

Economic Development Strategy Promoting Exports of Mongolia

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The Comprehensive National Development Strategy for 2007-2021 based on Mongolia's Millennium development goals¹ that has been developed by the Government of Mongolia with the broad participation of academia, politicians and the general public has been approved by the Parliament resolution #12 dated January 31, 2008. The purpose of this report is to determine the needs for and the possibilities of implementation of the Economic development strategy promoting exports (the Strategy) based on results of research of economic development strategies implemented in different countries worldwide over the second half of the past century and to date. This report also proposes some priority measures to be taken to facilitate the implementation of the strategy based on the analysis of the quintessence and expected outcome indicators of the Economic development strategy promoting exports within the Comprehensive National Development Strategy.

1. Economic Development Strategy Promoting Exports and the Experiences of Selected Countries

1.1 Quintessence of the Strategy

Economic development strategies implemented in different countries since the second half of the last century and to date can be divided into two main categories: i) *strategy promoting import substituting industries* and ii) *export promotion strategy*.

Import replacement strategy or economic development strategy promoting self-sufficiency in meeting the domestic demand was the prevailing strategy in most of the poorly developed countries from 1930s until 1960s. A quintessence of this strategy is to replace the imported goods with the domestically produced goods.

Most of the countries that pursued the import replacement strategy succeeded to achieve high growth rates at the initial stages of their development by maximum mobilization of their material and human resources. However, these countries have later experienced a dramatic slowdown in economic growth and great challenges in their economies due to limited purchasing power of domestic markets, significant domestic investment requirements, no access to the world market in some cases, and an unfair distribution of revenues in favor of capital owners.

In South Korea, for instance, after the war the government provided a great support to the import substituting industries. In 1950s the main drivers of the economic growth were the import substituting industries.

During this period the export has been growing by 5 percent only. By 1957 the country started to face difficulties, including stagnation in import substituting industries due to shortfall in the purchasing power at domestic market, which led to the instability in the society of the country. There are several countries that have experienced similar situations.

Summing up of the discussions and disputes between the academia and politicians taking place over the last 40 years with regard to the economic development strategy shows that most of them now are critical towards the strategy promoting import replacement or self-sufficiency in meeting the domestic demand. Instead, *an export promotion strategy or the external market oriented strategy* has been considered as a better way for economic development.

A quintessence of the export promotion strategy or the strategy oriented to the external markets, according to the most of researchers, is that it opens opportunities for more optimal and full utilization of the country's advantages. In other words, exploitation and utilization of the advantages creates a broad spectrum of opportunities for increase of demand and investment from the external sources, and not depending on the domestic sources only. In addition, this creates a favorable environment for timely introduction of new technologies and new standards as a result of competition in the world market, as well as obtaining the right information on cost and prices of goods and services. On the other hand, it opens doors for the population of the country to enjoy the products and services that meet the requirements of the international standards.

The researchers also consider that the export promotion strategy plays an important role in establishment of the *knowledge based economy* as a result of introduction and utilization of the good practices of the developed countries.

A concept of the knowledge based economy includes a widespread implementation and use of the high-tech and ICT along with new knowledge in all sectors of the economy. In other words, it means the extensive use of the most advanced, intellectual knowledge built up by the human kind in determining and implementation of the economic development policies at macro- and micro-levels, organization and management of all sectors of the economy.

1.2 The Experiences of Selected Countries

South Korea, Taiwan, Singapore and Hong Kong are the countries that are successfully implementing the export promotion strategy since the 1960s. The researchers consider that the leap economic development of South

¹ Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia, Ulaanbaatar 2008. pp. 145

Korea started from the successful implementation of the export promotion strategy in 1960s. The export promotion strategy created the opportunity for South Korea to go beyond its relatively small size domestic market. The energetic and dynamic political leaders of that period fully supported the export promotion strategy and created the powerful planning infrastructure. Development and implementation of the medium-term or five-year development plan within the framework of export promotion strategy has greatly contributed to the rapid economic development of the country. Japan also developed and implemented several five-year plans. Formation and the optimal utilization of capital accumulation from the foreign direct investment, external loans, foreign aid and domestic monetary reserves played a significant role in rapid development of Korea to the existing level. For this purpose, the state specialized banks, such as Korea Development and Korea Exim Bank, have been established which contributed to a drastic increase of the medium- to long-term investment financing. These banks were extending the immense amount of loans to the export oriented national enterprises with favorable terms and conditions using in first place the Government and National investment fund (NIF) sources as well as the external financing. During this period the unemployment and poverty in the country substantially decreased as the households' income significantly increased. Another factor of the country's rapid economic development was the promotion of developing export oriented services along with the export oriented industries. Taiwan, Singapore and Hong Kong have achieved successes in their development in the similar ways. The experiences of South Korea, Taiwan and Singapore serve as a model for many countries in the world.

