Research Article

A Study on Mongolia's Foreign Trade and Economic Growth: The Case of Its Two Neighbors and Third Neighbor

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Abstract

This study investigates the economic impact of Mongolia's foreign trade structure, focusing on the relative contributions of its two neighbors - China and Russia - and its designated third-neighbor partners within the framework of the Third Neighbor Policy. Using annual data from 2005 to 2025 and employing correlation analysis, regression modeling, and theoretical interpretation, the study reveals a pronounced imbalance in Mongolia's trade-growth relationship. The findings show that Mongolia's economic performance is driven primarily by exports to China, with Russia exerting influence mainly through energy-related trade balances, while most third-neighbor countries exhibit weak or inconsistent economic effects. Only Japan demonstrates a statistically significant export-related impact, and a few partners, such as South Korea and Turkey, show positive contributions through trade balance improvements. By contrast, trade deficits with Australia and the European Union are associated with negative growth effects. Regression results with global trade indicators confirm that total exports and imports significantly enhance GDP growth, underscoring the importance of broad trade openness in Mongolia's development trajectory. The study concludes that although the Third Neighbor Policy is diplomatically valuable, its economic influence remains limited and uneven due to structural geography, logistical barriers, and the small scale of third-neighbor trade. The paper recommends strengthening high-impact third-neighbor partnerships, reducing export dependence on China through value-added sectors, modernizing trade infrastructure, and aligning economic diplomacy with measurable targets. Findings offer theoretical and empirical insights into how Mongolia can enhance its economic security and strategic autonomy through more targeted trade diversification.

Keywords

Mongolia; Foreign Trade; Economic Growth; Third Neighbor Policy; China; Russia; Trade Diversification; International Relations; Econometric Analysis; Small-State Strategy.

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Introduction

Foreign trade has become one of the most essential dimensions of state power, economic development, and diplomatic engagement in the modern international system. In an increasingly interconnected global economy, states - especially small and landlocked ones - rely on external markets not only for economic growth but also for constructing foreign policy strategies that enhance their autonomy, security, and international standing. Mongolia, positioned between the two major powers of China and Russia, represents a unique case where trade is not merely an economic activity but also a strategic instrument of foreign policy and diplomacy. The country's efforts to diversify economic partnerships through the "Third Neighbor Policy" illuminate the intersection between international relations, economic interdependence, and small-state diplomacy (Soni, 2015; Ganbaatar et al., 2021).

Since transitioning to democracy and a market economy in the early 1990s, Mongolia has actively pursued external engagement as a mechanism for development, stability, and identity formation in the international community. With abundant mineral resources, the country's economic structure has become highly export-oriented, yet disproportionately dependent on a single trading partner – China - which receives nearly 90 percent of its total exports. Russia, while less significant economically, plays a crucial role in energy supply and strategic diplomacy (Sabloff, 2020).

This geopolitical positioning has made Mongolia a classic example of a small state navigating between larger powers. As highlighted by international relations scholars, small states often seek diplomatic and economic diversification to avoid domination and enhance resilience. Mongolia's Third Neighbor Policy, emerged in the early 1990s and later formalized in 2011 as a comprehensive diplomatic strategy designed to diversify Mongolia's external relations, strengthen political and economic independence, is an embodiment of this strategy - aimed at strengthening relations with democratic and economically advanced states such as Japan, South Korea, the United States, the European Union, and India (Ulambayar, 2013; Khomushku et al., 2025).

Although politically successful, the economic outcomes of this policy remain under-assessed. Understanding whether these diplomatic expansions have effectively contributed to Mongolia's foreign trade diversification and economic growth is crucial for both policymakers and scholars of IR and economic diplomacy.

Despite decades of diplomatic and economic outreach, Mongolia remains heavily dependent on China, while trade with third neighbors continues to be limited in both scale and diversity. This imbalance generates several challenges, including heightened vulnerability to external shocks, border disruptions, and geopolitical tensions, as well as reduced bargaining power in foreign policy and international negotiations (Chu et al., 2020). It also raises critical questions about the effectiveness of the Third Neighbor Policy, particularly whether it has achieved meaningful economic diversification or remains largely symbolic in practice.

Furthermore, existing scholarship tends to examine Mongolia's foreign policy from a diplomatic or geopolitical perspective (see Duggal & Panda, 2021; Oxford Analytica, 2024), while empirical economic analyses are scarce. There is limited quantitative research evaluating how different trading partners - China, Russia, and third neighbors - affect Mongolia's GDP growth. Thus, the central problem addressed by this study is to what extent do Mongolia's trade relations - with both immediate neighbors and third neighbors - contribute to its economic growth, and how do these patterns reflect the country's foreign policy strategy and small-state diplomatic behavior?

The purpose of this study is to analyze the economic impacts of Mongolia's foreign trade patterns, focusing on how trade with two neighbors and third neighbors relates to Mongolia's economic growth and its broader diplomatic strategy under the Third Neighbor Policy.

The study aims to analyze Mongolia's external economic relations and their impact on national development. It assesses the correlation between GDP growth and trade (exports, imports, and turnover) with China, Russia, third neighbors, and the global market, and uses regression analysis to identify which partners significantly influence economic growth. It further evaluates the effectiveness of the Third Neighbor Policy by comparing the contributions of third neighbors with those of the two major neighbors. The study also integrates key international relations theories such as liberalism, realism, constructivism, and small-state theory to interpret Mongolia's trade and diplomatic behavior. Finally, it proposes policy recommendations to enhance economic security, diplomatic autonomy, and sustainable development through trade diversification.

This study contributes to international relations by showing how Mongolia's trade patterns reflect broader diplomatic and geopolitical strategies, while also advancing economic diplomacy through quantitative analysis of the Third Neighbor Policy. It offers insights for small-state studies by illustrating how Mongolia balances great-power influence through diversification and contributes to development economics by linking trade diversification with economic growth in a resource-dependent, landlocked context. Practically, the study helps evaluate the effectiveness of the Third Neighbor Policy, identifies key trading partners driving growth, and supports policy formulation aimed at reducing dependence on China while strengthening diversified, globally integrated economic relations.

This study is organized into five parts that together examine how Mongolia's trade patterns with its neighbors and third neighbors shape economic growth and foreign policy strategy. It moves from theory to methodology, then to empirical analysis and interpretation, ultimately linking the findings to Mongolia's broader diplomatic orientation. In doing so, the structure signals a clear journey from data to diplomacy.

Literature Review

Understanding Mongolia's foreign trade and its relationship with economic growth requires engaging with a rich body of literature spanning international trade theory, international economic relations, small-state diplomacy, and the evolving logic of

Mongolia's Third Neighbor Policy. Because Mongolia is a small, landlocked, resource-dependent state situated between two major powers, its trade patterns are deeply shaped not only by economic fundamentals but also by geopolitical realities, diplomatic choices, and historical identity. In this sense, foreign trade becomes inseparable from foreign policy, and the dynamics of Mongolia's economic growth must be interpreted through the combined lenses of economics, political science, and international relations (Ulzii-Ochir, 2019; Denzenlkham, 2022).

