

## **ECONOMIC AND POLITICAL LIBERALIZATION IN MONGOLIA**

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### **Abstract**

This paper briefly reviews economic and political liberalization in Mongolia, and focuses on empirical strengths and weaknesses of the process. The liberalization process and neoliberal policies have brought benefits and challenges for many developing countries in last two decades. Developing countries start focusing on costs and benefits of economic and political liberalization. The wide gap of equity in terms of development and wealth distribution became the main shadow of economic and political liberalization for many of those countries. Mongolia is the country to study how the liberalization and its policies differently influence the urban and rural areas as well as various socio-economic sectors.

### **Introduction**

Comparing experiences of different geographical regions and economic sectors since the liberalization process started in many developing countries including Mongolia, has become a study of recapping and reevaluating neoliberal policies in terms of development. Costs and benefits of economic and political liberalization are associated with fundamental transformations of almost the last two decades in Mongolia. During this transitional period, economic and political liberalization have been unequally fruitful to different economic sectors and geographical regions. The ongoing process is rearticulating, and reconstituting functions of economic systems and roles of political regimes of the country after the long silence of communism.

The World Development Report 2006 was released on “Equity and Development” (World Bank Report, 2006) issues. The report focuses on the tremendous external and internal inequality across nations and regions, which differ because of their socio-economic conditions as well as political structures. The report states that inequality produces a distinction between individuals and groups due to unequal opportunities and unfair circumstances around the globe. Overall, this debate of equity and development points out the strengths and weaknesses of neoliberalism in other words, economic and political liberalization in the contemporary world.

### **Neoliberalism**

Since the early 1990s, the Washington Consensus has prescribed the principles of neoliberalism or market fundamentalism to the development of Latin American countries. The Washington Consensus, according to John Williamson, is development policies based on “1. fiscal discipline, 2. a direction of public expenditure priorities field offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure, 3. tax reform (to lower marginal rates and broaden the tax base), 4. interest rate liberalization, 5. competitive exchange rate, 6. trade liberalization, 7. liberalization of inflows of Foreign Direct Investment, 8. privatization, 9. deregulation, and 10. secure property rights” (Williamson, J.2000, p.252-253). These policies were key ingredients to set up rational economies, and to launch globalization. However, his idea of economic liberalization involves liberalizing the market or economy to promote the rapid growth, competitive market, and reduce government intervention in developing countries. Unfortunately, there are impediments such as inequality, poverty, illiteracy, and unemployment etc. which developing countries are experiencing in the initial stage of the liberalization process. The initial stages were not the same in all.

The transitional period, and the resulting situations of equity and development of the developing countries within the last two-decades, has caused debate among the advocates and critics of neoliberalism. The former economist of the World Bank, Joseph E. Stiglitz, has noted the problem that economic liberalization of developing countries, in particular, “financial and capital market liberalization – done hurriedly, without first putting into place an effective regulatory framework - was the core problem” (Stiglitz, J. 2000, p.1075). His criticism of neoliberalism focuses on policy implementation with the assistance of international organizations for developing countries. However, Martin Wolfe, author and *Financial Times* editor, argues that economic liberalization or globalization seems like failure because of WB, IMF, and WTO regulations and bank lending policies in spite of maintaining macro economic stability. Instead of investing in technical advice and assistance, this budget could have been spent on improvement of real world problems. Furthermore, he mentions that economic liberalization introduces both “technological changes (advances in communications and transportations) and policy changes (reliance on market forces, rather than the state, to steer economic activity)” (Putzel, J. 2005, p.6). In his view, globalization expands capitalism as “local and national seclusion and self-sufficiency with the universal inter-dependence of nations”

(Putzel, J.2005, p.6) in developed and developing regions. At this point, other neoliberalist advocates like Barry Eichengreen and Robert Rubin prefer redesigning the existing international financial organizations and reforming the policies instead of establishing new one (Naim, M.1999, p.3). Mohammed Nuruzzaman also finds that economic liberalization becomes the argument for promoting a free market economy in international “economic organization and management which, in turn, push forward growth and human welfare” (Nuruzzaman, M. 2005, p.109).