2. Need for Implementation of the Economic Development Strategy Promoting Export in Mongolia, Resources and Possibilities for it

2.1 Need for implementation of the Strategy in Mongolia

There is an immense need for the implementation of the economic development strategy promoting export in Mongolia. The need for this can be briefly described as follows:

1) Immense need for opting for and implementing the economic development strategy promoting exports in order to achieve a vital goal to increase the national income for rapid improvement of the living standards of population over a relatively short time.

According to the World Bank classification, Mongolia is in the category of the lower middle-income countries. Compared to the high income countries, the Mongolia's GNI per capita is 18 times lower than in the USA, 15 times lower than in Japan, 8 times less than in South Korea, 4 times less than in Russia and 1.5 times lower than in China.

The fact that the living standards in Mongolia is still low and the growth rate of the country's GNI per capita is also too low makes the country vulnerable, and Mongolia is facing a threat of falling into an "permanent whirlpool of poverty" due to widespread poverty in the country.

Living standards measurement surveys of 1995 and 1998 show that 36.3 percent of the total population of

Mongolia in 1995 and 35.6 percent of population in 1998 were poor (39.4 percent in urban areas and 32.6 percent in rural Mongolia). According to the household income and expenditure survey conducted by the National Statistical Office in 2004 36.1 percent of Mongolians lived below the national poverty line.

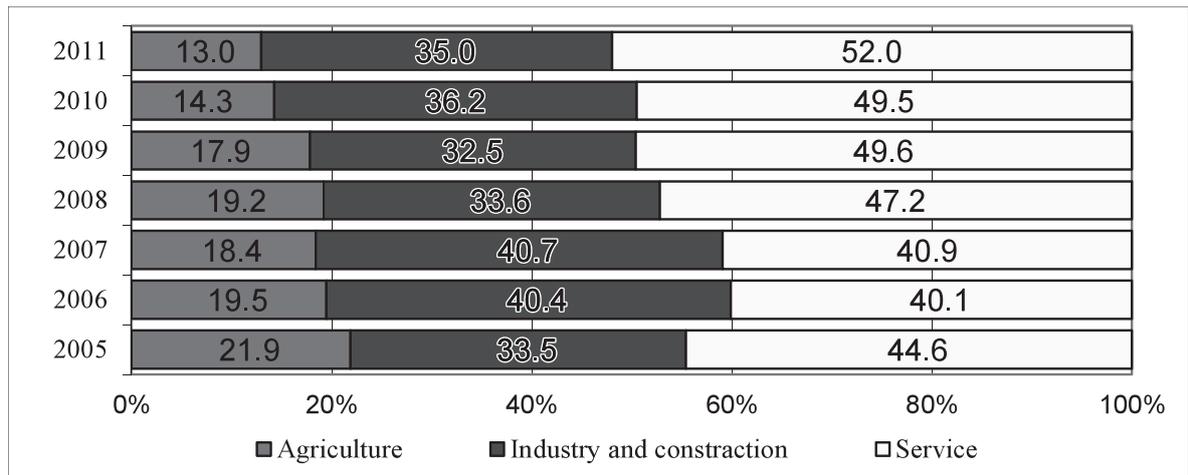
Based on the MDGs implementation report, the poverty rate has declined to 32.2 percent in 2006; however, some recent surveys suggest that the share of poor in the country in 2007 accounted for 35.2 percent. In 2011, poverty headcount accounted for 29.8 percent of the population.

In such circumstances the need for multiple increase of the gross national income in a relatively short time is vital for our country to join the group of upper middle income countries, and further to the category of high income countries in order to radically improve the living standard of the population. It becomes necessary to drastically expand the economy to achieve this goal, and this means that it is required to increase the GNI per capita twelve folds to reach the existing level of South Korea.

