

MONGOLIAN ECONOMIC DEVELOPMENT STRATEGY

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The history of any country experiences growth and progress, crisis and decline throughout its advancement toward present level of development.

Mongolia has passed through periods of unification, division's disintegration's colonial despotism and a state regulated market economy. It is natural that any transition is followed by crisis. In the case of Mongolia crisis was due to transition from centralized economy to a free market economy. On the other hand some political and other factors caused this process such as tradition animal husbandry, newly introduced crop production, as well a construction, transportation and communication.

But heavy dependence on former USSR and Eastern European countries led to inability to be a self-sufficient country.

Mongolian living standards are much lower than in developed countries because of ineffective economy due to the fact that Mongolia is not a self-reliant country. Foreign aid constitutes 30% of national income making the Mongolians feel provided with board and lodging. Shifting from a centrally planned economy caused difficulties. Decline continued until 1993 when the economy revived using real opportunities. But the economic structure was such that it couldn't support these efforts by using domestic resources. Decline continued also due to sudden withdrawal from former external environments. There was no way to develop on the old ground. Renaissance takes place in completely new environments with new mechanisms. Since 1993 there are signs of stabilization and growth in Mongolia. However many problems are challenging present Mongolia. Population increased in 1989-1993, but GDP declined. GDP per capita in 1993 decreased by 28% in comparison with 1989 and 4 years GDP per capita in 1993 declined 7.9% annually. However GDP growth was on the rise making 3% per capita annum in 1993-1997 and 8% in 4 years. It means annual GDP growth was 2%. GDP was by 2.2% lower in 1997 than 1987. There is little hope that economic recovery will take place in a short time. Transition period will certainly last for a while. Mongolian economy is an integral part of the world economy. So Mongolia has to accept high standards of the world economy and find its place in the family of nations by improving living standards. It is important to preserve our learn from others experience in order to adequately intro-

duce to Mongolia. This will be a right direction of growth and development. We will fall again into decline if we just reproduce others example.

Making has developed in two forms sedentary and nomadic civilizations. Animal husbandry has to be in constantly moving due to space and time requirements conditioned by ecological and climatic realities. This life of the Mongolians as centuries of history forming a unique nomadic civilization rich in culture and traditions.

What does strategy mean?

Strategy of an organization means successful ways of reaching its objectives. It is essential for any organization, especially for business organizations, and it must be determined on the basic of comprehensive studies. A strategy has to be formulated first, and then its implementation will be undertaken. Formulation of any economic strategy starts from identification of values (important things), national goals (objective), national resources (human, natural, capital, advantages and disadvantages) and environment. Subsequently objectives are determined by values, environment and resources, and implementation programs and basic policies are defined respectively. To implement the strategy the institutional structure of organizations, in charge of ensuring order and rules for the most effective implementation of national objectives, is very important.

What will be the economic development strategy of Mongolia?

While formulating an economic development strategy of any country it is important not only to identify environment and resources, but also to consider values and national goals. In our opinion the main long term goal of Mongolians is development of a politically and economically independent state, with adequate industry based on modern high technology and intensively developing agriculture and self-sufficient economy, while preserving virgin state of nature. This objective can be achieved only by ensuring active interaction with external environment.

Development of any country can not be judged only in terms of crisis. Development is a process. The future of economic development of Mongolia will be a specific development in line with common principles guided by

Countries all over the world. Demands and supply and resources of Mongolia are quite different from those in so-called Asian "tiger-powers". History proves that Asian tiger-countries achieved such success thanks to industrialization and aggressive foreign trade policy. These countries made large scale importation of raw materials, processed them, produced value added finished

products in order to export. These countries pursued a policy of development of export-oriented industries by investing in production of goods in great demand in external markets. Advantage of geographical location of these countries a regard access to maritime transportation was crucial for transportation of raw materials and finished products.

