

PRESENT SITUATION OF MONGOLIAN DEVELOPMENT AND ITS FUTURE PROSPECTS

By *L. Tsedendamba (Mongolia)*

Review of Mongolian development policy – implementation and results

Stage One: Preliminary Transitional period (1990-1995)

Mongolia took initial steps to pass from a centrally planned economy to a market economy from 1991, and encountered the typical difficulties for countries that have transitional economy. During this time (1990-1993) GDP decreased by 20%, imports decreased by a factor of 2.6 – from USD 549.5 million to USD 374.5 million. The investment rate in percentage of GDP dropped from 32% in 1990 to 11%, in 1992. Unemployment reached 8.5%, with 30% of the population living in extreme poverty. Nonetheless, GDP per capita increased during 1992-1993, but the investment rate decreased rapidly, loss of foreign trade increased and external and internal parity of economy decreased.

The government took policy measures during this period, including:

- Freeing charges of goods and services by stages.
- Measures for exchanging national currency with foreign currency to floating convertible structure were taken and implemented in anticipation of the internal convertibility of national currency (*tugrug*) from 1993.

- Also, investment warrants were issued and the right to privatize capital was given to all Mongolian nationals. With this action, sectors of trade, public housing and communal services were privatized by the investment warrants. The live reserve, which is the basic support to Mongolian economy, was privatized free of charge by the warrants in the end of 1991 and the beginning of 1992.

- The banking structure became two-staged in 1991.
- Strict budget and monetary policy was carried through and special attention was paid to improve the roles of coordination and administration at the macro level.

- In order to realize a project in cooperation with the International Money Foundation, a mid-term program to change the structure and stabilize the Mongolian economy was made and confirmed and started to implement according to the agreement with the World Bank, Asian Development Bank, donor countries, and international organizations;

- New laws dealt with taxation - a major means of regulating economic relations by the government. These laws addressed areas such as the national budget, dishonest competition, foreign investment, foreign exchange, statistics, accounting, and social security. These primary laws of the market economy were submitted to the Hural and went into effect after passage.

All these measures aimed to reform the economy's managerial means and structure, to establish its legal basis, to compose and orient the market infrastructure, and to improve macro level management. These were crucial steps to carry through the medium-term program to change the structure and stabilize the Mongolian economy, and were made in cooperation with the International Money Foundation, were confirmed and implemented according to the agreement with the World Bank, Asian Development Bank, donor countries, and international organizations.

Positive changes have occurred since 1994 as a result of the measures which Mongolia implemented. At that time, the economic slump passed, and GDP increased by 2.3% in 1994, 6.3% in 1995, and 2.4% in 1996. The inflation rate reached up to 325% in 1992 became 66.3% in 1994, 53.1% in 1995 and continued to decrease. The shares of mining and agricultural sectors in GDP increased. In this preliminary transitional period, GDP increased by 2.3% in 1994, 6.3% in 1995 as a result of taking the measures that are leading to privatization, to transfer to free structure of price and to liberate foreign trading.

Privatizing public properties was a development that established private companies and enabled significant structural change in the Mongolian economy. By 1996, 60% of GDP was produced by the private sector. New laws on taxation and other economic affairs were also important steps in the transition to the market economy.

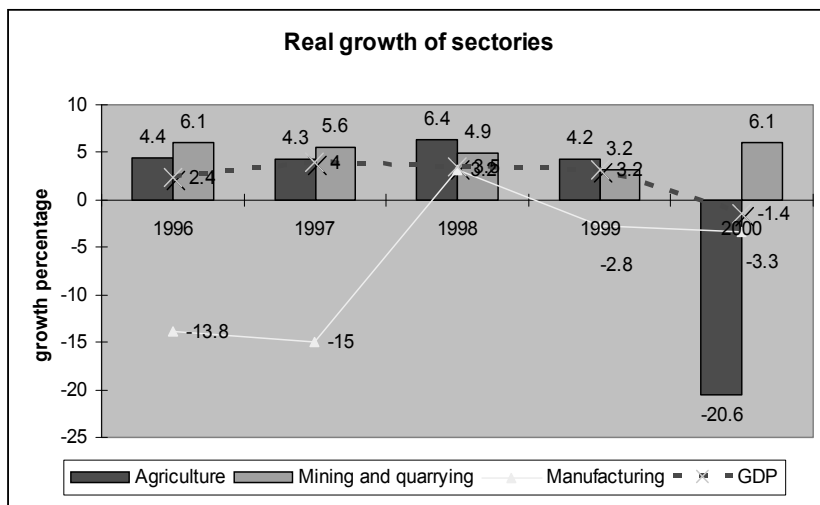
Stage Two: accelerating structural reform in the economy (1996-2000)

In 1996-1999, positive trends emerged at the macro economic level in consequence of government initiatives, including measures to stabilize the macro economy, to activate structural reform, to reduce the public-owned sector and to support the development of the private sector for the purpose of accelerating reforms sharply in all sectors of the economy and social life, in cooperation with international banking and financial organizations and donor countries.

