

# Mongolia's Foreign Trade, 1985–2003

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## 1. Introduction

Foreign trade plays a crucial role in the Mongolian economy, with the value of foreign trade turnover exceeding the country's GDP by almost 20%. Mongolia embarked upon an irreversible path towards a market economy in 1990, after 70 years of power being concentrated in the hands of one political party. Mongolia's foreign trade turnover was stabilized and reached its peak level during the late 1980s, but it deteriorated sharply during the initial period of economic transition. Although it began to recover after 1995, the pace is still slow and full recovery has yet to be achieved.

At the beginning of the economic reforms of the early 1990s, trade reforms and liberalization aimed at integration with international trade were part of Mongolia's initial economic transformation policy, which was formulated in light of the country's immediate priority of establishing the basis for a market economy. Therefore, along with eliminating the state monopoly, the government has abolished all quantitative restrictions on exports and imports since the early 1990s, along with the state order system for exports and imports. At the same time, all forms of economic entity were permitted, including sole proprietorships, with individuals being allowed to engage freely in independent foreign trade activities in accordance with the Law of Mongolia on Economic Entities, which was passed in May 1991. Furthermore, all former state-owned trading firms were privatized in the early 1990s; nowadays, virtually all foreign trade activities in Mongolia are handled by private companies and individuals.

As a result, Mongolia's trade has diversified in terms of both the destinations of its exports and the sources of its imports. Another step towards its goal of becoming integrated into international trade was Mongolia's accession to the World Trade Organization (WTO) on 29 January 1997.

Mongolia has bilateral trade and economic cooperation agreements with more than 30 countries, such as Russia, China, the USA, the EU, Canada, Indonesia, Malaysia and the ROK. In addition, Mongolia is included in the GSP (Generalized System of Preferences) schemes of the USA, Canada, the EU and Japan, under which duty-free entry is provided for certain goods and products originated from a developing country, with the aim of assisting its economic development, based on an agreement reached at UNCTAD.

A further step taken by the Mongolian government, with the aim of enhancing international trade and attracting foreign direct investment into the country was the enacting of the Mongolian Law on Free Zones in June 2002. Currently, three locations in the north, south and western border areas – Altanbulag, Zamyn-Uud<sup>1</sup> and Tsagaan Nuur, respectively – have been designated as free trade zones

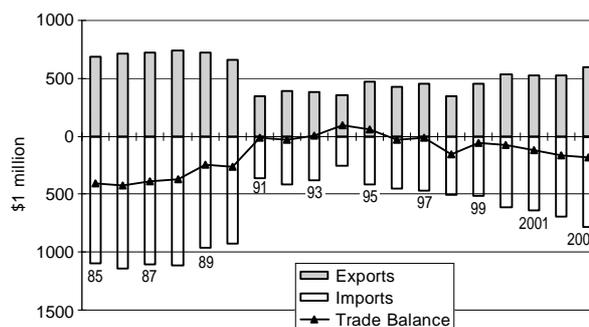
(FTZ); preparations for their becoming fully operational are currently underway.

This paper investigates developments in Mongolia's foreign trade in terms of its overall trends, structure, trading partners and main export and import commodities. It should be noted that the term 'foreign trade' as used in this paper refers to merchandise trade only. Therefore, trade in services was not included in the analysis due to (i) lack of data and (ii) the fact that Mongolia's foreign trade in services is not believed to play a significant role in the country's overall foreign trade activities as yet. The period examined is 1985–2003, covering both the pre- and post-transition periods.

## 2. Overall Trends

Mongolia's foreign trade turnover was stable and reached a peak during the late 1980s, but it deteriorated sharply during the initial period of the economic transition. Although it began to recover steadily after 1995, it still had not recovered fully by 2003, after more than a decade of economic transition. At the same time, the country's foreign trade has been suffering from chronic mounting deficits since the pre-transitional period; the balance of trade remained negative throughout the period 1985–2003, apart from 1993–1995 (Figure 2.1). Therefore, Mongolia has always had to rely on financial inflows from abroad to finance its imports.

