

# *Recent Trends in Mongolian Foreign Trade with the Countries of Northeast Asia*

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## **I. Introduction**

Foreign trade plays a crucial role in the Mongolian economy, with the value of foreign trade turnover almost equaling the country's GDP. Mongolia is a landlocked country located in Northeast Asia, covering 1,564,100 square kilometers, the eighteenth largest country in the world by area. The population is relatively small and young, amounting to 2.74 million people in 2009, with almost two thirds of the total under the age of 35. More than 60% of the total population lives in urban areas, whereas 40% of the total is registered as living in the capital city, Ulaanbaatar.

After 70 years of power being concentrated in the hands of one political party, Mongolia embarked upon an irreversible path toward a market economy in 1990. Its first free elections were held in 1990 and the first democratic constitution was approved in 1992. The Constitution declared the people's ultimate goal to be the building of a democratic civil society with a free-market economy. These democratic changes in the political environment were crucial turning points in Mongolia's recent history. Mongolia became a member of the IMF, the World Bank and the ADB in 1991, and joined the World Trade Organization (WTO) in 1997.

At the beginning of the economic reforms, the country's immediate priority was to establish the basis of a market economy, and the government adopted a policy of neo-liberal "shock therapy" which quickly removed many regulations and controls while attempting to hand as many activities over to the private sector as possible. The initial transformation contained a number of policy sets to be implemented simultaneously, including privatization, financial liberalization and the liberalization of trade aimed at integration with international trade.

Mongolia has bilateral trade, economic cooperation and investment promotion agreements with more than 30 countries, including Russia, China, the ROK and Japan. In addition, Mongolia is included in the GSP (Generalized System of Preferences) schemes of Japan, the United States and Canada, under which duty-free entry is provided for goods and products originating from a developing country, with the aim of assisting its economic development based on an agreement reached at UNCTAD. In addition, Mongolia is a beneficiary country of the EU's scheme of generalized tariff preferences, under the category of the special arrangement for sustainable development and good governance, which suspends the Common Customs Tariff *ad valorem* duties on

all products listed in Annex II thereof (EU, 2005).

The Northeast Asian countries have a large presence in Mongolia's foreign trade activities. This paper investigates developments in Mongolia's foreign trade with these countries in terms of its overall trends, structure, and main export and import commodities. It should be noted that the term "foreign trade" as used in this paper refers to merchandise trading if not otherwise indicated. Therefore, trade in services was not included in the analysis due to lack of data. The periods examined vary by sector, depending on the availability of the data.

## **II. Trade Liberalization and Foreign Trade Regulations**

Liberalization of trade aimed at integration with international trade was an important part of the Mongolian government's initial economic transformation policy.

Mongolia's foreign trade prior to 1990 was characterized by a state monopoly on trade, a centrally-planned pricing system, and limited export markets in the form of CMEA countries, in which the FSU<sup>1</sup> held the predominant 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 category of products<sup>2</sup>. However, the country lost its traditional trading partners with the collapse of the CMEA, along with the discontinuation of the flow of finance from the Soviet Union due to its internal difficulties and its subsequent collapse beginning in 1990. The financial flow from the Soviet Union was equal to 35% of the country's GDP (Amarjargal, 2002). Moreover, trade transactions began to be made in hard currency, thus ending the transactions in transferable rubles that had been used among CMEA countries.

At that time, many enterprises had to halt production due to such difficulties as power cuts and shortages of spare parts, raw materials and fuel. Under these conditions, it was necessary to undertake trade reforms aimed at integration with international trade. Consequently, along with removing the state monopoly, the government abolished all quantitative restrictions on exports and imports, along with the export/import state order system. According to the Law of Mongolia on Economic Entities passed in May 1991, all forms of economic entity, including sole proprietorships, and individuals were allowed to engage freely in independent foreign trade activities. As a result, Mongolia's

<sup>1</sup> Former Soviet Union

<sup>2</sup> Namely, Mongolexport (all exports); Technikimport (machinery and equipment imports); Materialimpex (trade in construction materials); Avtonefimport (all imports of vehicles and petroleum products); Raznoimport (consumer goods imports); Compleximport (imports and exports of goods associated with turn-key projects from the FSU); and Mongolimpex (all trade made in convertible currencies).

trade has diversified in terms of export destinations and the sources of its imports, and Mongolia currently trades with almost 120 countries throughout the world.

Another step toward its goal of integrating with international trade was Mongolia's accession to the World Trade Organization (WTO) in January 1997. Subsequently, on 1 May 1997, the government unilaterally abolished the uniform customs duty of 15% and excise taxes on all imported goods, apart from those levied on a few items, such as alcohol, tobacco, petroleum products and motor vehicles. However, due to a growing need to increase budget revenues, the government increased value-added tax (VAT) from 10% to 13% in September 1998. The following year, in 1999, a 5% uniform import tariff was reintroduced, and an excise tax on beer followed soon after. From November 2000, the customs tariff underwent a further hike from 5% to 7%, with VAT rising to 15%. The customs duty was reduced back to 5%, however, and VAT to 10% in January 2003—with a few exceptions—and has remained unchanged to date. Pedigree animals (cattle, horses, pigs, sheep and goats), computers and their parts, and medical and veterinary equipment have zero-rate customs duties, whereas imported wheat flour and some domestically produced vegetables, such as potato, onions, cabbage, carrot and turnip, have seasonal tariff rates of 15%. Also, an excise tax was imposed on the following imported items, in addition to the import duty and VAT:

- Alcoholic beverages (ranging from \$0.20 per liter on beer to \$6 per liter on vodka with an alcohol content above 40% and wine with an alcohol content above 35%);
- Cigarettes and tobacco (\$0.60 per 100 cigarettes and \$0.30 per kilogram of tobacco);
- Petroleum, diesel fuel and petroleum products, depending on the port of entry;
- Automobiles, depending on the cylinder capacity and years of use.