Mongolian economy has its peculiarities compared with not only developed and developing countries, but also with least developed countries. Some of them are:

- Mongolia has small population, vast territory, and low density of population.
- With its abundant natural resources it has an underdeveloped infrastructure and Harsh climatic conditions.
- Land-locked position, squeezed between two land powers.
- Collapse of former Soviet Union, decline of Russian economy, while China is experiencing miraculous economic growth.
- Lack of experience of running big and medium enterprises.
- Ecologically friendly technology.
- Lack of highly qualified managers.
- Lack of experience of market knowledge, export activities in market realities despite centrally planned economy experiences.
- Neglect of saving and preservation as concerning population consumption.
- Accustomed to be provided “with board and lodging”.
- Technological levels are much lower than in developed and rapidly developing countries.

These factors reveal advantages and disadvantages of the Mongolian economy.

According to some conclusions of studies made by researchers on external environment and domestic capabilities of Mongolia, we have to increase exports by encouraging export oriented enterprises and restrict imports as much as possibly by developing import substitution industries. Increase of exports will lead to opening up the possibility to buy consumer goods, essential capital (modern technology) and gain convertible currencies. However it is obvious that we are talking about exporting of finished goods and services capacity to import increased volume of capital goods essential for economic growth will depend on our capability to earn freely convertible currencies. Therefore it is a matter of urgency to put forth efforts directed at encouragement of exporting.

On the other hand exporting will widen opportunities to enhance marketing skills and volume of production of Mongolian industries.

It is clear that support of export oriented industries, aimed at meeting demand of foreign markets and based on domestic raw materials as much as possible, is important to secure economic development and growth. At present Mongolian enterprises engaged in mining, leather, and fur, cashmere and wool production are exporting to foreign markets. It has to be admitted that in addition to the fact that there are many producers with great capabilities and that the world market price of these products fall behind other countries regarding quality and design. We can make our contribution in increasing exports of some food, sewing, energy, construction materials, porcelain and biotechnological production. It is evident that Mongolia has great opportunities to enlarge and develop the tourism industry. Trade relations with free market economies are blossoming despite land-locked location of Mongolia. I believe that high production and marketing skills are crucial for the Mongolians to increase exports. On the other side Mongolia needs some restriction of imports. From this point of view it is urgent to give a priority to development of energy and agricultural production. Reliable functioning of other economic fields depends on energy, supply, as well as essential human needs such as food and housing depend on agriculture. Especially there is a great opportunity of intensification of agriculture and development of export oriented fertilizer production maintaining and ecological balance, and it is suitable to introduce foreign advanced technology adapting to domestic conditions in order to ensure considerable growth of agriculture. Mongolia has abundant natural resources while neighboring countries have great demand of fertilizer. All kinds of food, cashmere textile, leather, fur, leather clothing, machinery repairing, chemical technology, petrol-chemistry, electronic production should be export oriented at the same time reflecting local demands. By achieving this objective the basis of the next step of development, which is engineering technology, will be supported.

Although Mongolia has reliable sources of hydro, solar and wind energy its application is extremely unsatisfactory up to now. Development of studies in this field, particularly development of energy production to meet local demand and supply will be cost saving as well as environmentally friendly. It was determined that Mongolia has oil resources enough to meet not only domestic needs but sufficient to export on the contrary to earlier predictions. A new prospective emerged to change the situation when the major part of importation was fuel. Therefore many Mongolian-American and Mongolian-Russian, as well as other

countries joint ventures were established, and exploration of oil, development of production in this field are important not only to meet domestic demand and to increase of exportation but also to ensure national security.

Modern Mongolia has a lack of skilled labor resources, which is a crucial problem. Generally in market economy human development leads to development of the organization concerned and society. Therefore formation of skilled men/women must be the basis of process and development. Although the level of education of the Mongolian population is adequate skills training is unsatisfactory. Formation of such resources will be implemented according to objectives and specific systems taking into account such factors as space and time. It will radically reform education in new circumstances, create social conditions for formation of skilled labor resources, and it is necessary that it become stimulating force of process and development. According to our studies by year of 2015 the new industrialization period will be provided with skilled labor resources. 95% of population is literate. For Mongolia honoring education and training is important given the fact that 70% of its population is children and youth. As a result skilled managers, engineers, technology and market experts, scientific researchers, lawyers and accountants will form a layer of skilled workers able to cope with actual demand and supply.

