassuring to Russia, so this is why Mongolia has been promoting ROK-Russian collaboration. This strategy may be discomfiting and ultimately unrealistic for both the U.S. and ROK, but the desire to drastically reduce China’s monopoly over Mongolia’s economy is key to comprehending why the Mongols value strengthening their relations with Seoul.

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4. It has been alleged that the real reason for the closure was cost cutting, but it is evident that the Mongolian government deliberately intensified its engagement with North Korea to repair the damage. See Migeddorj Batchimeg, “Mongolia’s DPRK Policy: Engaging North Korea”, *Asian Survey* 46 (2), March/April 2006. 275-297.


7. A multipolar foreign policy first outlined by Mongolia in its Foreign Policy concept of 1994. Explained by President N. Enkhbayar at the Center for Strategic and International Studies in Washington, D.C. in a speech in October 2008 entitled, “Mongolia’s Foreign Policy: Efforts Towards Regional Peace and Security,” as: “In simple words it means that Mongolia will no longer be dependent only on one neighbor but rather on as many countries and international institutions as possible. By this notion we mean a whole community of developed countries in East and West, including first of all the US, international organizations and other stakeholders which support our democratic nation building and development.”

8. The EDCF had provided concessional loans worth US$13.5 million in 1991 of which $8 million was used to construct a Gobi thermopower station. In 1997 EDCF pledged $19.6 million for fiber optical cable communications between Ulaanbaatar and the eastern and southern provinces and for upgrading the government communications system. See Tsedendamba Bathayar, *Mongolia’s Foreign Policy in the 1990s: New Identity and New Challenges*, Institute for Strategic Studies, Regional Security Issues and Mongolia, No. 17, Ulaanbaatar, 210.


14. In 2001 it was estimated that there were 13,000-15,000 Mongols, most of them workers, living in Korea. See Bathayar, 212. Ten years later these numbers have almost tripled. See Eurasia Capital, June 6, 2011. *The Mongol Messenger* of February 17, 2012 stated that more educated and wealthy Mongols go to the US for work: “American society is more open than in Korea.” Also see “Mongolians queue up for jobs in S. Korea,” *Mongol Messenger*, July 29, 2011, 4 and *Ондоод*, June 4, 2012, 1.

15. In 2011 flights between Ulaanbaatar and Seoul were greatly curtailed after Korea sought additional flights for a 3rd air carrier (Asiana). The Mongolian national airline, MIAT, protested this as unfair competition, so the Korean Transport Authority cancelled MIAT’s right to fly between Seoul and Ulaanbaatar. B. Ooluun, “Additional flights to Seoul cancelled,” *Mongol Messenger*, July 8, 2011, 8.


17. Established in 2001 as the Mongolian capital’s first shopping center.


19. Enkhbayar, S., 11, Figure 4.2. In 2009, Mongolia’s trade turnover with China and Russia accounted for 47.75% and 20.7% respectively. China in 2009 received 73% of Mongolia’s exports, and in 2011 that figure had soared to 93%.
20. Enkhbayar, 12, Figure 4.3. Imports from Russia accounted for 77.5% of total in 1990 and in 2009 still are number one with 36.1% of total. Imports from China began to rise since the early 1990s. In 1990 imports were only 2.4% but in 2009, Chinese imports increased to 25%, the 2nd largest source of imports for Mongolia.


24. Mongolia imports diesel fuel from Russia, Kazakhstan, and China. Previously 90% of its diesel came from Rosneft. It Korean fuel will meet European standards (Euro-2 and Euro-4) and be sent from Ulsan port to China’s Dalien port and then into Mongolia through the Erlian border crossing. See Mongol Messenger, April 6, 2012.


27. The purported reason for the visit was to negotiate the MOU to be signed by Mongolian Prime Minister Batbold on a March state visit, which never took place. “South Korea is a hub in nuclear training and expert development in Asia,” Korea Nuclear International Cooperation Foundation, July 29, 2011, eng.konicof.or.kr/04_news/07.

28. “The Mongolians aim to study the experiences and share opinions with other countries’ officials.” The 5-day seminar attended by 100 foreign delegates included a visit to Kori nuclear power station. Mongol Messenger, July 2, 2012, 2.


31. Hyunjoo Jin, “Tavan Tolgoi bidding process unfair-South Korea,” Seoul, Reuters, July 6, 2011, www.mineweb.com. The Mongolian government, in response to criticism about the unfairness of the short-list from many quarters, to date has not gone forward with the foreign investment portion of Tavan Tolgoi and there are indications that this giant coal deposit may never be offered up for foreign investment.


33. J. Bat-Erdene, Minister of Roads, Transportation, Construction and Urban Development said: “It is necessary to resolve that Mongolia cannot only have an exit to the south in China, but to the north through Russia. Therefore, there will be potential to transport coal to third and fourth countries through this railroad.” Mongol Messenger, June 15, 2012.


35. Leslie Hook, “Mongolia set for non-mining investment,” The Financial Times, Beijing: September 24, 2012. $400 million will be in equity from the 4 partners and $950 million will be raised in debt, www.ft.com/intl/cms and see Mongol Messenger; “Internal Consortium to build Fifth power plant,” July 27, 2012, 3. The plant will have an installed capacity of 450 MW which can be extended to 1040 MW and utilize Circulating Fluidized Bed Combustion coal-burning energy efficient technology.

36. Mongols have been receiving 3 months medical training at Samsung Medical Center in Seoul per agreement between the government of Mongolia and the ROK Ministry of Health. In August 2012 it was announced that Mongols in the ROK can have free medical exams and diagnoses. Mongol Messenger, August 10, 2012.

37. Mongol Messenger of March 30, 2012 reported the rate was 0.1% over 40 years with a 10-year grace period.


40. Ambassador Lee Tae-ru quoted in Mongol Messenger of June 25, 2012 said that Koreans did not have enough information on Mongolia’s soaring growth rate. Another article on the planning of the business forum is in Mongol Messenger of June 3, 2011 by B. Ooluun.

41. This institute is associated with the ROK Ministry of Strategy and Finance. Mongol Messenger, June 7, 2012.

42. KDI will work with Mongolia’s Custom Office starting in 2013. Mongol Messenger, July 20, 2012.


44. Batbayar, 206.