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Regional Economic Cooperation in Northeast Asia

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MONGOLIA: DEVELOPMENTAL EFFORTS AND POSSIBILITIES FOR CLOSER ECONOMIC COOPERATION WITH COUNTRIES OF ASIA AND THE PACIFIC

Brief Historical Review¹

Mongolia gained its independence in 1921 as a result of a national democratic revolution. The 1921 revolution should be considered as an historic event in the life of the Mongolian society because:

- It gave the possibility to free the Mongolian economy from the yoke of colonial plundering, and to overcome the feudal backwardness, and thus to create a modern structure in the economy.
- It opened up the door for associating the Mongolian people with common heritages of human civilization and acquainting them with modern scientific and technological achievements.

During seven decades of development, the pre—revolutionary feudal society of Mongolia had turned into a developing modern country. Achievements of human civilization have been introduced to Mongolia, and the country has made an important progress not seen for many centuries in its economic, social, and spiritual development.

However, the development strategy of Mongolia was designed to support only the state sector of the economy and to replace the individual's responsibility and initiativeness which are an indispensable source of society's life with the administrative command system of management. Mongolia's socio—economic development experience shows that such a strategy leads to a gradual weakening of the society's ability to advance in human progress.

The Mongolian society had been chosen by KOMINTERN for an experiment to prove the correctness of Lenin's theory on the transformation of a backward feudal society into a socialist state bypassing capitalism. In 1925 the Mongolian People's Revolutionary Party was forced to declare that Mongolia should go along with the

so-called non-capitalist path in this developmental efforts.

The main characteristics of the non-capitalist path of development can be summarized as follows: one—Party domination; adoption of communist (Marxist—Leninist) ideology; people's power (Proletarian dictatorship); predominant position of state sector in the economy and nationalization (elimination) of private ownership; forced collectivization of individual herders; and reliance in foreign policy on the country of Victorian proletarians, the USSR. The Party and Government policy had been directed at gradually implementing the abovementioned strategic line dictated from abroad.

In 1930 the Government had introduced a state monopoly of domestic and foreign trade and forcefully closed all but a handful of the 700 lamaseries. In 1941 a Board of Planning, Accounting, and Control was set up, and annual plans were elaborated to implement the Party's Third Programme (1940) called to "build the basis of Socialism." The First Five-year Plan began in January 1948. The introduction into Mongolia of the new crystallized form of the written language (instead of centuries-long Mongol script) facilitated further its relations with the Soviet Union, in which the 1946 Treaty of Friendship and Mutual Assistance and subsequent Trade and Technology Agreement were milestones.

The integration of the Mongolian economy into the Soviet one in their early years was started by establishing in 1924 a joint venture—the Mongolian Trade and Industrial Bank (Mongolbank). In 1930 the USSR supplied 75 percent of Mongolian imports and took 90 percent of its exports, but thereafter until 1952 the monopoly traded exclusively with the USSR.²

The early collectivization on the Soviet model had failed disastrously in the 1930s. In the early 1950s measures were introduced to prepare the private herdsman for the eventual collectivization of livestock (including the introduction of accounting methods, preferential loans and tax rates for state cooperative, etc.). The system of compulsory delivery was revised to place a larger burden on private herders. By 1958 over seven hundred collectives were established. The 1960 Constitution formally restricted private ownership of livestock and reserved all production for the state. The Fifteenth Congress of the MPRP declared in 1966 that "socialism had become a reality in Mongolia" and enacted a Fourth Party Programme which would "complete socialist construction." With the introduction of five-year directive planning, a command economy was firmly established in Mongolia, and a bureaucratic administrative form of management became dominant throughout the country.

