

EU-Mongolia relations

Possible critical raw materials partnership

SUMMARY

Mongolia is a geographically remote and resource-rich country with a peculiar location in northeast Asia. An 'oasis of democracy', it is sandwiched between its two expansionist authoritarian neighbours, China and Russia. This has required it to walk a delicate geopolitical tightrope of non-alignment and a 'third neighbour' foreign policy to preserve its sovereignty and independence. During the past 35 years of bilateral diplomatic relations Mongolia has not been particularly high on the EU's foreign policy agenda, with only a handful of EU Member States having an embassy there.

Since the 1990s, Mongolia has nonetheless benefited from EU development cooperation programmes aimed at supporting its sustainable economic and democratic development and from EU disaster relief for the increasingly harsh socioeconomic implications of its exposure to climate change. Classified as a lower-middle income country, Mongolia has also been a beneficiary of unilateral preferential access to the EU market, first under the generalised scheme of preferences (GSP) and later under the GSP+ scheme, and has been able to draw on additional EU funding programmes to bolster the diversification of its trade towards non-mining products.

Currently, an EU-Mongolia agreement on geographical indications is under negotiation with the same objective. The EU-Mongolia political and cooperation agreement (PCA), which entered into force in 2017, has significantly broadened the scope for bilateral, regional and international cooperation to policy areas that were previously not covered by the 1993 trade and economic cooperation agreement. Joint Committee meetings under the PCA have taken place regularly, with strands on political dialogue, human rights, trade and investment, and development cooperation.

EU reliance on resilient supply chains for critical raw materials (CRMs) to implement its green and digital transitions and Mongolian efforts to sustainably diversify its economic relations could draw the two partners closer. As the scramble for CRMs is in full swing and major CRM-importing countries have designed economic de-risking policies to find alternatives to China's current quasi export monopoly on processed CRMs such as rare earths, the EU and Mongolia could enter into a CRM partnership, despite the geographical and geopolitical constraints and concerns that may arise over the environment and the investment climate owing to increased sourcing of CRMs from Mongolia.



IN THIS BRIEFING

- Mongolia: A partner bringing challenges and opportunities
- EU-Mongolia relations
- European Parliament's role
- The scramble for CRMs: What role for Mongolia?

EPRS | European Parliamentary Research Service

Author: Gisela Grieger; Graphics: Gyorgyi Macsai

Members' Research Service

PE 762.379 – September 2024



Mongolia: A partner bringing challenges and opportunities

Since its peaceful revolution in 1990, Mongolia has transitioned from a one-party communist regime, which was [not part of](#) but had close cultural, political and economic ties with the former Soviet Union, to a [multi-party democracy](#). It is located in northeast Asia as a uniquely '[regionless](#)' and non-aligned country, an '[oasis of democracy](#)' sandwiched between its two expansionist authoritarian neighbours, Russia to its north and China to its east, south and west. The normalisation of relations between China and Russia after the demise of the Soviet Union and Mongolia's resulting delicate geopolitical position has compelled it to pursue good relations with both neighbours. This translated into Mongolia [declaring](#), at the United Nations (UN), its territory to be a nuclear weapon-free zone in 1992 and its state of permanent [neutrality](#) in 2015.

Mongolia's geographic remoteness and landlocked position has spurred its [reliance](#) on Russia for energy (refined petroleum) imports and on China for an [overwhelming share](#) of its exports, and on both for critical [transport infrastructure](#). As the 2022 Sino-Russian 'no limits' partnership [unfolds](#), China's and [Russia's](#) political, economic and cultural influence on Mongolia's domestic development, including election [interference](#), and foreign policy posture could [grow](#). A recent illustration of Mongolia's geo-economic and geopolitical constraints is its [abstention](#) on the UN resolutions on Russia's war of aggression against Ukraine, coupled with its [opposition](#) to imposing sanctions on Russia, despite [suffering from](#) the war's impact. But Mongolia's peculiar geography has also driven its quest for an independent foreign policy known as the '[third neighbour](#) policy', which has also targeted the EU.

Box 1 – Selective examples of Mongolia's engagement in regional multilateralism

For Mongolia, [multilateral engagement](#) is a vital tool to overcome its geographical isolation and to balance the outsized diplomatic, economic and military clout of its large authoritarian neighbours. After the withdrawal of Russian forces from its territory at the beginning of the 1990s, Mongolia has joined neither the Russia-led Collective Security Treaty Organization (CSTO) nor the Eurasian Economic Union (EAEU). However, in May 2024 the EAEU [started](#) negotiations with Mongolia on a temporary preferential trade agreement aimed at abolishing or reducing tariffs on a limited range of goods.

In 2004, Mongolia became the [first observer](#) of the Shanghai Cooperation Organisation (SCO), but it has never become a full SCO member. In 2005, the SCO [called on](#) the United States (US) and NATO forces to withdraw from Central Asia. That same year, Mongolia started to [engage](#) in cooperation with NATO on terrorism, non-proliferation and cyber threats, developing mechanisms for crisis prevention and management, and building capacity. Mongolia supported the NATO-led Kosovo Force (KFOR) from 2005 to 2007 and [contributed](#) troops to the NATO-led International Security Assistance Force (ISAF) from 2009 to 2014 and to the NATO-led [Resolute Support Mission](#) in Afghanistan from 2015 to 2021.

In 2012, NATO and Mongolia [agreed](#) an Individual Partnership and Cooperation Programme aimed at enhancing the country's capacity to support multilateral peace-support efforts. Mongolia [joined](#) the UN peacekeeping forces in 2002 and, as of May 2024, has provided [900 troops](#). It [hosts](#) the Five Hills Peace Support Operations Training Centre, [one of NATO's 33 Partnership Training and Education Centres](#), whose courses cover peace support, humanitarian relief, and security operations.