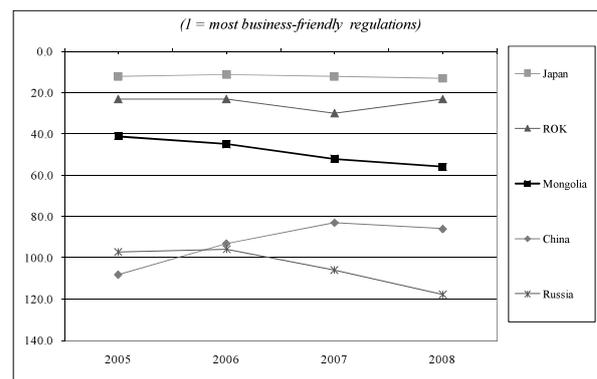
Tax is not imposed on all merchandise exports, with the exception of gold and a few other items.

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>3</sup> and Tsagaan Nuur, respectively—have been designated as free trade zones (FTZ); preparations for their becoming fully operational are currently underway.

Furthermore, with the aim of supporting small and medium-sized enterprises, machinery, equipment and the spare parts thereof—classified in most of Chapter 84 and part of Chapter 90 of the Harmonized Commodity Description and Coding System (HS) of tariff nomenclature—have been exempted from customs duty and VAT since 2009. Mongolia began to use the HS as the basis for customs tariffs when the country joined the WTO.

Mongolia's regulations are considered more business-friendly than those of China and Russia, but still well below

**Figure 1 Ease of Doing Business Index**



Source: World Development Indicators (WDI), 2008 and 2009

those of Japan and ROK. According to the World Bank (2009), "Mongolia has one of the least restrictive trade regimes in Asia, and a relatively liberal foreign investment regime" (Figure 1).

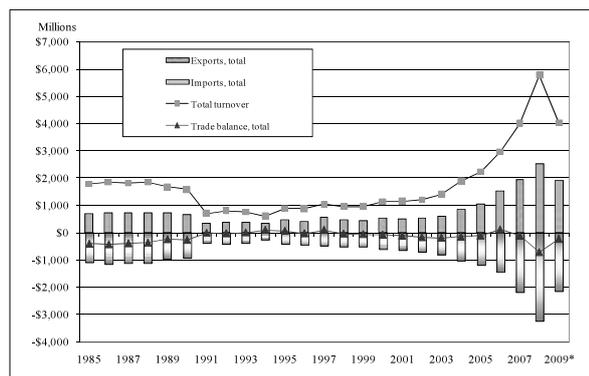
### III. Overall Trends in Mongolia's Foreign Trade

Foreign trade has a large presence in Mongolia's economy, especially after the country's transition toward a market economy and opening-up to world markets. Mongolia's foreign trade turnover was stable during the late 1980s, but it deteriorated sharply during the initial period of the economic transition. Although it began to recover steadily after 1995, its pace was slow and it took a decade for its full recovery. At the same time, the country's foreign trade has been suffering from chronic deficits since the pre-transitional period, with the balance of trade remaining negative throughout the period 1985-2009, with the exception of a small number of years. Therefore, Mongolia has always had to rely on financial inflows from abroad to finance her imports. In 2008 the trade balance witnessed its worst historic deficit of \$710 million, amounting to 14% of GDP, due to the massive falls in the international market prices of the country's major export commodities, such as copper and zinc, resulting from the global financial and economic crises (Figure 2).

The value of merchandise trading almost equals the country's GDP, with merchandise exports and merchandise imports exceeding 40% and 50% of GDP, respectively. In addition, trade in services began to grow steadily from the beginning of the 1990s and accounted for 46.4% of GDP in 2004, and was almost equal to the value of merchandise exports. Owing to Mongolia's convenient geographical location connecting Asia and Europe, transport (transit by rail and air) and travel service exports grew rapidly as the country opened up to the world. For example, tourism sector income accounted for approximately 12% of the country's GDP and 24% of exports during the period 1998-2004 (Enkhbayar, Sh., 2006; Figure 3).

Although the Mongolian government has consistently promoted an export-led growth policy for more than a decade of transition, the dominance of raw and low-value-added products within its exports means that the country is

<sup>3</sup> The designated location in Zamyn-Uud has FEZ (Free Economic Zone) status.

**Figure 2 Foreign Trade of Mongolia (1985-2009)**

Note: Imports are shown as negative values

Source: Mongolian Statistical Yearbook, various issues

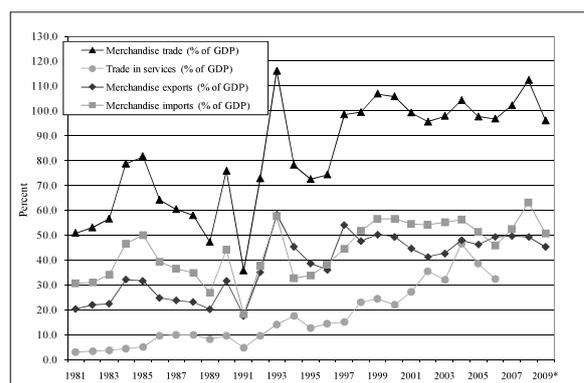
unable to escape from the prolonged foreign trade deficit that is undermining the potential of foreign trade to act as the country's growth engine. The overall structure of Mongolia's foreign trade did not change much over the period 1990-2009. Exports remain dominated by low-value-added mineral products and products of livestock origin, whereas imports comprise a wide range of higher-value-added manufacturing, food and industrial products. According to the competitive industrial performance (CIP)<sup>4</sup> index of UNIDO (2009), in 2005 Mongolia was positioned 108th among the 122 countries ranked, slightly improving on its position of 115th in 2000. This suggests that Mongolia needs to improve its export performance by seeking opportunities for exports of higher-value-added products.

