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Mongolia's EPA with Japan: Implementation Progress and Challenges

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Abstract: Mongolia first signed an Economic Partnership Agreement (EPA) with Japan, its third neighbor, major investor, and key strategic partner, in 2016, and subsequently joined the Asia-Pacific Trade Agreement in 2021. Currently, discussions are underway to conclude an Economic Partnership Agreement (EPA) with the Republic of Korea and an interim agreement on the Eurasian Economic Union. Although Mongolia has the resources to use such international and interstate agreements, the lack of industrial development limits the possibility of implementing such agreements.

Since the establishment of the Mongolia-Japan Economic Partnership Agreement, the trade deficit between Mongolia and Japan has not decreased but has increased year by year, reflecting that the main obstacle facing Mongolia in expanding trade with Japan is the issue of transportation costs. The two sides have been regularly discussing the opportunities and challenges to increase the benefits of the agreement, which is the source of the successful implementation of this agreement in the future.

In line with the process in this article, an attempt has been made to analyze the current status and future trend, common challenges, and implications of the Economic Partnership Agreement (EPA) with a third neighbor, Japan.

Keywords: Mongolia-Japan trade, Economic Partnership Agreement (EPA), investment, preferential treatment

Introduction

An Economic Partnership Agreement (EPA) is a popular form of broad-based

economic relations and cooperation between countries that aims to promote the free flow

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of goods, services, and investment. In most cases, an EPA is considered a higher-standard version of a free trade agreement (Bayarsaikhan, 2019). The purpose of a partnership agreement is to establish as clearly as possible the terms of business relations between two or more cooperating parties.

Economic Partnership Agreements (EPAs) are agreements that commit and mutually agree to implement the following in order to promote trade and investment between specific countries or regions. These include:

- Eliminating /reducing “Taxes on exports and imports”;
- Reducing /eliminating “Services sector regulations”;
- Improving the investment climate;
- Improving “Intellectual property protection.”

By entering into an agreement, the parties undertake to “zero” tariffs and reduce non-tariff barriers to the lowest possible level. While Free Trade Agreements (FTAs) provide preferential access to new markets for

exporters from participating countries, they also expose domestic producers to the risk of losing protection from import competition, as domestic markets become more open to partner countries that have joined the FTA. Before joining an agreement, any country must carefully consider a number of factors, including the potential positive and negative impacts, the benefits it will receive in the medium and long term, and the advantages and disadvantages before deciding whether to enter into an agreement.

According to international practice, each country that has established a FTA seeks to create a more favorable investment environment. By improving its investment environment, it aims to attract more foreign direct investment, increase the supply of technical equipment and raw materials for industrial purposes, create new jobs, and master and introduce new methods of conducting advanced technological production. From a political point of view, small and developing countries see FTAs as a means to improve their negotiating capacity within the WTO and to protect their interests.

Mongolia-Japan Strategic Partnership

In the past, the Mongolia-Japan Strategic Partnership, which has become the “roadmap” of relations and cooperation between the two countries, has been successfully implemented in the Medium-Term Program for the Development of the 2013-2017 and 2017-2021, and has subsequently established a 10-year Action Program for the “Mongolia-Japan Special Strategic Partnership for Peace and Prosperity.” Within the framework of this program, the two countries are deepening and

expanding their cooperation in the following four main areas. These include:

1. Politics and security
2. Economic, trade and investment cooperation
3. “People-centered” development and people-to-people exchanges
4. Cooperation on common global issues (Baatar, 2023).

Today, one manifestation of the continuous deepening and expansion of bilateral relations in the above-mentioned

main areas is the official visit of Mongolian Foreign Minister B. Battsetseg to Japan from February 28 to March 5, 2025. I concur with researcher Ch. Sumiya that the primary objective of the visit was to enhance collaboration between the two nations in the aforementioned four key areas and to

transition Mongolian-Japanese cooperation from the theoretical framework to practical activities within the scope of partnership (Sumiya, 2025.03.07). Since the EPA plays an important role in the relations between the two countries, its implementation and future prospects are summarized and analyzed here.

The Reasons and Conditions for the Establishment of EPA with Japan

Within the framework of the “Strategic Partnership” between Mongolia and Japan, the parties mutually agreed to establish an Economic Partnership Agreement (EPA) in 2010. As a result of seven-stage negotiations with Japan over a period of about three years, starting in 2012, relevant ministries and agencies of Mongolia conducted negotiations with the Japanese side. As a result, the important agreement, which aims to expand economic relations and cooperation, and increase trade and investment, came into force in 2015 and began to be implemented on June 7, 2016 (Bayarsaikhan, 2019).

