



CANADA-ASIA AGENDA

Expanding Canada-Mongolia Relations: Resource-Based Democracies in Collaboration

By Julian Dierkes

Mongolia's Oyu Tolgoi mine is set to begin decades-long development financed, in part, by Vancouver-based Ivanhoe Mines. Canada, as the largest mining investor in Mongolia, should be prepared to offer humanitarian assistance in the face of Mongolia's harshest winter in years, as well as support for democratic development and improved opportunities for people-to-people exchanges.

On March 31, 2010 the Investment Agreement concluded between Vancouver-based Ivanhoe Mines, Anglo-Australian mining giant Rio Tinto, and the Government of Mongolia entered into force. Based on this agreement, the Oyu Tolgoi gold and copper deposit will be developed and go into decades-long production. Ivanhoe Mines is planning capital investments of \$750 million in the Oyu Tolgoi project for 2010 alone to begin a construction phase that will cost over \$4 billion. The mine is expected to be in production for decades and to yield over 35 million tons of copper and over 45 million ounces of gold. In addition to expanding Mongolian-Canadian relations, private Canadian mining investment is thus leading the way in resource investments in Mongolia and is set to continue along this trajectory for the foreseeable future.

For Canada, it is a further step in the intensification of a relationship that has developed from Mongolia's

entry into the United Nations nearly 50 years ago, to the establishment of diplomatic relations in 1973, and the opening of a Canadian embassy in Ulaanbaatar in 2008. Given the long-term development of diplomatic relations and the acceleration of economic interactions, it would behove Canada to devote more resources to Mongolia in humanitarian aid, political support, and people-to-people exchanges.

Oyu Tolgoi and Foreign Investment

To many Mongolians the Oyu Tolgoi Investment Agreement heralds the beginning of a new era that is expected to bring significant economic development to this landlocked country of Northeast Asia. The most pressing challenge for the Mongolian government in the foreseeable future remains economic development based on mining resources. Since the passage of the investor-friendly 1997 Minerals Law, Mongolia has experienced



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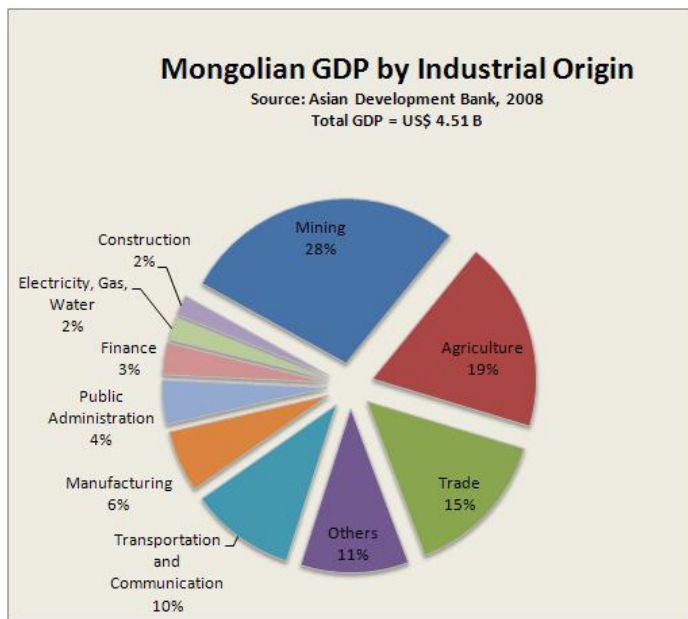
several rounds of mineral exploration frenzies, but also some significant setbacks. The Great State Khural (parliament) and the Government of Mongolia have struggled to strike a balance between encouraging foreign investment and maximizing the benefits from mineral projects to all Mongolians. The most significant recently step in this trajectory has been the October 6, 2009 signing of the Oyu Tolgoi Investment Agreement. Canada, as one the leading mining polities in the world, is already involved in this development as a foreign investor and should continue to be more involved in terms of supporting Mongolian policies.

When Prime Minister Batbold assumed office in October 2009 he pointed to Canada as a model of economic development built on mineral resources. If requested by the Mongolian government or private parties, the government of Canada should continue to be ready to support the Mongolian policy-making process regarding natural resources and other development strategies. Whether it is through on-going contacts between government agencies or through a more specific and concerted engagement, perhaps between the two parliaments along the lines of the Parliamentary Centre's activities in Cambodia, support for political deliberation and strengthened policy-making mechanisms in Mongolia will likely lead to a more stable investment climate and resulting public and private

benefits to Canadians. The current deficit-spending of the government of Mongolia and the lack of concrete investment plans that might turn revenue streams from mining into more sustainable long-term benefits, bodes ill for stated desires to avoid a resource curse and to rely on resources to grow Mongolia for the benefit of all its people. It is the Mongolian government that needs to recognize this, not the (foreign) mining companies that will generate revenue streams in the future. But it is clearly in the interest of these mining companies and thus to some extent to Canada that such revenue streams are devoted to sustainable benefits in the form of savings or investments to bolster the stability of Mongolian democracy and economic development.

