

On the Special Feature : Agreement between Japan and Mongolia for an Economic Partnership : The Fifth Anniversary Review and Analyses

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It is five years since Mongolia's first ever pact on free trade, the Agreement between Mongolia and Japan for an Economic Partnership (MJEP), took effect. It was signed on February 10th, 2015, in Tokyo and entered into force on June 7th, 2016. The objective of this agreement is to liberalize and facilitate trade and investment between the two countries and reduce tariff and non-tariff barriers for exporters and importers in each nation. The MJEP set out rules on broad-ranging issues including trade in goods and services, rules of origin, customs procedures, sanitary and phytosanitary measures, non-tariff barriers, investment, improvement of business environment, intellectual property, e-commerce, competition, dispute settlement, cooperation, movement of natural persons, and government procurement.

ERINA jointly with the Mongolian National University of Commerce and Business (NUCB) hosted an online workshop on October 8th, 2021, to discuss trends in the bilateral trade and investment since MJEP took effect, and to elaborate on the existing problems and challenges to overcome as well as potential opportunities, especially those in exporting goods from Mongolia to Japan. This was ERINA's 11th annual workshop organized in cooperation with Mongolian researchers and policy makers. Over 20 participants joined the workshop, representing NUCB, the National University of Mongolia (NUM), Hankuk University of Foreign Studies of the ROK, the Department of Foreign Trade and Economic Cooperation of the Ministry of Foreign Affairs of Mongolia, Customs General Administration of Mongolia, Mongolian National Chamber of Commerce and Industry (MNCCI), Mongolian Agency for Standard and Metrology, Institute of International Studies of the Mongolian Academy of Sciences, and Mongolia Office of the German Society for International Cooperation (GIZ)¹.

This special feature presents three papers discussed at the workshop as follows:

-Changes in Bilateral Trade under the MJEP co-authored by Otgonsaikhan Nyamdaa, Head of Trade and Marketing Depart-

ment, National University of Commerce and Business, Mongolia, Nomintseteg Ulzii-Ochir, Associate Professor, Marketing and Trade Department, NUM and Tsendsuren Davaa, Senior Customs Officer, International Cooperation Division, Customs General Administration of Mongolia. This paper critiques the process of MJEP negotiations and changes in bilateral trade volume and structure since it came into effect. Talks towards establishing an economic partnership agreement with Japan were initiated by Mongolia in 2007, and a government-level Joint Study Group was established in 2010. Seven rounds of bilateral negotiations then followed until 2014, after which the agreement was signed in 2015. The authors note a steady increase in bilateral trade volume since the MJEP's entry into force, however, it is one-directional on the part of Mongolian imports from Japan. As for structure, little change has been detected. That said, they observed positive tendencies, such as the import of new tires replacing that of used ones owing to the tariff elimination for new tires. On the other hand, neither volume nor structure of Mongolia's exports to Japan has varied considerably during the period barring a small group of export items including pet food.

-A Study on the Free Trade Agreement Utilization of MJEP co-authored by Nomintseteg Ulzii-Ochir (as mentioned above), Otgonsaikhan Nyamdaa (as mentioned above) and Chimgerel Choidorj, Customs Senior Officer at Chinggis Khaan International Airport Customs House, Mongolia. This study examines the utilization status of the MJEP by estimating the utilization rates based on bilateral trade data and analyzing responses of a questionnaire survey conducted among the major Mongolian firms that trade with Japan. They found that less than 50% of Mongolia's imports from Japan had utilized the preferential treatments provided under the MJEP so far, and this share dropped substantially in 2020 and 2021 due to the COVID-19 pandemic and other technical barriers to trade. The authors argue that despite the fluctuating rates of preferential tariffs utilization under the MJEP, local businesses in Mongolia do have a relatively good

¹ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

awareness of the agreement. However, they found that non-tariff and technical barriers to trade, such as the rules of origin criteria, sanitary and phytosanitary measures, and other technical regulations in both the origin and destination countries, along with various restrictions imposed on foreign trade in response to the global outbreak of COVID-19 were the major impediments to broader utilization of the MJEPA by Mongolian firms. The authors suggest that having a specialized agency to support and promote free trade and economic partnership agreements would be helpful for the businesses to improve their effective utilization of such agreements further.

-Japanese Foreign Direct Investment in Mongolia co-authored by Munkhnasan Gantumur, Lecturer, Hankuk University of Foreign Studies, ROK and Zулbayar Ulziibayar, Lecturer, NUM. This study investigates the status of Japan's FDI into Mongolia since the MJEPA took effect and explores ways for attracting more direct investments from Japan into the country. Indicating an increasing trend of Mongolia's inward FDI from Japan since the MJEPA became operational, the authors claim that Mongolia's market and business proposals can be appealing to the Japanese investors. However, further actions are needed to attract more Japanese investments, such as introducing the country's business and start-up opportunities to Japanese investors. Moreover, they suggest the establishment of a technology transfer hub in Mongolia aimed at promoting the transfer of Japanese industrial, agricultural, and high-tech technologies.

The other two presentations made at the workshop were:

-Problems Related to Rules of Origin arising from Implementation of the MJEPA by Bayarsaikhan Delger, a State Customs Inspector at the International Cooperation Division of the Customs

General Administration of Mongolia. Introducing the provisions on the Rules of Origin stipulated in the MJEPA, he highlights several issues confronting the Mongolian exporters in terms of complying with the Rules of Origin criteria. For example, sheep woolen carpets, felt slippers and sea buckthorn juice, Mongolia's major export items to Japan, do not meet the current Rules of Origin criteria and are excluded from the preferential tariff treatments under the MJEPA. The MJEPA requires the imported inputs of production to be less than 10% in terms of either product value or weight, but such shares of these products usually exceed this level. Therefore, in order to make products compliant with the Rules of Origin of the MJEPA, Mongolian producers must seek ways to replace the imported inputs with domestic ones along with introducing new technologies, he suggests.

-Study on the Possibility of Exporting Dairy Products from Mongolia to Japan under the MJEPA by Munkhbayasgalan Gанbold, Associate Professor, Tungalag Jargalsaikhan, Associate Professor, and Munkh-Erdene Tuvshintugs, Senior Lecturer at the Trade and Marketing Department of the NUCB. Citing their study on Japan's dairy product imports, the presenters consider that Mongolia's potentiality of milk and dairy products makes it a prospective supplier to the Japanese market of dairy products, such as butter and cheese, especially its organic varieties. Also, Mongolia's geographical proximity to Japan compared to other major dairy suppliers is another advantage of the country, the presenters noted. However, as milk and dairy products are exempt from preferential tariff and non-tariff treatments under the MJEPA, Mongolian producers need to compete with other foreign suppliers on an equal footing.