Early theories of international economic relations offer foundational explanations of how states behave in global markets and why they seek particular forms of cooperation. Liberal scholarship, especially as articulated by Keohane and Nye (1977), emphasizes that open markets, trade interdependence, and multilateral institutions generate mutual gains and reduce the likelihood of conflict. In the liberal perspective, states benefit from diversified economic partnerships and the institutional mechanisms that support them. These ideas resonate strongly in the Mongolian context, where diversification of trade partners is a central objective of the Third Neighbor Policy. By deepening economic engagement with democratic and technologically advanced partners such as Japan, South Korea, the United States, and the European Union, Mongolia seeks to embed itself within a broader liberal international order, thereby strengthening both its external relations and domestic development.

Yet Mongolia's position cannot be understood through liberalism alone. Realist insights also play an important role, highlighting how asymmetry and dependence shape state behavior. Realism views international politics as a contest over power and survival (Morgenthau, 1948; Hall, 2014), and economic relations are not exempt from this logic. States use trade as a form of economic statecraft, leveraging markets, investment, and resources to advance strategic interests. Mongolia's overwhelming dependence on China for exports and Russia for energy supplies is a clear expression of structural vulnerability. From a realist standpoint, the Third Neighbor Policy is a hedging strategy designed to mitigate the dominance of its two neighbors by cultivating political, economic, and security ties with more distant partners. Diversifying trade flows is not only an economic objective but also a strategic one: it reduces coercive leverage and enhances foreign policy autonomy.

Dependency theorists take the analysis further by arguing that global trade reinforces unequal structures between resource-exporting peripheral economies and industrialized core economies (Frank, 1967; Amin, 1976). Mongolia exhibits classic characteristics of dependency: its export basket is dominated by minerals, its primary market is a large neighboring industrial power (China), and imports consist largely of manufactured goods. These patterns deepen structural dependence and constrain economic transformation. While diversification may provide some relief, geographical and infrastructural barriers limit Mongolia's capacity to reorient its trade flows toward distant markets.

Constructivist perspectives add a different dimension by emphasizing the role of identity, norms, and historical memory. Wendt (1999) argues that state interests are shaped not

only by material conditions but also by shared beliefs and identities. Mongolia's preference for democratic and culturally compatible partners is deeply tied to its post-1990 self-conception as a democratic state seeking to differentiate itself from its authoritarian neighbors. The Third Neighbor Policy thus emerges as a hybrid strategy in which economic diversification, diplomatic alignment, and normative identity mutually reinforce each other.

Complementing international relations theories, classical and modern theories of international trade provide an analytical foundation for understanding Mongolia's economic patterns. Classical thinkers such as Smith (2002) and Ricardo (1817) explain trade specialization through absolute and comparative advantage. Mongolia, endowed with mineral resources and limited industrial capacity, follows patterns predicted by these theories: it exports raw materials and imports manufactured goods. The Heckscher-Ohlin model reinforces this logic by linking trade specialization to factor endowments.

However, contemporary trade theories - particularly Krugman's (1979) New Trade Theory and the New Economic Geography (Chandra, 2021) - highlight how economies of scale, market size, and geographical distance influence trade flows. These insights are especially relevant for Mongolia. Its proximity to China lowers transport costs and facilitates bulk mineral exports, while long distances to third neighbors make diversification challenging. The gravity model of trade (Tinbergen, 1962), which predicts trade based on economic size and distance, further explains China's dominance: China is both large and geographically close. In this context, diplomacy is necessary to overcome geographical constraints, illustrating why foreign policy and trade cannot be separated.

Literature on economic diplomacy also provides critical insights. Economic diplomacy is broadly defined as the use of diplomatic instruments-negotiations, agreements, trade missions, and embassies - to advance national economic interests (Okano-Heijmans, 2013). Small states in particular depend heavily on economic diplomacy. Mongolia's efforts to secure trade agreements, attract foreign investment, and expand export markets are not merely economic pursuits but strategic acts of diplomacy. Assistance and partnership from Japan, South Korea, the United States, the EU, and others demonstrate how diplomatic relationships translate into economic opportunities.

Small-state theory further contextualizes Mongolia's foreign policy behavior. Scholars such as Thorhallsson (2017) emphasize that small states survive and prosper through strategies such as multilateralism, hedging, alliance diversification, and niche diplomacy. Mongolia's active participation in international organizations - including the UN, OSCE, and ASEM - and its persistent cultivation of third neighbors reflect typical small-state strategies aimed at expanding political and economic space. In this sense, the Third Neighbor Policy is not only a foreign policy orientation but a small-state survival strategy with economic ramifications (Soni, 2015).

The historical development of the Third Neighbor Policy shows how these theoretical elements converge. Initiated in the 1990s, the policy sought to extend Mongolia's diplomatic reach and economic partnerships beyond Russia and China. While politically successful, its economic impact has been limited by structural constraints: trade with third neighbors remains modest, logistics and transportation costs are high, and the export structure is narrow and mineral-dependent. These persistent challenges underscore the need for empirical research assessing the actual economic outcomes of Mongolia's diversification efforts (Denzenlkham, 2022).

Figure 1. Conceptual Framework.

Empirical studies on the trade–growth relationship generally support the idea that trade openness and export expansion stimulate economic growth (Balassa, 1978), while technology-rich imports enhance productivity. Conversely, high trade concentration increases vulnerability to external shocks (Hesse, 2009). Mongolia-specific studies reveal similar patterns: rapid growth driven by mineral exports, strong dependency on China, and the slow but strategic development of third neighbor relations (World Bank, 2020; Bayarkhuu, 2018). However, no previous study provides a systematic quantitative comparison between the economic effects of trade with two neighbors and with third neighbors. This gap is significant, as it prevents an evidence-based assessment of the Third Neighbor Policy's economic dimension.

In conclusion, the literature demonstrates that Mongolia's economic performance is shaped by an integrated causal chain (see Figure 1) linking international relations, foreign policy, and trade structure. International relations theories - liberalism, realism, constructivism, and small-state perspectives - collectively explain how Mongolia's geopolitical position between China and Russia informs its foreign policy strategy, particularly the Third Neighbor Policy. This strategy, in turn, shapes the country's external trade structure by reinforcing strong dependence on neighboring markets while simultaneously promoting diversification toward third neighbors. Classical and modern

trade theories further clarify how structural factors such as resource endowments, market size, and geographic proximity translate these policy choices into observable trade patterns, which ultimately determine economic growth outcomes.