**Figure 2.1 Dynamics of Mongolia's Foreign Trade, 1985–2003**



Source: NSO, 2004a, b

Mongolia's trade prior to 1990 was characterized by a state monopoly on trade, a centrally planned pricing system and limited export markets among members of the former Council for Mutual Economic Assistance (CMEA) and other socialist countries. Foreign trade turnover stood at \$1.8 billion in 1985, accounting for 59.5% of the country's GDP. Exports and imports totaled \$0.7 billion and \$1.1 billion respectively, giving a deficit of \$0.4 billion,

<sup>1</sup> The designated location in Zamyn-Uud has FEZ (Free Economic Zone) status.

**Table 2.1 Mongolia: Selected Indicators**

Indicators	1985	1990	1995	2000	2003
GDP, at current prices, MNT1 billion	9.37	10.47	550.3	1,018.9	1,362.5
GDP, at current prices, at market exchange rate (annual average), \$1 million	2,525.6	2,013.5	1,231.4	945.4	1,188.4
GDP annual growth rate, %	5.7	(2.5)	6.3	1.1	5.5
Exchange rate, annual average, MNT per \$1	3.71	5.20	446.9	1,077.7	1,146.5
Annual inflation, %	N/a	N/a	53.1	8.1	4.7
Foreign Trade, \$1 million					
Total turnover	1,784.6	1,584.7	888.6	1,150.3	1,416.9
Exports	689.1	660.7	473.3	535.8	615.9
Imports	1,095.5	924.0	415.3	614.5	801.0
Trade balance	(406.4)	(263.3)	58.0	(78.7)	(185.1)
Ratio to GDP, %					
Total turnover	59.5	78.7	72.2	121.7	119.2
Exports	27.3	32.8	38.4	56.7	51.8
Imports	43.4	45.9	33.7	65.0	67.4
Trade balance	(16.1)	(13.1)	4.7	(8.3)	(15.6)

Note: Negative values are shown in parentheses.

Source: Estimated from NSO, 2004b

**Table 2.2 Developments in Mongolia's Foreign Trade and Output, 1990-2003 (Annual percentage change in selected periods)**

Indicators	Selected periods			Pre-WTO	WTO	Latest
	1990-1994	1995-1999	2000-2003	1990-1996	1997-2003	2003
GDP (real)	(4.4)	3.9	2.9	(1.9)	3.2	5.5
Exports (nominal)	(10.5)	7.2	8.3	(4.3)	6.7	17.5
Imports (nominal)	(18.1)	16.5	12.0	(3.0)	3.2	16.0

Note: Negative values are shown in parentheses.

equivalent to 16.1% of the country's GDP (Table 2.1).

However, during the initial period of transition, Mongolia's foreign trade deteriorated sharply, with declines being experienced in both exports and imports. In 1991, exports and imports dropped by 47.3% and 60.9% respectively, compared with 1990 levels. This was mostly associated with the loss of its traditional trading partners due to collapse of the CMEA, along with the discontinuation of the flow of finance from the former Soviet Union (FSU). This situation led to the contraction of the entire economy. Both exports and imports declined by 10.5% and 18.1% per annum respectively for the period 1990-1994, when GDP experienced an annual contraction of 4.4% (Table 2.2).

From 1995, Mongolia's foreign trade began to improve slightly, along with a recovery in output. The country's GDP grew by 6.3% in 1995 and 5.5% in 2003. However, GDP growth declined to 1.1% in 2000 due to the impact of natural disaster in the form of dzud—severe winters followed by droughts that caused large-scale livestock losses.

Expansions in both exports and imports in later periods were associated with positive changes in output. For example, during 1995-1999 exports and imports respectively experienced average annual increases of 7.2% and 16.5%, while output grew by 3.9% in annual terms. This pattern continued in 2000-2003 (Table 2.2).

Another positive development in output and foreign

trade performances has been observed since Mongolia joined the WTO in 1997. While the annual percentage changes in GDP and foreign trade were negative during the period of 1990-1996; they became positive after 1997. Data indicates that nominal exports and imports declined by 4.3% and 3.0% in annual terms during 1990-1996, while real GDP contracted by 1.9%. However, after Mongolia's accession to the WTO, real GDP grew by 3.2% during 1997-2003, whereas exports and imports expanded by 6.7% and 3.2% respectively. Therefore, it can be claimed that Mongolia's entry to the WTO contributed positively to the country's economic development (Table 2.2). Nevertheless, a full recovery in the country's foreign trade activities has yet to be achieved and overall trade turnover in nominal terms was still 20% lower in 2003 than it had been in 1985 (Table 2.1).