The agreement is a comprehensive agreement covering a wide range of issues, including trade in goods, rules of origin, customs procedures, sanitary and phytosanitary measures, technical barriers to trade, trade in services, investment, improvement of the business environment, intellectual property, e-commerce, competition policy, dispute settlement, general and final provisions, cooperation, movement of individuals, and government procurement.

This agreement is aimed at attracting investment, developing manufacturing industries with modern techniques and technologies, exporting value-added products

that meet international standards, increasing foreign exchange earnings, reducing tariff and non-tariff barriers in Japan, facilitating trade, and simplifying customs clearance.

Professor N. Batnasan explained the reasons for the agreement between the two countries, highlighting that, “It is no coincidence that Mongolia was the first to sign an Economic Partnership Agreement (EPA) with Japan, a form of FTA, among its trading partners. The reason Mongolia signed an EPA with Japan is that, firstly, Japan is not only the closest country in terms of geographical location among developed countries, but also one of the main buyers of products such as copper and coke in the world market. Therefore, Japan is likely to become a major buyer of our strategic products; secondly, by attracting Japanese investment and widely introducing Japanese technology into production in strategically important sectors, it is important not only to improve the competitiveness of our country's export products and reduce transportation costs, but also to reduce our dependence on neighboring countries; thirdly, it is important to develop friendly relations with Japan, which shares the same values as a democratic society, market system, rule of law, human rights and freedoms, and to support each other in the Asia-Pacific region and the international

arena” (Batnasan, 2017). Indeed, taking into account the aforementioned reasons, Mongolia, which is a developing nation with a limited economy and population, underdeveloped infrastructure and processing

sector, and reliant on two neighboring countries, has established this EPA based on mutual trust, despite the power imbalance with Japan, a major economy and the third-largest in the world.

I. The Current Status of Foreign Trade between the Two Countries

Mongolia has established a free trade agreement with Japan, creating a legal framework for international trade that unites 164 economies (WTO, 2025). It is the first agreement to open up the possibility of active participation at the international level in resolving the issues affecting trade flows in the World Trade Organization (WTO) agreements, including goods, services, intellectual property, standards, investment, and other issues.

Within the framework of the agreement, by type of goods, Mongolia and Japan have negotiated to reduce import tariffs on about

5,700 types of goods in Chapter 97 of the Customs Tariff, and Japan has agreed to reduce import tariffs on about 9,300 types of goods in Chapter 97 of the Customs Tariff. Mongolia and Japan have agreed to immediately eliminate 59 percent (3,429 types of goods) and 86 percent (8,000 types of goods) of these imported goods from the date the agreement enters into force (Ulziisaikhan & Ariunaa, 2022).

The following table shows how the trade turnover, export and import structure, and trade balance between the two countries have evolved since the agreement came into force.

Table 1. Mongolia-Japan foreign trade performance 2016-2024 (US dollars)

Year	Export quantity	Export value	Import quantity	Import value	Total turnover	Balance
2016	4,018,597.89	14,031.75	11,160,055.75	330,607.56	344,639.31	-316,575.81
2017	5,043,001.90	14,816.47	13,866,229.14	363,150.12	377,966.59	-348,333.65
2018	12,527,158.15	26,468.49	19,771,745.63	561,042.29	587,510.78	-534,573.80
2019	3,722,974.66	15,517.05	22,384,231.71	585,477.31	600,994.36	-569,960.26
2020	2,635,079.60	9,628.71	16,270,747.97	406,712.86	416,341.57	-397,084.15
2021	3,861,770.54	17,739.06	17,253,513.39	453,119.71	470,858.77	-435,380.65
2022	4,173,175.35	15,228.17	47,300,753.48	674,247.03	689,475.2	-659,018.86
2023	4,352,956.01	14,992.89	17,129,181.26	716,290.92	731,283.81	-701,298.03
2024	7,765,283.60	12,557.9	2,020,038.0	1,175,021.2	1,187,579.1	-1,162,463.3

Source: Import Statistics. (2024). Mongolian Customs Service. Available at: <https://gaali.mn/statistic/detail/03>

According to Customs statistics since 2016, the quantity and variety of export goods from our country to Japan have not increased significantly. As of 2024, the total trade turnover between the two countries increased

to 1.188 million US dollars, but our country's exports to Japan decreased to 12.6 million US dollars compared to previous years, while imports increased to 1.175 million US dollars, resulting in a trade deficit of 1.162 million US

dollars. Japan accounts for 10.1 percent of our total imports and just over 1 percent of exports. The following table shows that the

majority of goods imported from Japan are various types of vehicles and their spare parts.