Despite this strong theoretical foundation, the literature reveals a clear empirical gap: the causal pathway from foreign policy strategy to trade structure and economic growth has not been systematically tested. Existing studies acknowledge the importance of diversification and the risks of overdependence on China and Russia, but they do not quantify how trade with different partners affects economic performance. Addressing this gap, the present study integrates international relations theory with econometric analysis to empirically evaluate how Mongolia's foreign policy–driven trade structure influences GDP growth, thereby providing evidence on the economic effectiveness of the Third Neighbor Policy.

Data and Methodology

Data

This study investigates the economic impact of Mongolia's "Third Neighbor Policy" by examining whether foreign trade diversification - beyond Mongolia's two immediate neighbors, China and Russia - has contributed to economic growth from 2005 to 2025. Because the Third Neighbor Policy is a geopolitical strategy and an economic diversification effort, the methodology must capture both measurable economic relationships and the political logic embedded in Mongolia's foreign relations. For this reason, this study adopts an integrated methodological approach that combines econometric analysis, graphical exploration, and theoretical interpretation grounded in international relations and international political economy.

The analysis is based on annual data covering period of 19 years. This timeframe captures a pivotal stage in Mongolia's economic development - one characterized by rapid, mining-driven growth cycles, evolving trade structures, and the simultaneous expansion of diplomatic engagement with democratic third neighbors such as the United States, Japan, South Korea, Australia, and the European Union, alongside deepening economic interdependence with its two immediate neighbors, China and Russia. Annual time-series data are appropriate because they reflect long-term structural tendencies rather than short-term fluctuations and provide a consistent basis for comparing trade flows with GDP performance.

The empirical analysis uses two types of variables. The dependent variable is Mongolia's annual GDP growth rate. The independent variables are Mongolia's bilateral export and import flows with its two neighbors – China and Russia - and eight third-neighbor partners: the United States, South Korea, Australia, Japan, Turkey, Canada, India, and the European Union. This disaggregated approach enables the study to assess whether trade with specific partners, particularly those targeted by the Third Neighbor Policy, shows a stronger or weaker relationship with economic growth.

Data for the analysis were obtained from the World Bank's World Development Indicators (WDI) for GDP growth and total trade, and from the National Statistics Office of Mongolia (NSO) for bilateral export and import values. Supplementary information from Mongol Bank and government trade reports provides additional context for interpreting the quantitative trends.

Before turning to econometric modeling, the study employs descriptive and graphical analysis to visualize Mongolia's economic and trade trajectories. Graphical trends help illustrate the degree of Mongolia's dependence on China, the relatively modest scale of trade with third neighbors, and the interplay between commodity cycles and export revenue. These visuals offer intuitive insights into how trade patterns have evolved over time and help identify the main factors that appear to drive economic fluctuations.

Correlation analysis follows as a preliminary step to explore the statistical associations between Mongolia's GDP growth and bilateral trade flows with different partners. Correlation coefficients indicate whether increased trade with particular partners tends to coincide with stronger economic performance. Although correlation alone does not imply causation, it provides essential orientation for deeper econometric analysis.

Regression model specification

To formally evaluate the extent to which foreign trade affects Mongolia's economic growth, the study employs a series of ordinary least squares (OLS) regression models. These models quantify the magnitude and statistical significance of the relationship between trade variables and GDP growth.

The general functional form of the regression model is:

$$GDP_t=\alpha_0+\beta_1 X_t+\varepsilon_t \quad \text{(Eq. 1)}$$

where GDPt is Mongolia's GDP growth rate in a year at time t, Xt is a trade variable (export, import, or trade balance with a specific partner, α1 measures the marginal effect of that trade variable on growth, εt is the error term, and α0 is intercept. β1 is coefficient of variable X at time t.

To assess trade with China and Russia, the following export and import, as well trade balance models are estimated:

$$GDP_t=\alpha_0+\beta_1 EX_{CH,t}+\beta_2 EX_{RU,t}+\varepsilon_t \quad \text{(Eq. 2)}$$

$$GDP_t=\alpha_0+\beta_1 IM_{CH,t}+\beta_2 IM_{RU,t}+\varepsilon_t \quad \text{(Eq. 3)}$$

$$GDP_t=\alpha_0+\beta_1 BoT_{CH,t}+\beta_2 BoT_{RU,t}+\varepsilon_t \quad \text{(Eq. 4)}$$

To evaluate the economic dimension of the Third Neighbor Policy, a more comprehensive export and import and balance of trade model includes eight third-neighbor partners:

$$GDP_t = \alpha_0+\beta_1 EX_{US,t}+\beta_2 EX_{KR,t}+\beta_3 EX_{AU,t}+\beta_4 EX_{JP,t}+\beta_5 EX_{TR,t}$$

$$+\beta_6 EX_{CA,t}+\beta_7 EX_{IN,t}+\beta_8 EX_{EU,t}+\varepsilon_t \quad \text{(Eq. 5)}$$

$$GDP_t = \alpha_0+\beta_1 IM_{US,t}+\beta_2 IM_{KR,t}+\beta_3 IM+\beta_4 IM_{JP,t}+\beta_5 IM_{TR,t}$$

$$+\beta_6 IM_{CA,t}+\beta_7 IM_{IN,t}+\beta_8 IM_{EU,t}+\varepsilon_t \quad \text{(Eq. 6)}$$

$$GDP_t = \alpha_0+\beta_1 BoT_{US,t}+\beta_2 BoT_{KR,t}+\beta_3 BoT+\beta_4 BoT_{JP,t}+\beta_5 BoT_{TR,t}$$

$$+\beta_6 BoT_{CA,t}+\beta_7 BoT_{IN,t}+\beta_8 BoT_{EU,t}+\varepsilon_t \quad \text{(Eq.7)}$$

where GDPt is Mongolia's GDP growth rate in a year at time t, EX, IM and BoT are export and import as well as corresponding balance of trade of Mongolia with third neighbor n countries at time t respectively. α0 is intercept, β is coefficient of independent variables, εt is the error term.

Finally, a benchmark model examines Mongolia's total world trade:

$$GDP_t = \alpha_0+\beta_1 EX_{world,t}+\beta_2 IM_{world,t}+\varepsilon_t \quad \text{(Eq. 8)}$$

The coefficients from these regressions indicate not only which trade flows are statistically significant but also the direction and magnitude of their influence on economic growth. By comparing results across models - neighbors vs. third neighbors, exports vs. imports - the study can evaluate whether the diversification goals of the Third Neighbor Policy are reflected in measurable economic outcomes.

Analytical workflow of the study

To better understand the connections between the conceptual, empirical, and interpretive components of this research, the methodological approach can be visualized in a flow diagram. This diagram does not represent rigid steps but rather the organic progression of inquiry - from the guiding purpose and theoretical grounding to data collection, analysis, and final interpretation. It begins with the broad research purpose - assessing the economic significance of the Third Neighbor Policy - and links this purpose to the theoretical frameworks that guide the analysis, including liberal, realist, constructivist, and small-state perspectives, as well as key ideas from international trade theory such as comparative advantage, new trade theory, and the gravity model.