The membership of Mongolia in 1961 in the Council for Mutual Economic Assistance (COMECON) further intensified the one-sidedness of the Mongolian foreign economic relations and greatly narrowed the possibility of using the advantages of the world market. By 1960, trade with members of COMECON accounted for 94 percent of Mongolia's export and 76 percent of imports, with the latter rising to 97 percent by 1970. It should be noted that, with the help of the Soviet Union, Mongolia had started the process of industrialization. Notable achievements had been reached in the fields of education and health service. The implementation of several five-year plans had a profound effect on the structure of the Mongolian economy. By 1970 industry accounted for over one-fifth of net material product (NMP). By

1985 the share of industry in NMP had risen to 30 percent, while that of agriculture had declined to 15 percent.³

The Mongolian economy is predominantly based on local raw materials for exports to the former COMECON countries. The primary goods include textiles, clothing, leather, furs, and footwear. Food processing, construction, and mining are other examples of industries. The Mongolian industry is characterized by large units and mostly relies on technologies and techniques of the former COMECON countries.

Despite some achievements in the process of industrialization, negative tendencies have been observed clearly since the middle of the 1980s. For example:

- The deficit with the former COMECON members in 1984 was six times that recorded in 1970. Moreover, the COMECON trade arrangements, especially the pricing system, prevented Mongolia from the subsequent increase in world prices for copper (which accounts for 40 percent of total exports) and, until 1989, from the decline in world prices for petroleum (25 percent of total imports).
- Outstanding external debt at the end of 1984 amounted to 5.8 billion transferable rubles, 98 percent of which was owed to the USSR. A British researcher, Prof. Micheal Kaser, pointed out that the Mongolian debt in 1986 was 7.6 times Mongolian exports, which was double the average for the most heavily indebted third world states (debt 3.44 times exports in 1986).⁴
- The economic growth did not catch up with the rapid population growth (about 3 percent annually). Serious problems had emerged in relation to job creation and population investments. In the last half of the 1980s, civil service employment opportunities declined considerably because of the rise in entrants to the labor force.
- The budget revenue base was eroded as import prices rose while domestic prices remained fixed. Since 1986 the budget position had been deteriorating, and by 1988 the overall deficit had risen to 19.5 percent of GDP.
- Agricultural production had become almost stagnant.
- Communications and transportation were underdeveloped and became one of the principal bottlenecks in the development of internal markets. Much of Mongolian territory still lacks railroads. Both internal and external communications networks are underdeveloped.

These and other symptoms of abnormal development indicated that the Mongolian economy was in trouble as far back as in the middle of the 1980s and corrective measures had been postponed for too long. Was this a short—term crisis? Or was it more deep—seated? Clearly not the former, as seen from the events of the late 1980s and the early 1990s. The almost 70—year experience of the Mongolian economic development may be one of the examples that “neither forced modernization of industry nor massive inflows of external resources led to the gains expected a generation ago.”⁵

The management system that was established in Mongolia over these years was a classical version of the administrative—command management. Its economic basis

was the monolithic type of ownership claiming to have state and cooperative forms which in effect turned into Party and state bureaucracy property. The political conditions for its emergence and development were provided by the system, the nucleus of which was the single party usurping state functions. The essence of the administrative—command management was that everything should be planned and distributed on a centralized basis with very detailed planning indices of production and service instituted by the top instead of encouraging interests of production units to gain profits and introduce new technology. Under such methods of management, production units lose their inherent nature and have to follow a sole goal to fulfill at any price the directives by the party and state bureaucracies. The experience of Mongolia demonstrates that its technological backwardness to a great extent is caused by and connected with the administrative—command management.

One of the tragic consequences of the copied model of development in Mongolia is that especially the youth are to a great extent Europeanized and become, in the majority, ignorant of Mongolian history, culture, and Oriental traditions. Therefore, today's task is doubled in order to restore the golden traditions and to increase patriotism among the people. Moreover, the command system of management has left an unfortunate legacy that the people's awareness of responsibility for their own well-being and exercise of initiative had weakened.

CRISIS AND TRANSITION

Most of Mongolian and international economists hold a common position that the Mongolian economy has long been in crisis. But they differ in their assessments of the extent of the crisis. M. Khasbaatar and some other Mongolian economists believe that it is a very deep—seated and protracted crisis and suggest that pulling the country out of the crisis should be a priority task for the Mongolian government.⁶ Some others, for instance *Far Eastern Economic Review's* correspondent Ming Chung, expressed the opinion that the economy is "on the verge of collapse."