Table 2. Major imported goods from Japan as of 2024

Main brand products	Measurement unit	Quantity	Amount
Motor cars and other motor vehicles principally designed for the transport of persons	u	114,780.0	906,422.2
Motor vehicles for the transport of goods	u	5,318.0	57,385.0
Self-propelled bulldozers, agnledozers, graders, levellers, scrapers, mechinanical shovels, excavators, tamping machines and road rollers	u	159.0	48,692.6
New tyres	u	36,828.0	18,091.4
Retreaded or used pneumatic tyres of rubber, tyre treads and tyre flaps	u	1,335,843.0	13,760.9
Parts and accessories of the motor vehicles	u	509,000.0	13,387.1
Parts suitable for use solely or principally with machinery	u	18,110.0	5,954.4
Other	-	-	111,327.8
Total		2,020,038.0	1,175,021.2

Source: Import Statistics. (2024). Mongolian Customs Service. Available at: <https://gaali.mn/statistic/detail/03>

The above table shows that the export volume from Japan is 93.6 times higher than that of our country. The most interesting thing is that almost 90 percent of the goods imported from Japan are vehicles, machinery and spare parts, of which 75.3 percent are passenger cars. The remaining share is made up of technical equipment and plastic products.

In 2016, when the agreement came into effect, goods worth over 300 million US dollars were imported from Japan, while one

of the main reasons why the current figure has reached more than one billion US dollars is related to the demand for used passenger cars. From this perspective, it is clear that the purchase of passenger cars, whether or not the EPA was established, would have continued to be purchased. This is because it is true that a certain percentage of customs duties are applied to cars up to 15 years old.

Table 3. Types of goods exported to Japan in 2024

Main brand products	Measurement unit	Quantity	Amount
Guts, bladders and stomachs of animals	kg	19,954.5	1,231.7
Ambergris, castoreum, civet and musk, deer penis, cantharides, bile used in the preparation of pharamaceutical products	kg	18,830.0	308.8
Buckwheat, millet and other cereals	kg	199,960.0	100.0
Fruit juices and vegetable juices	l	47,427.0	176.3
Preparations of a kind used in animal feeding	kg	25,794.5	559.3
Yarn of fine animal hair (not put up for retail sale)	kg	4,068.8	422.1
Woven fabrics of carded wool or of carded fine animal hair	m2	2,807,683.3	424.9
Carpets and other textile floor coverings, woven, not tufted and hand-woven rugs	m2	10,990.7	334.8
Women's or girls' overcoats	u	1,515.0	245.2
Women's girls' suits, ensembles, jackets, blazers, dresses, skirts and trousers, knitted or crocheted	u	2,350.0	180.9
Jersyes, pullovers, cardigans and waistcoats, knitted or crocheted	u	15,061.0	1,147.8
Socks and other hosiery, knitted or crocheted	pairs	70,701.0	171.3
Other made up clothing accessories, knitted or crocheted	u	3,504.0	85.5
Women's or grils' overcoats, cape and anoraks	u	350.0	111.7
Shawls and scarves	u	2,350.0	105.2
Tube or pipe fittings, of iron or steel	kg	11,589.9	118.6
Screws, bolts, nuts, coachscrews, screw hooks, rivets, cotters, cotter-pins, washers and similar articles, of iron or steel	kg	19,229.3	230.0
Copper wire	kg	127,500.0	506.7
Parts suitable for use solely or principally with the machinery	u	222.0	69.3
Machines and machinanical appliances having individual functions	u	979,979.0	908.0
Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like	u	125,404.0	67.6
Industrial or laboratory electric furnaces and ovens; other industrial or laboratory induction of diaelectric heading equipment	u	4,998.0	1,383.8
Parts and accessories of the motor vehicles	u	228,564.0	101.5
Other	-	-	575.9
Total			12,557.9

Source: Import Statistics. (2024). Mongolian Customs Service. Available at: <https://gaali.mn/statistic/detail/03>

Mineral products such as stone, gypsum, and cement account for 25.6 percent of our exports, wool, cashmere, textiles, and machine and equipment parts account for 23.7 percent, and aluminum, agricultural, and livestock products account for 16.5 percent of other goods. More than 92 of our enterprises export the above-mentioned few types of mineral and sewn and knitted products that are included in the preferential tariff exemption of the agreement (Import Statistics, 2024).

Recently, 97 percent of goods exported from Mongolia to Japan can be exported under preferential tariff conditions, but the above statistics show that the types and value of exports tend to decrease rather than increase. Although the economies of the two countries have grown in foreign trade, according to a study conducted by the Mongolian National Chamber of Commerce and Industry (MNCCI), our country uses 6.9 percent of the EPA and Japan uses 116.7 percent (MNCCI, 2020).

According to a study conducted by the Mongolian-Japanese “Jugamo” research team during the implementation of the EPA, Mongolian exports account for only 0.03 percent of Japanese imports, which can be partly explained by the above figures (Bold, 2024-02-21).

