CHAPTER VI

ECONOMIC TRANSITION
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6.1 From State controlled economy to Privatisation

Mongolia’s economy is relatively agrarian, with few industries but extensive mineral deposits. Its gross domestic product (GDP) in 2008 was $5.2 billion, and GDP growth was 8.9%. Agriculture is a major economic activity. Mineral production accounts for 68% of industrial output, 46% of foreign direct investment (FDI), and 59% of Mongolia’s export earnings.

To begin with, initiatives towards liberalization of Mongolia’s economy with establishment of a new banking and financial system as well as privatization laid the foundation for the development of a market economy. In fact, a rapid transition in Mongolia’s economy was achieved by “shock therapy” mainly through adoption of three key mechanisms, i.e., privatization, currency reform, and price and wage liberalization. Not only the livestock sector, the backbone of Mongolia’s economy witnessed privatization but also a number of private companies were allowed to operate in key sectors.

It was in 1986 when the Mongolian People’s Revolutionary Party (MPRP) 19th Party Congress officially brought Glasnost to Mongolia. The changes that came to Mongolia were more than just political. Mongolia was changing and many of the social and economic factors that contributed to the

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468 Sources include the Economist Intelligence Unit and the Foreign Broadcast Information Service.
469 Purchasing power parity (PPP) data attempt to factor in price differentials between countries (which do not get reflected by nominal exchange rate data) in order to determine the actual purchasing power (expressed in dollars) of a country’s GDP. Using nominal exchange rates, Mongolia’s per capita GDP in 2006 was only $870. However, the PPP data indicated that because the cost of goods and services is much lower in Mongolia than in the United States, the actual purchasing power of its per capita GDP is actually much higher ($2,735).
472 Oidov Nyamdavaa, Mongolia-India Relation New Delhi: 2003, p. 80.
change were the foundations for the challenges Mongolia still faces today. Mongolia enjoyed a seemingly strong economy. But the foundation of that economy was built on unstable sand. On a per capita basis in 1989 Mongolia was one of the largest recipients of foreign aid in the world.\(^{473}\) Between 1960 and 1990 an estimated 30 percent of Mongolia’s Gross National Product (GNP) was foreign economic assistance. In addition to direct aid projects, the Soviet Union and its allies provided credit to cover the financial gap between imports and exports, creating a huge debt while sustaining the image of prosperity. Mongolia was essentially a colony of the Soviet Union which produced raw materials and semi-processed goods in return for almost everything that it required to sustain the relatively modern urban society and improve the quality of life for the rural population. Soviet aid was being reduced.\(^{474}\) After that aid abruptly ended, the economy suffered; real GDP fell by 9.2% in 1991 and by 9.5% in 1992, leading to a significant decline in Mongolian living standards.\(^{475}\) Among former Soviet bloc nations, Mongolia’s economy was the most dependent on outside assistance measured as a percentage of GDP.\(^ {476}\) When the Soviet bloc disintegrated the most serious peacetime economic collapse any nation has faced during this century.\(^ {477}\) Subsequently, the central government moved to privatize its state-owned economy and adopt other free market reforms. Mongolia was also soon to learn its first lesson that the slogans of democracy and a free market economy are easy to utter and the reality of its implementation is difficult to accomplish. Further, neither key government decision makers nor opposition leaders understood non-Marxian economics- a severe handicap to managing their rapidly changing environment. First Soviet assistance ended, then trade was disrupted, and finally, the Soviet Union (USSR) itself collapsed. While no one anticipated, or could be expected to manage the


\(^{474}\) Such aid accounted for about one third of Mongolia’s GDP.

\(^{475}\) Per capita GDP on a PPP basis fell from $4,575 in 1991 to $1,326 (a 245% drop), and although living standards have improved, they were still 67% lower in 2006 than they were.


magnitude of these changes, Mongolia was especially hampered in its efforts to cope because of the lack of understanding and experience. In November 20, 1989, a Tass article reported that polls by the Institute of Social Science under the MPRP central Committee showed that 43 percent of the workers, 41 percent of the intelligentsia, and 35 percent of the cattle breeders believed that perestroika had slowed down and that forces opposing renewal were strong. Numerous political groupings emerged, and none were true political parties in the Western sense. Only the MPRP had a real structure, but one based on Leninist principles, not on Western democratic ones.