Since 2014, Mongolia has organised the Ulaanbaatar Dialogue on Northeast Asian Security, in 2024 for the [9th](#) time, as a confidence-building measure. In 2023, Mongolia, South Korea and the US [launched](#) a trilateral meeting to maintain dialogue with North Korea. After [engaging](#) with the Organization for Security and Co-operation in Europe (OSCE) since 2004, Mongolia became a member in 2012.

Geography has added to Mongolia's severe socioeconomic and environmental challenges. They include increasingly consequential climate change [implications](#), notably for the livelihood of traditional [herders](#). In 2023, agriculture accounted for [10.2 %](#) of GDP. Almost [77 %](#) of Mongolian territory is affected by desertification, land degradation and overgrazing. The number of natural disasters specific to Mongolia, also known as '[dzud](#)' disasters, which involve a succession of summer droughts and harsh winters, have doubled during the past two decades. Dzud disasters lead to a large [loss](#) of livestock. They have exacerbated the [rural exodus](#) and have entailed a proliferation of

large suburban settlements made up of traditional portable yurts ('gers'), notably around the capital Ulaanbaatar, where half of Mongolia's comparatively young population (median age [27 years](#) (2023)) of 3.5 million ([2023](#)) is concentrated. The ger districts are not connected to urban energy, water, sewage and heating systems and therefore rely on [coal-burning](#) stoves that fuel the [capital's air pollution](#). These are factors contributing to health issues and a comparatively [low median life expectancy](#) of 72.9 years (2023) compared to some of Mongolia's Asian peers. Men's life expectancy is nine years lower than that of women, a phenomenon that is similar to neighbouring [Russia](#), with [contributing factors](#) linked to '[harmful gender norms](#)', e.g. alcohol consumption, smoking, poor diet, lack of exercise and rare doctor visits.

Mongolia is the [66th](#) largest CO₂ emitter, with coal accounting for 95 % of its energy generation. At [COP27](#) in 2022, Mongolia's President [announced](#) for the first time the country's [net zero target](#) for 2050 under the 2015 Paris Agreement. Mongolia's renewable energy resources have huge [potential](#) that [remains](#) to be unlocked, as Mongolia ranked only 116th out of 120 countries on the World Economic Forum's [2024 Energy Transition Index](#).

Since Mongolia's population is very small and sparsely distributed across the vast landmass, it is a limited market. This, coupled with a challenging [business climate](#) (Mongolia [ranked 102nd out of 141 countries](#) on the 2019 Global Competitiveness Index and [61st](#) out of 64 in the 2024 World Competitiveness Ranking), contributes to the country's [low attractiveness](#) for foreign investors, with the exception of the mining sector. The shortage of transport infrastructure, which leads to higher costs and longer travel times, has set limits to Mongolia's trade diversification. On the World Bank Logistics Performance [Index](#) 2023, Mongolia ranked 97th out of 139 countries (China ranked 19th and Russia 88th). Lack of foreign capital and high [external debt](#) (as of 2022, [mostly](#) multilateral) explain the country's eagerness to participate in its neighbours' [connectivity projects](#) in the [China-Mongolia-Russia Economic Corridor](#), including for transit revenue.

Box 2 – Mongolia's governance system and the 2024 parliamentary elections

As per its 1992 [Constitution](#), which has seen several [amendments](#), Mongolia is a semi-presidential republic. The directly elected President is the head of state and commander-in-chief and can veto legislation. The executive power is held by the Prime Minister, nominated by the majority party and confirmed by Parliament. In 2021, [Khürelsükh Ukhnaa](#) of the Mongolian People's Party (MPP, the successor of the former Communist party and today deemed a [social democratic party](#)) won the OSCE-[observed presidential elections](#) for a [single six-year term](#) with [67% of the vote](#). [Oyun-Erdene Luvsannamsrai](#) (MPP) took over as Prime Minister from the current President and was [confirmed](#) in his position in July 2024.

On 28 June 2024, parliamentary elections were held for the unicameral Parliament, the State Great Khural, under a mixed electoral system. To increase the strength and diversity of the Parliament, a 2023 [revision](#) of the Constitution allowed for the expansion of the previous 76 seats elected through a first-past-the-post system to 126 seats, with [48](#) of them elected by proportional representation. The elections saw an average voter turnout of [69 %](#), but turnout was much lower for young voters. The MPP lost its absolute majority and gained [68 seats](#) (up [from 62](#)), the major opposition [Democratic Party](#) [42](#) seats (up from 11), the centre-right KhUN party (formerly National Labour Party) eight seats, the National Coalition four seats and the Civil Will-Green Party four seats. The new, more fragmented party landscape signals a departure from the MPP's eight years of one-party rule towards a [potential](#) coalition government and greater scrutiny of the government by opposition parties. Since the [quota](#) for women candidates was increased to 30 % for the 2024 elections, 32 seats went to [female lawmakers](#) (25.4 %). In the previous parliamentary term, only 13 lawmakers out of [76](#) were women (17 %). The OSCE Office for Democratic Institutions and Human Rights (ODIHR), which in May 2024 had [opened](#) an election observation [mission](#) and had issued a state of play [report](#), [noted](#) that the elections were well-administered, but criticised the fact that 'competitiveness was negatively affected by the lack of a level playing field' that favoured the ruling party.

Mongolia's rich endowment with minerals, such as copper, iron, uranium, gold, [rare earths](#) and coal, has been a blessing and a curse. Mining products have averaged [70 %](#) of Mongolia's exports and in 2023 reached [over 90 %](#) in its trade with China. This has created risks of '[Dutch disease](#)', i.e. an overreliance on the mining industry to the detriment of agriculture and manufacturing sectors, as

the capital and technology for value-added processing is missing. It has also entailed [macroeconomic vulnerabilities](#) resulting from external shocks such as a sudden [decline](#) in external demand and the exposure to global commodity price fluctuations, air and water pollution and land degradation, and corruption. However, Mongolia's export-led resource economy has also contributed to [GDP growth](#) – although Mongolia's GDP per capita ([US\\$6 180](#) (2024)) has remained much lower than China's (US\$13 140) – and to poverty reduction, albeit the poverty rate still stands at [27.8 %](#) (2020).