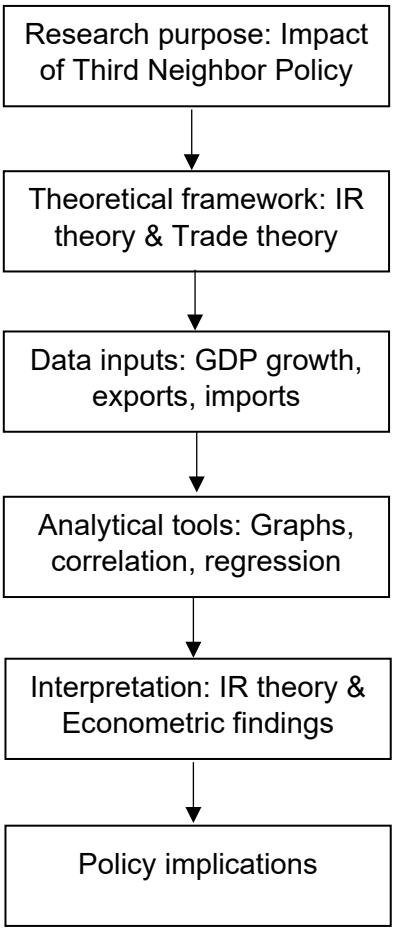

Figure 2. Methodology Diagram.

These theoretical foundations inform the process of selecting variables and gathering empirical data. The diagram illustrates the movement from conceptual frameworks to concrete inputs: annual GDP growth figures and bilateral export and import data, primarily sourced from the World Bank and the NSO. Once collected, the data is cleaned, organized into time-series form, and prepared for analysis using statistical software.

The analytical stage of the diagram highlights the integration of graphical trend analysis, correlation matrices, and regression modeling. These tools enable the study to describe, explore, and formally test the relationship between Mongolia's trade flows and economic growth. The latter stages of the diagram emphasize interpretation - evaluating statistical significance, comparing neighbor and third-neighbor effects, and situating empirical findings within the broader international relations theories discussed in part two.

Finally, the flow of the diagram culminates in policy implications, connecting empirical results to questions of trade diversification, economic strategy, and the practical effectiveness of the Third Neighbor Policy. Taken together, the diagram illustrates a coherent and flowing methodological process in which conceptual foundations, empirical evidence, and policy interpretation reinforce one another.

Overall, the methodology used in this research combines the strength of empirical econometric analysis with the interpretive depth of international relations scholarship. By integrating econometric analysis with insights from international relations and trade theory, the study provides a robust basis for evaluating whether Mongolia's foreign trade diversification under the Third Neighbor Policy has contributed to economic growth. This comprehensive approach ensures that the results of the analysis are both empirically grounded and geopolitically meaningful, offering a nuanced understanding of Mongolia's economic trajectory and foreign policy practice.

Data Analysis and Discussion

Results of correlation analysis (Deeper comparison of neighbors vs. Third neighbors)

The combined correlation results across exports, imports, and trade balance reveal a clear and persistent pattern in the structure of Mongolia's foreign trade and its relationship with economic growth. In every dimension of trade - whether measured through exports, imports, or overall trade balance - Mongolia's economic performance is most closely tied to its two immediate neighbors, China and Russia. The correlations show that Mongolia's GDP growth rises and falls with changes in trade flows with these two countries, underscoring the deep structural dependence that defines Mongolia's economic geography. In contrast, Mongolia's trade relations with third-neighbor countries appear far less influential, displaying weaker, inconsistent, or in many cases even negative correlations with GDP growth.

Table 1. Correlation between GDP growth Mongolia and export of Mongolia with Russia, China, third neighbor countries and the world

	GDP	World	CN	RU	US	KR	AUS	JP	TR	CA	IN	EU
GDP	1											
World	0.516	1										
CN	0.464	0.902	1									
RU	0.109	0.463	0.566	1								
US	0.034	0.021	-0.048	-0.034	1							
KR	-0.220	-0.016	0.042	0.660	0.149	1						
AUS	0.121	-0.202	-0.253	-0.343	0.308	-0.073	1					
JP	0.664	0.604	0.457	0.361	0.085	0.153	-0.100	1				
TR	0.003	0.381	0.476	0.171	-0.264	-0.008	-0.188	-0.196	1			
CA	-0.066	-0.136	-0.035	0.061	-0.417	0.061	-0.143	-0.279	0.197	1		
IN	0.174	0.290	0.564	0.352	-0.117	-0.178	-0.146	-0.003	0.206	0.166	1	
EU	0.332	0.441	0.279	0.425	-0.005	0.051	-0.052	0.420	-0.168	0.308	0.149	1

Note: Pairwise correlation coefficients between China (CN), Russia (RU), the United States (US), South Korea (KR), Australia (AUS), Japan (JP), Turkey (TR), Canada (CA), India (IN), and the European Union (EU) range from −1 (perfect negative) to +1 (perfect positive), indicating the strength and direction of linear relationships (positive - direct; negative - inverse).

The export correlations illustrate this dependency most clearly. Exports to China show a moderate and positive correlation with GDP growth, reflecting Mongolia's heavy reliance on mineral sales - especially coal and copper - to the Chinese market. When Chinese demand increases, Mongolia's export revenues expand, and GDP growth tends to strengthen accordingly. A weaker positive correlation exists with exports to Russia, but this reflects a much smaller trade relationship. By contrast, most third neighbors display weak or negligible export correlations with GDP growth. Although Japan stands out with a strong positive association - suggesting that trade with Japan tends to grow during favorable economic periods - other major third neighbors such as the United States, South Korea, Australia, Turkey, Canada, and India show very little connection to economic performance. These findings confirm that Mongolia's export-led growth continues to be driven primarily by its immediate region, not by the wider network of democratic partners emphasized in its Third Neighbor Policy.

Table 2. Correlation between GDP growth Mongolia and import of Mongolia with Russia, China, third neighbor countries and the world

	GDP	World	CN	RU	JP	US	KR	TR	IN	AUS	CA	EU
GDP	1											
World	0.615	1										
CN	0.595	0.952	1									
RU	0.51	0.885	0.811	1								
JP	0.546	0.892	0.802	0.799	1							
US	0.474	0.779	0.662	0.516	0.762	1						
KR	0.663	0.902	0.789	0.830	0.788	0.691	1					
TR	0.610	0.909	0.848	0.720	0.790	0.774	0.873	1				
IN	0.382	0.761	0.698	0.694	0.625	0.532	0.752	0.724	1			
AUS	0.238	0.654	0.658	0.428	0.651	0.675	0.396	0.560	0.423	1		
CA	0.517	0.757	0.749	0.420	0.693	0.843	0.591	0.803	0.443	0.795	1	
EU	0.549	0.889	0.840	0.680	0.680	0.781	0.836	0.897	0.833	0.590	0.768	1

Note: Pairwise correlation coefficients between China (CN), Russia (RU), the United States (US), South Korea (KR), Australia (AUS), Japan (JP), Turkey (TR), Canada (CA), India (IN), and the European Union (EU) range from −1 (perfect negative) to +1 (perfect positive), indicating the strength and direction of linear relationships (positive - direct; negative - inverse).