For our country with its' too small domestic market the expansion of the non-export oriented industries and services would lead to decrease of the sales of products and services, and subsequently, to stagnation of the industries and economic crisis, triggering instability in the society, a similar situation to what happened in some countries in the 1960s. Therefore, it is more constructive to opt for and implement the export promoting and external market oriented economic development strategy.

2) There is also a need for opting for and implementing the economic development strategy promoting exports in linkage with the goal to improve the structure of the economic sectors. In the developed countries, the contribution of the services sector to the gross domestic product (GDP) is about 71 percent, the contribution of industry is 27 percent and of the agricultural sector share is 2 percent, whereas in low income countries the services sector's contribution to GDP is about 50 percent, the contribution of industry is 25 percent, the same as the contribution of agriculture. In Mongolia, the services sector contributed to GDP 52 percent in 2011, the contribution of industry and construction was equal to 35 percent and agriculture contributed 13 percent, which is close to the composition of GDP in poorly developed countries (Figure 1).

In addition, the quality of structure of the economy is at a very low level. For instance, the retail and whole sales are still prevailing in the services sector of Mongolia, whereas mining dominates in the industrial and construction sectors, and the climate and the environment dependent animal husbandry is still a major contributor to the agricultural sector output. Therefore, another long-term central goal of Mongolia is to steadily improve the structure of the economic sectors. Improvement of the structure of the economic sectors in Mongolia means, using the simple terminology, the development of the modern sectors of the economy producing new value added, in other words, to dramatically increase the processing industries and production of final products, intensify the agriculture and reduce its dependency on climate and natural disasters and

Figure 1 Change of the Industrial Composition of Mongolia's Gross Domestic Product by Divisions

increase the share of tourism in the services sector. By achieving this goal the total production and services will also tremendously increase as a whole. In case of increase of the total production and services the purchasing power of the domestic market might be not enough to absorb as mentioned earlier, therefore, going for and implementation of the export promoting economic development strategy becomes of a great importance.

3) There is a need for opting for and implementing the economic development strategy promoting exports in relation with the requirement for introduction of the advanced technologies in production and services. The 21st century is defined as a "technological century". The technological progress serves as one of the main indicators of the development level of a particular country. The industrial sectors in the world can be classified by the technological sophistication as high technology, upper average technology, lower than average technology and low technology level sectors. In high income countries mostly employ the high sophisticated technology in production and services. But in our economy the outdated technology is prevailing in industries, and there is a small share of goods produced using a low level of technology. There is almost no use of advanced and sophisticated technologies.

4) The significance of the economic development strategy promoting exports is even more increased in connection with globalization process. A favorable environment for export promotion is currently in place as the openness of many countries' markets is increasing, and many countries in the world actively use this opportunity. It is necessary for Mongolia to fully utilize the ample opportunities of globalization. It is very important, especially for Mongolia with the small size of its domestic market, to attract more customers in our neighboring China and Russia. The demand in both countries for the goods produced using more advanced, sophisticated technologies is steadily increasing.

5) The economic development strategy promoting exports becomes more eminent in connection with the necessity to reduce vulnerability to any economic crisis by improving the foreign trade as a whole. The foreign trade of Mongolia entirely depends on fluctuation of the world

market prices as the key export commodities are the cheap raw materials originated from the animal husbandry and minerals, and in addition, we import many items which can be produced domestically and even can be exported to the external markets. In other words, our export and import are too vulnerable to adverse impacts of negative changes in the world market.

2.2 Some possibilities and resources of implementing the Strategy

There are sufficient resources and possibilities for implementing the economic development strategy promoting exports. First of all, there are ample mineral resources for developing export oriented mining industries. For instance, there are world class deposits in terms of conditions for exploitation and quality of deposits, such as Oyu Tolgoi copper and gold deposits, Tavan Tolgoi coking coal, Tsagaan suvraga copper, Asgat silver, Tsav non-ferrous metals, Tumurtei iron, Choir-Nyalga coal and bitumen, Tsaidam brown coal, Mardai and Gurban Bilag uranium deposits and etc.

