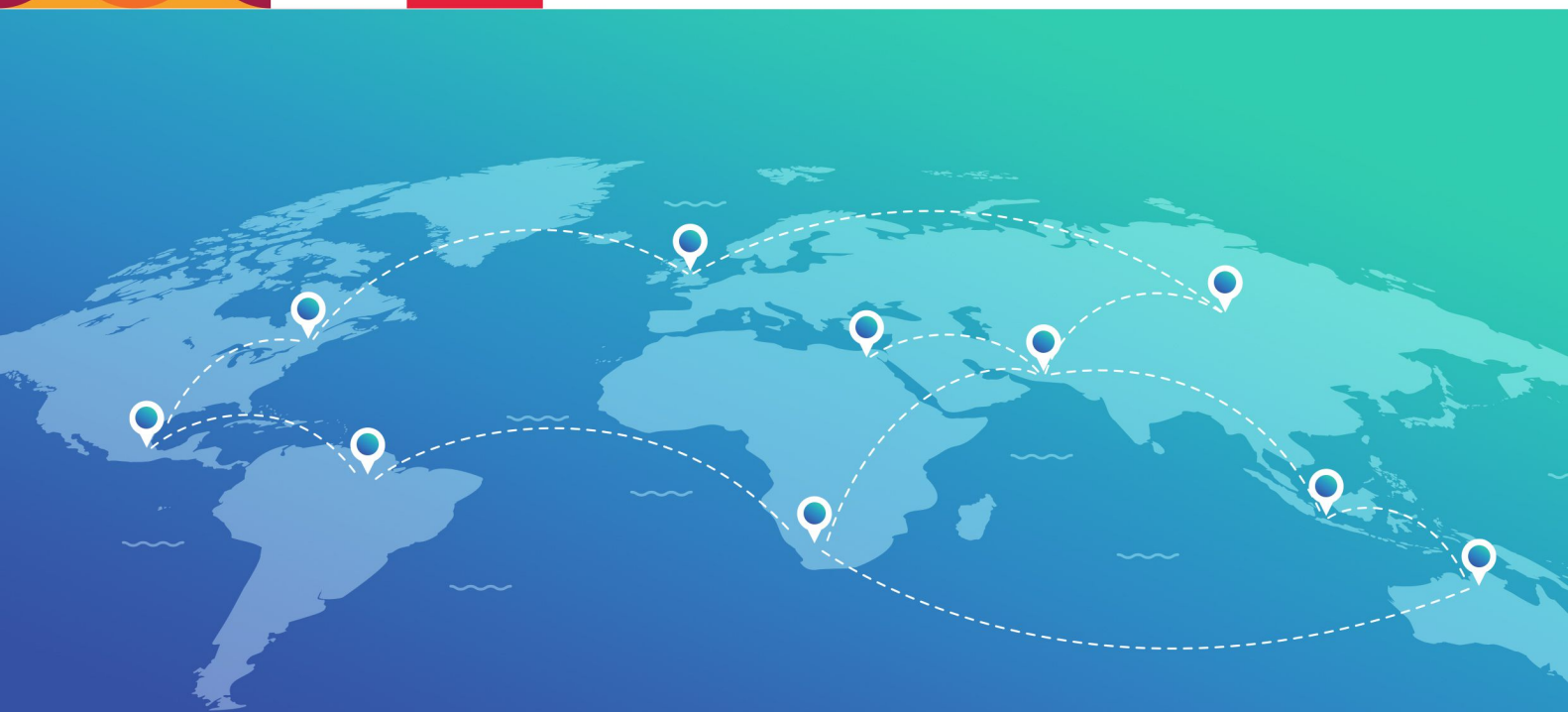# POLICY BRIEF SERIES ON
MONGOLIA'S SUSTAINABLE DEVELOPMENT

EMPOWERING MONGOLIA'S SUSTAINABLE TRADE-LED ECONOMIC GROWTH

2024

Empowering Mongolia's sustainable trade-led economic growth

Mongolian economy is trade-led, but it is not balanced or resilient

After the COVID-19 pandemic, Mongolian economy has quickly recovered and shown an impressive growth. In 2022 and 2023, Mongolian economy grew 4.8% and 7.4% respectively. For first three quarters of 2024, Mongolia managed to grow 5%. International financial institutions (IFI) project Mongolia's economic growth to be 6.5 – 7% for 2025.