As key international players, including the EU, pursue their green and digital transitions and at the same time embrace economic de-risking and trade diversification strategies to enhance the resilience of their CRM supply chains, Mongolia may seize the [opportunity](#) of leveraging its resources (potentially in the form of value-added processing at home) and the advancement of digitalisation to boost its own green energy transition and trade diversification by [engaging](#) in CRM partnerships with 'third neighbours', including the EU, that help achieve the objectives of the country's mid-term [New Recovery Policy](#) and the 2020 long-term '[Vision 2050](#)' development strategy.

Box 3 – Democratic backsliding and pervasive corruption

Although deemed to be an '[oasis of democracy](#)' with smooth transitions of power and a vibrant [civil society](#) and ranked as '[free](#)' in the 2024 Freedom House World Index, Mongolia has in recent years experienced [democratic backsliding](#). [Endemic corruption](#) has undermined the [rule of law](#) and the [independence](#) of the judiciary, and [investigative journalism](#) has come under severe attack, as reflected for instance in Mongolia's low scores on the Transparency International Index ([ranked 121st](#) out of 180 countries in 2023, worse than China (76th) and better than Russia (141st)) and the World Press Freedom Index ([ranked 109th](#) in 2024, down from 88th in 2023). Corruption allegations predominantly concerned the mining sector (the [Oyu Tolgoi](#) copper mine and '[coal theft](#)' involving the Erdenes Tavan Tolgoi coal mine), but also the education sector (loans from the [State Educational Loan Fund](#) for studies abroad were granted chiefly to the national elite and were often not paid back, exacerbating the country's [inequality gap](#)) and a [fund](#) that provides low-interest loans to SMEs. Trust in the Mongolian Independent Authority Against Corruption (IAAC) has been [low](#). In 2023, Mongolia declared 2023 and 2024 to be 'Years of Fighting Corruption' and issued a comprehensive 2030 national anti-corruption strategy that focuses on [five key aspects](#): whistleblowing; removal of corrupt public officials; extradition and repatriation of those under indictment; asset recovery; and transparency. Three draft laws for [protection of whistle-blowers](#), campaign finance reform, and transparency of state-owned enterprises (SOEs) have been in the pipeline.

EU-Mongolia relations

Formal diplomatic relations between Mongolia and the then European Economic Community (EEC) were established [35 years ago](#) in 1989. From 1993 to 2016, bilateral ties were governed by an agreement focusing on trade and economic cooperation, and in 2009 the parties signed an [EU-Mongolia civil aviation agreement](#). In 2017, a more developed political and cooperation agreement (PCA) opened up bilateral ties in a range of other policy areas where the EU shares competence with its Member States or takes supportive action, in areas such as education and science. The PCA's entry into force in 2017 [coincided](#) with the opening of a [fully-fledged](#) EU delegation in Ulaanbaatar, ending a situation where the EU had, since 2006, merely maintained a technical office in Mongolia's capital, while EU-Mongolia diplomatic relations were overseen from the EU delegation in Beijing. This is all the more important, since, as of May 2024, only seven out of 27 EU Member States [have](#) an embassy in Ulaanbaatar: Bulgaria, Czechia, France, Germany, Hungary, Italy, which [opened](#) its embassy in 2016, and Poland, which [reopened](#) its embassy in 2023.

While Mongolia shares many cultural, historic and economic aspects with the former Soviet Republics of Central Asia, the EU did not include the country in its 2007 [Strategy for a new partnership with Central Asia](#) or its 2019 [New EU strategy on Central Asia](#). The 2012 Council [Guidelines on the EU's foreign and security policy in East Asia](#) considers Mongolia to be 'situated at the strategic crossroads between China and Russia' and sets the EU the objective of deepening relations with Mongolia (paragraph 20bis) with a view to assisting it in its economic transition

process, supporting its sustainable development and promoting its inclusive growth. Although Mongolia has participated in the Asia-Europe-Meeting (ASEM) process since 2008, [chaired](#) the 2016 ASEM and is a member of the Asia-Europe Parliamentary Partnership (ASEP), it is not referenced in the 2018 Joint Communication on [Connecting Europe and Asia – Building blocks for an EU strategy](#). Mongolia is mentioned in the 2021 EU [Indo-Pacific strategy](#) (footnote 32) as a country of the region that received EU support during the COVID-19 pandemic.

1993 trade and economic agreement

In 1992, the EEC and Mongolia signed a [trade and economic agreement](#) (TECA) which entered into force in 1993. It had three sections dedicated to trade, economic cooperation and the institutional set-up for bilateral cooperation (a Joint Committee for monitoring the functioning of the agreement). It contained only 16 articles, reflecting the EEC's limited competence at that time. The TECA was still 'light' on substantive commitments and the trade provisions did not provide preferential market access.

2017 political and cooperation agreement

A significant milestone towards broadening the scope of the bilateral relationship was the negotiation of a new, more ambitious bilateral framework agreement, the [EU-Mongolia political and cooperation agreement](#) (PCA). The PCA was [negotiated](#) between 2010 and 2013 to replace the TECA and entered into force in 2017. With 65 articles, the PCA has significantly expanded bilateral, regional and international cooperation in a large number of policy areas. Like all the other PCAs the EU has concluded, the trade provisions of the EU-Mongolia PCA do not go beyond confirming that bilateral trade in general is subject to most-favoured nation (MFN) treatment. Despite Mongolia's limited economic clout and geopolitical influence, the PCA was a '[testimony](#) to the growing importance of EU-Mongolia relations, which are based on the shared values of democracy, rule of law and human rights and respect for international commitments in this regard'.