At this time, the average annual growth of GDP reached 2.3%, the inflation rate decreased from 53% to 6-10%, unemployment fell to 4.6%, and total official

reserve of foreign exchange amounted to USD 191 million - equal to the value of 14 weeks of imports. The budget equilibrium profit was 3% of GDP, and the total turnover of foreign trade was over USD 1 billion.

Fig. 1. Real growth by sectors



Stage Three: Stabilization of the macro economy (2000-2004)

Mongolia had a GDP of *Tugrug* 1808.0 billion (USD 1481.9 million) in 2004, with a per capita GDP of *Tugrug* 754.4 thousand (USD 617.8). Annual GDP growth (in 1995 constant dollars) was 2.4% in 1996, 4.0% in 1997, 3.5% in 1998, 3.2% in 1999, 1.1% in 2000, 1.1% in 2001, 4.1% in 2002, 5.5% in 2003 and 10.7% in 2004. Thus, economic growth is occurring and a degree of economic stability has been achieved in the past few years. In 2004, 49.2% of output was in the service sector, 29.9% in the industrial and construction sector, and 20.9% agricultural in GDP.

In 2003, the inflation rate became from 5.5% to 90%, unemployment decreased to 3.5%, the total official reserve of foreign exchange was USD 129 million (equal to value of 8.1 weeks of imports) the budget equilibrium profit was *Tugrug* 80.1 billion, and total turnover of foreign trade was \$1416.9 million of which \$615.9 million were exports and \$801.0 million imports, with a trade deficit of \$185.1 million.

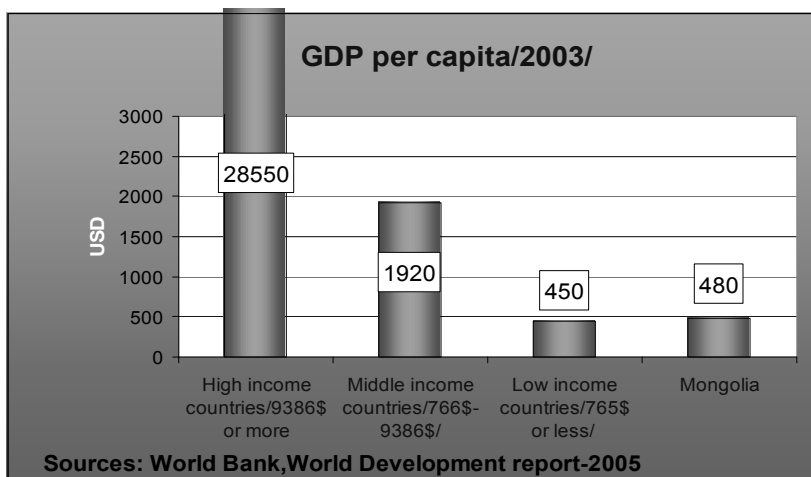
Fig. 2 – Real growth of GDP

Due to these developments, we may conclude that positive changes are occurring in the sectorized constitution of the economy. However, the economic structure remains backward, the infrastructure is at a low stage of development and poverty remains high. Under such conditions, it is crucial to investigate our nation's economic and social development level and the immediate problems by comparing them with other countries in order to rationalize the trend of further development.

Current Mongolian economic and social development and immediate problems.

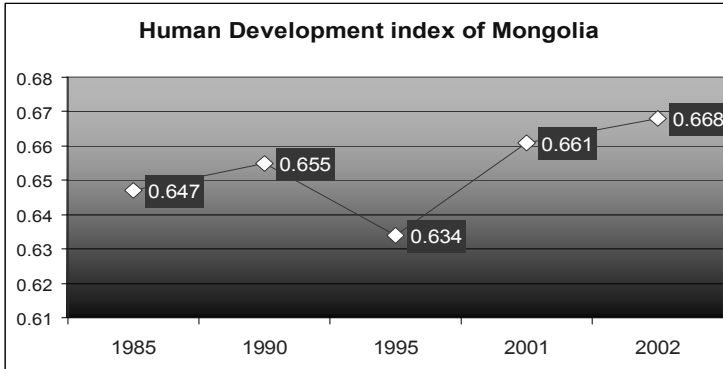
In the development report by the World Bank, countries are graded by income per capita into three classes in 2003 (Figure 3).