In developing countries, economic and political liberalization is the key to entering into the global market. However, the entry process is not easy or the same for each country, and depends on political structure, government interventions, and attitude towards economic liberalization. Whether it is good or bad, there are many developing countries adopting these liberal ideas of political and economic liberalization.

The definition of political liberalization as given by Zeric Kay Smith is “a relaxation of political control on the part of authoritarian rulers.” (Smith, Z. 2000, p.21) In the article of “Transitions to Democracy” (2004), Adam Przeworski determines that authoritarian rule and dictatorships do not tolerate independent organizations under their regime. Authoritarian or totalitarian type of political regimes do not weaken and breakdown their legitimacy until isolated individuals realize “*collective alternatives*” (Przeworski, A.2004. p.54) for political choice. Collective alternatives mean autonomous political organizations as civil societies that provide the support for individuals to seek political power. There are divisions between a dictating authoritarian regime and autonomous organizations as civil societies, with openings of political space for individuals in society. Division in the authoritarian regime establishes social mobility or popular mobility and even disintegration among the elements of power in that regime. In Przeworski’s further statement, political liberalization is referred to as an “‘opening’ (*aperatura*), ‘decompression’ (*distensio*), ‘renewal’ (*odnowa*), or ‘reconstruction’ (*perestroika*-‘remodelling’, as of a house).” (Przeworski, A. p.57-58) In fact, as he stresses, “Political liberalization does not always lead to transition, as the tragic events of Tiananmen Square (demonstrate).” (Przeworski, A. p.65) Political liberalization takes different timelines to bring a new regime. The timeline for Mongolians was twelve months to celebrate democracy by political liberalization, while it is noted that that it took “the breakdown of the communist monopoly of power ten years in Poland, ten months in Hungary, ten weeks in east Germany, ten days in Czechoslovakia.” (Przeworski, p. 55) Since

the political liberalization process includes intentions to avoid absolute control of governing entity, as Smith noted on the classic Brazilian case, “careful doses of liberalization could substitute for genuine democratization, thereby maintaining the political exclusion of subaltern group and preempting meaningful demands for real reform of the economic model.” (Prezowski, p. 60) Whole political liberalization broke down the dominant authoritarian regime through peaceful and public demonstrations in Mongolia. Within political liberalization, economic reform was one of the first demands for the country. Thus, the rise of political liberalization is the primary component to facilitate the economic reforms in most developing countries. For example, in “Theories and Practices of Development”, Katie Willis (2005) wrote about the East Asian Miracle. In the early 1990s, the high economic growth in Taiwan, Malaysia, Thailand, Singapore, and Hong Kong was made by their successful government interventions. (Willis, 2005, p. 57) Her book also tells about the government intervention on Hong Kong textile industry. The economic growth of Hong Kong did not only benefit in free trade and open economy. The examples of government interventions in developing economies can be illustrated as promoting rule of law, implementing reliable banking systems, developing solid infrastructures, inventing technologies, and providing basic health care and education system. Moreover, a government can protect certain economic sectors through taxes and tariffs, and promote that sector with subsidies for a certain period. Many neoliberal economists, “Berg and Krueger, 2002; Bhagwati, 1994, Dollar and Kraay, 2001; Edwards, 1998, Henry, 2002; Hussain, 1996; Krueger, 1997; Krugman, 1994 Vasquez, 2002” (Nuruzzaman, M. 2005, p. 109) suggest a developing country has an opportunity to join the global capitalist market by achieving rapid growth if the country avoids protectionism and takes measures on economic liberalization in capital accounts, trade and investment regimes, and privatization of national enterprises.

### **Mongolia**

Mongolia is an independent country in Asia neighboured by great powers like China and Russia. This country is less populated and underdeveloped in the economic, political, and social fields. During the last decade of the twentieth century, the world has changed dramatically and many countries around the world such as Mongolia were externally affected by the third wave of the democratization and liberalization processes. As Samuel P. Huntington suggests, this process of “global democratic revolution” is expanding into culturally

similar nations (Huntington, S. 1996, p.218). These nations are culturally similar in terms of their governing political regimes and dominant economic systems, as well as the past experience of communism as it existed in Eastern Europe, the USSR, and Mongolia during the era of Cold War. Transitions are made from utopian socialism into substantial liberalization in every aspect of life. In Mongolia, the economic and political power has transferred from the totalitarian regime into a democracy with a free market economy. Mongolia's liberalization process started in March 1990. Both internal and external changes contributed to the transition.