EU-Mongolia political dialogue

The two parties have held annual Joint Committee meetings between 2018 and 2023, with the exception of 2021. These meetings have consisted of a dialogue on political developments, at times with a back-to-back human rights dialogue, a meeting of the subcommittee on trade and investment, and a meeting of a joint [working group](#) on development cooperation. Besides an exchange on bilateral, regional and international developments, the political dialogue has aimed to join the dots between the EU's and Mongolia's strategies and generate synergies. The connectivity theme was present in all Joint Committee meetings, with the EU eager in [2018](#), [2019](#) and [2020](#) to leverage its [Europe-Asia connectivity strategy](#) and enable synergies with Mongolia's [Steppe Road Plan](#). In 2019, the Joint Committee discussed a potential EU budget support programme for Mongolia to boost employment creation and improve management of public finances; in May 2020, the parties signed a budget support programme for Mongolia worth [€50.8 million](#) over four years.

At the 2020 Joint Committee, the EU highlighted the fact that EU support for Mongolia from 2014 to 2020 amounted to [€138 million](#), of which €37.5 million was made available under the [Team Europe](#) COVID-19 response to support the Mongolian health sector and mitigate the socio-economic consequences of the pandemic. Following the [launch](#) of the EU Global Gateway Strategy in December 2021, the [2022](#) Joint Committee meeting announced the parties' intention to create synergies between that strategy and Mongolia's mid-term and long-term development strategies. In 2022, the [Choir-Sainshand transmission line](#) was adopted as a Global Gateway [project](#) in Mongolia. A [second project](#) is the implementation of a [Forest Partnership](#) that the EU [signed](#) with Mongolia in 2022. It supports Mongolia's 2021 national campaign to [plant](#) 'One Billion Trees by 2030' and, more generally, is [aimed at](#) 'protecting, restoring, and sustainably managing Mongolia's forests, improving governance, enhancing forest-based value chains, preserving and restoring national forests, and reducing deforestation and forest degradation'.

Against the background of the protracted war in Ukraine, at the 2023 Joint Committee the EU and Mongolia [reaffirmed](#) their commitment to the UN Charter and international law, including the need to respect the sovereignty, political independence and territorial integrity of all nations as well as the need to uphold international law and the multilateral system that safeguards peace and security. They also discussed the possibility of enhancing cooperation on security, including peacekeeping.

Box 4 – Human rights dialogue

In [2018](#), the EU raised concerns over the then [potential](#) reintroduction of the [death penalty](#) in Mongolia; it was [abolished](#) via a [new](#) Criminal Code as of 2016, but is still enshrined in the Constitution ([Article 16.1](#)). During the [2019](#) human rights dialogue, the EU took the view that Mongolia's recent initiatives in the fields of human rights and the rule of law may not be in line with the country's international obligations with respect to the independence of Mongolia's judiciary, the rights of the child and of human rights defenders. The [2020](#) human rights dialogue discussed a long list of issues, including the impact of COVID-19 on human rights, the 2020 [Universal Periodic Review](#) of Mongolia, freedom of assembly and the role of civil society, and the implementation of the human rights conventions related to GSP+. The [2022](#) human rights dialogue discussed similar issues, including Mongolia's 2021 [draft legislation](#) on non-governmental organisations (NGOs) as well as business and human rights. Several months after the [2023](#) human rights dialogue, the EU published an [overview of the situation](#) for human rights and democracy in Mongolia.

EU-Mongolia development cooperation

During the past three decades, Mongolia has benefited continuously from EU development assistance under a variety of programmes and repeatedly from EU [humanitarian aid](#) for ['dzud'-affected](#) Mongolian herders. In 1994, Mongolia [became eligible](#) for the then European Community's technical support for its transition from a centrally planned to a market economy under the [TACIS](#) (Technical Assistance to the Commonwealth of Independent States and Mongolia) programme, which was operational from [1991 to 2007](#). In 2004, Mongolia transitioned from TACIS funding to EU financial assistance under the [ALA](#) programme for Asian and Latin American developing countries until 2006. In 2001, the European Commission adopted its first country strategy paper (CSP) for Mongolia (2002–2006), with a [focus](#) on support for rural development. Since Mongolia [became](#) a member of the European Bank for Reconstruction and Development ([EBRD](#)) in 2006, the Bank has contributed to the funding of EU [projects](#) in the country.

The [CSP 2007–2013](#) prioritised poverty alleviation and sustainable rural development to slow down the country's rural-to-urban migration, financed under the then new EU instrument for development cooperation ([DCI](#)). In 2011, [bilateral cooperation](#) started under the EU [Instrument for Nuclear Safety Cooperation](#) ([INSC](#)), which lasted until 2019. Although the EU's flagship programmes in higher education have been open to [Mongolia](#), the country's participation in [Erasmus+ capacity building programmes](#) from 2014 to 2017 and [scholarships](#) has been limited. The EU's multiannual indicative programme (MIP) [2014–2020](#) identified two priorities: governance of revenues for inclusive and sustainable growth; and support for better employment opportunities by creating skilled jobs and decent work outside the mining sector. For instance, the project 'Support to Employment Creation in Mongolia' (SECiM, [€8.2 million](#)) sought to strengthen the value chain in the agriculture sector and the [creation of jobs](#) for young people and people with disabilities.

The [MIP 2021–2027](#) defines two priorities: green sustainable development; and democratic and economic development. Under the first priority, the EU [supports](#) three sectoral clusters: climate and energy (such as the transmission of green energy and district heating to reduce CO₂ emissions); water and waste management (such as climate-resilient water networks); and a forest partnership. The EU Sustainable Resilient Ecosystem and Agriculture Management in Mongolia ([STREAM](#)) programme contributes to sustainable agriculture and the [SwitchAsia](#) programme promotes the [circular economy](#) ([11 projects](#) as of June 2024, including [Switch off air pollution](#)). The second priority supports judicial reforms, the digital transformation and the transparent management of public

finances in Mongolia funded by the new Neighbourhood, Development and International Cooperation Instrument ([NDICI-Global Europe](#)).

Mongolia also benefits from a number of multi-country EU programmes under the [European Fund for Sustainable Development Plus \(EFSD+\)](#), one of the Global Gateway Strategy's main funding instruments. By March 2024, the European Investment Bank (EIB) had [funded](#) projects in Mongolia worth €144 million. EIB projects include support for Ulaanbaatar's [water, wastewater and sanitation investment programme](#) and the [Sainshand wind farm](#) renewable energy project.