Mongolia is also rich in sources of raw materials of animal husbandry origin. Currently, Mongolia is able to produce only 220,000-240,000 tons of meat, 20,000 tons of wool, about 5,000 tons of cashmere annually, while having more than 40 million of livestock and exports most of them unprocessed as raw materials, which is unfortunate. Only less than one fifth of the total number of the livestock is used in economic turnover. There is a possibility to increase the production of raw materials from the animal husbandry two to three folds. There is an opportunity to benefit a lot from the access to the global market in case Mongolia is able to fully process the ecologically clean raw materials using the modern advanced technology and produce final products, taking into account the steadily increasing demand for ecologically clean products in the large Chinese and Russian markets. In other words, there are sufficient resources of raw materials in Mongolia for the development of export oriented food and light industries.

There is also a possibility for Mongolia to intensively develop modern services sectors, including tourism. Today's Mongolia is one of the few countries which have

preserved the nomadic civilization as the large part of its population is still has a nomadic style of life. The nomadic style of life and nomadic culture was and is still attracting an interest of the tourists from around the world. There is an opportunity to attract more foreign tourists by creating tourist attractions of the time of XIII century on the sites, where the historical events of the Great Mongol Empire took place.

On the other hand, Mongolia is one of the few countries in the world with unique environment and vast territory covering the different geographical zones and subzones starting from the Gobi desert, steppes, forest-steppes to tundra. Therefore, there is an opportunity for the extensive development of the eco-tourism.

There is a possibility for the development of the modern services sectors, such as transit transportation and financial services. The vertical axis of the Millennium road connects our neighboring countries; therefore, it is possible to benefit from the development of transit transportation connecting two large markets of China and Russia.

In addition, there is a possibility to develop the Ulaanbaatar city as a center to provide reliable and high quality financial services for North-East and Central Asia, similar to what Switzerland does.

There is also a possibility to become an energy exporting country by developing the energy sector based on the coal resources.

3. Quintessence of the Economic Development Strategy Promoting Exports within the Comprehensive National Development Strategy and Expected Outcomes

3.1 Quintessence of the Strategy within the Comprehensive National Development Strategy

A Chapter 3 on "The principles, vision and priorities of Mongolia's development" of the Comprehensive National development strategy describes the essence of the Economic development strategy of our country. For example, three out of six priority areas of Mongolia's development are closely related to the economic development of the country: *the second priority* is to "intensively develop export-oriented, private sector-led, high technology-driven manufacturing and services, with particular focus on information, communication development, promoting bio and nanotechnology, transit transportation, logistics, financial mediation services, deeper processing of agricultural products, and create a sustainable, knowledge-based economy"; *the third priority* is to "exploit mineral deposits of strategic importance, generate and accumulate savings, ensure intensive and high economic growth, and develop modern processing industry"; the fourth priority is to "ensure intensive development of the country's regions, their infrastructure, and reduce urban-rural development disparities".

A Comprehensive National development strategy, especially the second and the third priorities clearly define the essence of the economic development strategy promoting exports of our country in connection with the reality. Having said that it can be considered that a special attention is paid to making the country less dependent on the mineral resources by diversification of the country's

economy through the adoption of the advanced technologies in industries and services, intensive development of the export oriented mining processing industries and services and radical increase of the production of goods and services that meet the international standards and requirements.

A Comprehensive National development strategy defines the goals and objectives of the *economic sectors development* strategy based on the economic development strategy promoting exports. For instance, in the mining sector the objective is to build up the capital accumulation and financial potential for establishment of the knowledge based economy by developing the export oriented mining industry using the copper and gold from Oyu Tolgoi and coal from the Tavan Tolgoi strategic deposits employing the advanced technologies; for the processing industries, the objective is to develop the industries producing final goods that are able to compete in the global markets; in agriculture, the goal is to increase production, deepen the processing and increase exports of goods of animal husbandry origin; in the tourism sector, the objective is to develop the export oriented service sector for attracting more tourists to increase the number of tourists equal to the number of population. A Comprehensive National Development Strategy attaches a great importance to the export oriented development of infrastructure sector as well. For instance, it specifies the development of the sector towards exporting of energy, development of the regional transportation bridging between the two neighbors and connecting Asia and Europe providing the freight forwarding services.