The ensuing urban-rural migration was reflected in a slight decrease in the urban share of Mongolia’s population: 58 percent urban and 42 percent rural according to 2003 statistics, compared to 60 percent urban 40 percent rural before. During these years the government also established the State Property Committee, passed a new law on State and Local Property, and started a further and ambitious privatization program. A housing privatization program privatized residential units and apartments and transferred them to current residents free of charge. As a result, by 2001 about 90% of residential units in apartment buildings had been privatized.478 Meanwhile, the major foreign donors had a high level of frustrations with the Mongolian Government. There was a strong feeling that the government was simply looking to the West to replace the massive Soviet assistance program of the past, rather than effectively analyzing its difficulties and trying to overcome them. Some leaders moved to mobilize popular discontent outside the political party structure in the winter of 1992-1993. The economic challenges faced by Mongolia were the critical backdrop for the efforts to build democracy in Mongolia in the 1990s. It is important to understand and remember that neither the MPRP nor the opposition parties which emerged in the 1990s were prepared to understand the changes that were happening in Mongolia politically or economically. The democratic

concepts which are taken for granted in the Western world had no precursors in Mongolia.\footnote{Nyamosor Tuya, “Mongolia in 2004: Testing Politics and Economics”, Asian Survey, Vol. 45, No. 1, 2005, pp. 67-70.} Decades of education in central and Marxist economics did not prepare new leaders to manage the economic shift. Neither the Mongolians, nor most of those who came from the West to help, fully understood the question, much less the answer. In May 1991 the State Bank was divided into a Central Bank (the Bank of Mongolia) and a Foreign Trade Bank (State Bank of Mongolia). The newly established commercial banks lacked the expertise to deal with lending in an uncertain market environment. As a result, extremely large debts threatened the entire banking system. The first presidential election was held in June 1993. Pulsalmaa Ochirbat won the election to serve as a President for another four years term. His government embarked on an ambitious, but in the short term painful program to achieve the transition from central planning to a market economy by 1994.\footnote{Ibid, p.79} Prices were liberalized, the currency was devalued, a new banking system and stock exchange were established, and privatization began. At this time Mongolia joined the International Monetary Fund and the Asian Development Bank. By 1996 Mongolia’s inflation was greatly reduced, and privatization moved apace.\footnote{Ginsburg, opcit 467.} The elections for parliament at the end of June 1996 marked a peaceful alteration from communism to democratization. Mendsakhany Enhsaikhan, the 41-year-old democratic leader, was appointed as Prime Minister. Economic liberalization was seen as a necessary step toward a democratic polity. The new government started its reform by liberalizing energy prices and eliminating all tariffs. Coal,
electricity, and thus energy prices almost doubled. The people were strongly affected by the price liberalization. During 1996, industrial production fell by twenty five percent. After big factories and enterprises had been privatized many of them closed down due to unsuitable economic and market conditions. Meanwhile, social conditions worsened. According to Statistics Mongolia, the percentage of people living under the poverty line increased to thirty percent and the number of homeless street children increased in Ulaanbaatar. The government followed a liberal economic reform agenda. Parliament approved the new governments Action Programme. The Action Program was mainly focused on the privatization of large state enterprises such as the national airline MIAT, the NIC Oil Company, Gobi Cashmere, the Erdenet copper facility and the Trade Development Bank. Almost all of the former State enterprises had now been privatized. Furthermore, The State Great Hural of Mongolia decided it was a time to draft a land privatization law. The Private Land Act, implemented in May of 2003, stipulates that every Mongolian citizen has the right to receive a certain amount of land free of charge. The terrorist attacks on the United States on September 11, 2001 occurred. This event had an effect on cashmere prices and, therefore, Mongolia’s economy and politics. The Mongolian economy, heavily dependent on export of cashmere, experienced a decline when the product’s price dropped. Because the government in Mongolia changed hands so frequently, numerous reforms were implemented within a short period and this caused a strain both on the economy and political stability in the country. However, these policies were a good supplement to the development of the economy. They created the first open environment for private business, which has led to a rapid economic expansion in the private sector. By 2000 about 70 percent of the economy was in private hands, Mongolia had achieved the implementation of major economic reform policies.