In his first speech before the members of the State Great Khural (Parliament), Mongolian President P. Ochirbat referred to a "difficult" crisis and went on to stress that, as a technologically backward economy that was dependent on others, the Mongolian economy always contained in itself a "hidden condition for a crisis ready to be uncovered as the external environment changes even for a while."⁷ As we see, the President's views generally agree that the crisis of the Mongolian economy is deep—rooted and has its own characteristics stemming from the specific nature of that economy.

What is specific to the crisis in the Mongolian economy? First of all, it is closely linked with the former COMECON economies' crisis. Moreover, its external expression can be clearly seen in food and consumer goods shortages and in serious production losses. Output declines have been accompanied by sharp increases in unemployment. (In 1991 unemployment rose to 5.8 percent in contrast to 2.6 percent in 1990 as inflation rose to almost 6 percent.) All these suggest that the Mongolian economic crisis is not connected with an "overproduction" as it usually is but instead is related to shortages.

Another important point which should be underlined is that, as a technologically

backward, dependent small economy, the Mongolian economy has very limited internal resources to overcome the deepening crisis. Moreover, this crisis coincides with the transition toward a market economy. This and other factors led to a shared conclusion that the struggle against the crisis should be the core issue in dealing with Mongolian problems. It is another question how to confine the twin tasks: to eliminate the crisis situation in the economy and carry out the policy of transition to market economy. I think the process of the transition to the market economy, to a great extent, depends on how to solve the problem of the crisis. On the other hand, it should be noted that two of the main reasons causing the crisis in the Mongolian economy were the political and ideological barriers put forth against the natural development of a market economy on Mongolian soil. Therefore, it is only natural to suggest that a rapid transition to a market economy would be the right course. There is, however, not any ready model of the market economy system. Its form and content depend on many factors, especially on the specific features of the particular country. Thus Mongolia should elaborate its own model of market economy, taking into account the present crisis situation in its economy, its tradition, and the psychology of the nomadic people. The experiences and approaches of other nations must also be of great interest. At this juncture when the centrally planned traditional system has largely collapsed and the economy has been experiencing the difficulties of a crisis, a functioning market system has not yet replaced the former. The Government has to play an important role in determining the right course and in creating favorable conditions for the economy to function.

CURRENT DEVELOPMENT

Today's development strategy of Mongolia can be briefly expressed as follows:

- To undertake effective measures to curb and eradicate all symptoms of the economic crisis and thus create favorable internal conditions for stable economic development.
- To implement a broad—scale program of transition to market economy taking into account the specific conditions of Mongolia.
- To respect the economic freedom of individuals.
- To pursue in the foreign economic sphere a policy of openness towards all countries, with a special emphasis on relations with immediate neighbors—Russia and China.
- Within the framework of this policy, to develop and strengthen economic and trade cooperation with all countries, especially those in Asia and the Pacific. Also to welcome foreign investments.

In carrying out its policies of reform the government of Mongolia strives not only to mobilize effectively the internal potentials and resources, but also to get international support and understanding. It should be noted that, as can be seen from the election platforms of all political parties, they do not differ in their support to the open door policy and to the general line of transition toward a market economy.

The new Prime Minister, P. Jasral has declared that there would be no backward step in the drive toward a market economy and the policy of openness. It is obvious

that all pros and cons of the policies and activities of the previous government will be examined by the new government in order to give a fresh impetus to the policy of restructuring and correct it wherever necessary, as well as to intensify efforts in curbing the downfall tendencies in the economy.

The past two years have been marked by serious changes in the society. The most important among them is the adoption of the new Constitution based on democratic principles. Article 5 of this Constitution stipulates that "Mongolia shall have an economy based on different forms of property and answering both universal trends of world economic development and national specific situation." Furthermore, it is stated that the State recognizes all forms of public and private property. Both should be understood as a principal departure from the traditional "socialist" approach to the question of ownership.