Mongolia's economic growth has been driven by trade, in particular export of mining products. Mongolia's trade to GDP ratio, ratio of trade in goods and services to GDP, has been high; with a constant increase in recent years, it stood at 147% as of 2023 (Figure 1).
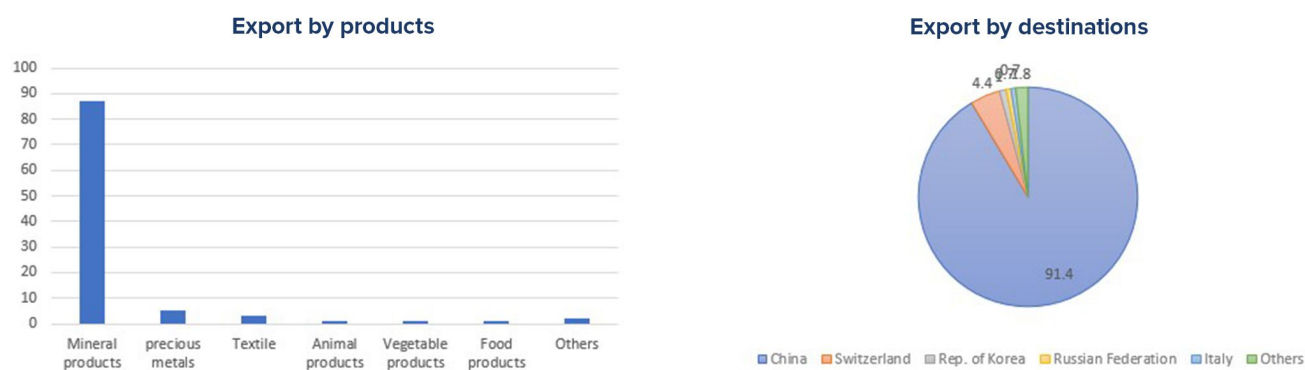
Figure 1. Mongolia's trade to GDP ratio

(Source: https://www.macrotrends.net/global-metrics/countries/MNG/mongolia/trade-gdp-ratio, accessed on 4 December 2024)

At the same time, mining sector plays a dominant role in Mongolian economy. It contributes about a quarter of its gross domestic product (GDP). Particularly, products from the mining sector dominate export; exported mostly in the form of raw materials, they comprise more than 90% of total export, making Mongolian export highly dependent on a single group of products. Just so much as export is imbalanced products-wise, export is destined mostly to a single market; China occupied more than 90% of total export value as of 2023 (Figure 2). Such an extreme imbalance of Mongolia's export, both in products and destination, exposes Mongolia's trade performance vulnerable to external influence; when international commodity prices plunge, Mongolia's export as well as its economy can fluctuate dramatically.

Figure 2. Mongolia's export products and destinations (by per cent)

Export by products

Export by destinations

■ China ■ Switzerland ■ Rep. of Korea ■ Russian Federation ■ Italy ■ Others

(Data source: NSO, Monthly Bulletin of Statistics, January 2024)

Mongolia's performance in trade and capacity gaps

Mongolia, with its geographical disadvantage of being landlocked, faces a multitude of challenges in trade. It suffers from higher costs and a longer time in transporting its goods across borders, as its goods have to transit through neighbouring countries additionally. Consequently, Mongolia underperforms in trade transactions, which are witnessed in relevant international performance indicators.

