

The economy and trade of mongolia economics essay



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Mongolia is a landlocked country in the centre of the Asia and it is bordering with the People's Republic of China and Russian Federation. Mongolia is four times large

as Japan but the population is only 2, 736. 800. Mongolian capital is Ulaanbaatar and it is home to about 38% of the population.

The period from 1960-1991 characterized as a communist country and period from 1991 until present is democratic country. Therefore, before 1990 Mongolia was a member of the USSR Council for Mutual Economic Assistance (COMECON) and had an economic support from USSR and other communist countries partners. An access to the COMECON contributed to create high levels of human development and free access to the other communist countries markets. The COMECON collapsed together with Soviet Union and it caused Mongolia to change its place in the world economy. Mongolia seeks new trading partners in a competitive environment which caused to its accession to the World Trade Organization (WTO). It provided benefits to Mongolia in terms of improved and more secure access to markets.

On the other hand, not exercised new market based economy contributed to a painful transition process market by economy recession like in rise of unemployment. While the collapse of the manufacturing sector was hastened by the demise of COMECON, the response served mainly negative impact in economy and on human development. In recent years the mineral sectors has grown and this has resuscitated some progress on economy and human development, but it is the case when other sectors of the economy make big leaps. Even when average growth rates look good, they conceal the

persistence of poverty which is around “ one third of the population lives below the poverty.”(One World Net. Web). Mongolia can improve economy due to trade which will build up a strong and competitive economy and my question is to find out the way of the profitable development in Mongolia.

Economic Sectors

National Economy

Economic activity in Mongolia is centered on agriculture and mining.

Mongolia has some of Asia’s richest deposits of minerals, such as “ copper, coal, molybdenum, tungsten, and gold.”(CIA, World Fact Book) Starting in 1991, Mongolia made a rapid transition from a Soviet-style planned economy to a market economy. (The Academy of Sciences MPR. 186) The Government made major reforms in the areas of price liberalization, privatization, agriculture, industry, and banking, as well as towards creating market-based institutions. (FIFTA. Web).

Recently, economic growth increased and the poverty has gradually declined. The mining sector’s contribution to revenues has sharply increased, due to increasing the price copper and gold in the world market. Mongolia further facilitates opening its economy and develops a close cooperation with its neighbours and other countries in the region. An active participation in international and regional organizations may become a one of the key to success.

The Main Economic Sectors

Agriculture

Mongolia's agriculture industry is attractive to international markets. It has unique culture of nomadic lifestyle which is traditional relationship with animals and nature.

The agricultural and livestock sector is still the largest employer in Mongolia. Agricultural products include “ wheat, barley, vegetables, forage crops, sheep, goats, cattle, camels and horses.”(CIA, World fact Book).

Agriculture employs near the half of the labour force in Mongolia and is the most importance source of income in rural areas (CIA, World fact Book).

Mongolian agriculture produces the highly valued materials like cashmere, camel wool, horse tail, etc. The total heads of livestock, including camels, horses, cattle, sheep and goats are now around “ 45 million.”(Mongolian Ministry of Food and Agriculture) However, depending on climate like extreme fluctuation in temperature, long winters doing agriculture items limited. In addition, harsh climate negatively affecting in herders life.

Mining Sector

Mongolia is rich with minerals, which at present remain unexploited.

Mongolia's extensive mineral deposits include copper, coal, molybdenum, tungsten, and gold. The development of Mongolia's mineral resources over the next decade is expected to increase the economy, eliminate unemployment and reduce the poverty. (Ministry of Mineral Resources and Energy. Web). Mongolia is ready to start the exploitation of strategic and other major mineral deposits, such as the Tavan tolgoi coking coal deposit,

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Oyu Tolgoi copper-gold deposit, Tumurtei iron ore deposit, Tsagaan suvarga copper deposit and Asgat silver-mix metals deposit. (Ministry of Mineral Resources and Energy. web)

According to my personal interview with Ms. Togsoo Bekhbat In the past decades, Mongolia was not able to develop or exploit discovered mineral resources because of a lack of infrastructure and capital investment. Since 1973, Mongolia, with financial and technical assistance from bilateral and multilateral donors, has set up and operated joint ventures to explore and develop major deposits of gold, copper, molybdenum, uranium, coal and fluorspar. Also, Mongolia is now becoming one of the largest producers of several of these metals and minerals. Mongolia produces nearly 15 percent of the world's fluorspar and it is a major producer and exporter of copper, molybdenum and uranium.