Present Mongolia has also shortage of freely convertible currencies. I think that in this situation reserve of freely convertible currencies accumulated from aid and donors sources should be utilized not for population consumption but it should be directed at revived and development of strategic industries through soft loans under strict Governmental control and regulation.

Which mechanism of development should be chosen?

Economic growth is a process of production capacity growth conditioned by demand and supply. It is particularly important to establish infrastructure creating favorable environment for production. Taking into account that in a free market economy this objective is not attractive to business organizations, state involvement and centralized investment will be more fruitful. Increase of investment in such favorable conditions of production infrastructure enhances economic capability of a country. As a result of investment import substituting industries are established and domestic demands are property met as well as export industries multiply thus increasing competitiveness of domestic goods and services in foreign markets. Supply investment which finds easily its demand has important influence on economic development, leading to self-sus-

tainable economy. There are two most important issues in investment decision making of any country, namely finance and human resource. Investment demand and supply are the result of financial accumulation. In developing and least developed countries like Mongolia income level is not so high, consequently domestic accumulation is slow. It leads to foreign accumulation as sole source. On the other side formation of skilled human resources requires funding too. Efficient utilization of financial resources for investment and human resources purposes results in improved production. Most countries like Mongolia have lack of human resources. Human resources are shaped by education being an important condition of development of any country. The current education system in Mongolia does not meet free market relations realities as concerning formation of human resources by proving only basic theoretical knowledge, not practical issues.

The objective to become a self-sufficient country can be achieved pursuing the following economic policies.

At the initial stage the main financial source to adjust foreign trade deficit and investment needs will be foreign accumulation due to the fact that domestic income is not sufficient.

As the next stage a new environment will be created for increasing domestic accumulation as a result of which investment will not depend on foreign aid and loans and balance of foreign trade will be improved.

At the last stage there will be a rapid growth of national income, increasing motivation for domestic accumulation, resulting in foreign trade surplus sufficient to repay external debts.

Vision of the Mongolian economic development trends was made based on the aforementioned concepts. Also there was used the dynamic model of inter-sector balance (with the purpose of maximization of exports), elaborated by us to analyze macro economical data.

Outcome

It is obvious that in order to implement these concepts Mongolia will need to comprehend the future of making, its own situation, and heritage and development opportunities. According to our estimations 1990-2000 will be a period of economic decline, stabilization and revival. The goal of this period is to overcome decline, to stabilize and lay down the basis of future development. At the end of the period of 1997-2000 conditions for independent economic development will be created. In other words there will be a dominant trend of directing

foreign and domestic investment and establishment of leading sectors of the economy which will have great impact on the economy. It is presumed that GDP growth will be around 3% at this stage. In 2001 -2010 leading economic sectors will undertake steps to introduce advanced technologies speeding up economic growth and GDP will reach 5% growth. In 2010-2020 GDP growth will be 8%, GDP per capita will be 1700 \$ and an efficient economic structure will be established, thus Mongolia will become a semi self-sufficient country. However economic structural dynamics should be maintained accordingly. Formulation of right strategy and tactics and its follow-up are one of the important conditions to have a self-reliable economy.

According to pluralistic opinion and modern scientific methods the Mongolian economic development strategy should reflect alternative choices, the best one of which should be chosen and timetables. It is necessary to elaborate and implement a mid term program for economic and social development. Otherwise any political party having a majority of seats in the parliament will not be enthusiastic to formulate and implement a new strategy preferring to pursue the old approved strategy. The result will be preservation of traditions of elected Parliament and Government, implementation of renovation principles, time and money saving development.

In addition to correct strategy and tactics there must be encouragement of foreign investment. For this end potential investors should be induced. Policy on attraction of foreign investment to economy in order to support economic growth should be implemented. Free transfer abroad of returns and proceeds from investment should be guaranteed and there must be a sound banking system.

Price and exchange rate will be stable as a result of effective Government monetary and financial policy.

It is important to formulate and implement master plans on economic growth and development and repayment. This plan should reflect not only the Government policies and measures but also macro and micro economic policies with indication of timetable and funding sources of its implementation.