According to the UN Global Survey on Digital and Sustainable Trade Facilitation 2023, Mongolia scored 50.54%[1], which is far lower than the Asia-Pacific regional average of 66.96% as well as global average of 68.6%. Trade and logistics connectivity of Mongolia is significantly constrained. In World Bank's latest Logistics Performance Index[2], Mongolia ranked 97th among 139 countries in the world. Mongolia scored relatively lower in infrastructure, logistics competence and quality, and tracking and tracing.

In UNCTAD's productive capacities Index[3], which assesses capacity of a country to produce goods and services and enable it to grow and develop, Mongolia ranked 83rd among 194 countries in the world. Mongolia scored relatively lower in human capital, private sector, structural change, and particularly in transport – a score of 29.1, far lower than its overall score of 49. Mongolia's trade is integrated with global market in a very limited scope. While it is a member of World Trade Organization (WTO), it is a party to merely two regional trade agreements – the Economic Partnership Agreement (EPA) with Japan[4] and the Asia Pacific Trade Agreement (APTA)[5].

The Strength, Weakness, Opportunity and Threat (SWOT) analysis in Figure 3 shows areas of Mongolia's major trade development gaps.
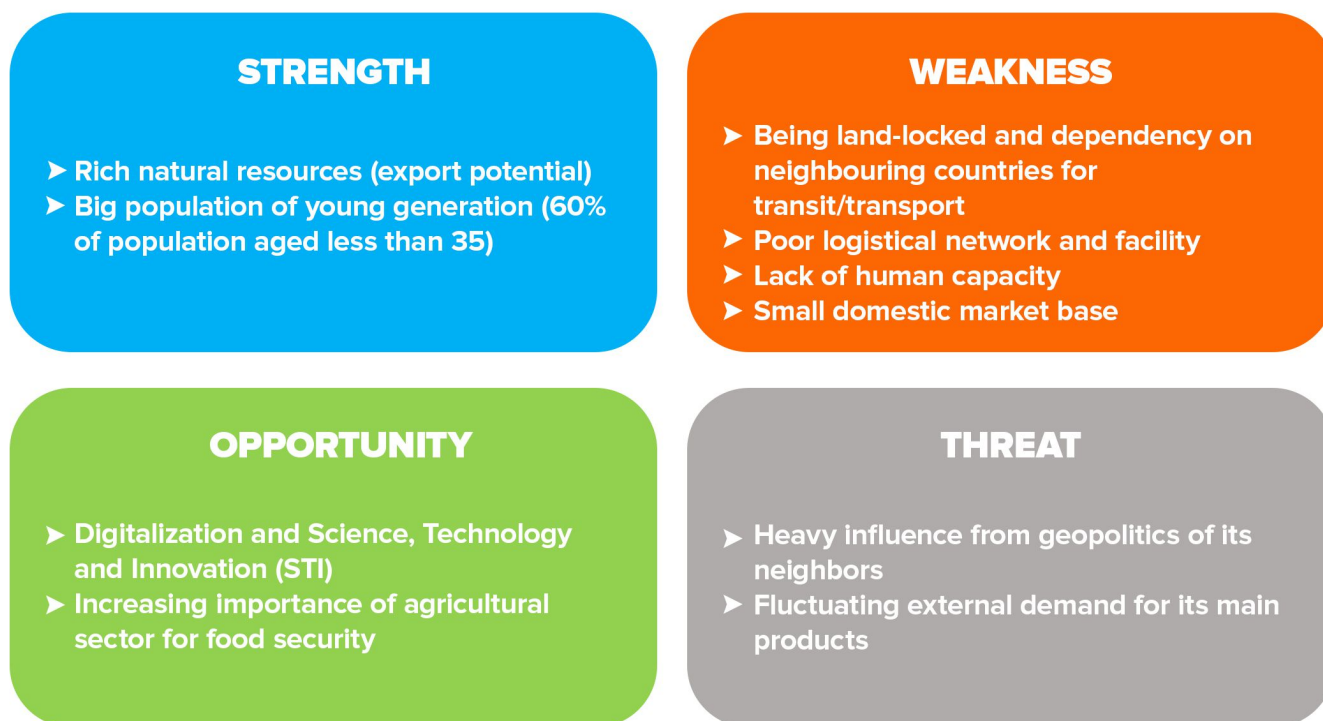
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[1] https://www.untfsurvey.org/economy?id=MNG

