

Mongolia's Rare Earth Strategy: balancing risks and rivalries

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Wedged between China and Russia, Mongolia is often viewed through the prism of its geography: landlocked and dependent on its neighbours for access to global trade routes. Yet, beneath its deserts and steppes lies a resource base that has the potential to redraw



supply chains for critical minerals. Copper, gold and rare earth elements make the country more than a minor supplier; they place it in the middle of the competition for clean energy and electric vehicles.

At the heart of this story is Oyu Tolgoi, one of the world's largest copper-gold deposits. Developed with Rio Tinto, the project has been described as an “*industrial ecosystem*” in the Gobi Desert, with the capacity to produce for half a century and generate over US\$1 trillion in value. Alongside copper, the country is advancing exploration of rare earth deposits such as Khukh Tag graphite - used in battery anodes - estimated at 12.2 million tons with a high-grade profile, highlighting the potential to diversify beyond traditional exports.

The stakes are far reaching. With China dominating processing and supply of critical minerals, Mongolia's emergence as an alternative is drawing attention from governments and corporations seeking to reduce reliance on Beijing. This ambition intersects with Western decarbonisation agendas and the scaling up of EV supply chains.

Still, opportunity does not come without problems. Political volatility, governance gaps and infrastructure bottlenecks continue to complicate. The government's desire to assert itself, sometimes through abrupt regulation, reflects a balancing act between economic potential and the risks of overdependence on its powerful neighbours.

Political and regulatory stability: foundations or fault lines?

Mongolia's democratic institutions provide a relatively stable political foundation, but the mining sector remains vulnerable to policy swings driven by populism and resource nationalism. Governments have frequently altered the terms of engagement with foreign investors, often under public pressure to ensure that mineral wealth delivers tangible benefits to citizens. Episodes such as sudden and new requirements for onshore power generation and smelting at Oyu Tolgoi, illustrate how quickly regulatory expectations can shift.

Underlying governance challenges complicate this picture. Oversight institutions are under strain and corruption in natural resource contracts has been highlighted as a recurring risk. Transparency International has noted that weak accountability frameworks can fuel rent-seeking political interference and erode public trust in state institutions. The Bertelsmann Transformation Index notes that informal networks and political patronage continue to influence economic decisions.

For investors, these governance patterns translate into legal unpredictability and high *due diligence* requirements. Renegotiated contracts and changing taxes increase uncertainty and costs. Transport limits and energy shortages add further operational risks. In short, while Mongolia offers one of the few large-scale alternatives to Chinese-controlled rare earth and copper supply, its regulatory volatility and governance gaps remain central concerns. Companies must prepare for sudden policy shifts and weigh long-term commitments against the risk of costly renegotiations and delayed projects.

Flagship projects: copper giants and rare earth contenders

Mongolia's resource agenda focusses on Oyu Tolgoi, the massive copper-gold venture led by Rio Tinto, and emerging rare earth and gold developments. Oyu Tolgoi is among the globe's largest copper-gold sites, with projections of 450,000 tonnes of copper annually at peak, and it anchors Mongolia's strategic mineral profile. However, its scale brings heightened geopolitical and operational risk.

On the rare earth front, the Khalzan Buregtei deposit stands out. Mongolian National Rare Earth Corporation (MNREC) has selected Wood Plc to conduct a full feasibility study, building on a completed pre-feasibility report to design both concentrator and refinery facilities. This deposit is positioned to become one of the few operating sources of heavy rare earths, including dysprosium, a critical input in advanced technology manufacturing and clean-energy systems.

Gold producers are also entering the stage. Erdene Resource Development's Bayan Khundii project nears first gold production, expected in late Q3 2025. Construction is nearly complete, permitting is secured, and near-surface, high-grade ore results boost its projections. The project is targeting robust cash flow (approximately CA\$200 million annually) and holds expansion potential to extend mine life beyond its base case.

These flagship developments underscore Mongolia's transition from traditional copper exports to a diversified portfolio that now includes rare earths and gold. Yet, they face shared challenges such as securing infrastructure in a landlocked country, bridging funding gaps, ensuring reliable energy and water supply, and managing environmental and community expectations in some of the planet's most inhospitable terrain.

Foreign investors and local rules: a fragile bargain

Foreign mining companies remain central to Mongolia's resource development, but their position is shaped by shifting rules and political sensitivities. The most visible case is Oyu Tolgoi, operated by Rio Tinto which, after years of disputes over taxes and ownership, was brought under renewed agreement with the government in 2022. That deal removed an immediate investment cloud, but it also underscored how fragile investor confidence can be when fiscal terms and governance frameworks are disputed.