#### IV. Mongolia's Trade with Northeast Asia

##### 4.1 Overall Trade Flows

Mongolia's trade with Northeast Asia<sup>5</sup> plays an important role in the country's foreign trade activities, with the trade turnover values accounting for more than two thirds of the total. In 2009, Mongolia's trade turnover with Northeast Asian countries accounted for 75.1% of the total, whereas exports and imports accounted for 77.5% and 72.9% of the country's total exports and imports, respectively. These figures did not change much over the period 1990-2009, except for the latter half of the 1990s, which was associated with a substantial downsizing of trade with Russia. However, trade dominance shifted from Russia to China from the latter half of the 1990s. At the same time, Mongolia's trade with Northeast Asian countries had continuous trade deficits during the period, with the exception of a small number of years: there were trade surpluses of US\$30-35 million in 1991, 1994 and 2006 only (Figure 4).

Mongolia is a landlocked country and has a limited international transportation network, and consequently

**Figure 3 Role of Foreign Trade in Mongolia's Economy, 1981-2009**

Sources: 1. Data for the period 1981-2007: WDI, 2009

2. Data for 2008-2009: National Statistical Office of Mongolia (NSO) (2010)

Mongolia's two sole neighbors—China and Russia—have the largest presences in Mongolia's foreign trade activities. In 2009, Mongolia's trade turnover with China and Russia accounted for 47.75% and 20.7% of the total, respectively. As mentioned earlier, Mongolia's trade turnover with Russia accounted for 77.9% of total, whereas that with China accounted for 2.1%. Although the ROK and Japan have emerged as new destinations for Mongolia's foreign trade since 1990, the trade volumes remain rather limited. Trade turnover with these countries increased to 4.2% and 2.5%, respectively, in 2009 from 0.1% and 1.1% in 1990, respectively (Figure 5).

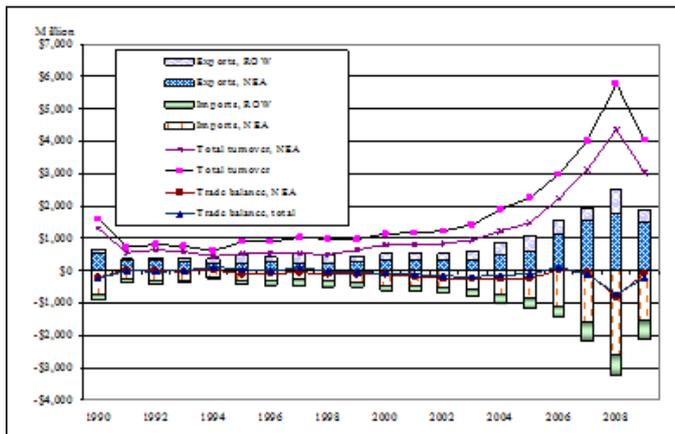
Mongolia currently exports to approximately 70 countries. Exports to Russia were predominant in Mongolia's exports until the early 1990s, but began to diminish thereafter. It accounted for 78.3% of total exports in 1990, but this decreased to 3.4% in 2009. At the same time, China emerged as a new major destination for Mongolia's exports, with its share of exports increasing to 73.1% in 2009 from 1.7% in 1990. The ROK and Japan emerged as new export destinations from the early 1990s; their values remain rather limited despite there being bilateral intergovernmental trade agreements from the beginning of the 1990s, and with Japan granting Mongolia preferential tariff treatment under its GSP scheme. In 2009, exports to these countries accounted for 0.8% and 0.2% of total exports, respectively (Figure 6).

Mongolia imports from more than 100 countries. As with exports, Russia was the major country of origin for Mongolia's imports until the early 1990s. Although its share of total imports has decreased, imports from Russia still account for the largest share of Mongolia's imports. Imports from Russia accounted for 77.5% of the total in 1990 and for 36.1% of the total in 2009. Imports from

<sup>4</sup> The CIP index combines four major dimensions of industrial competitiveness: industrial capacity, manufactured export capacity, industrialization intensity, and export quality, using six quantitative indicators: manufacturing value-added (MVA) per capita, manufactured exports per capita, and simple averages of (i) the share of manufacturing in GDP, and the share of medium- and high-technology activities in MVA, and (ii) the share of manufactured exports in total exports, and the share of medium- and high-technology products in total exports (UNIDO, 2009, p. 117).

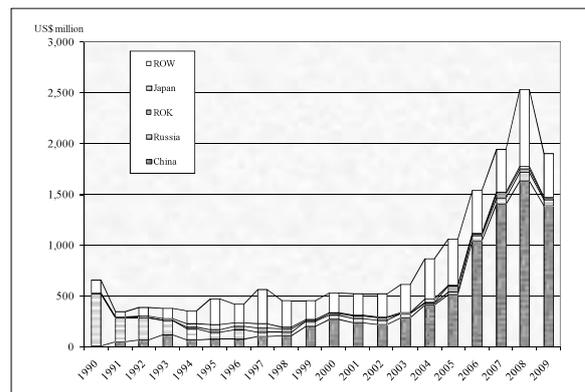
<sup>5</sup> According to ERINA, the region consists of the People's Republic of China (China), the Democratic People's Republic of Korea (DPRK), Japan, Mongolia, the Republic of Korea (ROK) and the Russian Federation (Russia).

**Figure 4 Mongolia's Foreign Trade with Northeast Asia (1990-2009)**



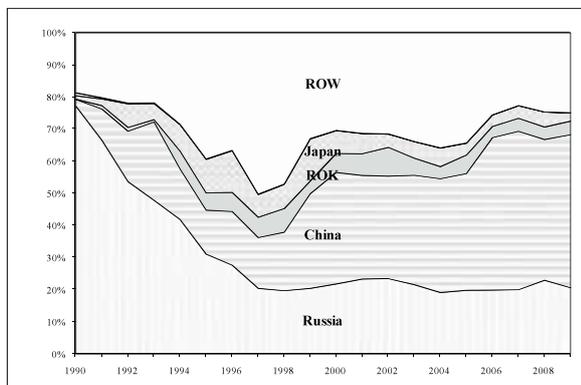
Note: Imports are shown as negative values  
 Source: Compiled from the Mongolian Statistical Yearbook, NSO, various issues