[2] https://lpi.worldbank.org/

[3] https://unctad.org/topic/least-developed-countries/productive-capacities-index

[4] https://www.mofa.go.jp/a_o/c_m2/mn/page3e_000298.html

[5] https://www.unescap.org/apta

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Figure 3. SWOT analysis on Mongolia's trade development

STRENGTH

➤ Rich natural resources (export potential)
➤ Big population of young generation (60% of population aged less than 35)

WEAKNESS

➤ Being land-locked and dependency on neighbouring countries for transit/transport
➤ Poor logistical network and facility
➤ Lack of human capacity
➤ Small domestic market base

OPPORTUNITY

➤ Digitalization and Science, Technology and Innovation (STI)
➤ Increasing importance of agricultural sector for food security

THREAT

➤ Heavy influence from geopolitics of its neighbors
➤ Fluctuating external demand for its main products

(Source: Authors)

Tapping into Mongolia's trade-led growth potential

Domestic trade market expansion is a way to boost economic growth. However, as identified in the SWOT analysis, Mongolia has a limited domestic market base. Mongolia has a relatively small population[6] spreading all over a huge territory. Therefore, it is not easy to realize economy of scale in operating nation-wide logistics and supply chain networks.

On the other hand, the SWOT analysis identifies that Mongolia has rich natural resources with high export potential. Mongolia has a huge land area of 1.565 million km^2 and has about 65 million heads of livestock. As climate change escalates, importance of food security also grows and presents an opportunity for Mongolia to unleash its potential in agricultural sector with huge resources.

Given that Mongolia has a limited domestic market base to expand internally while it has tremendous natural resources to supply to the global market, a trade-led economic growth is an obvious resort for which Mongolia should strive. Notably, trade is also recognized as an important development instrument for realizing national development policies (See Box 1).

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[6] Population of Mongolia is about 3.5 million as of 2023. With current population growth rate, Mongolian population is projected to reach just over 4 million by 2050. (https://worldpopulationreview.com/countries/mongolia)

Empowering Mongolia's sustainable trade-led economic growth

UNITED NATIONS MONGOLIA

Box 1. Contribution of trade to the UNSDCF 2023 – 2027 and Government development policies

Trade, one of the means of implementation for the Sustainable Development Goals (SDGs), is directly related to one of three strategic priorities - green, inclusive, and sustainable growth - of the United Nations Sustainable Development Cooperation Framework (UNSDCF) Mongolia for 2023 – 2027[7]. The UNSDCF is aligned with the national sustainable development priorities of Mongolia, set in the New Recovery Policy, a mid-term policy, the Mongolia's Vision-2050, a long-term development policy, and the Government Action Program 2024-2028, a newly formulated programme under the coalition government.