As was mentioned earlier, there was a chronic deficit in Mongolia's foreign trade. The foreign trade deficit accounted for 16.1% of GDP in 1985 and remained equal to 15.6% in 2003 (Table 2.1). In 1994, foreign trade recorded a surplus of \$4.7 million, which was associated with a larger decline in imports than in exports. However, imports increase faster than exports, so foreign trade deficits tend to rise further along with trade expansion (Figure 2.1).

### 3. Major Trading Partners

Prior to 1990, Mongolia's foreign trade was primarily with CMEA members and other socialist countries, in

which the FSU occupied the dominant share. During that time, only seven state-run foreign trade corporations were allowed to engage in foreign trade transactions under the state order system. Each of these corporations specialized in a particular form of foreign trade transaction and type of products. However, the country lost its traditional trading partners with the collapse of the CMEA, at much the same time as the flow of finance from the FSU was discontinued due to its internal difficulties and subsequent collapse in 1990.

Mongolian trade with the FSU accounted for 83.1% and 77.9% of total turnover in 1985 and 1990 respectively, with 77% and 78.3% of exports and 86.9% and 77.5% of imports in these years involving the FSU (Table 3.1). However, as was mentioned earlier, Mongolia's trade has diversified in terms of the destinations of its exports and the sources of its imports since the early 1990s, when the country introduced trade reforms and liberalization policies in the course of its economic transition from a centrally planned economy into a market-oriented one.

Accordingly, new foreign trading partners emerged, such as China, the USA, the ROK, Japan and Australia. Currently, Mongolia trades with more than 80 countries throughout the world. Certainly, Mongolia's two neighbors – Russia and China – are the largest presences in its foreign trade activities. In 2003, Mongolia's trade turnover

with China accounted for 34% of total trade, whereas trade with Russia accounted for 22%. China accounted for 46.6% of total exports and 24.5% of total imports. With regard to trade with Russia, the figures were 6.7% and 33.1% respectively. Russia remained the major source of imports to Mongolia, despite having lost its leading share in total trade turnover. At the same time, the USA became the second-largest market for Mongolian exports, accounting for 23.2% of the country's total exports in 2003. Exports to the USA mainly consist of textile goods (Table 3.1).

Despite increasing imports from China, Mongolia's trade with China continued to experience surpluses over the entire period, owing to exports of mineral products and livestock-originated raw materials, the country's major export commodities. In 2003, exports of copper concentrate to China accounted for 99% of exports of this commodity (NSO, 2003). However, this trade surplus has decreased in recent years, due to increasing imports from and decreasing exports to China.

Mongolian exports to China in 2003 mainly comprised mining and raw and semi-processed materials of animal origin, while imports mostly consisted of food products of vegetable origin and other consumer and industrial goods. Mineral products accounted for 67% of total exports to China, whereas exports of raw and processed hides and skin occupied 18% of the total. Textiles and