482 Georges Korsun, opcit, p. 478
483 nie.wikispaces.com/China+and+Central+Asia
Standard indicators of socio-economic performance illustrate that the Mongolian developmental experience since the democratic transition has been mixed.\(^484\) Like any country undergoing the ‘dual transition’ from a Soviet-style command economy and totalitarian rule to a market-based liberal democracy, Mongolia has confronted significant challenges. In addition to the historical and political legacies from the Communist period, Mongolia is land locked, and has an extreme climate, all of which have presented particular obstacles to economic development. The transition also brought with it the loss of significant Soviet subsidies, while the implementation of financial liberalization and privatization (particularly of land) represent significant shocks to the economy. Mongolia received numerous requests for education and information in order to help Mongolia advance its economic and political restructuring. The non-communist world failed to respond adequately. Initially, Western assistance was aimed at facilitating Mongolia’s transition from colonial status in the Soviet empire to a market economy based on Mongolia’s natural wealth. The underlying assumption of this approach was that the Soviet economy would continue to function well enough to allow this transition. Further, the West failed to understand and respond adequately to Mongolia’s needs. The real challenge was the desperate need to offer training and help provide the opportunity for experience. Few NGO’s which came forward to help did an excellent job.\(^485\) But given the breadth and depth of the problem it was not


\(^{485}\) In January 1990, the Mongolian Mission to the United Nations asked *The Asia Foundation* to assist in the transition process, marking the area of Foundation support in Mongolia. Over the years, the Foundation has supported Mongolia’s new democracy through efforts to help build Mongolia’s leadership capacity, government institutions, and the non-governmental sector. Through its work in Mongolia the Foundation has:

- helped increase the capacity of potential government leaders through educational exchange programs and support to strengthen government institutions;
- assisted in the country’s efforts to organize a democratic parliament, draft a new constitution, draft new laws for the new economic and political systems, and create an independent judiciary;
- supported Mongolia’s development of a non-governmental organization (NGO) sector and helped strengthen its participation in public affairs;
- supported Mongolia’s development of international and domestic institutional linkages.
enough to address all the issues. In the first ten months of 1990, Mongolia imported approximately $250 million – a 65 percent drop! Imports from the Soviet Union declined 73 percent. Soviet imports were not supplements to Mongolian production. In virtually every case there was no Mongolian production. The imports no longer available from the Soviet Union included everything needed to sustain modern life. The Mongolian economy, and to an increasing extent, society was ceasing to function in the face of such drastic changes. The challenge to change brought the opposition parties together to agree on the direction of economic reform and the importance of privatization. The first coalition government began its full-scale program of economic and political system transformation, as set in out its concrete reform strategy. Privatization of state property was the main reform of the economic transition. The Privatization Law passed in May 1991 entitled people to participate in privatization through a voucher system. The privatization program has been a key element in Mongolia’s reform program and the move to a market economy. The program was initiated in October 1991 and was based on a voucher system similar to that used in a number of other transitional economies (Czechoslovakia, Poland and Romania). The decision to use the voucher system was a consequence of the low level of domestic financial savings, the lack of a well-developed capital market and the absence of adequate means of valuing state enterprises assets. The process proceeded as follows: In September 1991, the prices under control were liberalized. Further liberalization took place in March 1992, leaving only public utilities, transportation, housing rents, selected medicines, flour, bread and rationed vodka subject to price controls. The Mongolian Stock