A similar pattern emerges in the import correlations, where China again displays the strongest positive correlation with GDP growth. This is expected, as a significant portion of Mongolia's consumer goods, machinery, construction materials, and industrial inputs originate from China. The correlation suggests that during times of economic expansion, Mongolia imports more from China to fuel domestic production and consumption. Russia also shows a strong positive correlation, consistent with its role as Mongolia's main provider of energy, fuel, and electricity - inputs essential for industrial activity. Interestingly, imports from several third neighbors - including Japan, Korea, Turkey, and the EU - also show relatively strong correlations, stronger than their export correlations. This indicates that while third neighbors play a limited role in export revenue, they supply

high-value or technologically advanced imports that support domestic investment and productivity. Imports from the United States, Australia, Canada, and India, however, show weaker or mixed correlations, suggesting these relationships remain economically peripheral.

Trade balance correlations further reinforce the divide between neighbors and third neighbors. Trade balance with Russia shows a strong positive relationship with GDP growth, reflecting the fact that Russia supplies essential energy goods while also accepting some Mongolian exports; fluctuations in this two-way relationship can significantly influence economic stability. The trade balance with China shows a weaker but still positive correlation, consistent with its dominant but asymmetrical trade role. Among third neighbors, Turkey and India display relatively strong positive correlations, suggesting that the balance of trade with these partners may improve during growth periods. However, many others - including the United States, Canada, Korea, and the EU - show weak or negative correlations, implying that Mongolia's trade balance with these countries either deteriorates during growth or remains too small to meaningfully influence GDP.

Table 3. Correlation between GDP growth Mongolia and trade turnover of Mongolian with Russia, China, third neighbor countries

	GDP	CN	RU	US	KR	AUS	JP	TR	CA	IN	EU
GDP	1										
CN	0.242	1									
RU	0.532	0.338	1								
US	0.006	0.187	-0.286	1							
KR	-0.089	-0.787	-0.095	0.008	1						
AUS	-0.101	-0.804	-0.075	-0.063	0.997	1					
JP	0.009	0.223	0.172	0.142	0.069	0.047	1				
TR	0.566	0.205	0.638	-0.010	-0.020	-0.015	-0.171	1			
CA	-0.100	0.003	-0.089	-0.065	-0.194	-0.189	-0.015	-0.228	1		
IN	0.260	-0.070	0.371	0.008	0.174	0.168	0.146	0.415	-0.061	1	
EU	-0.342	-0.057	-0.372	0.083	0.103	0.080	0.030	-0.119	-0.042	-0.051	1

Note: Pairwise correlation coefficients between China (CN), Russia (RU), the United States (US), South Korea (KR), Australia (AUS), Japan (JP), Turkey (TR), Canada (CA), India (IN), and the European Union (EU) range from −1 (perfect negative) to +1 (perfect positive), indicating the strength and direction of linear relationships (positive - direct; negative - inverse).

Taken together, these three correlation analyses reveal a consistent strategic insight: Mongolia's economic performance remains overwhelmingly shaped by its immediate neighborhood. China continues to function as the economic anchor, its influence visible in every dimension of Mongolia's trade profile. Russia plays a secondary but still important role, especially through energy dependence. The third neighbors - despite their geopolitical and diplomatic significance - remain marginal in direct economic terms, with

limited statistical association to Mongolia's growth. Yet the partial exceptions, such as Japan, Korea, Turkey, and the EU, demonstrate that some third neighbors may hold meaningful economic potential if Mongolia can deepen these relationships through infrastructure development, logistics improvements, and more active economic diplomacy.

Ultimately, the correlation results highlight the core dilemma of Mongolia's foreign trade strategy: the Third Neighbor Policy is essential for political and strategic diversification, but its economic dimension remains underdeveloped. Mongolia's trade structure continues to be shaped more by geography than diplomacy, with China and Russia exerting dominant influence. Diversifying toward third neighbors may be crucial for long-term resilience, but the present data reveal that such diversification still has a long way to go before it becomes a major contributor to Mongolia's economic growth.

In conclusion, the combined correlation results across exports, imports, and trade balances demonstrate that Mongolia's economic growth remains structurally tied to its two immediate neighbors, particularly China, whose market demand and supply chain dominance shape nearly every dimension of Mongolia's trade performance. Russia also shows consistent economic linkage, especially through energy-related trade. By contrast, Mongolia's third-neighbor partners - central to its diversification-oriented foreign policy - exhibit far weaker and more inconsistent correlations with GDP growth, reflecting their limited scale and logistical distance. While some partners such as Japan, Korea, Turkey, and the EU display emerging economic relevance, their overall impact remains modest relative to the overwhelming influence of China. These findings highlight both the strategic necessity and the practical difficulty of achieving meaningful economic diversification under the Third Neighbor Policy, underscoring that Mongolia's trade-driven growth continues to be defined more by geographic proximity than by diplomatic aspiration.

Results of Regression Analysis

Export and Import of Mongolia with China and Russia

Table 4. Regression results of export and import of Mongolia with China and Russia

Trade partners	Coefficient	T-Statistics	P value	Adj R-squared	N
	Export of Mongolia				
Export to China	0.085	2.25	0.039**	0.1556	19
Export to Russia	-0.033	-0.86	0.405		19
_cons	0.046	3.56	0.003***		19
	Import of Mongolia				
Import from China	0.072	1.510	0.151	0.2774	19
Import from Russia	0.016	0.280	0.783		19
_cons	0.046	3.990	0.001***		19

Note: ***, **, and* represent statistical significance at the1%, 5%, and10% levels, respectively.
Estimated models: $GDP_t=\alpha_0+\beta_1 EX_{CH,t}+\beta_2 EX_{RU,t}+\varepsilon_t$;

$GDP_t=\alpha_0+\beta_1 IM_{CH,t}+\beta_2 IM_{RU,t}+\varepsilon_t$.

The regression results for Mongolia's trade with China and Russia reveal a clear asymmetry in how export and import flows relate to economic growth, with statistical significance emerging only in Mongolia's export relationship with China. The coefficient for exports to China is positive and statistically significant at the 5 percent level ($\beta = 0.085$, $p = 0.039$), indicating that increases in Mongolian exports to China are reliably associated with higher GDP growth. This finding reinforces the structural reality that Chinese demand - particularly for coal, copper, and other mineral commodities - remains a key engine of Mongolia's economic expansion. The t-value of 2.25 further underscores that this relationship is unlikely to be due to random variation, highlighting China's central role in Mongolia's export-led growth model.