**Table 3.1 Mongolia's Major Trading Partners (selected years)**

	Exports to, \$1 million					Imports from, \$1 million				
	1985	1990	1995	2000	2003	1985	1990	1995	2000	2003
Total	689.1	660.7	473.3	535.8	615.9	1,095.5	924.0	415.3	614.5	801.0
China	2.7 (0.4%)	11.3 (1.7%)	77.8 (16.4%)	274.3 (51.2%)	287.0 (46.6%)	4.9 (0.4%)	22.3 (2.4%)	44.5 (10.7%)	125.8 (20.5%)	196.3 (24.5%)
Former Soviet Union*	530.7 (77.0%)	517.5 (78.3%)	-	-	-	951.6 (86.9%)	716.2 (77.5%)	-	-	-
Russia	-	-	68.9 (14.6%)	45.1 (8.4%)	41.2 (6.7%)	-	-	208.0 (50.1%)	206.2 (33.6%)	265.4 (33.1%)
USA	0.1 (0.01%)	0.9 (0.1%)	25.8 (5.5%)	130.2 (24.3%)	142.9 (23.2%)	-	-	14.5 (3.5%)	28.4 (4.6%)	23.5 (2.9%)
ROK	-	-	26.1 (5.5%)	12.2 (2.3%)	7.5 (1.2%)	-	0.9 (0.1%)	21.5 (5.2%)	55.6 (9.0%)	67.7 (8.5%)
Japan	7.6 (1.1%)	7.6 (1.2%)	46.7 (9.9%)	8.1 (1.5%)	8.5 (1.4%)	1.8 (0.2%)	9.8 (1.1%)	45.3 (10.9%)	73.3 (11.9%)	63.4 (7.9%)
Australia	-	-	-	12.5 (2.3%)	34.5 (5.6%)	-	-	-	1.3 (0.2%)	19.6 (5.6%)
Singapore	-	-	1.8 (0.4%)	0.1 (0.01%)	35 (5.7%)	-	0.7 (0.1%)	7.4 (1.8%)	10.6 (1.7%)	10.4 (1.3%)
Germany	24.3 (3.5%)	13.7 (2.1%)	7.6 (1.6%)	2.0 (0.4%)	4.6 (0.7%)	29.7 (2.7%)	37.4 (4.0%)	18.5 (4.5%)	29.7 (4.8%)	38.0 (4.7%)
UK	2.8 (0.4%)	3.0 (0.5%)	18.7 (4.0%)	17.5 (3.3%)	26.1 (4.2%)	0.7 (0.1%)	2.5 (0.3%)	2.7 (0.7%)	6.0 (1.0%)	3.9 (0.5%)
Others	120.9 (17.5%)	106.7 (16.1%)	199.9 (42.2%)	33.8 (6.3%)	28.6 (4.6%)	106.8 (9.7%)	134.2 (14.5%)	52.9 (12.7%)	77.6 (12.6%)	112.8 (14.1%)

Notes:

1. \*Data for FSU includes Russia and other former republics, i.e. the members of the Commonwealth of Independent States (CIS), such as Ukraine, Kazakhstan and Georgia;

2. - indicates that there are no records;

3. Numbers in parentheses are total shares;

Source: Mongolian Statistical Yearbook, various issues, Ulaanbaatar: NSO.

textile articles occupied the largest share of imports from China, accounting for 31%. The other main items imported from China were food products of vegetable origin, machinery and electrical products and their spare parts, and construction materials.

Mongolian trade with Russia has experienced continued deficits, accounting for \$224.2 million in 2003. This large trade deficit was associated with the fact that Mongolia imports from Russia almost all of its petroleum and petroleum products, which account for a large share of its total imports. For example, Mongolia imported 93% of the petroleum and 97% of the diesel fuel consumed in 2003 from Russia. Due to increasing oil prices and domestic demand for petroleum and petroleum products, the trade deficit with Russia increasing further (Table 3.1)

Trade turnover with the ROK increased from \$47.6 million in 1995 to \$75.2 million in 2003, making the country Mongolia's fourth-largest trading partner. Mineral and textile products formed the bulk of Mongolian exports to ROK, while imports consist of consumer goods, food products and industrial goods. In terms of the trade balance, Mongolia had a trade surplus of \$4.6 million in 1995, but the balance became negative in 2003, totaling \$48.2 million.

Mongolia's trade with Japan had been increasing since 1985, rising to \$72 million in 2003, with exports and imports accounting for \$8.5 million and \$63.4 million respectively. Mongolian exports to Japan mainly consist of semi-processed and finished cashmere goods, accounting for 87% of total exports to Japan. Cars and other vehicles, and electrical and industrial machinery, equipment and their spare parts were the main items imported from Japan. In 2003, 51.4% of total imports from Japan were cars and other vehicles and their spare parts. However, imports from Japan had been increasing much faster than Mongolian exports to Japan, even though it grants Mongolia preferential tariff treatment under its GSP scheme, which reduces or waives customs duties on imports from certain countries.