Exchange was established in February 1992.\footnote{Galina Yaskina, “Mongolia at the turn of the century.”  \textit{Far Eastern Affairs}, Moscow, 2002, 30:2, p. 42-61} Privatization of livestock herds was implemented and reached 80 percent of the entire herd animals between 1991 and 1993. Following privatization, the livestock number increased from 25.9 million in 1990 to 33 million in 1997. Mongolia’s growth performance, especially in per capita terms was disappointing until 2003 when growth, alongside mineral output, climbed significantly\footnote{Galina Yaskina, “Mongolia at the turn of the century.”  \textit{Far Eastern Affairs}, Moscow, 2002, 30:2, p. 42-61}. In 1996 after consultation with Bretton Woods institutions and Jeffrey Sachs, Prime Minister Enkhsaikhan of the Democratic Coalition introduced a “shock therapy” economic plan that involved cutting public services, eliminating tariffs, introducing a national sales tax, and other currency stabilization measures. Although the currency stabilized around 1100 tugriks to the US dollar, the new government discovered that it had no revenues because few paid taxes. Privatizing state owned enterprises floated the economy for several years. A key element of Sachs’ shock therapy is debt cancellation, which for the most part has eluded Mongolia, which still holds $1.36 billion in external debt one of the highest in Asia. The Mongolian government disputed development costs accrued from the 70 years of Soviet assistance. This issue would not be resolved until the Canadian Ivanhoe Mines, Ltd. purchased $50 million in bonds toward repayment of the debt.\footnote{Morris Rossabi,  \textit{Modern Mongolia}.  2005, University of California, p. 201} Rossabi cites three international critics of the poverty alleviation program. Economists Bernard Walters, who felt that government needed to protect the poor from market forces and argued that development policy, should also address income inequality as well as poverty. UNICEF Director Carol Bellamy visited Mongolia in 1999 and noted declining social welfare. She suggested poverty programs had not been well targeted.\footnote{Rossabi, Ibid, 137} The second World Bank poverty study in 1998 estimated 35.6 percent poverty, although
Rossabi criticizes the government’s explanation of inadequate economic growth and argued that tax evasion, privatization, income inequality and corruption exacerbated poverty. Critics felt micro loans had unfavorable rates and little return on investment for those who did participate. By 1999 the UNDP – World Bank concluded that 70 percent of poor family’s income went to food and that 60 percent of elderly were in poverty. In addition, single parenthood was on the rise and many families lost grid power when they could not afford deregulated electricity rates. The IMF proposed at a donors meeting further cuts in government spending to ensure macroeconomic stability so that debt service would not be interrupted. In 2001, Keith Griffin led a team of UNDP economic consultants to develop a new anti-poverty strategy. They recommended undoing some of Sachs’ shock therapy and reintroducing tariffs and imposing a luxury tax on cars. They took a Mongolian-led, not donor-led approach. The Poverty Alleviation Program comprised only 1.2 percent of donor funds. Moreover, Mongolia had the fifth highest external debt in the world. Griffin also advocated increasing personal savings and supporting cooperative development with meaningful community participation. However, Rossabi laments that a whole generation of Mongolians had grown up in a “culture of poverty” and feels that emerging adults need not only jobs and loans, but social assistance to help cope in a changed Mongolia. The political situation did not lead to democratic consolidation because the sudden changes in the government led people to think the coalition was ineffective, inexperienced and unstable in governing. Since 1990, Mongolia’s economy has suffered substantially due to transition to market economy. However, liberalization seems to have put its positive effect on both agricultural and

492 Rossabi, Op cit, 138
494 Rossabi, op cit, pp. 148-150
495 Rossabi, op cit, p. 93
industrial growth.\textsuperscript{496} The growth rate of the country has steadily increased since 1997 reaching 10.6\% in 2006. Privatization has positively affected the development of small and medium sized enterprises, providing strong incentives for the establishment of new business. In the industry and tourism sectors, joint ventures between the public and private sectors have become more common. Mongolia earned donor support from Japan, the World Bank, the UNDP, the IMF, Asian Development Bank and other countries for development, providing major support to Mongolia, in the establishment of independent news media, construction of roads, urban planning besides high support of educational and health sector. The most far-reaching change in Mongolia’s trade patterns during the transition era was not only oriented towards free markets in Europe, the U.S, Central Asia, or Japan, but towards China also. Main exporting countries are China, the United States, Russia and Japan. The main importing countries are Russia, China, Japan, South Korea and the United Status. As an adolescent democracy sandwiched between two colossal giants, China and Russia, Mongolia, is undoubtedly actively seeking to broker attractive trade agreements with the wider world taking full advantage of its location which has resulted to the extent of saying that Mongolia is the top supplier of raw materials to the world’s, most fast growing market China. The new Minerals Law of Mongolia, passed in 1997, has greatly improved the legal environment for investors. With the result many foreign companies are investing mainly in Mongolia’s mining sector.