EU-Mongolia trade and investment relations

Mongolia: A trading partner still facing global integration challenges

Mongolia's 1997 [accession](#) to the World Trade Organization (WTO) was a [first step](#) for the country to insert itself into global trade based on a range of WTO multilateral agreements. Mongolia has a fairly open trade regime, with a [trade weighted MFN average](#) tariff of 5.3 % for trade in goods, but its trade is nonetheless extremely concentrated on the Chinese and Russian markets. Its trade policy and the implementation of WTO law have been the subject of regular WTO [trade policy reviews](#) that have outlined the continuing barriers to Mongolia's integration into global trade.

The most recent trade policy review [report](#) of 2021 notes, for example, Mongolia's slow implementation of the 2017 WTO [Trade Facilitation Agreement](#) which would help it to address transit and border cooperation matters. Unsurprisingly, the 2023 UN Global Survey on Digital and Sustainable Trade Facilitation [reveals](#) that Mongolia scores poorly compared to its Asian peers, notably on formalities and paperless trade, lagging behind particularly on facilitation of digital trade. The UN Conference on Trade and Development (UNCTAD) has therefore [published](#) an [eTrade Readiness Assessment](#) of the country to help it overcome geographical challenges and to leverage e-commerce opportunities to diversify its economy. According to UNCTAD, the share of online shoppers increased in Mongolia from 7 % in 2017 to [42 %](#) in 2021, much faster than in other Asian countries. Similarly, the World Bank's 2023 Mongolia Trade Competitiveness Diagnostic [report](#) flags the importance for Mongolia of unlocking its e-commerce potential.

The 2021 WTO trade policy review report states that Mongolia's sanitary and phytosanitary measures (SPS) regime requires adaptation to international standards to create opportunities for agricultural trade. The 2022 World Bank report on 'The green transformation of the Mongolian agri-food system' emphasises that Mongolia's potential to export agri-food such as meat and meat-related products is constrained by several factors, [including](#) the inability of exporters to meet international animal health/sanitary and food safety standards; fragmented supply chains; and poor infrastructure. The additional costs for exporters to comply with food safety standards limit Mongolia's export potential for agri-food products. According to the UN Food and Agriculture Organization (FAO), 'food control is often [undermined](#) by fragmented legislation, multiple jurisdictions, and weaknesses in surveillance, monitoring and enforcement. There is missing reflection of risk-based approaches in

Box 5 – Mongolia's few trade agreements

Mongolia has so far concluded only two preferential trade agreements: the bilateral Economic Partnership Agreement with Japan, in force since 2016, and the plurilateral Asia-Pacific Trade Agreement (APTA), formerly known as the Bangkok Agreement (1975–2020), which [brings together](#) Bangladesh, China, India, the Lao PDR, South Korea and Sri Lanka. Mongolia officially [joined](#) APTA in 2020 and it [entered into force](#) in 2021. It also concluded the [US-Mongolia Agreement](#) on Transparency in Matters Related to International Trade and Investment, which entered into force in 2017. Mongolia [signed](#) an investment protection [treaty](#) with the US in 1997 and an investment promotion and protection [treaty](#) with Canada in 2016. An Economic Partnership Agreement between Mongolia and South Korea is [in the pipeline](#). Mongolia's modest appetite to negotiate preferential trade agreements may be linked to the fact that it has for decades [enjoyed](#), under some form of generalised scheme of preferences (GSP), unilateral market access to a large number of advanced economies, including Australia (1966), Japan and Norway (1971), New Zealand and Switzerland (1972), Canada (1974), the US (1976) and the EU (1991).

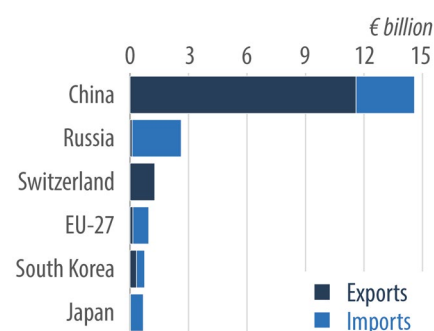
food control.' Against this background, the 2019 EU–Mongolia Joint Committee decided to establish a bilateral dialogue on SPS-related issues.

EU–Mongolia trade in goods, trade in services and investment relations

In 1991, Mongolia became a beneficiary of the EEC's unilateral preferential market access instrument [GSP](#), introduced in [1971](#), for low and lower-middle income countries, providing for the [partial or full removal](#) of customs duties on two-thirds of tariff lines, excluding sensitive items. In 2005, the EU [decided](#) to grant Mongolia [GSP+ status](#), which has been applied since 2014. The GSP+ status [grants](#) the full removal of tariff duties on [66 %](#) of EU tariff lines as an incentive to ratify and effectively implement 27 international conventions on human and labour rights, environmental protection and good governance. To increase Mongolia's non-mining exports, the EU [launched](#) the trade-related assistance for Mongolia (TRAM, 2017–2021) programme that [focused](#) on unique and innovative niche items with the greatest potential on the EU market in sectors such as textiles, leather, cosmetics and sea buckthorn [products](#). In 2019, the EU issued a [roadmap](#) for negotiations on a geographical indications agreement pursuant to Article 27 of the PCA. In 2021, the Council [authorised](#) talks to start, which they did in 2022 and [continued](#) as of April 2024.