#### 4. The Structure of Exports

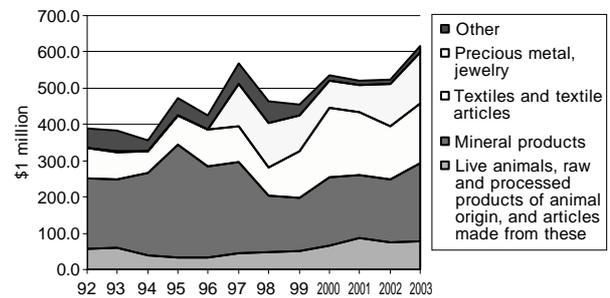
Mongolian exports consist of raw and semi-processed materials from the mining and livestock sectors, and manufactured goods from the textile industry. The dynamics of the export structure during 1992-2003 by groups of commodities is illustrated in Figure 4.1.

As can be seen from this figure, Mongolia's exports consist of four major product groups: (i) mineral products; (ii) textiles and textile articles; (iii) precious metal and jewelry; and (iv) live animals and raw and processed products of animal origin, and articles made from these. Although the overall composition of exports did not change over the period 1992-2003, precious metals (mainly non-monetary gold) and jewelry have emerged as a new export item since 1996 and have become one of the major product groups in the country's exports.

The scale of gold mining has increased significantly since the mid-1990s as a result of the Mongolian governmental program entitled "Gold", which aims to promote gold production in the country. As a result, gold production increased to 13.7 tons in 2001 from 0.6 tons in

1992, rising further to 11.1 tons in 2003; Mongolia began to export non-monetary gold in 1996.

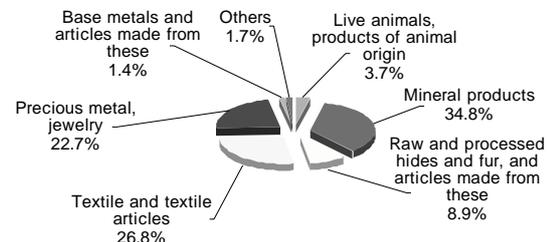
**Figure 4.1 Mongolian Export Structure by Groups of Commodities, 1992–2003**



Source: Mongolian Statistical Yearbook, various issues, Ulaanbaatar: NSO.

Mineral products (mainly copper, molybdenum and fluorspar concentrates), textiles and textile products, and precious metal were the dominant product groups among Mongolian exports in 2003; the combined share of these products accounted for 84.3% of total exports. Another major product group was products of animal origin, raw and processed hide and fur and articles made from these. The combined share of these product groups accounted for 12.6% of total exports in 2003 (Figure 4.2).

**Figure 4.2 Mongolian Exports by Groups of Commodities in 2003**



Source: NSO, 2004b.

Mongolia's main export commodities in terms of their physical units for selected years are shown in Table 4.1.

Copper, molybdenum and fluorspar concentrates, coal, qualified steel and non-monetary gold were the major items in the mineral and metal product exports group. Exports of copper and fluorspar concentrates had been increasing since 1985 and reached 568,900 tons and 257,400 tons respectively in 2003. Mongolia was the world's eighth-largest exporter of copper concentrates in 2003, accounting for 2.2% of the total (ITC, 2005). At the same time, exports of molybdenum concentrate were stable, ranging between 3,000-4,000 tons. However, coal exports fluctuated significantly, dropping to 600 tons in 2000 from 490,200 tons in 1990, but rising again in 2003 to 435,400 tons. This was associated with foreign demand for it rather than domestic production. Qualified steel and non-monetary gold has become one of Mongolia's main export commodities since the 1990s, with 3,900 tons of qualified steel and 12.2 tons of non-monetary gold being exported in 2003.

**Table 4.1 Mongolia's Main Export Commodities (selected years)**

	Commodities	Unit	1985	1990	1995	2000	2003
Mineral and metal products	Copper concentrate	Thousand tons	342.7	347.5	446.2	496.0	568.9
	Molybdenum concentrate	Thousand tons	3.0	4.0	3.4	3.0	4.0
	Fluorspar concentrate	Thousand tons	120.2	97.2	129.0	197.1	257.4
	Coal	Thousand tons	225.0	490.2	1.0	0.6	435.4
	Qualified steel	Thousand tons	–	9.3	19.3	7.8	3.9
	Non-monetary gold	Tons	–	–	–	7.8	12.2
Raw and semi-processed livestock products	De-haired cashmere	Thousand tons	–	–	0.5	0.8	0.6
	Sheep wool	Thousand pieces	–	–	14.9	5.2	8.4
	Hides and skin	Million pieces	0.9	0.4	2.7	4.1	0.5
	Meat	Thousand tons	36.8	24.3	2.2	16.7	15.1
	Intestines	Million rolls	2.9	2.2	1.3	0.9	222.8*
Manufactured goods	Leather garments	Thousand pieces	321.5	87.0	0.8	–	–
	Knitted goods	Million pieces	0.25	0.3	0.6	3.4	14.8
	Sewn goods	Million pieces	–	–	1.4	6.9	7.3