Bill C-300

The purpose of the bill is "to ensure that corporations engaged in mining, oil or gas activities and receiving support from the Government of Canada act in a manner consistent with international environmental best practices and with Canada's commitments to international human rights standards."
 For positions on the bill, see a video in support at <http://www.youtube.com/watch?v=Nf563OSDOWs> or see the Prospectors & Developers Association of Canada's website <http://www.pdac.ca/c300/> opposing the bill.



Current discussions around the Hon. John McKay's Bill C-300 point to the need and obligation for Canada to engage the policy-making process in resource-rich developing countries. Whether or not this bill is adopted, it speaks to the perception that Canadian companies – especially in the resource sector – ought to behave abroad just like they would operate domestically. Such behaviour should be supported by parallel actions by the Canadian government that makes it more likely that private investment in developing countries will benefit from long-term political stability.

Canadian engagement in this area should be more active in several arenas. Of course, the Government of Canada should continue to build its relations with Mongolia through the activities of the still-new Canadian embassy in Ulaanbaatar and more specifically through negotiation of a bilateral Foreign Investment Promotion and Protection Agreement. Prime Minister Batbold appears

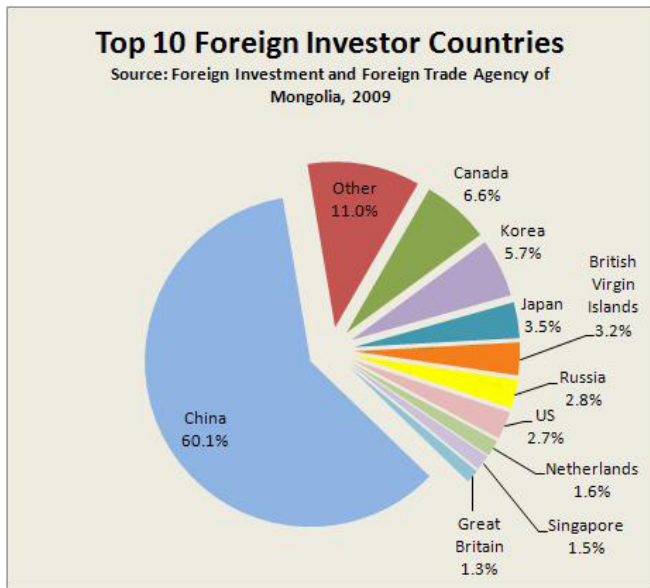


to be eager to visit Canada in the near future and such a visit should be an occasion for an intensification of relations between the two countries. Success in this intensification in non-mining-related areas, such as the adoption of elements of the B.C. Building Code in Mongolia which has opened construction opportunities to Canadian firms, might be especially helpful in the continuing broadening of relations.

Canadian universities too can play a role in the development of domestic engineering and mining capacity. UBC, for example, is training Oyu Tolgoi employees directly and supporting the Mongolian University of Science and Technology in revising their curricula and expanding offerings aimed at training professional mining engineers. At the same time, UBC is also engaged in a broader effort to build interest in and expertise on Mongolia through its Program on Inner Asia.

variously repressive forms of authoritarianism. The recent unrest and apparent violent overthrow of the government in Kyrgyzstan is a stark reminder of the lack of success in getting democracy to take root in the post-Socialist world. China, Vietnam and Laos all hesitate in moving toward any form of institutionalized democracy. North Korea clearly has not entered a post-socialist phase in any area, and the political development of Cambodia has been somewhat muddled as well.

Clearly, democratic development is not without its ups and downs in Mongolia. It is noticeable, for example, that elections are largely not fought on the basis of ideology or competing visions for the future of Mongolia, but instead through channels of clientelism and patrimonialism, despite the continuing strength of the Mongolian People's Revolutionary Party, the governing party for the nearly 70 years of the existence of the Mongolian People's Republic. Corruption continues to be a significant challenge in the political development of Mongolia. Yet, elections by and large have been free, and several peaceful transitions of government from one party to the other and now to a coalition of the two dominant parties suggest that elections are providing an outlet for the popular will of Mongolians to express itself.