Trade is recognized as an important instrument in the Government policies. In the Vision 2050, trade supports achieving "Goal 4 - Become a nation with sustainable economic growth beneficial to all...". In the New Recovery Policy, trade directly contributes to two of six areas: 1) recovery of operations of border ports and 2) industrial recovery. For the Government Action Program 2024-2028, trade is directly related to the program 3 – economic policy.
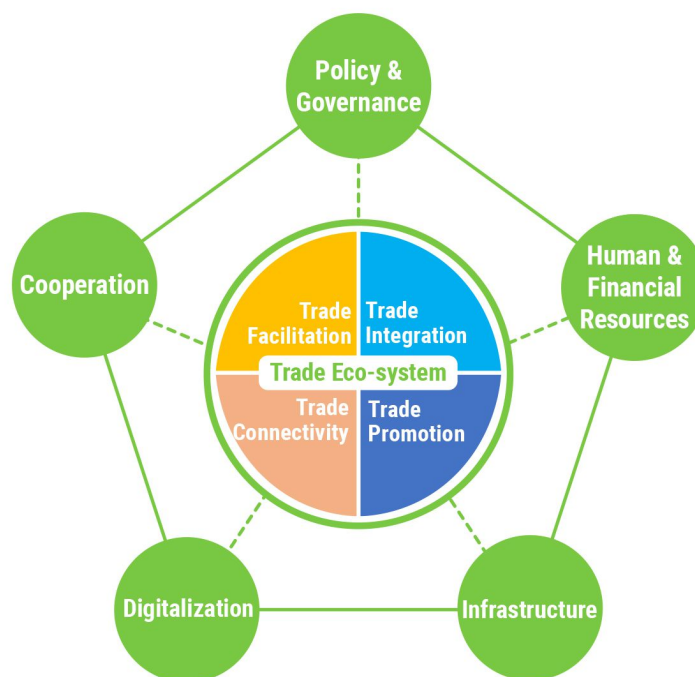
UNSDCF 2023-2027	Vision-2050 Long-term Development Policy of Mongolia	New recovery Policy	Government Action Program 2024-2028
Strategic Priority 2 - green, inclusive, and sustainable growth Outcome 2: By 2027, the Mongolian economy is more diversified, innovative, productive, inclusive, green and geographically balanced enabling decent livelihoods, especially for women and youth, building 21st century skills, and promoting low-carbon development.	Goal 4. Become a nation with sustainable economic growth beneficial to all...and multi-pillared economy. Objective 4.2. Create an export-oriented economy through promoting the development of priority sectors. Objective 4.4. Join the economic and trade integration in the region and facilitate trade.	One: Recovery of operations of border ports Three: Industrial recovery	3. Economic Policy 3.2 The Business and Investment Environment 3.3. Economic Diversification and Liberalization

Empowering Mongolia's trade-led growth: four dimensions and cross-cutting enablers

In driving a sustainable and resilient trade-led growth, Mongolia should enhance its capacity in all four dimensions of trade – facilitation, integration, connectivity and promotion. At the same time, in addition to strengthening its capacity in four dimensions of trade, Mongolia should harness five cross-cutting enablers. The five cross-cutting enablers are policy & governance, human and financial resource, infrastructure, digitalization, and cooperation. Figure 4 illustrates four dimensions of trade and five cross-cutting enablers for fostering a trade eco-system.

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[7]https://mongolia.un.org/en/190088-united-nations-sustainable-development-cooperation-framework-2023-2027-mongolia

Figure 4. Dimensions and cross-cutting enablers for trade eco-system

(Source: Authors)

Trade facilitation involves simplification, harmonization and standardization to make trade-related regulatory procedures streamlined, resulting in reduced administrative burden for traders as well as time and cost-saving for them. With wide adoption of information and communication technology (ICT), digitalization is commonly used in streamlining trade procedures and in boosting trade facilitation.

Trade integration facilitates a country's access to external markets. A primary measure of enhancing trade integration is trade agreements, which help a country's products to access markets of trading partners through arranging preferential tariff and favourable trade and business environment; reciprocally, it opens and liberalizes its market to trading partner countries. World Trade Organization (WTO) membership is a primary platform for trade integration at global level, while there exist numerous regional trade agreements.

Trade connectivity is the capacity of a country to connect to external markets in carrying out trade transactions, including in moving its goods and services. Physical trade networks, such as transport infrastructure including port, road, rail and airport, as well as digital networks such as ICT infrastructure and connectivity, play key roles in trade connectivity.