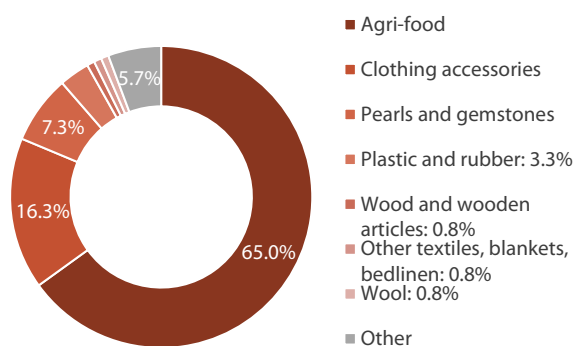
According to [IMF data](#), in 2023 the EU-27 collectively was Mongolia's fourth biggest trading partner, accounting for 4.6 % of the country's total trade. China (63.4 %), Russia (13.0 %) and Switzerland (5.0 %) ranked ahead of the EU (Figure 1). Mongolia's exports were concentrated on China (84 % of total exports), followed by Switzerland with 8.4 % and the EU with 1.1 %. Mongolia's sources of imports were slightly more diversified, with China accounting for 35.2 %, Russia for 29.6 % and the EU for 9.5 %. Total trade between the EU and Mongolia amounted to €865 million in 2023, with EU exports to Mongolia accounting for €742 million, up from €627 million in 2022, and EU imports from Mongolia for €123 million, down from €137 million in 2022. The EU thus ran a €618 million trade surplus with Mongolia.

Figure 1 – Mongolia's top trade partners, trade in goods, 2023



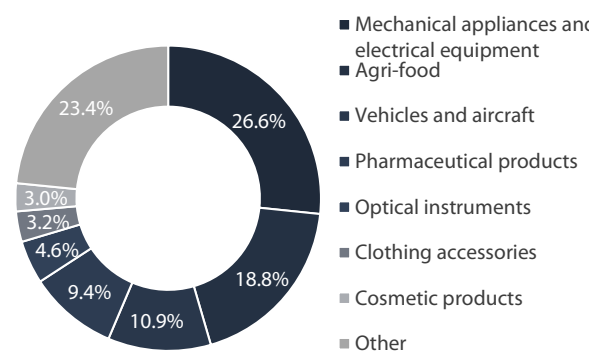
Data source: IMF, as of May 2024.

Figure 2 – Main EU imports from Mongolia, 2023



Data source: Eurostat, May 2024.

Figure 3 – Main EU exports to Mongolia, 2023



Data source: Eurostat, May 2024.

According to Eurostat/Comext data, in 2023 Mongolia was the EU's [117th](#) largest trading partner, accounting for less than 1 % of total trade and thus statistically registered as 0 %. Since 2017, EU exports to Mongolia have steadily increased, except for 2020, while Mongolia's exports to the EU have remained stagnant and only in 2022 took a leap upwards, reflecting a doubling of the value of textile exports and a new export item (vegetable products). However, in 2023 Mongolia's exports to the EU-27 decreased again, mainly owing to a decline in the value of exports of mineral products

(-88.4%), which, after a strong increase in 2021, returned to the value reached in 2020. Mongolia's exports to the EU are focused on unprocessed products and are much less diversified than EU exports to Mongolia, which consist of a range of manufactured goods (Figures 2 and 3).

During the last two decades, more than two-thirds of Mongolia's exports have been agri-food, while the second largest export item has constantly been clothing accessories. In 2023, pearls and gemstones appeared for the first time as the third largest export item. In 2007, EU exports were focused on mechanical appliances (40.9%), followed by agri-food (12.9%), but this ratio has shifted over time in favour of agri-food exports and to the detriment of mechanical appliance exports; EU exports of pharmaceuticals to Mongolia tripled from 3.8% in 2007 to 9.4% in 2023. Mongolia's [agri-food](#) exports to the EU have focused on 'other animal products', i.e. cashmere, with a recent addition of vegetable products. The EU's exports of agri-foods are more diversified, including a large share of wine, beverages and food preparations.

According to European Commission data, as of May 2024 bilateral trade in services has remained at a low level. EU services exports to Mongolia amounted to [€0.3 million](#) in 2022 (last available data, unchanged from 2021), while EU services imports from Mongolia stood at €0.1 million in 2022 (unchanged from 2021). EU foreign direct investment (FDI) flows to Mongolia fell from [€0.7 billion](#) in 2021 to €-2.7 billion in 2022, with no recorded FDI inflows from Mongolia to the EU. EU FDI stocks in Mongolia dropped from €7.8 billion in 2021 to €5.4 billion in 2022, while Mongolia's FDI stocks in the EU remained at €0.1 billion in 2022. As per 2022 data from the National Statistics Office of Mongolia, the EU was nonetheless by far the country's [largest investor](#), followed by Singapore, China, the UK, Canada, the US and Japan. According to the Bank of Mongolia, in 2023 Mongolia [registered](#) total FDI inflows of US\$2.1 billion and held total FDI stocks of US\$30.5 billion, 74% of which went to mining, 6% to wholesale, 6% to financial services, and 3% to construction.

In recent decades, the volatility of Mongolia's [legal framework](#) for foreign investment and a number of high-profile state-to-investor arbitration [disputes](#) in the mining sector driven by [local protests](#) against mining projects have created an unpredictable investment climate. It has discouraged foreign investors from investing in Mongolia, which in turn has contributed to a shortage of capital for transport infrastructure and mining technology for processing mined products.

In April 2024, the Mongolian Parliament [approved](#) a revision of the Mining Law that limits a single investor's shareholding in strategic mining deposits (currently 16) to [34%](#) and allows the government to take over shares without compensating their owners. Previously, the government provided compensation for the acquisition of stakes and a single investor could own up to 66% of mining assets. The Parliament has also passed a new Sovereign Wealth Fund Law that seeks to transfer mining revenues to [three](#) different economic and social development funds. Although the [motivation](#) for these investment restrictions is to [address corruption](#) and the concentration of strategic assets in the hands of very few owners and to [leverage mining](#) assets for a more inclusive society, foreign investors may perceive this change as a deteriorating investment climate.