The 9th year since the establishment of the EPA between the two countries has passed, and the trade deficit is increasing year by year. Although the parties have been paying attention to the fact that various meetings, conferences, seminars, and forums involving businessmen from both countries have been organized regularly every year and efforts have been made to improve the

benefits of the agreement, there has been no significant progress, but there has been criticism that there has been no significant change. However, the main reason for this is that the variety and value of our exports have not increased significantly in the past, which is due to the scarcity of products that meet their demands, quality, and standards, the fact that we are still a consumer country with underdeveloped production, the few existing production capacities, the weak competitiveness of products, and the high logistics and transportation costs, which prevent us from overcoming the high threshold of competition in the Japanese market. First of all, we cannot reduce the trade deficit without relying on our existing resources, partnering with Japanese SMEs, and developing industries that meet their demands and standards.

In order to increase the utilization and benefits of the Mongolia-Japan Economic Partnership Agreement, the Cooperation Subcommittee of the “Agreement between Mongolia and Japan for an Economic Partnership (EPA)” has been regularly discussing non-tariff issues related to Japanese investment, joint ventures in export products, and trade, which is important for further increasing the utilization and benefits of the agreement (MED, 2024.11.27).

According to the MNCCI survey, 101 companies are using the preferential trade system of the European Union, while 95 companies are using the Japanese EPA with high benefits. In addition, out of 350 companies exporting non-mining products from Mongolia, 144 companies have been cooperating with Japan in economic and trade relations since the signing of the EPA

agreement and have benefited from it, albeit to a small extent (Misheel E. , 2023.08.22).

In the past, relevant organizations and businessmen from both sides have organized various events such as business forums, conferences, and exhibitions to increase the benefits of the EPA, and have conducted research and reached the following conclusions on common issues. Here is a brief summary.

During the use of the agreement, it was concluded that the following shortcomings are common for Mongolian enterprises or exporters.

These include:

- Unstable supply of raw materials and products;
- Quality control;
- Competition in the informal sector;
- Cost increases due to inflation and currency fluctuations;
- Unclear and unstable regulations;
- Improving research and analysis capabilities;
- Empowering human resources and hiring competent human resources;
- Understanding and learning from the differences in business cultures between the two countries;
- Studying the Japanese market well;
- Aiming to occupy a place in one part of the value chain, not necessarily targeting the end user;
- Developing products for the target market;
- Quantifying the advantages and benefits of the product are some of the shortcomings.

In order to reap the benefits of the agreement, it is most important for us to

develop our industrial sector and make it competitive, as emphasized by researcher Professor N.Otgonsaikhan (Erdenechimeg, 2025.04.03). In addition, regarding the difficulties our companies face in exporting to Japan, Vice President of the Mongolian Kaizen Association J.Khishigjargal said, “When entering the Japanese market, we face transportation logistics problems. We have to go through two neighboring countries. This takes a long time. It takes 2-3 months to go there and back. One of the things that makes us competitive is being able to deliver in a short time. So, in order to shorten the delivery time, we need to use air transportation. This increases the cost. Our companies have to compete with companies that operate globally in developed countries such as New Zealand, Australia, Canada, and Mexico to sell their products. Therefore, we need to reduce our costs. Consequently, without collaboration within the supply chain, it becomes challenging to achieve price reductions solely through the efforts of an individual company. Even if we almost reduce the wages of our employees, it will not be sustainable for a long time. Japan requires price stability. The price of raw materials of livestock fluctuates seasonally, making it challenging to maintain a stable price. Raw material prices are always increasing. If a price stability agreement is signed with Japan, the company will have to reduce its profits. Therefore, entering the Japanese market is not something that only one company can do”, he said, referring to ways to overcome today’s common difficulties (Misheel, 2023.0.8.21).

In collaboration with the MNCCI and the Mongolian National University of Mongolia, a survey was conducted to identify the

obstacles faced by entrepreneurs in expanding their business to Japan. The entrepreneurs who participated in the survey gave the following answers. These include: Difficulties in transportation and logistics due to geographically remote location, high Japanese standards, documentation, shortage of raw materials, investment, technology, equipment, human resources, and customs duties.

When asked how to increase exports to Japan in the future, 38 percent of the companies participating in the survey answered policy support, 35 percent said soft loans, 15 percent said marketing, 8 percent said product development, and 5 percent said market research (Erdenechimeg B. , 2024.08.19). According to the survey, first of all, it is possible to increase the variety and quantity of export goods if an export-oriented processing industry is established within the framework of a public-private partnership.