**Figure 6 Mongolia's Exports to Northeast Asian Countries (1990-2009)**



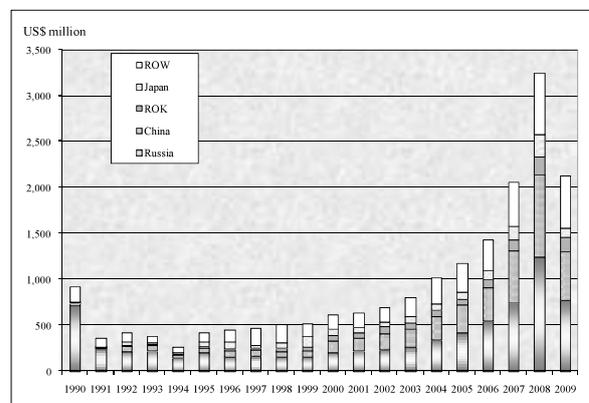
Source: Mongolian Statistical Yearbook, NSO, various issues

**Figure 5 Mongolia's Foreign Trade Turnover with Northeast Asia (Percentage share of total, 1990-2009)**



Source: Mongolian Statistical Yearbook, various issues

**Figure 7 Mongolia's Imports from Northeast Asian Countries, 1990-2009**



Source: Mongolian Statistical Yearbook, NSO, various issues

China also began to increase during this period and its share of total imports increased to 25% in 2009 from 2.4% in 1990, becoming the second largest country of origin for Mongolia's imports. Imports from the ROK and Japan also began to surge from the early 1990s and their respective shares have increased to 7.3% and 4.6% of total imports from 0.1% and 1.1% in 1990. Imports from the DPRK accounted for 0.6% of the total in 1990, but decreased to 0.2% in 1993, and became almost negligible thereafter (Figure 7).

Despite increasing imports from China, Mongolia's trade with China continued to experience surpluses over the entire period—with the exception of 1990—owing to exports of mineral products and livestock-originated raw materials, the country's major export commodities. However, Mongolia's trade with all the other Northeast Asian countries continued to have deficits over the period, with the largest trade deficit being in trade with Russia. According to an index calculated as the share of net exports to total trade between countries (i.e. similar to TSI<sup>6</sup>), Mongolia's economy tended to be import-led

over the period, especially in the case of the Northeast Asian countries. The TSI<sup>6</sup> values were close to -1 in trade with Japan, Russia and the ROK, meaning that Mongolia tends to be highly "import-specialized" in trade with these countries (Figure 8).

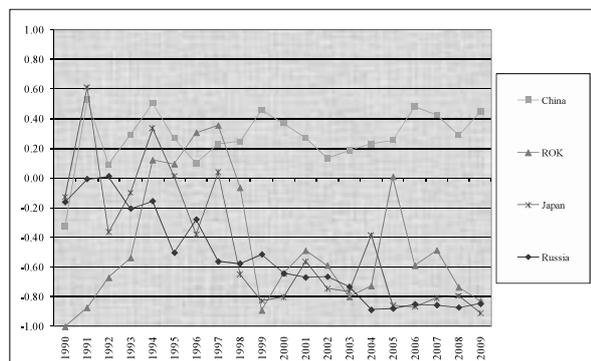
**4.2 Trade Structure**

Analysis of Mongolia's trade structure with Northeast Asian countries is based on a database developed by the former Ministry of Industry and Trade (MIT) of Mongolia. According to Mongolia's HS classification, traded commodities are classified into the 21 sections of the Harmonized Commodity Description and Coding System (HS) of tariff nomenclature. Data was available for the period 1995-2005 (Table 1).

Mineral products (HS 25-27) were the major export commodity of Mongolia to Northeast Asian countries. The share of this item increased to approximately 70% of the total exports to Northeast Asian countries in 2005 from 40% in 1995. The share of mineral exports during the period 1995-2005 accounted for 59.6% of total

<sup>6</sup> TSI<sup>6</sup> is calculated as a ratio of net exports to total trade between countries. It takes values between -1 and 1, where approaching a value of 1 indicates high export "specialization", while close to -1 means high import "specialization". However, the values were calculated using intra-country aggregated trade-flow data instead of intra-industry trade data between the countries. Therefore, this index can show the direction of trade between countries.

**Figure 8 Mongolia's Intra-Country Direction of Trade Index Dynamics of Bilateral Trade with Northeast Asian Countries (1990–2009)**



Source: Estimates from Mongolian Statistical Yearbook, NSO, various issues

cumulative exports to the region. Textiles (HS 50-63) and raw hides, skins, leather, and furs (HS 41-43) were the next main export commodities until the early 2000s, but textile exports began to shrink after the WTO Agreement on Textiles and Clothing terminated in 2004. Exports of these items accounted for 12.5% and 10.2% of the total cumulative exports during the same period. Exports of non-monetary gold (HS 71) became another main export item and accounted for 5.3% of total cumulative exports during the same period. Exports of animals and animal products (HS 01-05) and metals (HS 72-83) were the next largest group of export items to Northeast Asian countries with their shares accounting for 4.2% and 3.6%, respectively, of the cumulative total during the period in question. The combined exports of these six sections of HS commodities accounted for 95.5% of total cumulative merchandise exports to Northeast Asian countries during this period (Figure 9).