By contrast, exports to Russia show no statistically significant effect on GDP growth. The coefficient is negative and very small ($\beta = –0.033$), and the p-value of 0.405 indicates that the relationship is indistinguishable from zero. This outcome reflects the limited scale and narrow composition of Mongolia's exports to Russia, which are too small or too irregular to produce a measurable macroeconomic impact.

Turning to the import models, neither imports from China nor from Russia show statistically significant relationships with GDP growth. Imports from China have a positive coefficient ($\beta = 0.072$), but the p-value of 0.151 indicates that the effect is not statistically meaningful at conventional thresholds. Similarly, imports from Russia yield a near-zero and nonsignificant coefficient ($\beta = 0.016$, $p = 0.783$), suggesting no measurable link between Russian-supplied goods - primarily fuel and energy - and annual growth fluctuations. In both models, only the constant term is statistically significant, signaling that variations in GDP growth are influenced by factors outside the bilateral import relationships with these two neighbors.

Taken together, the results highlight that among Mongolia's two neighbors, only exports to China have a statistically significant impact on economic growth, whereas exports to Russia and imports from both countries do not show meaningful economic effects. This points to the dominant role of China as Mongolia's primary economic partner and emphasizes that Mongolia's growth remains highly sensitive to the performance of its export sector, rather than to fluctuations in its import flows.

In conclusion, the regression analysis shows that among Mongolia's two neighbors, only exports to China exert a statistically significant influence on economic growth, confirming China's dominant role as the primary driver of Mongolia's export-led expansion. Neither exports to Russia nor imports from either neighbor show meaningful statistical effects, suggesting that these trade flows are too limited or too stable to shape annual growth outcomes. The results underscore the structural dependence of Mongolia's economy on Chinese demand, highlighting both the strength and vulnerability of this relationship and positioning China as the only neighbor whose trade dynamics significantly impact Mongolia's GDP growth.

Export and Import of Mongolia with Third Neighbor Countries

Table 5. Regression results of export and import of Mongolia with third neighbor countries

Trade partners	Coefficient	T-Statistics	P value	Adj R-squared	N
	Export of Mongolia				
US	0.003	0.410	0.690	0.3759	19
South Korea	-0.007	-1.700	0.120		19
Australia	0.001	1.120	0.287		19
Japan	0.047	3.490	0.006***		19
Turkey	0.002	0.780	0.456		19
Canada	0.023	0.910	0.385		19
India	0.001	0.490	0.637		19
EU	-0.005	-0.230	0.825		19
_cons	0.044	3.440	0.006***		19
	Import of Mongolia				
US	-0.030	-0.780	0.454	0.2132	19
South Korea	0.107	1.130	0.285		19
Australia	-0.040	-1.040	0.324		19
Japan	0.029	0.550	0.593		19
Turkey	-0.028	-0.560	0.590		19
Canada	0.034	1.120	0.289		19
India	-0.012	-0.330	0.749		19
EU	0.029	0.230	0.826		19
_cons	0.055	4.250	0.002		19

Note: ***, **, and* represent statistical significance at the1%, 5%, and10% levels, respectively.
Estimated models:

$$GDP_t = \alpha_0+\beta_1 EX_{US,t}+\beta_2 EX_{KR,t}+\beta_3 EX_{AU,t}+\beta_4 EX_{JP,t}+\beta_5 EX_{TR,t}+\beta_6 EX_{CA,t}+\beta_7 EX_{IN,t}+\beta_8 EX_{EU,t}+\varepsilon_t$$

$$GDP_t = \alpha_0+\beta_1 IM_{US,t}+\beta_2 IM_{KR,t}+\beta_3 IM+\beta_4 IM_{JP,t}+\beta_5 IM_{TR,t}+\beta_6 IM_{CA,t}+\beta_7 IM_{IN,t}+\beta_8 IM_{EU,t}+\varepsilon_t$$

The regression analysis of Mongolia's trade with its third-neighbor partners presents a picture of generally weak economic influence, with one notable exception. Among all third-neighbor export relationships, only exports to Japan exhibit a statistically significant impact on Mongolia's GDP growth. The coefficient for exports to Japan is strongly positive and statistically significant at the 1 percent level (β = 0.047, p = 0.006), supported by a high t-value of 3.49. This result indicates that increases in exports to Japan are consistently associated with higher economic growth, suggesting that although the volume of trade with Japan is not large compared to China, it may involve more stable or higher-value exports that contribute meaningfully to Mongolia's economic performance. The significance of the constant term further emphasizes the robustness of this relationship.

In contrast, exports to all other third-neighbor countries show no statistically significant link to GDP growth. The coefficients for the United States, South Korea, Australia, Turkey, Canada, India, and the European Union are small in magnitude and accompanied by p-values far exceeding conventional thresholds, indicating that these export flows do not exert a measurable impact on Mongolia's economic growth. Even the negative coefficient for South Korea, which superficially appears notable, is statistically insignificant (p = 0.120), meaning the observed relationship likely reflects random variation rather than a

true economic effect. These results underscore that Mongolia's export diversification remains shallow, with most third-neighbor markets too limited in scale to influence macroeconomic outcomes.

On the import side, the findings are similarly muted. None of the import coefficients for any third-neighbor partner are statistically significant, as reflected in p-values ranging broadly from 0.23 to 0.83. Imports from countries such as South Korea, Canada, and the EU yield small positive coefficients, but without statistical significance they cannot be interpreted as having meaningful impact on GDP growth. Negative coefficients - for instance with the United States, Australia, Turkey, and India - are likewise insignificant and do not reflect any reliable economic effect. These insignificant results indicate that variations in Mongolia's imports from third neighbors, whether in the form of machinery, technology, consumer goods, or raw materials, do not translate into detectable changes in national economic performance within the observed timeframe.

Collectively, the regressions reveal that Japan is the only third-neighbor country whose trade relationship shows a statistically significant association with Mongolia's economic growth, while all other third-neighbor trade flows lack meaningful economic influence. This reinforces the broader conclusion that, despite the political and diplomatic importance of the Third Neighbor Policy, its economic dimension remains underdeveloped. Mongolia's trade structure with third neighbors is still too limited or too inconsistent to contribute significantly to economic growth, and thus the policy's economic aspirations have yet to be realized in measurable macroeconomic outcomes.

In summary, the regression results show that among all third-neighbor partners, only exports to Japan have a statistically significant positive effect on Mongolia's economic growth, while both exports to and imports from all other third neighbors show no meaningful impact. This indicates that, despite the strategic and diplomatic value of the Third Neighbor Policy, its economic influence remains limited, with most third-neighbor trade flows too small or inconsistent to affect GDP growth. Japan stands out as the single third neighbor with measurable economic relevance, highlighting both the narrowness of Mongolia's diversification efforts and the need for more targeted policies to strengthen the economic dimension of third-neighbor relations.