Note: \*tons;

Source: Mongolian Statistical Yearbook, various issues, Ulaanbaatar: NSO.

**Table 4.2 Mongolian Exports of Copper Concentrate; 1989-2003**

Years	Volume, thousand tons	Value, \$1 million	Average price, US\$/t
1989	350.6	195.8	558.5
1990	347.5	193.8	557.7
1991	243.2	161.3	663.4
1992	346.0	160.1	462.6
1993	394.5	155.1	393.3
1994	448.6	196.7	438.4
1995	446.2	268.6	602.0
1996	473.6	205.2	433.2
1997	479.7	199.1	415.1
1998	485.7	124.8	256.9
1999	492.7	119.2	242.0
2000	496.0	160.3	323.1
2001	540.9	147.9	273.4
2002	548.6	140.2	255.6
2003	568.9	163.7	287.7

Source: Source: Mongolian Statistical Yearbook, various issues, Ulaanbaatar: NSO.

Exports of copper concentrate in terms of its volume, value and average price are illustrated in Table 4.2. It can be seen that, despite the steady increase in the volume shipped, export earnings have fluctuated, depending on its price on the international market. Because copper concentrate exports account for a significant share of the country's total

export earnings, Mongolia's exports are highly vulnerable to such price movements.

Raw and semi-processed livestock products are another major Mongolian export group and the major items are: de-haired cashmere, sheep wool, hides and skin, meat and intestine. In 2003, Mongolia exported 0.6 tons of de-haired cashmere, 8,400 tons of sheep wool, 15,100 tons of meat and 222.8 tons of intestines. Exports of unprocessed hides increased substantially in the late 1990s, reaching 4.1 million pieces in 2000. This was associated with reduced demand in the domestic market due to the collapse of the domestic hide processing industry. However, exports decreased again to 0.5 million in 2003 due to the imposition of export duties on unprocessed hides. The introduction of export duties on unprocessed hides was intended to promote the revitalization of production in the domestic leather industry, but the industry still has yet to resume full-scale production and hides continue to be exported in their semi-processed forms (i.e. pickled pelt and wet-blue).

Mongolian exports of manufactured goods were limited to certain light industry products. Exports of leather garments fell to just 800 pieces in 1995 from 321,500 in 1985 and this category disappeared from the list of export commodities completely from 2000. In contrast, exports of knitted goods have been increasing over the period, with 14.8 million pieces being exported in 2003, almost 60 times greater than the figure in 1985. In addition, Mongolia began to export sewn goods in 1995, with 14.8 million pieces of these being exported in 2003.

Mongolia has enjoyed favorable quota treatment

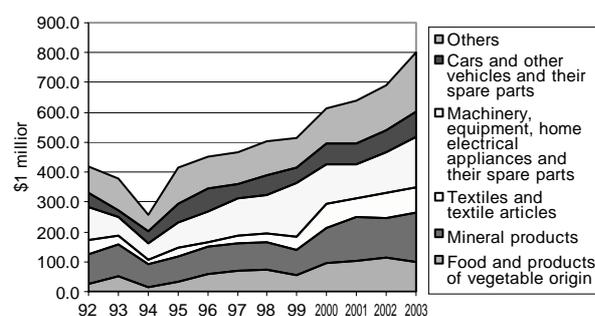
in exporting textiles and textile products to the US and European markets. It has attracted foreign investors, mainly from Asian countries, and a number of textile sewing factories have been established in Mongolia since the early 1990s, with their entire output being exported. However all the materials for production had to be imported, as Mongolia does not produce any of the necessary materials and components. Therefore, domestic production was based on CMT (cutting, making and transportation) contracts.