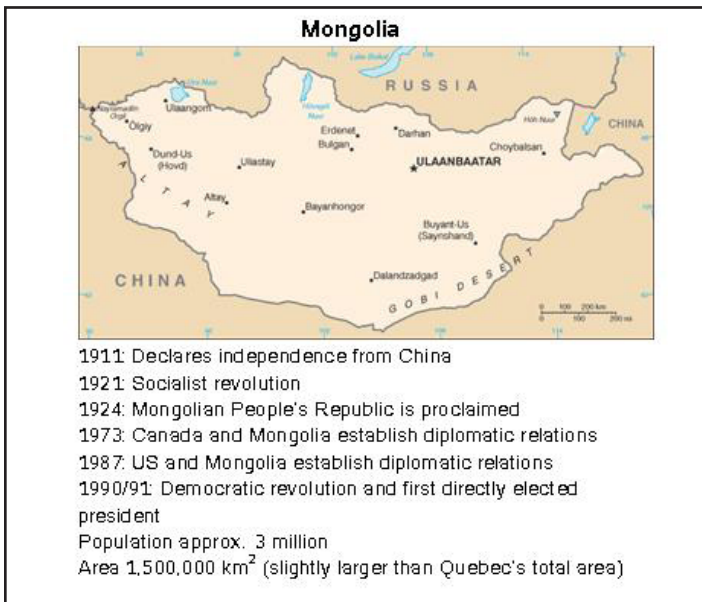
Mongolia: A Post-Socialist Democracy in Asia

Mongolia is the only post-socialist democracy in Asia. This is true whether one classifies countries as democratic on the basis of open and free elections alone, or includes some measure of a democratic consciousness. While a significant number of the European members of the former Soviet Bloc seem to have made a rapid and somewhat successful transition to stable democracies (perhaps in part due to the proximity and quick embrace by the European Union), this is not the case for Asia. The former Soviet republics of Central Asia had nominally democratic beginnings to their independence but have all succumbed to



Polling Station in Rural Mongolia

Mongolia has become increasingly engaged in global affairs in the past decade. This engagement is in part rooted in the Mongolian desire for "third neighbours" to balance the looming presence of its immediate neighbours, the Russian Federation and the PRC. Following Canada's path in peacekeeping, Mongolia has deployed military personnel in NATO-led missions in Iraq, Afghanistan, and United Nations' eight missions in Africa and the Caucasus. Canada's Military Training



and Assistance Programme has contributed to strengthening the capacity of the Mongolian military by offering peacekeeping training to more than 50 members of the military. This engagement would only be furthered by an apparent renewed willingness to consider membership in the Ottawa Convention on part of the Mongolian government.

Humanitarian Aid and Facilitation of People-to-People Exchanges

After ten years of relatively mild winters, Mongolia is currently experiencing a prolonged, very cold winter with significant snow cover (a phenomenon described as a *zud*) that has already led to millions of livestock deaths in a national herd numbering around 45 million,

and has not abated. While the main impact is to potentially exacerbate rural poverty, very remote areas are also seeing humanitarian emergencies as pastoral herders are suffering from the feed shortages for their herds and medical services have been disrupted. The Government of Mongolia and aid agencies are responding to emergency needs, but the Canadian government should also stand ready to do so.

The Vancouver 2010 Olympics highlighted one of the outstanding sore points that hinder increased people-to-people contacts between the two countries: reportedly, fifty Mongolian Olympic ticket holders were denied tourist visas to visit Canada. Not only are Mongolians frequently denied visas even when planning travel to Canada on company business or as students due to fears of large number of Mongolians overstaying their visa, but the lack of a visa service point at the Canadian embassy in Ulaanbaatar requires Mongolians to travel to Beijing for visa services, a trip that is financially daunting for some Mongolians.

As diplomatic relations and economic links between Mongolia and Canada have developed and are improving, it is time for other areas of the relationship to catch up to these advances. Firstly, Canada should be ready to support Mongolia through humanitarian aide to abet the consequences of this year's severe winter. Secondly, if requested, the Canadian government, private sector, and civil society should be ready to support the development of Mongolian political institutions and policy-making capacity. Lastly, people-to-people exchanges could be facilitated considerably through opening a visa service point at the Canadian embassy in Ulaanbaatar.

1. Rossabi, Morris. 2009. "Mongolia: Transmogrification of a Communist Party". *Pacific Affairs*, 82(2): 231-250.
2. See for example my observations on the 2008 parliamentary elections at http://www.sociolog.com/jdierkes/papers/mongolia_apr_2008.pdf or on the 2009 presidential elections at <http://www.iar.ubc.ca/programs/innerasia/mongolian2009election.aspx>.
3. Ganbat, D. 2007. "Mongolia Country Report – Second Wave of Asian Barometer Survey". Working Paper No. 33, Asian Barometer Project Office, Taipei. Available at <http://www.asianbarometer.org/newenglish/publications/workingpapers/no.33.pdf>.

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