Beyond copper and gold, interest is widening to rare earth elements. Projects such as Khukh Del/Khukh Tsav have drawn exploration attention, with potential to position Mongolia as a supplementary supplier outside China's orbit. Western governments have signalled support for diversifying rare earth supply, but the ability to secure finance and long-term offtake agreements depends heavily on Mongolia's regulatory predictability. Policy tools like the Foreign Investment Law and debates around state equity participation continue to generate uncertainty. Investors face strong resource potential but also political pressure and demands for higher revenue. Mongolia needs foreign capital and expertise, but operators risk contract revisions under government or public pressure.

The geopolitical balancing act: between dependence and diversification

Mongolia's rare earth ambitions are shaped as much by geography as geology. Landlocked between China and Russia, it relies on its two neighbours for trade and infrastructure access, creating vulnerabilities. Mongolia's mining sector already operates under the unavoidable influence of China, which receives a whopping 84% of all Mongolian exports (primarily coal and copper).

In 2022 alone, bilateral trade reached US\$5.99 billion in coal and US\$2.73 billion in copper exports, with 88% of Mongolian minerals leaving the country unprocessed. China is not only Mongolia's largest trading partner but also the dominant global processor of rare earths, meaning any attempt at diversification must contend with entrenched dependencies.

Western governments and companies see opportunity in breaking this pattern. The US and its allies are pursuing supply chain resilience strategies that explicitly seek alternatives to China's dominance in rare earths and other critical minerals. For Mongolia, alignment with these initiatives could attract investment and technology transfer, particularly as projects like Khukh Del and Khotgor develop. However, this engagement carries risks of political friction with Beijing, which has historically used trade leverage when its interests are challenged.

Infrastructure gaps only compound the challenge. Mining ventures such as Oyu Tolgoi have already demonstrated how logistical bottlenecks (limited rail links and dependence on foreign power supplies to name but two) can slow timelines and increase costs. These constraints limit how fast Mongolia can scale production to meet international demand, regardless of its resource potential.

The balancing act for Ulaanbaatar is therefore twofold. Leverage global demand for rare earths to attract diversified partners, while managing exposure to geopolitical pushback from China, and navigating its own institutional weaknesses. How successfully it negotiates this middle ground will determine whether Mongolia becomes a genuine alternative supplier or remains trapped in its geography.

Economic impact: who gains, who loses?

Mining is the backbone of Mongolia's economy, contributing roughly a quarter of GDP and the great majority of export earnings, leaving growth, the budget and the currency highly exposed to commodity cycles. The IMF warns that boom-bust dynamics and exchange-rate pressures require tighter fiscal anchors, larger precautionary savings and greater FX flexibility to avoid the curse that besets all resource dependant nations, "*Dutch disease*" and revenue volatility.

Concerns over the fair distribution of revenue gains remains uneven. Persistent risks around opaque contracting and weak accountability have long been flagged and continue to undermine public trust. There are also social and environmental costs that fall heavily on local communities, reinforcing perceptions that benefits stay among political and business elites rather than reaching any citizens.

The policy intent is, however, shifting. Ulaanbaatar's current Action Program pledges fairer distribution of mineral revenues and stronger social returns, including investment in public goods. Yet, underinvestment in diversification like transport, power, processing and skills, still constrains non-resource growth, a gap repeatedly noted in assessments of the critical-minerals push.

Without firm fiscal rules and smart diversification, resource windfalls will fuel volatility and rent-seeking. With them, revenues from copper and rare earths could build infrastructure and strengthen human capital, reducing reliance on future commodity cycles.

Conclusion

Mongolia's copper and rare earth plans put it at a strategic crossroads. Governments and businesses see a chance to reduce reliance on China while accessing an underdeveloped, resource-rich market. Oyu Tolgoi will drive global electrification, and new rare earth projects show Mongolia's wider role in critical minerals.

Yet, risks remain for this approach. Mongolia's reliance on transit routes through China and Russia constrains its export leverage, and infrastructure gaps in rail and processing facilities limit the pace of development. Governance challenges over corruption concerns and the persistent weight of resource nationalism only add increasing uncertainty for investors.

For those betting against Mongolia, the core question is whether the country can translate resource promise into dependable output. Strategic partnerships may support supply diversification goals, but progress hinges on managing Chinese sensitivities and building greater political and contractual stability. Mongolia offers the prospect of becoming a new pillar in global critical mineral supply, yet, its role will ultimately be shaped as much by governance and geopolitics as by geology.

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