The Comprehensive National Development Strategy identifies development and implementation of the new national programs and amendments to the existing programs, such as programs on "Minerals", "Technology", "Infrastructure", "Water", "Rural development", "Tourism", "Housing", "The cities", "Education", "Health" and "Food security".

While defining the goals and objectives of the sectors development strategies the calculation of the development resources and possibilities has been made as well as the ways of achieving the goals have been identified through the implementation of the above mentioned programs.

Within the Comprehensive National development strategy a special attention has been paid to the creation of the favorable *macro-economic* environment for the implementation of the economic development strategy promoting exports.

There are several objectives on supporting in an optimal way the export oriented industries and services through the means of budget, taxation and monetary policies. For example, objectives on "...introduction and adoption of the advanced technologies in export oriented mineral, wool and cashmere, dairy and skin and hides processing industries... will be supported by the optimal tax policies"; in addition "...to support by the tax policy "... the export oriented services, tourism sector and production of the "brand" products ..."; as well as objectives on "... allocation of the public investment funds based on the targeted programs, master plans and projects on socio-economic development, increase investment in

infrastructure".

Defining the long term macro- economic policy as above is crucial for the successful implementation of the abovementioned strategic objectives on development of real sectors of the economy. Based on the abovementioned it can be considered that the strategy on development of real sectors of the economy within the economic development strategy promoting exports under the Comprehensive National development strategy have been defined based on country's demand, existing possibilities and resources, and in addition, it gives an opportunity for optimal utilization of the macro-economic instruments to support the development of real sectors of the economy.

3.2 The key expected outcomes of the implementation of the Strategy within the Comprehensive National Development Strategy

In case the economic development strategy promoting exports within the Comprehensive National development strategy is implemented successfully we can succeed the following results:

The research conducted in the national Development Institute shows that at the current stage the start of the exploitation of the strategic deposits such as Oyu Tolgoi and Tavan Tolgoi deposits will lead to a high economic growth rate.

For instance, we consider that until 2015 or in the mid of the first stage the economy will grow by at least 14 percent a year, the GDP per capita will reach at least YS\$ 5,000; and the share of industry and services in the economy will steadily increase with the flourishing of the intellectual industries and services and setting up the foundation for the knowledge-based economy. At this stage, first of all, with the substantial increase of the extraction of the minerals, increased share of the processing industries in GDP and adoption of the advanced technologies the competitiveness of the products will increase.

The modern services, including the tourism sector will intensively develop. It is considered that with the creation of the opportunities for the development of software industry and export of softwares a consumption of these types of products will increase. Along with the development of agriculture and food industries, and increased supply of the population with the foodstuff, the adoption of the biotechnology, genetic engineering methods, improving the quality of livestock breeding and increasing the harvest of plants it would be possible to increase the annual production of wheat 4 folds and the production of potatoes and vegetables by 1.5 times.

Modern cities of 10,000-20,000 population will be set up around the large strategic deposits, such as Oyu Tolgoi and Tavan Tolgoi deposits.

The economic growth will enable more employment opportunities increasing the population income, including wages, pensions and social welfare, leading to the reduction of poverty by half and bringing a success in development of the health and education sectors making possible to achieve the Millennium development goals.

At the second stage or in 2016-2021 it would be possible for the economy to grow by at least 12 percent a

year, and reach at least US\$ 12,000 of GDP per capita with the expansion of the intellectual industries and services and development of the knowledge-based economy, and to bring Mongolia a status of middle-income country. At that time there will be a possibility for our population to use final goods produced domestically according to the international standards and sold at the external markets as Mongolia will become a country that adapted to and adopted the modern technologies. It will be possible at that time to become self-sufficient in supplying the petroleum products to fully meet the domestic demand with the intensification of the process of transition from the extracting minerals to the production of end-products. Along with this the development of farms will take place and the demand of the population in food products will be fully met by the domestic production of the exologically clean products creating the opportunity for the country to become an exporter of the variety of foodstuff.

There will be a modern transportation and communication infrastructure fully competitive in Asia and in the region as well as the energy infrastructure. The length of the paved roads will reach 11,000 km, and the second line along with the main railroad as well as a railnetwork connecting Western, Eastern and Gobi regions will be in place. Mongolia will be self sufficient in supplying energy and heat from its own sources and be able to export energy to the global market. With the further development of the tourism sector the number of tourists a year will reach the number of country's population.