### **Political Liberalization: Facility for Economic liberalization**

Mongolia and other developing countries have welcomed the idea of liberalization since the Cold War. Mongolia is one of the models for studying the costs and benefits of whole economic and political liberalization for the last 16 years. The Mongolian Liberal Democratic Party was one of the initiators of political and economic transformation. According to their view, "in the fall of 1989 and the spring of 1990 new currents of political thought began to emerge in Mongolia, inspired by the glasnost policies of Mikhail Gorbachev and the collapse of the Communist regimes in Eastern Europe" (Mongolian Liberal Democratic Party, 1997) Beyond these external aspects, the people gradually lost faith in communism due to the performance of single-party government as well as its corruption, the centrally planned economy, and consequent improvement of education among the average citizens of Mongolia.

Since then, the first civil society has been formed in Mongolia beyond the ruling communist party. The idea later expanded on the foundation of various interests and opinions of different political groupings, parties, and unions. The product of a series of public demonstrations and a hunger strike resulted in the unprecedented change from the communist government. The communist bureaucrats resigned voluntarily and democrats and other new figures from the demonstrations formed a new coalition government through free and fair elections. The result was the most liberal constitution of Mongolia in the twentieth century. The Constitution of Mongolia became the first successful step towards the liberalization process in general. Beyond political liberalization, the economic transformation has accelerated reform.

In Mongolian terms of political liberalization expressed as political opening or political freedom and democracy in Mongolian "*ardachlal*". In political liberalization, the Mongolian people have found collective alternatives as their

political choice beyond the imposed authoritarian and totalitarian regime. As Prezworski observed that political liberalization in Eastern European and Latin American countries began with the emergence of an autonomous movement. In Mongolia it was the Mongolian Democratic Association, and has launched public demonstrations in the post-communist regime.

The Mongolian government has a different perspective on government intervention. The government is more focused on the privatization of public assets. It uses shock therapy measures with the assistance of international donor organizations. In addition, the Mongolian government reduced its activities, budget and became less influential in the market. “Anthony Giddens celebrates the creative possibilities of globalization and the rise of the ‘new individualism’” (Putzel, J. 2005, p.5). In his observation, a state collaborates with various actors outside of that nation-state. Sharing power is what weakens the strength of a nation-state and its sovereignty. In the transitional period, international organizations become important actors in Mongolian political and economic lives. The World Bank has completed 12 projects totaling US\$207.7 million, seven ongoing projects at US\$118.2 million, and three planned projects at US\$24 million in Mongolia. (World Bank Report, 2005) Mongolia did not decline because of foreign involvement in the country, but because of failures of government policies, political corruption, mismanagement, and lack of knowledge and experience of market economy which led them into weakness. Political liberalization is the pre-requisite for further economic development and promotion of democracy in Mongolia. The World Bank has offered over US\$325 millions (World Bank Group, 2006) to Mongolia, just for technical advice and assistance in the initial stage of liberalization.

The Mongolian government, with the support of international agencies, has followed the suggested pattern and concentrates on privatization from the small to medium to large-scale state owned properties. The “Economic growth and support and poverty reduction strategy, Mongolian Government Asian Development Bank” Report of 2003 showed that the current situation led Mongolia to reforms. These reforms include: “the phased liberalization of state-controlled prices and tariffs, privatization of state owned enterprises, establishment of a two-tier banking system, liberalization of foreign trade, adoption of a floating exchange rate system, implementation of tight monetary and fiscal policies aimed at reducing inflation, adoption and enforcement of laws to encourage fair competition, and creating a favorable environment for private sector development.” (Asian Development Bank, 2003, p.1) These

economic measures have been strongly supported by the international organizations and donor agencies such as the International Monetary Fund, Asian Development Bank, World Trade Organization, U.S Agency for International Development, and Japanese International Cooperation agency. The Mongolian government needed these donor organizations' recommendations. Again, international organizations greatly contribute to the economic and political liberalization process of Mongolia. While economic and political liberalization is significant to many developing countries, however, as in post-communist Mongolia, obstacles to success and prosperity are inevitable.