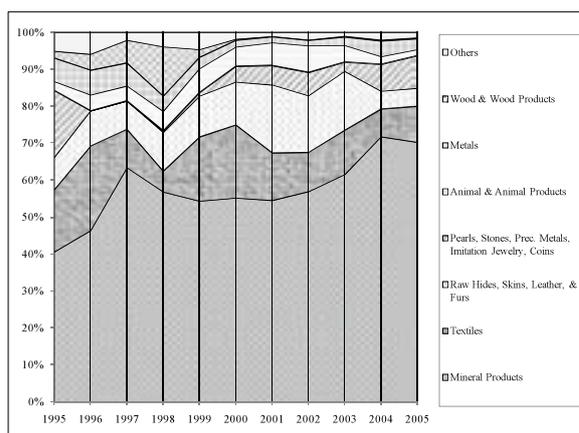
In terms of imports, mineral products (HS 25-27) held the largest share of total imports from Northeast Asian countries, followed by machinery/electrical (HS 84-85) commodities. Imports of these items accounted for 29.1% and 17.1% of total cumulative imports during the period 1995-2005, respectively. Transportation (HS 86-89) and textile (HS 50-63) imports were the other major import items from Northeast Asian countries with their shares accounting for 12.2% and 10.3%, respectively, of total cumulative imports during the period. Metals (HS 72-83), vegetable products (HS 06-14), foodstuffs (HS 16-24), chemicals and allied industries (HS 28-38), plastics/rubbers (HS 39-40), paper board/printed books (HS 47-49) and stone/glass (HS 68-70) were the other groups of key import commodities from Northeast Asian countries. Their shares ranged between 1.9% and 6.4% of total cumulative imports from Northeast Asian countries during the period. The combined imports of these 11 sections of HS commodities accounted for 95.8% of total imports from Northeast Asian countries during the period (Figure 10).

### 4.3 Bilateral Trade Structures

#### a The Structure of Mongolia-China Trade

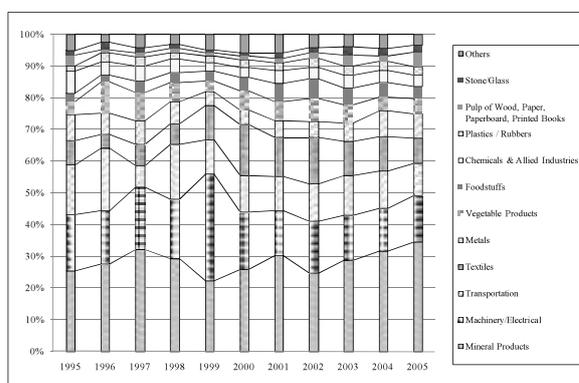
Mongolia's exports to China are dominated by mineral

**Figure 9 Structure of Mongolia's Exports to Northeast Asia, 1995–2005**



Source: Estimates from MIT (2005)

**Figure 10 Structure of Mongolia's Imports from Northeast Asian Countries, 1995–2005**



Source: Estimates from MIT (2005)

product (HS 25-27) exports. Cumulative exports of this category accounted for 63.8% of total exports to China during the period 1995-2005. Raw hides, skins, leather and furs (HS 41-43) and textiles (HS 50-63) were the next major export commodities to China with their shares accounting for 13.7% and 12.5% of the total during the period, respectively. The next largest groups of export commodities to China were metals (HS 72-83) and wood & wood products (HS 44-46) which accounted for 3.7% and 2.9%, respectively, of total exports to China during the period. The combined share of these five sections of HS commodities accounted for 96.6% of total exports to China during the period (Figure 11).

Textile (HS 50-63) imports were the major commodity within Mongolia's imports from China, accounting for 28.5% of total cumulative imports from China during the period 1995-2005. In particular, the share of textile imports from China amounted to more than one third of the total imports from China per annum during the period 1999-2004. These were mainly textile fabrics and auxiliary materials supplied by the foreign customers of CMT (*cut-make-trim*) operations-based clothing businesses. A number of foreign-invested factories had been established in Mongolia during this period to take advantage of Mongolia's excess quota available for textile exports to the

**Table 1 Mongolia's HS Classification**

Section	HS Chapter(s)	HS 4-digit codes	Description	Main export commodities	Main import commodities
1	01-05	0101-0511	Animals & Animal Products	Fresh and frozen meat (beef, horse, mutton) and edible offal, intestines, horse manes and tails	Dry milk and milk products, butter, eggs
2	06-14	0601-1404	Vegetable Products	<i>None</i>	Vegetables, fruit, rice, pressed green tea, packaged tea
3	15	1501-1522	Animal or Vegetable Fats, Oils & Waxes	<i>None</i>	Vegetable oil, margarine
4	16-24	1601-2403	Foodstuffs	Dog or cat food	Sugar, candy, biscuits and bakers' wares, canned vegetable products, soft drinks, beer, cigarettes, tobacco
5	25-27	2501-2716, 2841.69.00	Mineral Products	Copper concentrate, molybdenum concentrate, fluorspar concentrate, zinc concentrate, coal, crude oil	Petroleum, diesel fuel, electricity, salt, natural gas
6	28-38	2801-3825	Chemicals & Allied Industries		
7	39-40	3901-4017	Plastics / Rubbers		
8	41-43	4101-4304	Raw Hides, Skins, Leather, & Furs	Raw and processed cattle and horse hides, sheep and goat skins, furs	Leather garments and leather goods, artificial leather
9	44-46	4401-4602	Wood & Wood Products	Timber, sawn wood	Particle board, oriented strand board (OSB), builders' joinery and carpentry of wood (windows, doors, etc.)
10	47-49	4701-4911	Pulp of Wood, Paper, Paperboard, Printed Books		
11	50-63	5001-6310	Textiles	Sheep and camel wool, de-haired cashmere, cashmere yarn, cashmere garments, camel woolen blankets	

12	64-67	6401-6704	Footwear/ Headgear		
13	68-70	6801-7020	Stone/Glass		
14	71	7101-7118	Pearls, Stones, Precious Metals, Imitation Jewelry, Coins	Non-monetary gold	
15	72-83	7201-8311	Metals		
16	84-85	8401-8548	Machinery/ Electrical	<i>None</i>	Central heating boilers, steam turbines, pumps, electricity generators, refrigerating and freezing equipment, lifting, loading and unloading machinery, machinery for the textile industry, agricultural machinery, information processing equipment and home electrical appliances
17	86-89	8601-8908	Transportation	Automobiles, trucks (imported)	Automobiles, trucks, public transport, tractors
18	90-92	9001-9209	Optical, Photographic, Measuring, Checking, Medical Instruments, Clocks & Watches, Musical Instruments & Parts Thereof	<i>None</i>	Various
19	93	9301-9307	Arms & Ammunition, Parts & Accessories		
20	94-96	9401-9618	Miscellaneous Manufactured Articles		
21	97	9701-9706	Works of Art, Collectors' Pieces, Antiques		

Source: Mongolia's HS Classification

US and European markets.