The Mongolian reformist government, established in August 1990, initiated and tried to implement the first steps in transforming the national economy into a market-oriented structure. The government had drafted a number of laws, several of which were adopted by the Parliament. They include, among others, Company Law, Bankruptcy Law, Privatization Law, Taxation Law, and Customs Law.

State assets are being sold or given to shareholders under a large-scale privatization program, prices are being liberalized, foreign investment is being sought to develop Mongolia's vast mineral and animal-husbandry resources, and a stock exchange has begun operation. Sixty percent of livestock population, 40 percent of enterprises, and 100 percent of internal trade and service organizations have already been privatized.⁸ Shares worth over 2 billion tugriks had been sold through the National stock exchange during the half year since it was opened. A new system of financial and bank structures have been established with 10 commercial banks already operating.

The international community is very supportive of the efforts of Mongolia to progress along with the road of democracy and restructuring. A group of donor countries and financial organizations has already been formed. At the Tokyo meeting of that group, convened at the end of May 1992, the countries pledged a total of U.S. \$320 million in the forms of loans and grants, to be provided for the next 18 months.

In the process of transition the economy's output growth suffered. In fact, GDP declined by as much as 15 percent in 1991. Major difficulties arose out of the need to redirect the supplies hitherto coming from the former Soviet Union or to pay for them in hard currencies. The country faces several kinds of difficulties:

- Budget deficit (22.8 billion tugriks in 1991).
- Hard currency shortage.
- The supply crisis (industrial raw materials, fodder, fertilizer, etc.).
- Serious shortages in spare parts and in technical expertise to operate industrial enterprises.
- Petroleum shortage.
- Fall in electricity production.

These and other obstacles are believed to be temporary. However their solution will require tremendous efforts on the part of Mongolia and a consistent support by

the international community. For this Mongolia needs everything: a government committed to reform, great potentials for development, and favorable international surroundings.

POTENTIAL FOR DEVELOPMENT

Despite its small size of population and its underdeveloped infrastructure, Mongolia has great potential for development. Some of the important features are summarized below.

- Vast territory: 1,565,000 sq. km.
- Very rich in minerals.
- Broad opportunities to utilize nature's reserves of solar and wind energy: 250 sunny days per year; average windspeed is 2—4 m/sec.
- State of environment comparatively good.
- Small population—2.1 million.
- Ease in securing basic needs.
- Medical service basically well—organized; life expectancy at 63 years.
- High literacy rate: 85 percent.
- Young nation: 75 percent of population under 35.
- Adequate labor resources: 908,400 in 1991; 1,034,200 in 1992.
- Educational level of workers comparably high.
- Cheap labor.
- Livestock—25.4 million (camel, horse, cattle, sheep, and goat) not including pigs and poultry.
- Agricultural areas—total of 125,656 thousand hectares.
- Arable land—1,371 thousand hectares.
- Natural meadows and pastures—124,285 thousand hectares.

POTENTIALS AND OPPORTUNITIES FOR INTERNATIONAL COOPERATION

Mongolia is rich in a variety of mineral resources. At present, more than 4,000 deposits and occurrences of various kinds of minerals are known to exist in Mongolia, many of which have been investigated and put into production. They include, among other things, copper, fluor spar, coal, tin, tungsten, uranium, and gold. Mongolia is the world's largest producer of fluor spar, with an annual output in past years exceeding 800,000 tons, or 15 percent of the global supply. There is a massive copper and molybdenum complex that produces more than 15 percent of the total national output. The Erdonet complex was set up in 1978 as a Mongolian—Soviet joint venture. Oil deposits have been also discovered. Mongolia welcomes foreign investment in developing its natural resources. It cooperates with some U.S. and other companies in the search for oil deposits.

Even a superficial analysis of Mongolian foreign trade on the basis of the latest four years' figures gives some idea about the important changes which have taken place in its content and geographical directions. The first to be noted is that the volume of foreign trade turnover has had a strong tendency to decrease (Cf. Table 7.1). At the same time one can notice that while trade between Mongolia and its traditional trading partners—the former USSR and Eastern European and Asian socialist economies, except for People's Republic of China has substantially reduced, the share of Asian and Western countries in overall trade has been slowly growing. Mongolia's trade with China testifies to this. Although the volume of Sino—Mongolian trade has not yet increased enough, it has had a strong tendency to grow. Thus, in 1990, it rose 40 percent to U.S. \$40 million, and in 1991 reached U.S. \$43 million. This amount should be increased as the volume of border trade increases. The share of the PRC in Mongolian trade rose to 9 percent.