Fig. 3 – Real growth of GDP per capita



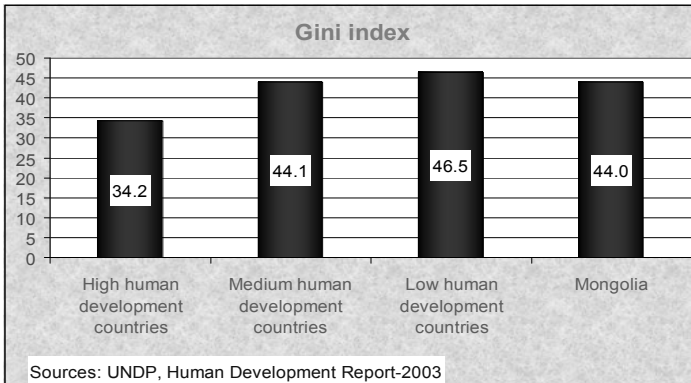
The GDP income per capita of Mongolia is about \$480 and places us among the low income countries' class. Therefore the main strategy of Mongolia is to expedite economic development and to reach the levels of middle income and then high income countries. Mongolia's status in human development is somewhat higher, and is included in the middle income country classification. Mongolia is 117th of the 175 countries according to the human development index. Whereas the world average of the human development index is 0.729 and the index of our country is 0.668. But the human development index of low income countries is 0.557. From this we can anticipate a higher use of human resources in comparison to other least developed countries.

Fig. 4 – Human development index - Mongolia



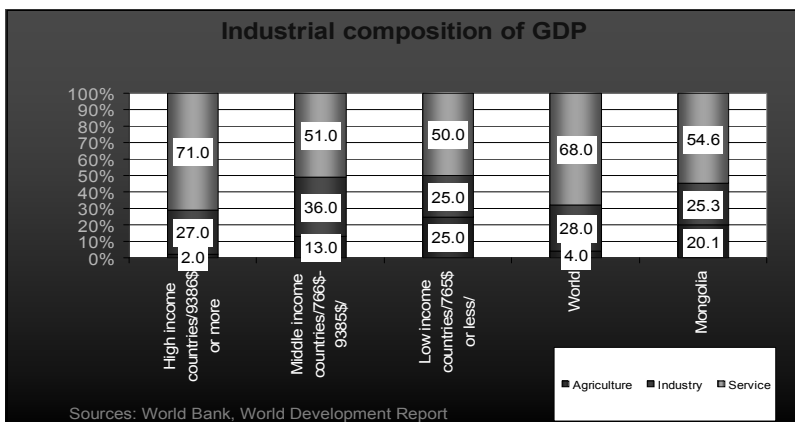
The GINI index, showing differentials of population income, indicates that Mongolia belongs to the middle developed country classification. The GINI index of our country is 44 and it is higher by 9.8 than the developed countries, and less than low income countries by 2.5 (Figure 6). (The lower the GINI index, the higher the degree of economic and social equality.)

Fig. 5 – Gini Index



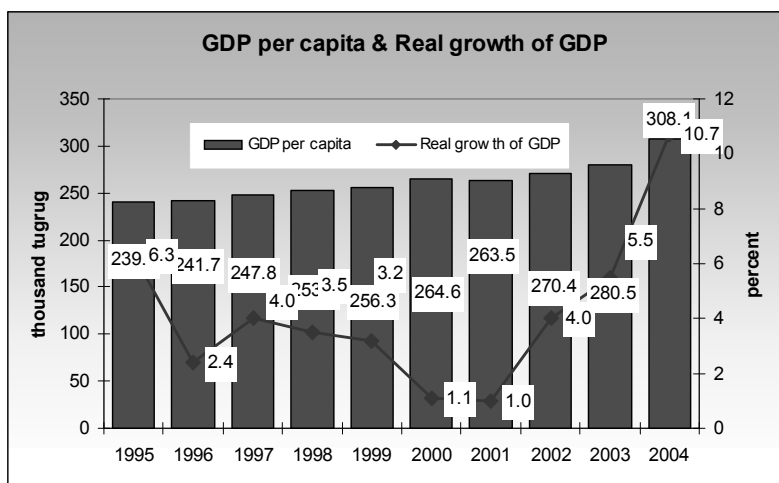
One characteristic that shows the level of a country’s development is the constitution of its GDP. In 2003, 71% of the GDP was in the service sector, 27% in industry, and 2% in the agricultural sector in developed countries. In low income countries the service sector was 50.0% of the GDP, the industrial sector 25%, and the 25% for the agricultural sector (Figure 6).