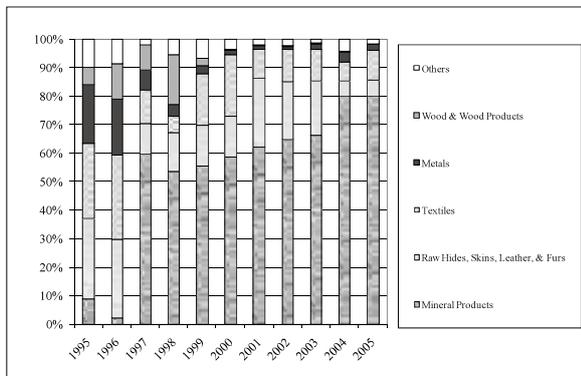
Vegetable products (HS 06-14) and machinery/electrical (HS 84-85) were the next largest import commodities accounting for 13.7% and 12.7% of total imports from China during the period, respectively. Mineral products (HS 25-27), metals (HS 72-83), and chemicals and allied industries (HS 28-38) were the other major import items from China, and each group accounted for approximately 7% of total imports from China during the period. Pulp of wood, paper, paper board, and printed books (HS 47-49), foodstuffs (HS 16-24) and stone/glass (HS 68-70) were the other main import commodities from China with each group accounting for approximately 5% of the total (Figure 12).

**b The Structure of Mongolia-Russia Trade**

Mineral products (HS 25-27) were the major commodity of Mongolia's exports to Russia, accounting for 65.3% of total cumulative exports to Russia during the period 1995-2005. Animals and animal products (HS 01-05) was the next largest export commodity which accounted for 21.4% of the total cumulative exports to Russia during the period. Transportation (HS 86-89) and textiles (HS 50-63) were the other main export commodities, accounting for 1.9% and 1.4% of the total during the period, respectively (Figure 13).

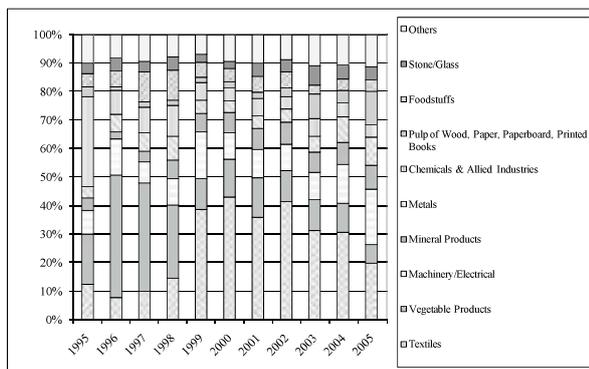
Mongolia imports from Russia almost all of its

**Figure 11 Structure of Mongolia's Exports to China, 1995-2005**



Source: Estimates from MIT (2005)

**Figure 12 Structure of Mongolia's Imports from China, 1995-2005**



Source: Estimates from MIT (2005)

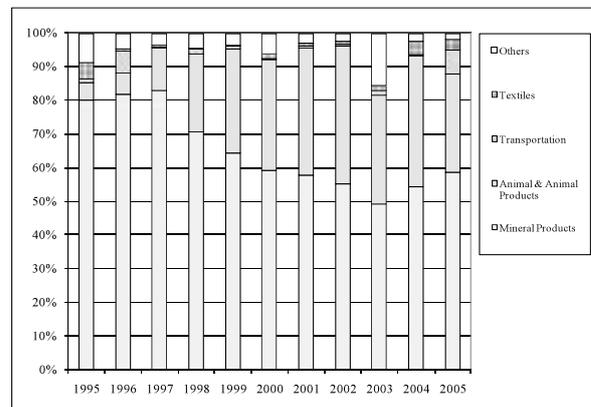
petroleum and petroleum products, which account for a large share of its total imports. Imports for this section (mineral products: HS 25-27) accounted for 55% of the total cumulative imports from Russia during the period 1995-2005. Machinery/electrical (HS 84-85) commodities is the next largest imported category from Russia, which accounted for 10.9% of the total. Transportation (HS 86-89) and metals (HS 72-83) imports each accounted for approximately 8% of the total, whereas the shares of the imports of vegetable products (HS 06-14), foodstuffs (HS 16-24), chemicals and allied industries (HS 28-38) ranged between 3.2% and 3.6% of Mongolia's total imports during the period (Figure 14).

**c The Structure of Mongolia-ROK Trade**

The structure of Mongolia's exports to the ROK demonstrated a random-walk pattern over the period 1995-2005. Exports of mineral products (HS 25-27) were predominant at the beginning of the period, whereas exports of non-monetary gold (HS 71) were the major export commodity to the ROK during the latter period. The cumulative shares of these commodities accounted for 27.3% and 47.3%, respectively, of the total exports to the ROK during the period. Metals (HS 72-83) and textiles (HS 50-63) were the other main export commodities to the ROK, with their shares accounting for 9.5% and 9.2% of the total, respectively. For the same period, the cumulative exports of animals and products of animal origin (HS 01-05) accounted for 3.8% of total exports to the ROK (Figure 15).