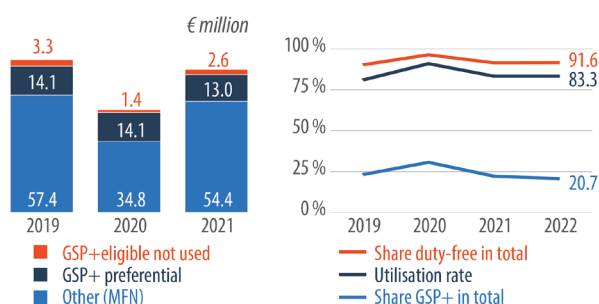
Mongolian exporters' use of their GSP+ access to the EU market

The European Commission tracks Mongolia's use of its GSP+ access to the EU market and its compliance with the set of international conventions. The most recent [monitoring report](#), for 2019-2022, flags some notification and implementation issues.

Figure 4 shows that, from 2019 to 2022, the share of Mongolian exports to the EU using GSP+ was between €12.9 million and €23.5 million, or a GSP+ share in total exports of 23.2% and 20.7% respectively. Mongolia's preferential utilisation rate (PUR) between 2019 and 2022 ranged between 81% and 91%. Since a large share of the remaining imports from Mongolia entered the EU market duty-free under MFN treatment, the combined share of GSP+ preferential and duty-free exports from Mongolia to the EU has been steadily above 90% of Mongolia's total exports to the EU. The report notes that the increased GSP+ share of Mongolia's exports in 2020 was the result of a drop in non-eligible exports, rather than an increase in GSP+ eligible exports.

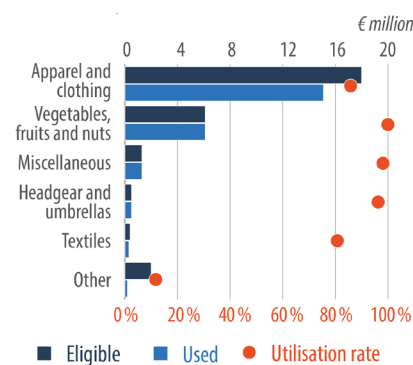
Figure 5 reveals that Mongolia's use of GSP+ is narrowly focused on very few items, traditionally dominated by apparel and clothing. As the EU [extended](#) its GSP+ scheme until 2027, Mongolia [will be able to](#) continue benefiting from it, provided it continues to fulfil the conditions.

Figure 4 – EU imports from Mongolia by trade regime (€ million) and utilisation rates (%), 2019–2022



Source: European Commission, [SWD\(2023\)364](#), p. 5.

Figure 5 – Top Mongolian product groups benefiting from GSP+ tariff preferences, 2022, € million



Data source: European Commission, [SWD\(2023\)364](#), p. 6.

European Parliament's role

Along with its committees on foreign affairs (AFET) – including its subcommittees on human rights (DROI) and defence (SEDE) – development (DEVE) and international trade (INTA), Parliament has [engaged](#) with Mongolia for the last three decades through its [Delegation for Central Asia and Mongolia](#) (DCAS), established in [1994](#). In 2017, Parliament gave its consent to the EU–Mongolia PCA. In its [resolution](#), it stressed the need to further enhance the parliamentary dimension of the bilateral relationship. It regretted that the PCA did not provide for a Parliamentary Cooperation Committee (PCC) for democratic scrutiny of the PCA's implementation and to enhance political dialogue between the two parliaments. It recalled its suggestion, made in the Joint Statement of the 10th EU–Mongolia Inter-Parliamentary meeting (IPM), to negotiate a protocol pursuant to Article 57 of the PCA. Moreover, Parliament encouraged Mongolia to exploit its natural resources, notably rare minerals, took the view that investing in technologies and digitalisation could foster the country's economic diversification and encouraged the EU and its Member States to intensify related cooperation with Mongolia. It welcomed Mongolia's close alignment with the EU in multilateral fora and underlined the importance of Article 8 of the PCA on international cooperation.

In the Joint Statement of the 12th IPM held in Ulaanbaatar in 2018, the parties [decided](#) to establish an EU–Mongolia PCC to ensure appropriate parliamentary cooperation and scrutiny under the PCA's rules of procedure and in line with provisions in other PCAs between the EU and third countries. The 16th and most recent EU–Mongolia IPM was held in 2023 in Ulaanbaatar. The [mission report](#) provides valuable insights into some of Mongolia's challenges (such as risks of foreign interference in elections, slow green transition, lack of processing capacities for cashmere, mostly exported as a raw material, lack of a meat export value chain, and China apparently reaping more benefits than other donors, including the EU, from a technical and vocational [training centre](#) for young Mongolians in Erdene). Possible areas of future cooperation include digitalisation, green transition, fellowships and academic cooperation, and visa facilitation.

In 2016, Parliament sent a mission for the first time to [observe](#) the parliamentary elections in Mongolia and another to observe the 2017 presidential elections under OSCE leadership. However, Parliament did not observe the 2020 parliamentary election due to the COVID-19 pandemic, nor the 2021 presidential election. Parliament [observed](#) Mongolia's 2024 parliamentary elections as part of the [election observation mission](#) deployed by the OSCE's ODIHR.

The scramble for CRMs: What role for Mongolia?

The global supply chain disruptions in the wake of the COVID-19 pandemic, the need for growing quantities of CRMs for advanced technologies to implement the green and digital transitions, and the application of some CRMs in advanced weapons systems – compounded by several episodes of China's weaponisation of trade for political gain through [economic coercion](#) targeting *inter alia* Australia, Japan, Lithuania, Mongolia, Norway, the Philippines, South Korea and Taiwan – have prompted the EU and like-minded countries to act. They have adopted [economic security strategies](#) aimed at reducing their respective overdependence on China for imports of processed CRMs by enhancing the resilience of their CRM supply chains, through friend-shoring and trade diversification among other things. In 2023, Australia published a [Mongolian Mining Projects Report](#) which reveals that China holds an outsized number of mining licences (159) in Mongolia compared to Canada (23), the Netherlands (11), South Korea (11) and Australia (four). The EU, its Member States and like-minded partners have moreover engaged in bilateral and multilateral CRM diplomacy to tackle their CRM supply chain vulnerabilities.