The Government of Mongolia has recently signed an investment agreement with Ivanhoe Mines (Canadian mining company) to develop the Oyu Tolgoi copper-gold mine. Once in full operation, that Oyu Tolgoi copper-gold mine could make Mongolia one of the largest copper producers in the world. (CIA, World Fact Book)

Mongolia's existing and newly discovered natural resources are its comparative advantage. However, most of locally produced mineral products are being exported in the form of raw materials. The ultimate goal is to reduce the export of minerals in the form of raw materials and increase the production of higher value added mineral products for both domestic and

foreign markets. Above all, Mongolia has broad opportunities and potential to attain drastic increase in economic growth relying on minerals.

Focusing on Traditional Strength Products

The case of milk

Mongolian people from the ancient time respected the livestock because Mongolian getting every necessary products from the livestock especially from the cow and sheep. Therefore, livestock has a special place in Mongolian culture. The livestock breeding was the only branch of material production in Mongolia in the beginning of the twentieth century. According to the supply of milk and milk products Mongolia produces enough milk to meet the domestic demand but recently milk and meat products export is declined (see fig. 1). To animate current situation Mongolian government must to focus on milk and meat products improvement.

Figure 1: Supply of Milk and Milk Products

Year

Population (thousands)

Production (thousands of tons)

Consumption (thousands of tons)

% of Supply in Consumption

Import (Thousands of tons)

1980-1990

average

1, 805. 1

272. 2

250. 4

108. 7

21. 8

1991-2000

average

2, 060. 2

332. 4

285. 7

116. 3

46. 5

2001-2007

average

2, 503. 5

304. 6

347. 2

87. 7

42. 6

Source: Terbishdagva 2006. (Ministry of Foreign Affairs. 40)

Mongolian Ministry of Trade and Foreign Affairs stated that “ milk is traditionally been self sufficient in producing. However, at the beginning of the democracy the state farms were collapsed and the animals were distributed to managers and workers.”(39) Domestic milk production increased up to 470 million litres annually in 1990-1999 but in 2001 it decreased by 40 percent to 290 million litres because of the livestock have perished nationwide from the cold (39). The milk production is generally low, but Mongolian have to survive with frigid winter and diversifying the product items and improve the quality to compete in the world market.

Over the past decade, rural poverty has increased disparities between urban and rural populations have widened and some agricultural practices are no longer environmentally sustainable. Farms in the socialist era benefited from free or subsidized inputs and even produced surpluses for export but they did so under a soft budget constraint and issues of economic viability then were nowhere as important as now under the market based system.

Trade in agriculture remains at the forefront of global and regional trade agreements both from an offensive perspective of securing new export markets and defensive perspective of ensuring food security and safeguarding the livelihoods of vulnerable people.

A revitalized dairy sector can provide higher incomes and greater employment opportunities to herders. Women are expected to particularly benefit as they have traditionally been involved in the processing of milk. Demand for dairy products in Northeast Asia is expected to grow rapidly with milk equivalent imports of 100 billion kg forecast for 2015. (Implementation of the Millennium Development Goals in Mongolia. 29) The market strategy could focus more on quality control and branding. In this regard, two types of Mongolian milk *saihan airag* made of Bulgan's mare's and camel milk from Omngobi aimag, have been registered as Geographical Indications. (Daily. 4) All these measures should ideally form part of an export strategy for milk products that emphasis quality high safety standards and shelf life.

Promoting Mongolian Meat

Mongolia is an eminently pastoral country with a tradition of meat production from horses, sheep, goat, cows, yaks and camels. For the herders to derive income form world markets there are several necessary hurdles to cross.

There is a need to empower herders to meet the requirements in export markets with the aid of modern equipment and technology.

It will be necessary to enhance the reputation of their product.

It would be vital to negotiate improved access to export markets addressing both tariff and non-tariff barriers including those related to the administration of veterinary and sanitary regulations.

Recently, Mongolian meat export has decreased mostly to Russia in 2000 because of disease like Brucellosis and Leucosis. In this regard, Mongolian

government needs to make “ Index-based Livestock Insurance” (Ministry of Foreign Affairs. 48) which will secure from above mentioned diseases.