Trade promotion supports enterprises to expand export markets and reach potential customers. It includes policy intervention, such as export promotion policy and programmes, as well as providing assistance in promotional activities such as products marketing, identification of and attracting potential buyers. Trade promotion also helps attracting investment in export sectors and developing new industries for export to diversify economies.

Empowering Mongolia's sustainable trade-led economic growth

Different development partners have supported Mongolia in addressing its capacity gaps in those four dimensions. For example, the United Nations Mongolia, through its UN agencies, has arranged support to Mongolia in enhancing its capacity in four dimensions of trade. On trade facilitation, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) has assisted Mongolia in acceding to and implementing the Framework Agreement on Facilitation of Cross-border Paperless trade in Asia and the Pacific[8]. The United Nations Conference on Trade and Development (UNCTAD) helped Mongolia in conducting the eTrade Readiness Assessment[9]. On trade integration, the ESCAP has provided a series of capacity building in utilizing the APTA as a member as well as trade negotiation skills to help it better prepared for negotiating trade agreements, including digital trade.

In relation to trade connectivity, the ESCAP has provided technical assistance to Mongolia in utilizing transport related treaties to which it is a party, including on highway[10], railway[11], and dry port[12]. On trade promotion, the International Trade Centre (ITC) helped Mongolia prepare the National Export Strategy to support development of export in non-mining sectors. The ITC also supported Mongolia in hosting the World Export Development Forum (WEDF) in 2023[13], which supports networking and partnerships for businesses, especially small ones, to engage in international markets.

Figure 5 shows some of trade development instruments for each trade dimensions that Mongolia should utilize. The list is not exhaustive, and Mongolia has already been utilizing some of them.

Figure 5. Trade development instruments

(Source: Authors)

[8] https://unescap.org/projects/cpta
[9] https://unctad.org/publication/mongolia-etrade-readiness-assessment
[10] Intergovernmental Agreement on the Asian Highway Network
[11] Intergovernmental Agreement on the Trans-Asian Railway Network
[12] Intergovernmental Agreement on Dry Ports
[13] https://indico.un.org/event/1004191/

Figure content:

FACILITATION
- WTO Agreement on Trade Facilitation (TFA)
- Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific
- UN Convention on the use of electronic communications in international contracts
- Single Window

INTEGRATION
- World Trade Organization (WTO)
- Regional trade agreements: Economic Partnership Agreements (EPAs) and Free Trade Agreements (FTAs) with Japan, ROK, Singapore, China, etc.
- Regional cooperation: Central Asia Regional Economic Cooperation (CAREC), Greater Tumen Initiative (GTI), etc.

CONNECTIVITY
- Joint border operation and control
- Logistics centres and networks
- Transport infrastructure (road, rail and air)
- Dry ports
- ICT infrastructure

PROMOTION
- Trade/export promotion law
- Industrial development policies
- Investment policies/laws
- Market expansion support programmes (marketing, expo, business matchmaking, etc.)
- Free economic zones/industrial parks

6

The five cross-cutting enablers help narrow capacity gaps in trade dimensions and foster a virtuous circle in the trade eco-system.

➤ Trade-related policies lay a foundation for developing a country's trade eco-system and give a guidance in designing and implementing related actions. Trade-related policies should accompany a clear governance mechanism, which monitors execution of trade-related measures and ensures their sustainability.

➤ A trade eco-system needs to continuously grow and evolve under ever changing trade environment. Properly equipped personnel can steer a trade eco-system, while appropriate financing[14] warrants its efficient functioning. Proper investment has to be made on building expertise of human resources as well as supply of financial resources.

➤ Infrastructure, both soft and hard, enables a trade system to run efficiently and effectively. As goods and services flow along trade supply chains, they need to use facilities and services embedded with trade infrastructure, including communication networks, transport systems, logistics services, etc.

➤ Digitalization, application of information technology for innovation of trade business processes and models, can remarkably streamline the way trade is arranged and carried out. At the same time, digitalization can foster emergence of new digital trade services and businesses, which can help Mongolia better compete in newly emerging trade market.