A share of industry and services in GDP will steadily increase and reach 92 percent in 2021 leading to an improved structure of economy similar to the economic structure of the developed countries.

In case the per capita GDP reaches at least US\$ 12,000 according to the Comprehensive National development strategy it would be possible to increase the monthly wages and salaries to US\$ 1,000-2,000. In other words, with the successful implementation of the Comprehensive National development strategy the country will enable the favorable environment for the population to enjoy working and living in home country.

4. Some Ways to Facilitate the Implementation of the Strategy

It is considered that the following measures need to be taken immediately in order to facilitate the implementation of the economic development strategy promoting exports within the Comprehensive National development strategy:

1. According to the resolution of the Parliament on approval of the Millennium Development Goals-based Comprehensive National Development Strategy, it is necessary to develop a mid-term or 3-5 years socio-economic development plan for the approval by the Parliament and subsequent implementation. This policy paper should reflect the resources, possibilities and the ways for implementation of the economic development strategy promoting exports in the medium-term period in details using the indicative planning methodology.

2. It is critical to develop the new national programs and the amendments to the existing programs specified in the Comprehensive National Development Strategy, such

as programs on "Minerals", "Technology", "Infrastructure", "Water", "Rural Development", "Tourism", "Housing", "The Cities", "Education", "Health" and "Food security" and organize their implementation without any delays.

3. It was mentioned earlier that the quintessence of the economic development strategy promoting exports within the Comprehensive National Development Strategy is to make the country less dependent on mineral resources by the diversification of the country's economy through the adoption of the advanced technologies in industries and services, intensive development of the export oriented mining processing industries and services and radical increase of the production of goods and services that meet the international standards and requirements. Therefore, it is imperative for the Government to focus on the following areas:

1) It is crucial to start the exploitation of the strategic deposits reflected in the Comprehensive National Development Strategy, such as Oyu-Tolgoi copper and gold deposits, Tavan Tolgoi coking coal, Tsagaan suvraga copper, Asgat silver, Tsav non-ferrous metals, Tumurtei iron, Choir-Nyalga coal and bitumen, Tsaidam brown coal, Mardai and Gurvan Bilag uranium deposits and etc. employing the advanced technologies without any delays.

2) It is essential to start immediately the establishment of the industrial and technological parks and compounds in Ulaanbaatar city, Darkhan-Uul, Selenge, Gobisumber, Dornod, Orkhon, Khovd and Zavkhan aimags as well as in Khar-khorin according to the Comprehensive National development strategy. Here it is advisable to implement cluster development approach. The establishment of those industrial and technological parks and compounds will allow to create, first of all, the possibilities for production of the final goods by full processing of the raw materials of the animal origin employing the advanced technologies with the subsequent export of those end-products to the global markets, taking into account that the demand and consumption of such products is steadily increasing in China and Russia which are the world large markets.

3) There is a lot to do with regard to acceleration of the development of the modern services sector, including the tourism sector as specified in the Comprehensive National Development Strategy. There are possibilities and resources to manage this.

4) It is essential for each ministry at the Government level to develop the short- and medium-term plans to accelerate the work on implementation of the Comprehensive National Development Strategy.

4. It is critical to develop a comprehensive strategy on

development of aimags within the Comprehensive National Development Strategy in order to increase the contribution of the aimags in the development of the country as well as to eliminate "bad habits" of aimags to look at the state budget subsidies. Currently, several provinces, like Gobi-Altai, Zavkha, Dornod and Darkhan-Uul aimags have developed or are working on the development of their respective aimag's comprehensive development strategies based on the Comprehensive National development strategy.

5. There is a need for the improvement of the annual socio-economic guidelines and the budget framework as well as the budget and monetary policies within the Comprehensive National Development Strategy. Currently, while preparing the draft consolidated budget the trend on comparing the indicators with the previous year's indicators is prevailing, and the planning and the budgeting taking into account the future is lacking. It is essential to improve the work of the "Development bank of Mongolia" as reflected in the Comprehensive National Development Strategy for drastic increase of the financing of the mid- and long-term investments.

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