When examining the current situation of trade and economic relations between the two countries, the agreement provides Japan with the opportunity to meet its needs for essential mineral raw materials for its industry, such as eco-food, rare earth elements, copper, and zinc, from the region that is geographically closest to it. The main obstacle facing Mongolia in expanding trade with Japan is the issue of transportation costs. For Mongolia, it is possible to develop industrial clusters around the agricultural and extractive industries, which have comparative advantages, to produce a finished products and reduce transportation costs. For Japan, there is also an opportunity to invest in industries located close to our mineral raw materials and establish joint ventures to

supply them to the large markets of the two neighbors. There is a wide opportunity for both sides to resolve these issues through joint efforts and cooperate for mutual benefit.

Kazunori Fujii, the representative of the Japan External Trade Organization (JETRO) in Mongolia, gave the following valuable and very important advice in his presentation “Things to consider when Mongolian SMEs enter the Japanese market,” emphasizing the importance of understanding the attitudes, consumption, and interests of the Japanese people, which is reproduced here as is (Misheel B. , 2021.06.29):

1. Study. A business owner who wants to export their products to Japan should first find out about the Mongolia-Japan Economic Partnership Agreement (EPA) and whether their products can benefit from tariff reductions. In some cases, exporting products manufactured in Mongolia directly to Japan is not feasible. This is because Japanese and Mongolian people have very different needs, interests, and purchasing habits. Therefore, it is advisable to contact a Japanese research company to conduct market research. There are specialists in each industry, so detailed information such as unit product testing and package product design can be obtained online. Since this is expensive, government and non-governmental organizations that aim to support exports should include research costs in their budgets. If you have already started exporting, the advice and recommendations of your partner or distributor in Japan will be the most valuable advice.

2. Price. Study the retail price of your product in Japan. When researching distributor, insurance, and transportation costs, you can

get information from companies operating in the industry. If your product is included in the EPA, you will be eligible for a customs duty discount, but you should keep in mind that VAT is 10%. Also, be aware that some types of products are subject to special taxes.

The sum of the customs duties on imported goods, shipping costs in Japan, warehousing fees, sales management fees, and distributor profits is the retail price of the product in Japan. It is important to calculate and examine whether the retail price of the product is competitive in the Japanese market.

3. Competitors. You should consider whether your company's products are competitive with similar products in the domestic market. As mentioned above, in addition to retail price, quality and design are important factors in competitiveness. One of Mongolia's main competitors in the Japanese market is the Inner Mongolia Autonomous Region of China. Their sea-buckthorn is well known in Japan under the name "Saji", and they also import buckwheat and salt. They are a strong competitor because they spend a lot of money on production and advertising. If your product is more expensive than your competitors, you should offer satisfaction that is more valuable than the price difference.

4. Legislation and Standards. It is a good idea to carefully study the Japanese laws and standards related to the products you intend to export or seek advice from experts. For example, the main items exported from Mongolia are the JAS standard for organic food products, related laws, the labeling standard for health-promoting foods, the Cosmetics Norms and Regulations, and the Raw Material Standard for Non-Drug Health Products.

5. Consumer Attitudes. It is important to know what the Japanese feel and expect when it comes to product design. Mongolians like elegant, luxurious, and bold designs, while Japanese prefer pretty or simple designs and packaging. Of course, everyone is different and many things depend on the type and purpose of the product. In addition, in terms of packaging, usability is important in addition to appearance. For example, the Japanese prefer refillable shampoo. They prefer this option because they believe that buying the bottle for the first time and refilling it later is a sign of contributing to reducing plastic waste. For consumers, it is cheap, small, and creates advantages for manufacturers to save raw material costs and transportation costs, while it also benefits society by reducing waste and oil consumption. Such a multifaceted business management policy began to be implemented in Japan 250 years ago, and Japanese consumers have a history of serving and supporting such companies. Therefore, it is important to consider that the Japanese consider not only price, but also design, quality, environmental impact, and the philosophy of the company when choosing.

6. Intellectual Property. When registering a trademark or brand in Japan, first of all, carefully check whether your product name or brand is similar to that of another company. You can check this on the website of the Japanese Patent Agency. Choosing a name that suits the interests of Japanese consumers is an advantage for marketing and recognition. In addition, each company can have its own trademark or brand, and it is possible to unite by industry or product type and have a unified trademark according to the

standards of the Mongolian Wool and Cashmere Association.

If our businessmen follow the above recommendations and work in a systematic and calculated manner, it is possible to enter the Japanese market.

For Japanese importing companies, these include:

- Uncertainty about Mongolian market regulations and restrictions;
- Unfair competition in the domestic market;
- Human resources;
- Inconveniences and trust issues arising from partner companies (Bold, 2024.02.21).