Nevertheless, Mongolia is facing a huge challenge with regard to maintaining this situation, as it was due to lose its advantage in textile product trading due to the termination of the WTO Agreement on Textiles and Clothing at the end of December 2004. All textiles and clothing products will be fully integrated into WTO rules and bilateral quotas removed, with importing countries no longer being able to discriminate between exporters.

### 5. The Structure of Imports

Mongolian imports consist of a wide range of consumer and industrial products. The dynamics of Mongolia's import structure by groups of commodities in 1992-2003 are illustrated in Figure 5.1. The import commodities can be classified into the following main product groups: (i) machinery, equipment, electrical appliances and their spare parts; (ii) mineral products; (iii) food and products of vegetable origin; (iv) cars and other vehicles and their spare parts; and (v) textiles and textile articles. As can be seen from this figure, the country imports a wide range of consumer and industrial products and there were no significant changes in this structure, despite fluctuations in the overall values (Figure 5.1).

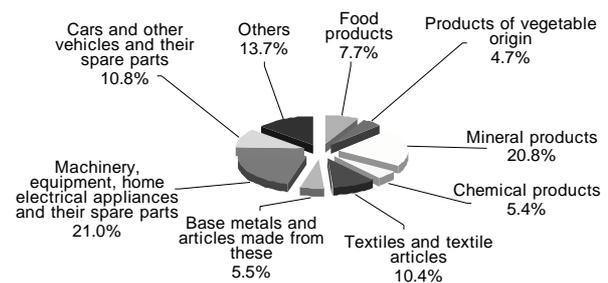
**Figure 5.1 Mongolian Import Structure by Groups of Commodities, 1992-2003**



Source: Mongolian Statistical Yearbook, various issues, Ulaanbaatar: NSO.

Imports of machinery, equipment and electrical appliances and mineral products (mainly petroleum and fuel) accounted for the largest share of imports, with the combined share of these commodity groups accounting for 41.8% of total in 2003. At the same time, imports of cars and other vehicles and their spare parts and textiles and textile articles accounted for 10.8% and 10.4% respectively (Figure 5.2).

**Figure 5.2 Mongolian Imports by Groups of Commodities in 2003**



Source: NSO, 2004b.

The main import commodities in selected years are shown in Table 5.1. Food products of vegetable origin (such as wheat, flour, vegetable oil, butter, granulated sugar, rice and potatoes), home electrical appliances, data processing equipments and their spare parts were the country's major imports.

Although Mongolia produces wheat, flour and potato domestically, the country needs to import these items when domestic supplies get too short to meet demand due to unfavorable weather conditions. On the other hand, the availability of items that are cheaper, but not necessarily of better quality than domestically produced ones stimulates their import. Moreover, the ever-worsening situation with regard to the purchasing power of the majority of the population increases demand for cheaper imported goods. For example, imports of potatoes increased to 40,200 tons in 2003 from 2,900 tons in 1995, even though weather conditions were favorable in both years. Meanwhile, imports of butter decreased to 55.1 tons in 2003 from 680 tons in 1990 due to the revitalization of domestic production of this item.

As Mongolia does not produce window glass, its import volume depends entirely on domestic demand from the construction industry. Production in the Mongolian construction industry experienced U-shaped development during 1985-2003 (i.e. it dropped in the first half of the 1990s, began to recover after the second half of the 1990s, and had almost returned to its 1985 level by 2003), so imports of window glass followed a similar pattern.

Another interesting fact can be gathered from the data on imports of vehicles, petroleum and diesel fuels. Even though Mongolia did not produce any of these products in the selected years, apart from in 2003<sup>2</sup>, imports of these items fell in 2003 compared with their volumes in 1985, despite increased imports of automobiles, trucks and other means of transport. Therefore, it can be deduced that the overall fuel efficiency of vehicles in Mongolia has been increasing over the period, shifting to lower fuel consumption cars. This tendency was undoubtedly associated with market regulations, such as increasing fuel prices on the one hand and increased numbers of private cars on the other.

<sup>2</sup> In 2003 Mongolia produced 5,215 tons of gasoline and 3,014.7 tons of diesel fuel, which equalled 2% and 1.4% respectively of the quantities of these imported.