➤ Trade is inherently carried out with trading partners. Therefore, cooperation, including partnership, should be ever strengthened with Mongolia's partner countries in all four dimensions of trade. Though cooperation, Mongolia's trade eco-system can be firmly linked to those of overseas trading partners, which can in turn back expansion of Mongolia's trade communities to external markets.

Moving forward with trade-led growth

The Government has set the target of reaching USD 10,000 GDP per capita by 2028 in its Government Action Program 2024-2028. Mining sector and export of its products are expected to remain as a main driver for Mongolia's economic growth, including in achieving this GDP per capita target. Yet, Mongolia should start planning and implementing transition to more diversified trade-led economic growth, to make its economy more balanced, sustainable and resilient in the long term. As proposed in this brief, the holistic approach of enhancing capacity in all four dimensions of trade, reinforced by five cross-cutting enablers, can greatly facilitate the transition.

Mongolia should use trade facilitation as a means of improving efficiency of Mongolia's trade transactions, which can reduce challenges arising from its geographical disadvantage. In addition, Mongolia should grasp an opportunity offered by digital trade and e-commerce, which helps it compete in the global market without geographical disadvantage; it also helps creating digital and knowledge-based industries. Countries are already moving into digital trade, as observed in fast expansion of the Digital Economic Partnership Agreement (DEPA).[15] Mongolia should proactively participate in digital trade and equip itself better prepared in a digital trade era.

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[14] The eTrade Readiness Assessment Report points out that limited access to financing presents a significant entry barrier for Mongolian micro, small, and medium-sized enterprises (MSMEs).

[15] https://www.mti.gov.sg/Trade/Digital-Economy-Agreements/The-Digital-Economy-Partnership-Agreement

Mongolia should use trade integration as an opportunity to advance its strategic industrial sectors. As Mongolia has a small domestic market base with limited resources, it cannot develop every single sectors globally competitive. Rather, it should put priority on development of sectors with strategic importance and great potential and use trade agreements as facilitators. In this connection, Mongolia should view trade agreements more than tariff concessions arrangement and should focus on strengthening partnership to bring know-how and investment from partner countries, including on value-added processing of mining, non-mining and new services sectors. Trade integration can also serve as a means for Mongolia to strategically strengthen its third neighbour policy.

Trade connectivity works as a backbone for trade transactions. In enhancing trade connectivity, Mongolia should improve both soft infrastructure, such as logistics and transport related services, and hard infrastructure, including logistics and transport facilities, to ensure efficient and uninterrupted operation of its trade supply chain. Mongolia should continue investing on transport and logistics infrastructure, which should also be used for overall economic activities, including development of domestic trade and businesses. As infrastructure development requires a sizable investment, Mongolia should make use of innovative partnership.

Mongolia should put in place strong trade promotion policies, in connection with its investment policy, including relevant laws. Based on those policies, relevant programmes and projects should be designed and implemented to cultivate the export market, attract investment and diversify industrial sectors, including by nurturing value-added processing. For example, value-added production of raw materials in agribusiness[16] can enable import substitution of such products as dairy, meat, wool & cashmere, leather, etc. It will not only enhance the economic value of the exported products but also enable job creation for youth and women.

Digitalization should be proactively deployed in trade promotion, which will enhance transparency of policies for raising investors' confidence, improve efficiency of promotion programmes, and stimulate development of digital services sector. Partnership also plays an important role in trade promotion, such as in development of free economic zones and industrial parks.

When capacity for all four dimensions of trade is strengthened in a holistic manner, Mongolia can efficiently address its challenges and gaps, effectively realize its untapped potential, and enhance its trade competitiveness.

[16] Relevant initiatives include the President's "White Gold" National Campaign to revitalize the light industry and the proposed Nation Production Hub by the Mongolian Wool and Cashmere Association for sustainable wool and cashmere production.