In order to export products to Japan duty-free or with tax benefits, 70 percent of the total input of the product must be produced in Mongolia. The remaining 30 percent is obtained from countries with an Economic Partnership Agreement with Japan, such as India, the United States, and the EU, and processed in Mongolia. For example, if you buy a shirt, the criteria are that the raw materials such as zippers, buttons, and threads of the shirt cannot exceed 30 percent. In this way, since it becomes a 100 percent product, creating the right conditions allows you to expand your business. On the other hand, in developing small and medium-sized enterprises in Mongolia, it is important to consider the “technology-management-capital” chain as an equal and important factor, and to comprehensively look ahead to the development trends of the regional economy, small and medium-sized enterprises, and industry, and to determine and implement development policies that are tailored to the conditions and opportunities,

and to implement them in a structured manner, which is a prerequisite for joining the regional supply chain.

Japanese SMEs are quite large in the world. They are at a high level in terms of quality, standards, product and service development. Therefore, we are open to absorbing the resources and raw material potential of Japanese SMEs, absorbing the know-how and technology of Japanese SMEs, and developing joint products and entering the markets of other countries.

A.Munkhtug, President of the Japan Chamber of Commerce in Mongolia, said, “In order to fully utilize the Economic Partnership Agreement, we must first become a manufacturer. We do not work consistently for a long time to enter the Japanese market. We stop working as soon as the first difficulties arise. Rather than starting today, it is more effective to plan to export this product to Japan in three years. In order to sell products to Japan duty-free or with tax benefits, 70 percent of the total input of the product must be produced in Mongolia. It can have obtained some raw materials from countries with an Economic Partnership Agreement with Japan, such as India, the US, and the EU, and processed them here. If you buy a shirt, the raw materials such as zippers, buttons, threads, etc. cannot exceed 30 percent. In addition to tax and tariff benefits, there is an opportunity to expand your business in Japan. There is no restriction that only products included in the Economic Partnership Agreement can be imported into Japan. Some of our clever entrepreneurs have developed their ideas in Mongolia, sent their production to China, and sold them in Japan (Erdenechimeg B. , 2024.08.19). It is evident

that our businessmen have begun to enter the international market. In support of this beginning, the MNCCI has initiated the establishment of the “Mongolia-China-Japan Cooperation Council”, which aims to use Mongolia’s resources and opportunities, Japanese know-how and high technology, to create opportunities for Mongolia to enter the Chinese market, and further increase the export of Mongolian goods to Southeast Asian markets.

Within the framework of the EPA, there is a wide opportunity to develop the tourism sector together with Japan. If we can attract Japanese tourists, instead of exporting goods, Japanese tourists will come and take goods out of Mongolia. A joint investment in this sector, which is called invisible export, and in order to increase the number of tourists coming to Mongolia, liberalization of the air transport sector and opening up the market, and the entry of foreign airlines to create competition have led to cheaper ticket prices and an increase in the number of tourists. For

example, Mongolia received 727 thousand tourists in 2024. This is an increase of 22 percent from the previous year. 26,592 tourists were received from Japan, an increase of 26.5 percent from the same period in 2023 (NSO, 2023). Our tour operators, which work with the Japan’s tourism market, regularly organize B2B meetings with Japan’s tour companies to exchange information and promote travel programs, traditions, culture, and lifestyles of the two countries, which shows that there is potential for growth in this sector. Only if our infrastructure is developed and our tourist resorts provide standard services, there is a great opportunity to attract tourists from many countries, not just Japan.

Incidentally, the Osaka Kansai World Expo, Japan, opened on April 12, 2025 under the general theme of “Designing Future Society for Our Lives” (MNCCI , 2025.04.14). This six-month-long Expo provides our exporting companies with a great opportunity to explore the Japanese market, promote and sell their products, and find partners to work with.

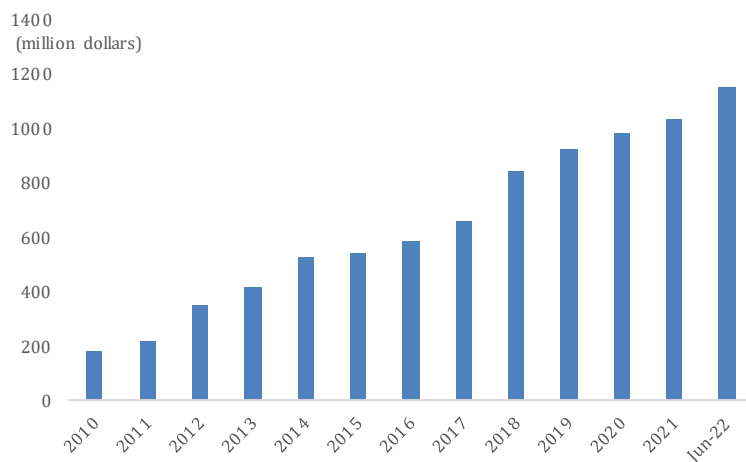
II. Investment

The EPA aims to increase the flow of investment, services, goods, and people-to-people exchanges between the two countries, create new opportunities for individuals and the private sector to expand their businesses and make investments, and thereby take the mutually complementary economic relations of the two countries to a new level. In the past,

it can be said that Japanese investment has been continuously increasing within the framework of the above objectives.