Balance of Trade of Mongolia with the Russia and China

Table 6. Regression results of balance of trade of Mongolia with the Russia and China

Trade partner	Coefficient	T-Statistics	P value	Adj R-squared	N
	Balance of trade of Mongolia				
China	0.007	0.310	0.763	0.1927	18
Russian	0.080	2.190	0.044**		18
_cons	0.049	3.700	0.002***		18

Note: ***, **, and* represent statistical significance at the1%, 5%, and10% levels, respectively.
Estimated models: $GDP_t=\alpha_0+\beta_1 BoT_{CH,t}+\beta_2 BoT_{RU,t}+\varepsilon_t$

The regression analysis of Mongolia's trade balance with China and Russia reveals a striking asymmetry in how these two relationships relate to economic growth. The coefficient for China is extremely small and statistically insignificant ($\beta = 0.007$, $p = 0.763$), indicating that fluctuations in Mongolia's trade balance with China have no measurable effect on GDP growth. This is an important finding, as it shows that despite China's overwhelming dominance in total trade volume, the balance of trade - whether Mongolia experiences a deficit or surplus - does not translate into meaningful changes in economic performance. The insignificant coefficient suggests that Chinese-driven growth comes primarily through export volumes and import supply, not through the net trade position.

In contrast, the trade balance with Russia shows a statistically significant positive effect on Mongolia's GDP growth. The coefficient is moderate but meaningful ($\beta = 0.080$), and the p-value of 0.044 indicates significance at the 5 percent level. This suggests that improvements in Mongolia's trade balance with Russia - typically linked to reduced energy import costs or increased export activity - are associated with higher economic growth. The t-statistics of 2.19 reinforce that this relationship is unlikely to be due to chance. Given that Russia supplies Mongolia with essential fuels and energy, a more favorable trade balance (for example, stable prices or reduced dependence) likely eases production costs and supports broader economic activity. The strong significance of the constant term further supports the robustness of the model.

These results underscore that while China shapes Mongolia's economic trajectory through scale and volume, the trade balance with China does not influence growth in a statistically significant way. Instead, it is Russia - despite a smaller total trade share - that exhibits a measurable impact through changes in the net trade position. This highlights the distinct role of Russian energy imports in Mongolia's economic structure and suggests that stability and efficiency in the Russia–Mongolia trade balance can have meaningful macroeconomic effects even if China dominates overall trade flows.

In summary, the regression results show that Mongolia's trade balance with Russia has a statistically significant positive effect on GDP growth, while the trade balance with China shows no meaningful economic impact. This means that although China dominates Mongolia's total trade volume, fluctuations in its trade balance do not influence growth, whereas improvements in the Russia–Mongolia trade balance - largely tied to energy imports - have measurable macroeconomic benefits. The findings highlight Russia's unique economic role in shaping Mongolia's cost structure and growth dynamics, despite China's overwhelming presence in overall trade.

Balance of Trade of Mongolia with the Third Neighbors

Table 7. Regression results of balance of trade of Mongolia with the third neighbors.

Trade partners	Coefficient	T-Statistics	P value	Adj R-squared	N
US	-0.020	-2.130	0.062*	0.3335	18
South Korea	0.066	2.440	0.038**		18
Australia	-0.019	-2.450	0.037**		18
Japan	0.000	-0.190	0.856		18
Turkey	0.041	2.480	0.035**		18
Canada	0.000	-0.010	0.994		18
India	-0.002	-0.270	0.795		18
EU	-0.006	-2.290	0.048**		18
_cons	0.049	3.830	0.004***		18

Note: ***, **, and* represent statistical significance at the1%, 5%, and10% levels, respectively.
Estimated models:

$$GDP_t = \alpha_0+\beta_1 BoT_{US,t}+\beta_2 BoT_{KR,t}+\beta_3 BoT+\beta_4 BoT_{JP,t}+\beta_5 BoT_{TR,t}+\beta_6 BoT_{CA,t}+\beta_7 BoT_{IN,t}+\beta_8 BoT_{EU,t}+\varepsilon_t$$

The regression analysis of Mongolia's trade balance with its third-neighbor partners reveals a diverse and often contrasting set of economic relationships, with several partners showing statistically significant effects on GDP growth. Among these, South Korea, Australia, Turkey, and the European Union stand out as the most economically meaningful partners, each displaying statistically significant coefficients. South Korea shows a positive and significant relationship (β = 0.066, p = 0.038), indicating that improvements in Mongolia's trade balance with Korea are associated with higher economic growth. This suggests that Korea's role as a provider of technology, industrial inputs, and investment may be more consequential than its modest trade volume might imply. Turkey also shows a positive and significant impact (β = 0.041, p = 0.035), reinforcing the idea that certain emerging-market partners can contribute to Mongolia's trade-driven growth when the trade balance moves in Mongolia's favor.

In contrast, Australia and the European Union show statistically significant but negative coefficients, each at the 5 percent level. Australia's coefficient (β = –0.019, p = 0.037) and the EU's (β = –0.006, p = 0.048) suggest that worsening trade balances with these partners - typically reflecting large import bills or limited export opportunities - are associated with lower GDP growth. These findings are consistent with Mongolia's import-heavy trade relationships with both partners, where the inflow of high-value industrial goods, machinery, and equipment may contribute to investment but also widen the trade deficit, placing downward pressure on net economic expansion in the short run.

The United States appears as a borderline significant partner, with a negative coefficient (β = –0.020, p = 0.062) that narrowly exceeds the 5 percent threshold but still suggests a meaningful pattern: Mongolia's trade balance with the U.S. tends to worsen during periods of economic expansion, likely due to increased imports of consumer goods and technology. Meanwhile, some third neighbors - Japan, Canada, and India - show no statistically significant effects at all, with coefficients so small and p-values so high that they indicate no identifiable relationship between Mongolia's trade balance with these

partners and its GDP growth. Japan's coefficient is effectively zero and highly insignificant, which is notable given Japan's significance in earlier export regressions; this suggests that Japan's importance lies more in export flows than in the overall trade balance. Similarly, Canada and India appear economically marginal in terms of trade balance effects.

Overall, these results paint a nuanced picture of Mongolia's third-neighbor economic landscape. Several partners, particularly South Korea and Turkey, exert a statistically significant positive influence on growth when Mongolia's trade balance improves, while partners such as Australia, the EU, and potentially the United States show negative associations that likely reflect structural trade deficits. The mixture of positive and negative significant effects demonstrates that third-neighbor relationships are not uniformly beneficial or detrimental; instead, their impact varies depending on the structure and direction of trade. These findings emphasize that Mongolia's diversification efforts under the Third Neighbor Policy produce uneven economic outcomes, with some partners offering clear growth benefits and others contributing to imbalances that may constrain short-term economic performance.