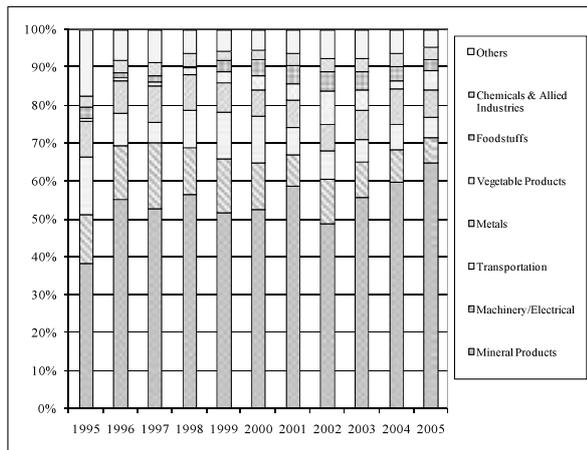
However, the structure of Mongolia's imports from the ROK was relatively stable during the period 1995-2005, with the majority of imports being in the transportation (HS 86-89) and machinery/electrical (HS 84-85) categories. The shares of these groups were 25.8% and 20.6% of the total imports from the ROK during the period, respectively. Textiles (HS 50-63) and foodstuffs (HS 16-24) were the other main imported items from the ROK during the period, accounting for 18% and 12.5% of the total, respectively. In particular, more than 30% of Mongolia's imports from the ROK were, in the main, the textile fabrics and auxiliary materials supplied by the foreign customers of CMT (*cut-make-trim*) operations-based clothing businesses during

**Figure 13 Structure of Mongolia's Exports to Russia, 1995-2005**



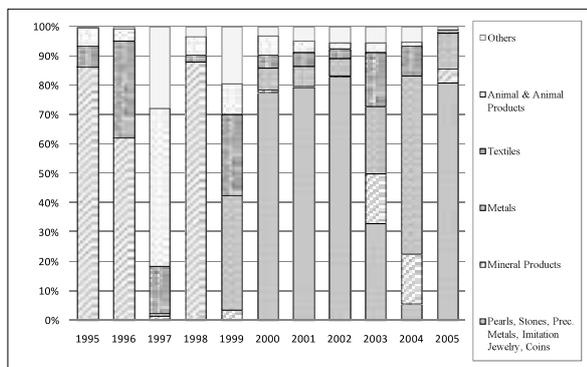
Source: Estimates from MIT (2005)

**Figure 14 Structure of Mongolia's Imports from Russia, 1995-2005**



Source: Estimates from MIT (2005)

**Figure 15 Structure of Mongolia's Exports to the ROK, 1995-2005**



Source: Estimates from MIT (2005)

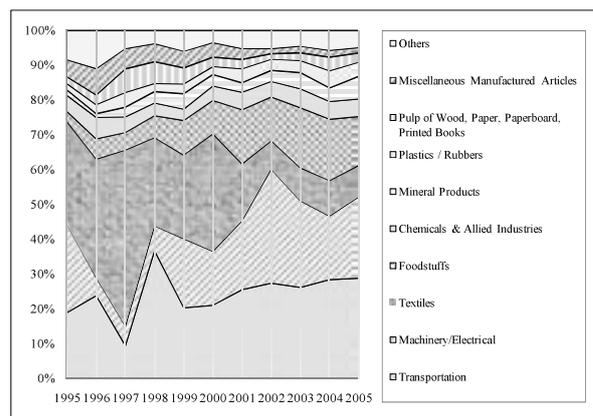
the period 1995-2000. For the same period, imports of chemicals and allied industries (HS 28-38), mineral products (HS 25-27), plastics/rubbers (HS 39-40), pulp of wood, paper, paperboard, and printed books (HS 47-49) and miscellaneous manufactured articles (HS 94-96) accounted for approximately 3% to 5% of the total (Figure 16).

**d The Structure of Mongolia-Japan Trade**

Mongolia's exports to Japan were dominated by fewer categories than the other major trading partners of Mongolia in the Northeast Asian region, despite Japan granting Mongolia preferential tariff treatment under its GSP scheme, which reduces or waives customs duties on imports from certain countries. Mongolian exports to Japan mainly consisted of textiles (HS 50-63)—specifically, semi-processed cashmere, cashmere garments and camel wool blankets—accounting for 40.5% of the total cumulative exports during the period 1995-2005. As with exports to the ROK, exports of non-monetary gold (HS 71) and mineral products (HS 25-27) to Japan had a random-walk pattern during the period. Shares of these commodities accounted for 29.5% and 21.7% of total exports to Japan, respectively (Figure 17).

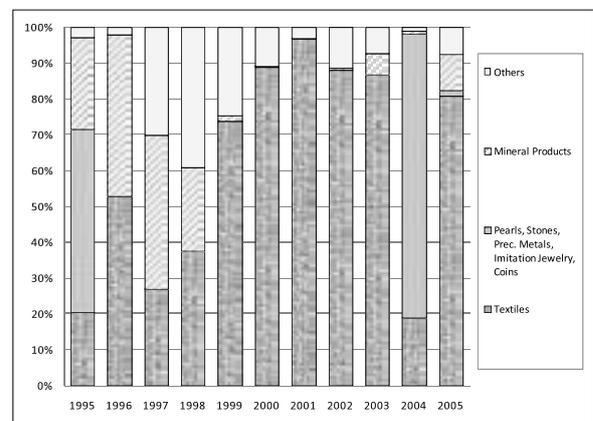
The structure of Mongolia's imports from Japan also had a limited number of commodity groups, with

**Figure 16 Structure of Mongolia's Imports from the ROK, 1995-2005**



Source: Estimates from MIT (2005)

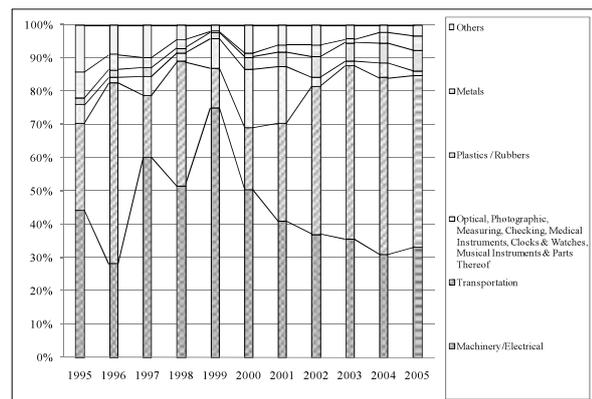
**Figure 17 Structure of Mongolia's Exports to Japan, 1995-2005**



Source: Estimates from MIT (2005)

the predominance of machinery/electrical (HS 84-85) and transportation (HS 86-89). The shares of these items accounted for 45.5% and 35.8% of total imports from Japan during the period, respectively. For the same period, imports of optical, photographic, measuring, checking, medical instruments, clocks and watches, musical instruments and parts thereof (HS 90-92) accounted for 6.4% of total imports from Japan, whereas those of plastics/rubbers (HS 39-40) and metals (HS 72-83) accounted for 3.7% and 2.8%, respectively (Figure 18).