Bilateral CRM diplomacy

Since 2022, several advanced economies have enhanced their [CRM diplomatic](#) outreach to Mongolia, which, at the Mongolia Economic Forum 2023, [identified](#) rare earths as the main source of its future development. They have followed in the footsteps of **Japan**, the first country to have been hit by a Chinese rare earths [export ban](#) following a 2010 standoff over the [Senkaku/Diaoyu islands](#) in the East China Sea. Japan had taken [a number of steps](#) and reduced its overdependence on China for rare earths from 90 % to 60 % by 2023, including acquiring [stakes](#) in mining companies. In 2015, Japan and Mongolia had also signed an economic partnership agreement that eliminated tariffs on [96 %](#) of traded goods and enhanced cooperation in the mining sector, with the Sumitomo Corporation [participating](#) in the exploitation of the Tavan Tolgoi coal deposit.

In 2023, **French** government-owned [Orano Mining](#), which has been operational [on the ground](#) for 25 years, signed an agreement with [Mongolia](#) to establish the country's first uranium mining and processing venture. Mongolia had entered into uranium exploration agreements with China, Czechia and Russia before then, but France is the first country to exploit and extract uranium from a Mongolian deposit. In 2024, **Germany**, over a decade after it [concluded](#) a raw materials [partnership](#) with Mongolia in 2011, upgraded its bilateral relationship with Mongolia – the first EU Member State to do so – to a [strategic partnership](#), intensifying [cooperation](#) on implementing the 2011 partnership agreement. In 2023, **South Korea** and Mongolia officially [launched](#) the Korea-Mongolia Rare Metals Cooperation Centre Project to develop Mongolia's extractive capabilities and the Korea-Mongolia Rare Metals Cooperation Committee, trading carefully, given geopolitical sensitivities, by [framing](#) the cooperation primarily as part of South Korea's official development assistance.

The **UK** has been present in Mongolia's mining sector through the British-Australian mining company [Rio Tinto](#), which operates the Oyu Tolgoi copper mine. In 2022, a longstanding dispute between Rio Tinto and the Mongolian government over the project was ultimately [resolved](#). Following the [visit](#) of the UK's Industry Minister to Mongolia in 2023 to boost the UK's CRM supply chain, Mongolia's Prime Minister Oyun-Erdene [told](#) a UK press outlet in March 2024 that air transport for exports of critical minerals to third countries is being [studied](#).

In 2023, the **US** and Mongolia [signed](#) a memorandum of understanding to jointly strengthen CRM supply chains in the Indo-Pacific region. The two partners also [signed](#) an ['Open Skies' aviation agreement](#) that provides easier cargo flights between Mongolia and the US and offers an alternative to land transportation through China. At the launch of their first trilateral meeting in 2023, Mongolia, South Korea and the US [decided](#) to continue discussions at a high-level dialogue focused on Mongolia's role in global mineral resources supply chains. However, commentators have [cast doubt](#) on the practicability of the ambitious initiatives given Mongolia's shortage of transport infrastructure and a [challenging](#) legal framework for foreign investors. They have also pointed to the dramatic

environmental [impact](#) rare earths processing has had in China, which suggests that more costly and less environmentally harmful mining processes would be required. In 2023, the German Federal Institute for Geosciences and Natural Resources issued a sober [assessment](#) of Mongolia's rare earths deposits. It concludes that they are all at an early stage of exploration and, given their cost disadvantage compared to rare earths from China or [Myanmar](#) as a result of their geographical remoteness, their commercialisation would face significant challenges, including huge infrastructure investment and the creation of an 'investment-friendly administrative, legal and policy environment'. It does not expect economic rare earths extraction in Mongolia in the short and medium term, since further exploration is required.

While the **EU** has [established](#) raw materials partnerships with Canada (2021), Ukraine (2021), Kazakhstan (2022), Namibia (2022), Chile (2023), Argentina (2023), Zambia (2023), the Democratic Republic of Congo (2023) and the Autonomous Territory of Greenland (2023), it has yet to do so with Mongolia.

Multilateral CRM diplomacy

In parallel, a multilateral initiative, led by the EU and the US, was [launched](#) in June 2022 to bring together a group of 10 countries – including Australia, Canada, Finland, France, Germany, Japan, South Korea, Sweden, the UK and the US – as well as the EU under a Minerals Security Partnership (MSP) to bolster CRM supply chains. When MSP members [convened](#) on the sidelines of the UN General Assembly High-Level week in September 2022, MSP membership had grown to 14 (adding Estonia, India, Italy and Norway) and Mongolia was among the eight mineral-rich countries attending. It was not present at the MSP [meeting](#) in October 2023, when several investment projects were discussed, with Brazil, South Africa and Zambia attending. In May 2024, a MSP [Forum](#) was established to connect MSP members with mineral-producing countries, with a view to creating CRM value chains that adhere to the highest environmental, social and governance (ESG) standards. The Forum gathered the current 14 MSP [members](#) and the EU, as well as the resource-rich economies of Kazakhstan, Namibia, Ukraine and Uzbekistan. The MSP Forum [focuses](#) on minerals and metals supply chains that are the most relevant for clean energy technologies, including cobalt, copper, gallium, germanium, graphite, lithium, manganese, nickel and rare earth elements. It remains to be seen what role, if any, Mongolia will play in this emerging forum.

FURTHER READING

Brown K. and Fox E., [Mongolia – Challenges and Prospects in 2023](#), King's College London, 2023.

Luguusharav B. and Jargalsaikhan M., [Mongolia's path into European geopolitics](#), Friedrich-Ebert-Stiftung/Mongolian Institute for Innovative Politics, 2021.

[Mongolia Trade Competitiveness Diagnostic: Special Focus – Trade Opportunities in Digital Services](#), World Bank, December 2023.

DISCLAIMER AND COPYRIGHT

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© European Union, 2024.

Photo credits: © Zerophoto / Adobe Stock.

eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

<http://epthinktank.eu> (blog)