Fig. 6 – Industrial composition of GDP



For Mongolia, 54.6% was in the service sector, 25.3% in industry and construction, and 20.1% was for agricultural sector for the year 2003 as similar to the GDP component of the low income countries.

Fig. 7 – GDP per capita and real growth of GDP



According to the present state, the economic structure of our country is undeveloped and per capita income is low. Compared with 1989, the GDP value reached to the level before 1990s in 2003s. Industry and services needs greater development.

The future prospects of Mongolian economic and social development

In order to determine the future prospects for economic and social development, detailed investigations of Mongolian external and internal conditions are required, and the resources and obstacles must be explored and considered.

The factors of Mongolian development can be summarized as follows:

- Resources:

- 1) Widely varied natural complex, broad landscape with rare animals and plant species;

- 2) traditional pasture animal husbandry that is viable with nature and also becoming rare in the world, with specific nomadic lifestyle and civilization harmonized with this husbandry, and relatively high possibilities to produce pure ecological products by using these live reserves and raw materials;

- 3) a wide variety of raw materials in mineral resources;

- 4) relatively high level of secondary education among the population;

- 5) prospective possibilities to benefit from market capacities of the two neighbour countries;

- 6) strategic geographical position connecting the Central Asia, Middle Asia and European countries with the East, Northeast and Southeast Asian countries.

- Obstacles to development:

- 1) the Mongolian population is relatively small, and its distribution still in transition. There is a lack of specialized workers and market educated specialists;

- 2) low development of science and technology, and weak capability to compete in world markets by the quality of products and services;

- 3) animal husbandry and agriculture are mostly dependent on nature and a rigorous climate;

- 4) the economic structure is one-sided, and infrastructure is still underdeveloped;

- 5) great distances from regional, international and continental main routes, and no direct passage to the sea;

- 6) sensitive ecological environment and weak recovery ability of nature;

7) limited capital and financial resources, and few export products, etc.

In the “The Program of Mongolian National Development”, which considers all these above mentioned factors of development, the future prospects of Mongolian development is determined as follows:

First stage (2005-2010):

The goals of this current stage are to ensure stabilization of the economy, provide economic growth by improving export-oriented production and the service sector based on private enterprises, and build primary foundation for a rational structure of sectors. In light of these propositions, some activities are incorporated to maintain the stability of prices, applying appropriate monetary and credit policy, decreasing the budget deficit and foreign trade deficits, rationally involving import substituting production with the export promoting production, and supporting foreign investments. In particular, more attention will be paid to establishing an education based economy.

Major consideration has been paid on improving the ability of copper and cashmere products to compete in world markets, developing mining and tourism sectors rapidly at the same time stepping up production of the industrial sector. Development of regional and urban areas, establishing production and technology parks in regional centers and improving the business environment are incorporated in this program. Also some infrastructural sectors such as road and transportation, communication, and power generation are to be advanced.

At the end of this stage, new business operations will be activated; conditions appropriate to economic growth will be put into opposition, export production and services will be expanded, industry and service sectors will predominate in the economy, foreign trade and budget will become more profitable, and the real growth of economy will be not less than 9.0%. Decreasing the poverty level by 30% of the 1998 level and increasing the GDP per capita up to about \$996 are also envisioned.

Second stage (2011-2015):

In this stage, it is estimated that higher development of the economy will be provided by establishing structures where the industrial and service sectors are dominant, and mining predominates in the industrial sector. The program incorporates activities that can

- benefit from globalization,
- transfer new technology with high productivity into production,

- emphasize the large-scale mines (Oyu Tolgoi, Tavan Tolgoi, Tumurtei etc.) in the mining sector,
- establish the base of a petroleum and chemical industry,
- allow an increase of farm units with higher efficiency in agriculture,
- develop the national infrastructure,
- finish the establishment of a unified energy network and millennium road, and
- develop an information technology and education based economy.

At the end of this stage, the economic structure will be improved and be transformed into a mature model of balanced industry-service-agriculture. The annual average growth of GDP will be steadily increasing above 10%, and unemployment and poverty will be decrease rapidly.

Third stage (2016-2021):

By this time, the economic structure will be more advanced, intelligent production and service sectors will predominate, the economy will be able to be self-supporting, the education and information technology based economy will be mature, GDP will grow annually average at ten percent, and GDP per capita will be not less than about \$5200. In this stage, the measures that are to hold the unemployment level no more than four percent and welfare benefits will be available for the population.

By implementing the program, Mongolia can be a country in which the economy is in a self-sustaining and rapid development stage in near 15 years, the middle income group dominant in whole population, and the level of living standard has increased markedly.

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