It should be noted here, however, that Mongolia's import commodities from Japan were dominated by commodities supplied via Japanese governmental loans and grant aid. The cumulative shares of commodities imported on grant aid and loans accounted for 34% and 21.3%, respectively, of the total imports from Japan during the period 1995-2005, whereas imports on a commercial basis accounted for 36.5% of the total. The shares of commodity imports supplied on government loans and grant aid were higher until the early 2000s, but entered a declining trend after 2004. For example, commodity imports supplied on government loans and grant aid accounted for 60% and 22%, respectively, of total imports from Japan in 1999, whereas those in the form of commercial imports accounted for 12.5% of the total. Additionally, goods imported

**Figure 18 Structure of Mongolia's Imports from Japan, 1995-2005**

Source: Estimates from MIT (2005)

via FDI (Foreign Direct Investment) accounted for approximately 6% annually of the total imports from Japan during the period 1995-2005. At the same time, almost all of Mongolia's exports to Japan were those made on a commercial basis, with the exception of 1997 when goods exported as repayment of government loans accounted for 34% of total exports to Japan.

#### e The Structure of Mongolia-DPRK Trade

The structure of Mongolia's trade with the DPRK has a random-walk pattern in both exports and imports, along with a limited value for bilateral trade during the period 1995-2005. There was no trade between the two countries in 1996 and 1998. Mongolia's exports to the DPRK in 1995 were dominated by textiles (HS 50-63), specifically sheep's wool (90% of the section total) and sewn goods (10% of the section total), whereas the export of machinery/electrical (HS 84-85)—in particular used printing machinery (55% of the total)—was predominant in 1999. Foodstuffs (HS 16-24) (sausages, canned vegetables and biscuits) were the main exported items to the DPRK during the period 2002-2004 (Figure 19).

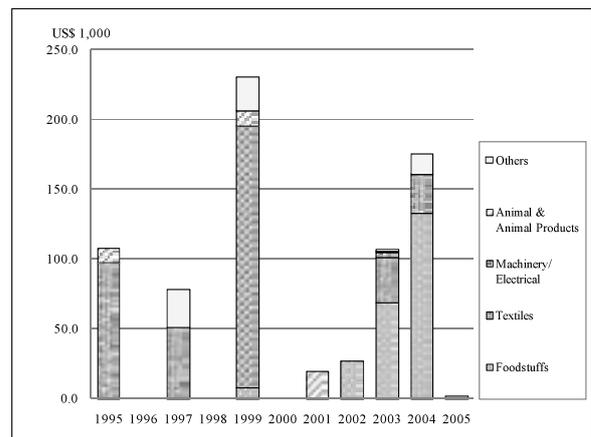
In terms of imports, textiles (HS 50-63), in particular synthetic woven fabrics, were the major imported commodity from the DPRK in 1995. Imports in the following years were very limited and their composition is shown in Figure 20.

#### V. Conclusion

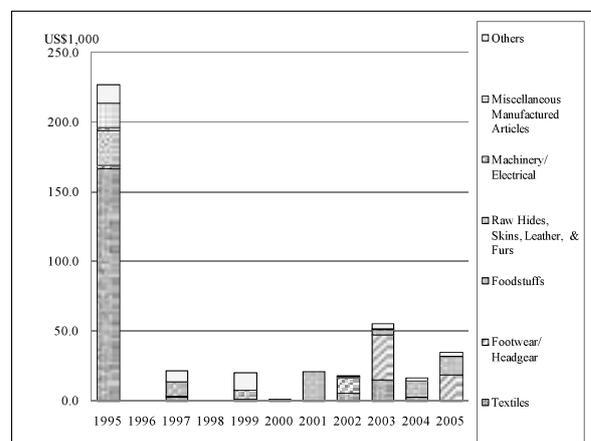
Foreign trade plays a crucial role for the Mongolian economy, and the Northeast Asian countries have large presences in Mongolia's foreign trade activities, accounting for more than three quarters of the country's total merchandise foreign-trade turnover.

Because Mongolia is a landlocked country with a limited transportation network, both domestically and in terms of international links, Mongolia's two sole neighbors—China and Russia—have the largest presences in its foreign trade activities.

China became Mongolia's largest export destination in the late 1990s. The majority of Mongolian exports to China consists of mineral products and raw materials of livestock origin. Mongolia's trade with China continued to

**Figure 19 Structure of Mongolia's Exports to the DPRK, 1995-2005**

Source: Estimates from MIT (2005)

**Figure 20 Structure of Mongolia's Imports from the DPRK, 1995-2005**

Source: Estimates from MIT (2005)

experience surpluses over the entire period, owing to these major export commodities.

At the same time, exports to Russia diminished, yet Russia remained the major source of imports to Mongolia, despite having lost its leading share in total trade turnover. Therefore, Mongolia continues to have large trade deficits with Russia. In fact, Mongolia imports from Russia almost all of its petroleum and petroleum products, which account for the largest share of Mongolia's total imports.

Although Japan and the ROK have emerged as export destinations for Mongolia, the volumes still remain limited. Mongolian exports to Japan have mainly consisted of semi-processed and finished cashmere goods, while exports to the ROK have had a random structure made up of a variety of mining products. However, imports from these countries show an increasing trend; imports from the ROK consist of transportation, machinery/electrical, and various manufactured and industrial goods, and foodstuffs, and those from Japan are dominated by machinery/electrical and transportation goods.

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 act as the country's growth engine. The overall structure of Mongolia's foreign trade with the Northeast Asian region did not change much over the period 1995-2005. 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 gold and sewn goods, no major new commodity has been added to the list of exported goods during this period. Consequently, Mongolia needs to improve its export performance by diversifying its markets and seeking opportunities for exports of higher value-added products. Accordingly, effective policies and actions on the part of both the government and businesses need to be intensified.

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