### **Benefits of Liberalization in Mongolia**

Liberalization is explained and studied broadly by many in the political, legal, cultural, and socio-economic disciplines. Mongolia's choice of liberalization was simple. It provides wide variety of economic and political opportunities, while communism relies on a single pattern for development. The benefits of liberalization can be illustrated in the economic and political areas of Mongolia.

After the collapse of the Soviet Union, many developing countries in the world needed to reshape their policies. Mongolia searched to find the right path to prosperity, required radical transformation in every aspect of the former society. The economic and political transformations started remarkably smooth in Mongolia compared to other countries in the beginning of the 1990s.

### **Political Liberalization - Benefits**

Mongolians had experienced the devastating impacts of totalitarian and authoritarian regimes in the past. Political liberalization led to introduction of liberal democracy, and democracy expanded liberal concepts within society.

The concepts of civil rights and socialist welfare of communist citizens were replaced by the concepts of human rights and freedom through liberal democracy. The values and norms of human rights were introduced to Mongolians after long repressive nightmares during the 70 years of the communist regime. Political liberalization gave many opportunities to people and encouraged them to succeed in their lives with respect to basic human rights without political intervention or pressure. The civil society movement consolidates the new liberal democracy in Mongolia. Political power sharing is important to society and political life of Mongolia. Morris Robassi wrote that "they also sought official respect for basic human rights. The government had

to protect freedom of the press, freedom of speech, freedom of travel, and freedom of religion and to publicize these rights to the people.” (Rossabi, M. 2005)

Mongolians began to have concern for their national identity, which was almost forgotten during the Soviet period. Gender equality in political status has opened up in the liberalization process. Political liberalization also revitalized the society with free press and media.

### **Economic Liberalization - Benefits**

Economic liberalization was the most challenging transformation among the reforms. Morris Rossabi explains that “changes in the organization of the economy were also vital for the new Mongolia that some of the reformers wished to foster. Influenced by the West, part of the reform group proposed that a market economy be installed in place of the centrally planned economy.” (2005)

Economic liberalization abolished the centrally planned system and introduced a free market economy. It was hard on the fabric of weak and dependent economies like Mongolia for understand the concept of the market economy. L.Dorj and D.Yavuukhulan state “Mongolian living standards are much lower than in developed countries because of ineffective economy due to the fact that Mongolia is not self-reliant country.” (2002, p.67)

However, despite the economic hardships in Mongolia, there have been certain improvements in the overall economic growth. Economic stabilization led to initial declines, but recently the economy has improved. Dorj and Yavuukhulan point out that “GDP per capita in 1993 decreased by 28% in comparison with 1989 and in four 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 four years”(Dorj, L. and Yavuukhulan, D. 2002, p.67). Economic liberalization creates opportunities to grow in the long run, but will go through obstacles and economic hardships, including the requirement that the economy become more competitive.

State-owned industries and banking systems have been transferred into the private sectors. Price liberalization and privatization are being undertaken with the complete support of international organizations and donor agencies such as the Asian Development Bank, World Bank, IMF, WTO, USAID, and UNDP.



Finally, the legal system was restructured in order to serve the needs of the newborn society, and for regulating new phenomena. For this purpose, the Constitution of Mongolia was amended in 1992 to ensure the democratic concepts, norms and values such as freedom, liberty, human rights, justice, and private property in detail. The Constitution has 70 articles that substantially differ from the previous constitutions (in 1924, 1940, and 1960) from the Communist regime.

The Prime Minister of Mongolia, Mr. L. Elbegdorj (2005), recently noted, “80% of the GNP is in hands of private sector. Foreign direct investment increased up to 10%.” These achievements show the benefits of liberalization in Mongolia.

The Constitution of Mongolia declares the country is “consolidating the independence and sovereignty of the nation, cherishing human rights and freedoms, justice and national unity, inheriting the traditions of national statehood, history and culture, respecting the accomplishments of human civilization, aspiring to the supreme objectives of building humane and democratic civil society in the country” (Constitution of Mongolia, 1992 p.1).