Japan invested a total of 1.5 billion US dollars in Mongolia from 1990 to 2023, 60 percent of which has been made since 2016, when the EPA was implemented (Misheel E. , 2023.0.8.22).

Graph 1. Japanese investment /2010-2022/



Source: <https://tokyo.embassy.mn/subcategory/932>

Private sector	
Dai	Matsuzakaya kenai
NipponDoboku	Nihon koyou
ITOCHU	Shisumeks
Kouneike group	TDB Leasing
Marubeni	MUFG
Sumitomo	Kato unso
UniGas	Apollo Building Service
Mitsui bussan	Mongolia
MobiCom	TOYOKO INN
Frontia	TOYOTA SALES
Sumitomo shyoji	MONGOLIA
Azuma Shipping	JapanUnoactiveMongol
Aizawa Mongolia	Eito Mori
HIS Mongolia	Data artist
Iwata building	Cominix
Noguchi LLC	
Megatech	

Here are a brief summary of some of the major Japanese investments in Mongolia: Mobicom Corporation LLC was established with investments from Mongolia's Newcom Group, Japan's Sumitomo, and KDDI Group, and launched Mongolia's first mobile communication service. Mobicom is a large company with a rich history that can be considered a benchmark for foreign investment. Mobicom Corporation covers all areas of Mongolia and serves half of the total consumer market. Newcom Group is a leading investment company that leads the innovation and development of major sectors in Mongolia, such as telecommunications, civil aviation, and energy. With the investment of the corporation, a subsidiary company, Transvest Mongolia LLC, was established and is operating as an official distributor in Mongolia with the capacity to supply Komatsu mining and road construction equipment and guaranteed spare parts and components directly from the factory. In addition to joint ventures with

SMEs, such as "Yamaguchi Sangyo" LLC, which produces "MONY RUGBY" balls from sheepskin, aims to introduce Mongolian animal skin to the world and contribute to the industry, and "Takarajima Japan" LLC, a Japanese company that created the "Made in Japan" beauty and health brand "Gua Maral" using sea-buckthorn raw materials to introduce Mongolian sea-buckthorn to the Japanese market, many Japanese-invested companies such as Itochu, Monnis, Munkh-Hada, Tavan-Bogd, and Nimon are engaged in car sales and repair services. In addition, large Japanese trading corporations and banking and financial institutions have opened representative offices and branches and are operating. For example, large organizations such as Japan's "Marubeni" Corporation and Sumitomo Mitsui Banking Corporation (SMBC) have invested in Mongolian fintech company "And Global" LLC.

It is notable that the majority of Japanese investments in our country since 1990 are concentrated in non-mining sectors. For

example, 45.3% of total investments were in the trade and catering sector, 14.7% in the construction sector, and the rest in the banking, finance, tourism, construction, and information technology sectors (National Development Agency, 2021). As of 2022, more than 670 companies and enterprises with Japanese investment were registered, of which about 100 joint ventures have been established since the Agreement (Misheel E., 2023.08.22).

The establishment of the EPA has opened the door to investment from Japan, but due to the high risk that our side may pose to them, significant growth in investment from Japan has not yet been seen.

Japanese researcher Kato Koji has described the risks involved in investing and doing business in Mongolia as follows (Oyuntsetseg, 2019.08.30).

These include:

1. Small population
2. High transportation costs
3. Harsh natural and climatic conditions
4. Political instability
5. Lack of access to information on Mongolian companies, enterprises, and organizations
6. There is competition because there are many Chinese and Korean companies providing services and manufacturing.

Considering the above risks, if a very favorable legal environment for investment is created, even more than the conditions provided for foreign direct investment by China, and if foreign investment flows can be increased, the 14 mega projects proposed by the government are likely to be successfully implemented.

III. Private Sector Cooperation

In the past, private sector cooperation has expanded among Mongolian and Japanese companies to utilize the skilled personnel of both sides, to implement new joint projects, and to open up many investment opportunities. Certainly, the successful implementation of the EPA requires time. In other words, it is essential for Mongolian and Japanese businessmen to understand each other's circumstances. Mongolians and Japanese individuals may appear similar, yet they differ significantly in language, culture, customs, living conditions, and mindset. Whereas Japanese individuals tend to deliberate extensively before making decisions based on careful calculations and research, Mongolians do not exhibit this characteristic. They approach problems

quickly and act with enthusiasm. Japanese people have a long tradition of trusting people, treating them like family members, and working together. In this regard, the reminder that "if you start a business with a Japanese person, you should enter into a partnership for life" has been frequently made during the many Mongolian-Japanese business forums, and if our businessmen can accept and trust it, cooperation can expand.