The overall decrease in the Mongolian foreign trade volume may be explained by three factors: firstly, its trade with the former USSR has been drastically reduced due to economic and adjustment difficulties as well as shortages of hard currencies in both countries; secondly, a sudden switch to an unknown market has created many problems; thirdly, a steep fall in such Mongolian traditional export items as cashmere wool has adversely affected the whole situation in Mongolia's foreign trade. In

Table 7.1 Volume of trade of Mongolia with selected countries 1988, 1990-1991

(in thousands US\$)

Country	1988	1990	1991	for last 2 years
1. Afghanistan	923.6	1,541.5	3,139.9	4,681.4
2. China	10,818.2	33,568.9	43,168.1	76,737.0
3. DPRK	10,563.8	13,293.6	2,284.3	15,577.9
4. France	391.7	5,134.1	1,254.6	6,388.7
5. India	59.2	26.1	37.3	63.4
6. Japan	18,003.9	17,369.9	13,604.2	31,001.1
7. Laos PDR	202.6	—	—	—
8. Netherlands	—	95.4	459.2	554.6
9. Singapore	152.1	688.2	931.3	1,619.5
10. Former USSR	1,015,678.8	1,233,628.5	472,065.6	1,705,694.1
11. United Kingdom	2,571.6	5,492.4	2,258.7	7,751.1
12. U.S.	1,040.3	921.6	1,517.0	2,438.6
13. Vietnam	2,757.2	2,526.4	6.7	2,533.1
14. Hong Kong	54.9	2,666.6	1,552.7	4,219.3
Total				1,859,259.8

Source: Mongolian Trade and Industry Ministry.

Table 7.2 Mongolian exports by main commodities

N	Commodities	unit	1990			1991			1992 FORECAST		
			quantity	value th.tr.rub.	quantity	value th.US\$	quantity	value mil.US\$			
1	Copper concentrate	th.t	347.5	129,823.0	243.5	161,349.1	354.3	166.5			
2	Molybdenum concentrate	t	3,990.4	24,886.2	3,167.2	7,942.4	4,798.0	8.6			
3	Fluorspar concentrate	th.t	116.6	11,846.1	120.2	12,618.1	108.0	11.3			
4	Fluorspar	th.t	493.4	16,719.0	114.3	8,489.1	125.0	8.7			
5	Coal	th.t	490.2	7,528.4	120.8	1,800.0	—	—			
6	Tin concentrate	t	269.0	1,494.4	—	—	—	—			
7	Cement	th.t	95.4	2,191.1	—	—	—	—			
8	Cashmere tops	t	24.2	2,356.4	20.9	3,009.3	33.0	3.0			
9	Dehaired cashmere	t	53.4	4,446.1	33.0	3,280.1	100.0	7.4			
10	Raw cashmere	t	419.8	17,587.4	71.8	3,149.5	400.0	8.0			
11	Washed wool	t	2,860.0	4,650.0	252.8	374.7	—	—			
12	Camel wool	t	1,913.7	8,042.3	166.5	148.5	1,800.0	3.2			
13	Animal hair	t	1,454.6	2,209.7	196.0	480.3	700.0	.5			
14	Hides and skins	th.pcs	262.4	4,744.0	78.5	819.0	—	—			
15	Marmot skins	th.pcs	73.0	613.1	—	—	—	—			
16	Cashmere camel wool knitwear	th.pcs	341.8	17,222.0	90.6	295.2	290.0	12.0			
17	Sheepwool knitwear	th.pcs	449.1	4,790.1	—	—	100.0	.5			
18	Carpets	th.n2	1,672.5	29,934.6	67.6	1,288.5	1,300.0	19.5			
19	Leather goods	th.pcs	242.9	19,572.7	135.5	10,462.4	240.0	13.2			