Figure 2: Comparative quality of Mongolian meat

Content

Mongolian meat

New Zealand meat

Russian meat

Mutton

Beef

Horse

Yak

Goat

Mutton

Beef

Horse

Protein

18. 82

20. 35

20. 11

21. 26

19. 26

17. 14

21. 31

19. 5

Fat

2. 78

2. 15

1. 73

2. 29

5. 21

18. 5

3. 5

3. 1

Minerals

1. 11

1. 16

1. 1

1. 13

1. 17

0. 88

1. 05

1

Moisture

75. 76

75. 47

76. 06

75. 31

74. 28

62. 84

74. 1

75. 9

Source: Mongolian Ministry of Foreign Affairs (Ministry of Foreign Affairs. 48)

“ The Russian Federation imports 90% of Mongolian meat exports, followed by Japan the Republic of Korea and Kazakhstan. Mongolian companies export meat in the form of low value added products such as frozen carcasses of

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mammal.” (Ministry of Foreign Affairs. 48) As mentioned meat export is decreasing because Mongolian meat products are not internationally certified, therefore, neighbors importing the meat products with a very low price. In other words, there is little market access for Mongolian exports due to the lack of certification. Thus, Mongolian cannot revive the manufacturing sector without first rehabilitating the livestock sector, particularly veterinary and animal breeding services raw materials, final quality and sanitary controls.

Improving the Trading System

Trade Liberalization

Mongolian foreign trade before 1990 was limited only with communist countries. In addition, Mongolian economy was a planned therefore, trade is not much developed. After the acceding to the WTO in 1997 Mongolian foreign trade plays an important role in national economy. Since acceding to the WTO, Mongolia has substantially liberalized its trade regime. “ At the present Mongolia is trading with more than 80 countries of which the Russian Federation, the People’s Republic of China and the USA are the main trading partners.” (Ministry of Foreign Affairs. Web) The new liberalization regime in trade intended to meet the needs of the domestic market increase the competitiveness of domestic industries and challenges in exports. Mongolia’s export earnings are highly dependent on world market prices of few items like copper and cashmere. Also, traditional export items goods such as leather, carpets and wool blankets are decreasing.

To make a positive result in trade liberalization, Mongolia needs to research the following problems:

To analyze the poverty impact of trade liberalization

Detailed analysis of winners and losers from new trade reform is required to develop the policy to assist those adversely affected by policy change.

Improving transit transportation arrangements with neighboring countries.

For landlocked Mongolia, an efficient and reasonably priced transit transportation system is a key ingredient of an effective export promotion strategy.

The government of Mongolia is successfully undertaking trade liberalization. As mentioned, it has joined the WTO which did free access to the world market. Also, Mongolian government simplified and reduced the number of the required permissions from 600 to 87. (Ministry of Foreign Affairs. Web) Currently, more emphasis needs to be placed on the analysis of impact of free trade on poverty and national industry.

Mongolian favorable condition for foreign investment

The trade can only provide means of empowering the poorest class of the Mongolian population if Mongolian exporters can acquire favorable access to their major markets for key export products and increasing the foreign investment.

Mongolia offers the following competitive advantages to foreign investors.

Location: Mongolia borders with Russia and China. In this regard, it is easy to access the large international markets of these two neighbors and important global players.

“ Natural resources: Mongolia has rich mineral resources including over 8000 deposits of 440 different minerals of which about 600 deposits and outcrops have been determined.” (Mongolia Today. 52) In addition, animal origin raw materials especially world well known cashmere, wool and leather.

Competitive business costs: Inexpensive raw materials and low operating costs along with a competitive labor cost.

Stable Political environment: Mongolia is first Asian nation in the world with former communist systems who has peacefully adopted a multi-party democratic system. The government is best characterized by respect of human rights, freedom and private ownership protection.

Conclusion

As mentioned in the beginning, the collapse of the COMECON had a negative impact on economy which caused poverty. However, after the democracy Mongolia has rapidly embraced free trade and currently has one of the most open economies in the world. The mineral positively contributing to the economy employing “ 35% of the total industrial sector workforce” (World Bank. web) and attracting foreign investors.

On the other hand, Mongolian can not lay only on mineral. Mongolian government needs to improve the milk and meat products by controlling the food security, quality and must to earn an international certification to

compete in foreign markets. I believe that focusing on milk and meat products could be a profitable development because Mongolia is rich with livestock. In other words, it will create employment which will increase the economic growth.