Former Ambassador Extraordinary and Plenipotentiary of Japan to Mongolia, Kobayashi Hiroyuki, has rightly stated that "one of the key factors in deepening friendly cooperation between the two countries is private sector economic relations and business" (Misheel E., 2023.08.22).

Through the “Economic Partnership Agreement”, we have set the goal of providing Japanese companies with more opportunities to invest in Mongolia, expanding their markets and benefiting from economic benefits, but so far we have not been able to create a favorable investment environment. As a result, significant large-scale investment from the Japanese private sector is not visible. However, recently, Japanese SME companies have established joint ventures with our young engineers and technicians to manufacture high-precision components for automobile parts, brakes, steering wheels, seats, engines and gearboxes for passenger cars and trucks and export them to Japan (Baatar, 2023). Such joint ventures in the private sector are likely to increase in the information technology sector. It should be emphasized here that the Japanese have recently been investing heavily in our most important sector, the education of our young generation. Mongolia ranks 11th in the number of foreign students in Japan, with more than 3,000 students studying there, which is a high indicator (Oyuntsetseg, 2019.08.30). Japanese companies are increasingly training Mongolian students in artificial intelligence and engineering and hiring them to work for them.

Regarding the common difficulties faced by investors, Japanese businessman Takami Yuichi, who has been working with Mongolians for 20 years, gave an interview to the press, saying, “Both the strengths and weaknesses of Mongolians are manifested in extremes. The positive side is that

Mongolians are dreamers. It is a joy to find talented Mongolian youth and support them. The negative side is Mongolian politics. It is something that is holding back and stifling the development of all sectors. For example, in Japan, things that can be decided simply as a matter of procedure within the civil service do not progress at all in Mongolia, and bribes are demanded. Some officials are too selfish and make decisions only for their own interests, which is not the case in Japanese society. For someone who decides to become a politician in Japan, it is clear that their property will decrease. My life goal is to further improve and strengthen cooperation between Mongolia and Japan through education,” (Takami, 2019) he said, clearly described our current reality. Among the companies that he has invested in are Mongolian technology companies such as “LendMN” and “CallPro”. The above few examples show that the Japanese are more friendly to Mongolians than one might think.

Japanese companies value fairness, hard work, and trust more than good or bad, big or small. If you start a business with a Japanese person and don't lose their trust, they are interested in supporting our businessmen. However, the events taking place in Mongolia today, when the world is connected by information technology, are reaching foreign countries in an instant. Foreign investors, including Japan ones, who planning to invest in Mongolia will naturally be less likely to invest if they see that there are problems with the implementation of laws in Mongolia.

Conclusion

As a result of this Agreement, the flow of Japanese investment, goods and services has increased, and further trust based on friendly relations between people has increased, opening up new opportunities for small and medium-sized enterprises to expand their businesses and make investments, and thus, it can be concluded that it has played an important role in expanding the economic relations and cooperation between the two countries, which are mutually complementary. On the other hand, this EPA is an important agreement as it serves as a lesson for the establishment of free trade agreements with other countries in the future. The two sides have been regularly discussing the opportunities and challenges to increase the benefits of the agreement, which is the source of the successful implementation of this agreement in the future.

When examining the situation of trade and economic relations between the two countries, the establishment of the Agreement provides Japan with a very favorable opportunity to meet its needs for mineral raw materials that are essential for its industry, such as eco-food, rare earth elements, copper, and zinc, from our country, which is the closest region in terms of geographical location. Mongolia has comparative advantage in developing industrial clusters around agriculture and extractive industries, which can produce finished products and reduce transportation costs. In addition, Japanese businessmen have the opportunity to

invest in the development of processing industries in locations close to our country's mineral resources, expand their production, and increase their competitiveness. This agreement has opened up a wide range of opportunities for mutually beneficial cooperation by resolving these issues through joint efforts of both parties. The main obstacle facing Mongolia in expanding trade with Japan is the issue of transportation costs.

It is believed that the trade balance deficit in our country is due to the weak development of the processing industry with the capacity to mass produce Japanese quality standards, in demand, and competitive goods. Finally, it should be noted that as a developing country dependent on two neighbors, with small economy and landlocked, if it does not conclude an agreement with highly developed third neighbors such as Japan and South Korea that takes into account its long- and medium-term benefit, in the current situation, it is likely to lag behind the competition and not be able to innovate. On the other hand, there is an urgent need to take into account the geopolitical importance here.

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