### **Costs of Liberalization in Mongolia**

Liberalization creates many challenges. The Western standard is far from the reality of developing countries during economic and political transformation. R. D. McChesney notes that liberalization requires dramatic changes. He states “from a politically quiet and submissive role within the former Soviet Union, each republic was, without warning or preparation, forced to assume full responsibility for political organization, economic policies, and the well-being of its citizens.” (McChesney, R.D. 1999, p.3) The main reason is that Mongolia was a politically independent sovereign state, which did not belong to the former USSR as did other republics. Dorj and Yavuukhulan found that the Mongolia economy relies on “foreign aid that constitutes 30% of national income making Mongolians feel provided with board and lodging” (Dorj, L and Yavuukhulan, D. 2002, p.67).

### **Political Liberalization - costs**

Many regions in the world, political liberalization costs hundreds of lives in violent conflicts or sufferings of thousands with political instability. In Mongolia, political liberalization has concluded as semi-parliamentary government and smooth introduction of liberal democracy. Political liberalization has built the strong civil society in the early 1990s. Political power is divided

into the judiciary, executive, and legislative units. A free press and enhanced role for women in the political decision making are improving in Mongolia. Political liberalization is on the right track as Morris Robassi states, “despite the economic failures, the political system has been liberalized. Four *Khural* (parliament) elections and three presidential elections have been generally fair and open, and independent foreign observers have certified their honesty” (Rossabi, 2005, p.111). Although the political system has been liberalized, democratic reformers become less influential in Mongolian political life due to corruption scandals and election procedure at the parliament. The cost of political liberalization was high in the early 90s.

### **Economic Liberalization - costs**

The economic system of Mongolia was divided into three main sectors: industrial, agricultural, and pastoral animal husbandry. These sectors were completely owned by the state. After the enactment of the Privatization Law of Mongolian People’s Republic (before the Constitution of 1992, Mongolia was a People’s Republic), “[44%] of state property” (Orkhon, M. 2003, p.98) was privatized and the state issued vouchers to every citizen of Mongolia. Mysteriously, the remaining 56% of the state-owned property is unknown.

### **Industry**

Thus far, the industrial sector has been a complete failure. The Mongolian Action Program, so called MAP-21, notes “The weak and inadequate infrastructure - which is of great importance to the proper functioning of the economy and its industrial sectors - worsened the situation. The industrial sector in general is suffering from obsolete machinery and technology and a lack of the latest scientific and technological advances.” (Orkhon, M. 2003, p.98) In general this sector is inefficient and harmful to the environment, and stagnant with old technologies. As of 2005, the industrial sector has seen improvements with the establishment of private cashmere garment factories and mining companies with foreign investments.

### **Service Sector**

Somesh K. Mathur (2001) noted that what “the WTO can make from the development perspective is to improve market access conditions for goods and services...” for developing countries. Economic liberalization introduced a new service sector into Mongolia. The state-owned enterprises no longer existed

and the market is fragmented into small private companies. Banking, restaurants, hotels, tourism, mobile phone services, internet, and other service business are flourishing instead of large or medium scale heavy industries. The Ministry of Tourism has made major contributions to tourism development, and Mongolia has become a popular tourist destination. Mongolian ex-Prime Minister Elbegdorj (2005) mentioned that Mongolia is not land-locked or isolated from the rest of the world, but is getting closer than ever due to modern technology and transportation. There were “some 300,000 visitors (who) traveled to Mongolia in 2004, and plans are afoot to increase numbers substantially” (Elbegdorj, Ts.2005). Former Foreign Minister, Tuya Nyam-Osor (2004) stated that up to 6% of economic growth was made “in mining, services, construction, and rebounding agriculture” in 2004 after several harsh winters. Thus, the service sector in Mongolia benefits some more than others within this process of liberalization.

### **Conclusion**

This study has focused on the benefits and costs of liberalization in developing countries such as Mongolia. The World Development Report states “equity has a central place in the interpretation of development experience and in the design of development policy” (The World Development Report 2006: Equity and Development, p.226). Equity and development are distinctive benefits and costs among the populations in rural and urban areas, countries, regions, and continents. The level of economic and political liberalization reflects the development framework of any country over last 25-30 years. Equity and development are related to the consequence of economic and political liberalization in many developing countries. Economic and political liberalization have advantage and challenges within the process. Nevertheless, weaknesses of liberalization produce inequality across socio-economic groups and fewer opportunities for human development in the beginning, benefits of liberalization have lasted longer than the outcomes of initial stages of this process.

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