**Table 5.1 Mongolia's Main Import Commodities (Selected years)**

Items		Unit	1985	1990	1995	2000	2003
1. Food and consumer goods	Wheat	Thousand tons	17.1	–	–	92.2	61.5
	Flour	Thousand tons	–	27.7	30.1	99.2	75.2
	Vegetable oil	Thousand tons	2.1	2.1	1.8	1.1	0.1
	Butter	Tons	–	680	451.9	55.0	55.1
	Granulated sugar	Thousand tons	34.1	34.7	12.3	22.1	19
	Rice	Thousand tons	13	19.1	8.3	13.6	14.8
	Potatoes	Thousand tons	–	–	2.9	13.2	40.2
	Green tea	Thousand tons	5.2	6.9	0.9	1.7	1.9
	Tobacco	Million pieces	na	964.0	492.4	581.9	474.2
	Detergent	Thousand tons	na	1022	773.9	1.3	2.3
	Home electrical appliances (refrigerators, washing machines and TV sets)	Thousand pieces	32.4	25.8	13.8	40.4	77.0
	Data processing equipment & its spare parts	Thousand pieces	N/a	N/a	11.2	25.7	64.6
2. Industrial goods and vehicles	Window glass	Thousand square meters	657.0	477.4	78.7	289.2	710.1
	Nitrogen fertilizer	Thousand tons	13.8	19.9	8.7	10.4	12.4
	Cement	Thousand tons	107.4	38.5	0.9	12.7	85.9
	Public transport	Thousand pieces	0.2	0.25	0.3	1.8	1.6
	Cars	Thousand pieces	0.6	0.3	6.2	11.5	10.3
	Trucks	Thousand pieces	1.7	0.9	0.2	3.1	2.9
3. Fuel and energy	Petroleum	Thousand tons	315.2	341.2	189.2	233.7	259.1
	Diesel fuel	Thousand tons	312.2	364.3	113.2	161.7	214.8
	Mazut	Thousand tons	67.8	63.4	33.1	14.6	12.4
	Lubricants	Thousand tons	22.8	20.9	0.6	1.5	2.7
	Electricity	Million kWh	–	–	379.8	181.5	173.1

Notes: N/a: data not available; – no records;

Source: Mongolian Statistical Yearbook, various issues, Ulaanbaatar: NSO.

## 6. Conclusion

Based on the above analysis of Mongolia's foreign trade during the period 1985-2003 from the perspectives of overall trends, trading partners, structure and main export and import commodities, the following observations can be made.

1. Mongolia's foreign trade attained its peak level in the late 1980s, but deteriorated sharply during the initial years of the country's economic transition from a centrally planned command economy to a market-oriented one in the early 1990s. It then began to revitalize after 1995, although the pace was slow and full recovery had not been achieved as of 2003;
2. Mongolia experienced chronic and continuous foreign trade deficits throughout the entire period, apart from 1993-1995;
3. Mongolia's accession to the WTO in 1997 had a positive impact on the country's overall performance in terms of output and foreign trade;
4. Prior to 1990, Mongolia's foreign trade activities primarily involved former socialist countries, where trade with the FSU had dominated. However, after the extensive liberalization of trade in the initial years of its economic transition, Mongolia's foreign trade diversified in terms of the destinations of its exports and the sources of its imports;
5. The overall structure of Mongolia's foreign trade did not change much over the period 1985-2003. Exports

were dominated by mineral products and those of livestock origin, whereas imports comprised a wide range of consumer products and industrial goods. Apart from sewn goods, no major new commodity has been included in the list of exported goods.

6. Due to the collapse of the domestic leather industry, export commodities of livestock origin shifted from finished goods to raw and low value-added semi-processed materials.

Although the Mongolian government has persistently been promoting an export-led growth policy for more than a decade of transition, the dominance of raw and low value-added products in its exports makes the country unable to escape from the prolonged foreign trade deficit that is undermining the potential of foreign trade to be the country's growth engine. Therefore, Mongolia needs to improve its export performance by diversifying its markets and seeking opportunities for exports of higher value-added products. Therefore, effective policies and actions on the part of both the government and businesses need to be intensified.

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