Table 7.2 (continued)

N	Commodities	unit	1990			1991			1992 FORECAST		
			quantity	value th.tr.rub.	quantity	value th. US\$	quantity	value th. US\$	quantity	value mil. US\$	
20	Velour coats	th.pcs	91.0	11,604.5	19.7	3,047.1	93.5	9.0			
21	Fur goods	th.rub/US\$	—	2,089.7	—	301.8	—	2.0			
22	Meat	th.t	24.5	26,661.1	10.8	9,478.8	20.0	15.0			
23	Live animals	th.t	20.8	12,816.1	20.1	9,558.3	30.0	8.6			
24	Horses	th.heads	42.3	8,294.9	23.2	4,604.6	10.0	1.7			
25	Casings	th.rings	2,163.8	3,505.2	257.0	547.4	—	—			
26	Alcoholic beverages	th.litr	186.6	252.8	—	—	—	—			
27	Sawn wood	th.m3	42.5	5,526.4	—	—	40.0	4.4			
28	Other goods including border trade	—	—	61,292.7	—	34,356.8	—	10.0			
	TOTAL	mil.rub/\$	—	442,700.0	—	277,400.0	—	313.1			

Source: Ministry of Trade and Industry of Mongolia.

addition to this, obstacles of organizational nature and managerial character must be overcome in order to stabilize export and import flows. Nevertheless, the author believes that the Mongolian foreign economic and trade policies are on the right track since they are based on an openness toward all countries, breaking with its earlier isolation and one-sidedness. Moreover, Mongolia's trade is no longer governed by the directives and rules of COMECON.

Table 7.2 shows that Mongolian export items are composed mainly of minerals and raw materials rather than finished and manufactured goods. However, as rightfully noted in a respected magazine, "The Mongolians, with plentiful minerals and livestock, have much to offer a resource—hungry Asia."⁹ Copper and molybdenum concentrates, fluorspar concentrate, and other minerals accounted for 64 percent in 1991 in overall export volume, while live animals, meat and horses—14.7 percent, leather goods and skins—4.5 percent, and cashmere—3.2 percent. The Mongolian government has long been trying to encourage exports, for instance, reducing licensed items. According to the new Customs Law all export goods are exempted from custom duties. Goods brought into the registered capital or required for the production of enterprises or organizations set up in the territory of Mongolia and financed by foreign capital are also exempted. In 1991, Mongolia imported oil products for U.S. \$134 million (35 percent of total import), goods of first necessities—for U.S. \$85.1 million and production—related and machinery—for U.S. \$172.4 million.

Mongolia's cooperation with countries of Asia and the Pacific was facilitated by signing an agreement with China in 1991, allowing Mongolia to use port facilities near Tianjin and exercise its transit directly through the territories of China. A Mongolian company has also signed an agreement to establish a small shipping company in Tianjin, jointly owned by Mongolian—Chinese—Hong Kong companies.

NOTES

1. The views in this paper are entirely those of the author. They do not necessarily reflect that of the Government of Mongolia.
2. L.M. Gataullina, *Mongolskaya Narodnaya Respublika*, Nauka, Moscow, 1986, p. 167.
3. *The Mongolian People's Republic: Toward a Market Economy* (Washington, D.C.: IMF, 1991), p. 7.
4. *The Economy of Mongolia*, Paper No. 76, Russian and East European Center, St. Anthony's College, Oxford University, 1988, p. 2.
5. *World Development Report 1991: The Challenge of Development*, The World Bank, Oxford University Press, p. 148.
6. The Government Newspaper "Zasgiin Gazryn Medee," May 1992, No. 14(27).
7. "Contemporary Situation in Mongolia and Immediate Tasks" (Speech by President P. Ochirbat), Newspaper *Ardyn Erkh*, 12 August 1992, No. 117(421).
8. *Ardyn Erkh*, 11 July 1992, No. 100(404).
9. *Far Eastern Economic Review*, 19 September 1991, p. 72.