In conclusion, the regression results show that Mongolia's trade balance with several third-neighbor partners does have statistically significant links to economic growth, but the effects vary sharply across countries. Positive and significant impacts from South Korea and Turkey suggest that balanced, mutually beneficial trade with these partners supports Mongolia's growth, while negative significant effects from Australia and the EU indicate that persistent trade deficits with these economies may exert downward pressure on GDP. Other partners, including Japan, Canada, and India, show no meaningful influence. Overall, the results highlight that third-neighbor economic ties are uneven, with only a few partners contributing positively to Mongolia's growth and others reflecting structural trade imbalances.

Mongolia's global trade

Table 8. Regression results of export and import of Mongolia with the world.

Trade partners	Coefficient	T-Statistics	P value	Adj R-squared	N
	Export of Mongolia				
To world	0.107	2.480	0.024**	0.2226	19
_cons	0.044	3.440	0.003***		19
	Import of Mongolia				
From world	0.092	3.220	0.005***	0.3424	19
_cons	0.047	4.430	0.000		19

Note: ***, **, and* represent statistical significance at the1%, 5%, and10% levels, respectively.
Estimated models: $GDP_t = \alpha_0 + \beta_1 EX_{world,t} + \beta_2 IM_{world,t} + \varepsilon_t$

The regression results for Mongolia's total trade with the world reveal a clear and statistically robust relationship between global trade flows and the country's economic growth. Both exports to the world and imports from the world show statistically significant

positive effects on GDP growth, indicating that Mongolia's economic performance is closely tied to its overall participation in international trade. For exports, the coefficient is positive and significant at the 5 percent level ($\beta = 0.107$, $p = 0.024$), supported by a t-statistic of 2.48. This means that increases in Mongolia's total export volume - regardless of partner country - are consistently associated with higher GDP growth. The significance of the constant term further reinforces the reliability of this relationship, emphasizing the central importance of export performance in Mongolia's growth model.

The results for imports are even stronger. The coefficient for imports from the world is positive and highly statistically significant at the 1 percent level ($\beta = 0.092$, $p = 0.005$), with a strong t-value of 3.22. This suggests that rising imports - often consisting of machinery, technology, fuel, industrial inputs, and consumer goods - support domestic production capacity and broader economic activity. The higher adjusted R-squared value for the import model (0.3424) compared to the export model (0.2226) indicates that global imports explain a greater share of Mongolia's GDP growth variability than global exports do, highlighting the critical role of imported inputs in sustaining domestic industries.

Taken together, the statistically significant coefficients for both exports and imports demonstrate that Mongolia's integration into the global economy is a major driver of its economic growth. Unlike bilateral regressions with individual partners - where significance often appeared only with China or Japan - global-level trade flows capture broader structural forces that shape Mongolia's economic trajectory. These results underscore that trade openness, access to global markets, and diversified import channels are essential elements of Mongolia's growth dynamics, reinforcing the country's long-standing dependence on international trade as a foundation of its economic development.

Overall, the regression results show that both Mongolia's total exports and total imports with the world have statistically significant positive effects on GDP growth, highlighting the central role of global trade in driving the country's economic performance. Exports contribute significantly to growth, while imports - particularly of essential inputs and technology - display an even stronger and more robust relationship. These findings confirm that Mongolia's economic trajectory is closely linked to its integration into the global economy, emphasizing that broad trade openness remains one of the most important determinants of national growth.

Conclusion

This study set out to examine how Mongolia's foreign trade relationships - with its two neighbors, China and Russia, and its designated third neighbors - shape its economic growth within the broader strategic context of the Third Neighbor Policy. The analysis combined international relations theory with econometric methods, recognizing that Mongolia's trade patterns are inseparable from its geopolitical position as a small, landlocked state between two great powers. The findings reveal a clear, consistent pattern: Mongolia's economic growth is overwhelmingly influenced by China, moderately by Russia, and only weakly and unevenly by most third-neighbor partners. Correlation

analysis demonstrated that Mongolia's GDP growth rises and falls primarily with changes in trade flows to and from China, while Russia's influence is evident mainly through energy-related trade balance effects. Third neighbors as a group show fragmented and inconsistent relationships with Mongolia's growth, reflecting their limited trade scale and geographic distance.

The regression analysis further confirmed this structural imbalance. Among neighbors, only exports to China showed a statistically significant positive impact on GDP growth, while imports from either neighbor exhibited no measurable effect. Among third neighbors, only Japan's export relationship displayed a significant positive effect, suggesting the presence of a high-value or stable trade channel, while other partners had no meaningful influence. Trade balance results revealed that Russia and select third neighbors - especially South Korea and Turkey - exert positive effects when trade balances improve, whereas sustained deficits with Australia and the EU correspond to negative growth effects. Regression results with global trade variables showed that both exports and imports with the world significantly enhance GDP, indicating that broad trade openness remains a key driver of Mongolia's economic development. Overall, the empirical evidence demonstrates that Mongolia's trade-driven growth continues to be defined more by geographic proximity and resource dependency than by the diplomatic aspirations of the Third Neighbor Policy.

Policy and empirical recommendations

1. Prioritize high-impact third neighbors: Strengthen economic partnerships with countries that show meaningful effects - especially Japan, South Korea, and Turkey - rather than spreading resources thinly across all third neighbors.
2. Upgrade export structure to reduce overdependence on China: Develop value-added mineral processing, renewable energy exports, and new export sectors to stabilize growth.
3. Enhance energy security and Russian trade stability: Improve fuel storage, negotiate stable energy contracts, and expand logistics cooperation with Russia to leverage its positive trade-balance effect.
4. Invest in trade infrastructure and connectivity: Develop rail corridors, dry ports, and digital customs systems to lower costs of accessing distant markets such as the EU and the United States.
5. Align economic diplomacy with measurable goals: Transform the Third Neighbor Policy into a results-oriented economic strategy with clear export, investment, and technology-transfer targets.
6. Support innovation and supply-chain integration: Facilitate technology-rich imports and develop domestic capacity to join regional value chains.
7. Create a trade vulnerability monitoring system: Track risks related to trade concentration, commodity dependence, and geopolitical shocks to strengthen economic resilience.

Ultimately, this study shows that while Mongolia's Third Neighbor Policy is politically vital, its economic impact remains uneven and constrained by structural geography. By integrating international relations theory with econometric evidence, the thesis demonstrates that meaningful economic diversification is both necessary and achievable - but only through targeted, strategic, and infrastructure-supported policy interventions. Strengthening links with high-impact third neighbors, upgrading export patterns, and modernizing trade infrastructure offer Mongolia the clearest pathway toward greater economic security, diplomatic autonomy, and sustainable long-term development.

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