Out of the turmoil of privatization and the transition to a market economy, signs of solid achievement are emerging. From 1990 to 2006, the proportion of GDP accounted for by the private sector rose from 4\% to 80\%.\textsuperscript{497} Such reforms enabled Mongolia to join the World Trade Organization (WTO) in 1997.\textsuperscript{498} Mongolia has struggled to reform the economy while promoting

\textsuperscript{496}Ole Bruun and ole Odgaard, “A Society and Economy in Transition”, in Mongolia In Transition.,1996, Britain p.22
\textsuperscript{498}Ibid,p.14
Economic problems were increasingly obvious to individual Mongolians in their daily lives. Foreign trade revenue, centered on market-sensitive exports of raw materials, made good progress over the years. The positive balance of trade steadily increased, reaching USD 109.1 million in 1994 and USD 222.8 million in 2008, enabling Mongolia to build its currency reserves. Mining products like copper, fluorspar and molybdenum concentrates accounted for 65.3 percent of Mongolian exports by value in 2008. Wool, hair and cashmere made up a further 10.8 percent. Exports of copper concentrate alone, worth USD 361 million, paid for two-thirds of Mongolia’s imports in that year. In July 2003 the agreement on the cancellation of 98 per cent of Ulaanbaatar’s Rb 11.4 billion debts owed to the erstwhile Soviet Union, (USSR) has removed a considerable financial burden from Mongolia, which could prove to be beneficial in confidence building among foreign companies that “considered the financial risk of investing in Mongolia is too high.”

TRADE AND FOREIGN DIRECT INVESTMENT

In Mongolia with 2.5 million inhabitants, population density is extremely low. It has a severe climate. Three quarters of the country’s territory are grasslands, with the remaining area being deserts or mountain areas. This description does not depict Mongolia as a very attractive place, but somehow, however, it managed to attract considerable amounts of foreign aid workers. Assistance from international institutions and donors for Mongolia’s efforts to establish a market economy has played an extremely important role in the country’s recent economic growth and allowed it to cope with emerging social problem. During 1991-95, the total aid commitment to the country for development projects was $1.23 billion of which $ 76.4 million (including financial and technical assistance) was actually disbursed. Forty percent of the $1.23 billion originally committed was made up of grants and 60% was loans.

499 Economic growths were hampered by a number of factors, including severe weather conditions in 2000 and 2001, which damaged the agriculture sector. As a result, real GDP grew by only 1.0% in 2000 and by 1.1% in 2001.

This ratio has since changed, with grants in the foreign aid decreasing from 69% during 1992-93 to 25% in 1994-95.\textsuperscript{501}

Over the years one can witness significant changes in Mongolia’s political, economic and social fields, which further gave boost to radical transformation of Mongolia’s economy. The main focus of economic growth was given on the utilization of natural resources including agricultural, mineral, oil and water. As a result there has been surge in industrial sector, which led the growth of manufacturing units as well. On the trade front, although Mongolia’s trade relations with the outside world expanded in recent years, there is still need of consistent trading partners who could help achieve Mongolia’s economic security. With changes in Export-Import policy, Mongolia tried to attract as many overseas partners as it can. However, difficulties in trade partnership have also been realized due to high prices of domestic and foreign goods and services as well as weak financial capability of business entities involved in foreign trade.\textsuperscript{502} Even though, joint ventures with foreign companies have helped the country to witness growth in several key sectors of the economy. Interestingly, in July 2003 the agreement on the cancellation of 98 per cent of Ulaanbaatar’s Rb 11.4 billion debts owed to the erstwhile Soviet Union, has removed a considerable financial burden from Mongolia, which could prove to be beneficial in confidence building among foreign companies that “considered the financial risk of investing in Mongolia is too high”.\textsuperscript{503} Global Insight, an economic forecasting firm, estimates that real GDP rose by 8.3% in 2008 (over the previous year) and projects that it will grow by 9.0% in 2009.\textsuperscript{504}

\textsuperscript{501}ADB, Annual Report 1998, Hong Kong: Oxford University, 1999.

\textsuperscript{502}Ibid, p. 8.

\textsuperscript{503}“Mongolia”, Country Report November 2004, opcit, p. 27

\textsuperscript{504}The Mongolian government reported even faster growth for 2006 at 8.4%

Sector (especially herding), accounting for about one-fifth of GDP (2005); it employs about half of the population. Mineral production accounts for 68% of industrial output, 46% of foreign direct investment (FDI), and 59% of Mongolia’s export earnings.
Foreign investment is one of the major factors for providing economic growth in Mongolia. Mongolia has the following advantages and favorable environment for foreign investors.  

1. Stable political environment and open economy;  
2. Strategic and easy access to the giant markets of Russia and China;  
3. Extensive natural resources;  
4. Favorable legal environment;  
5. Relatively young, educated population;  
6. Vast territory, clean and undisturbed nature  

The Foreign Investment Law of Mongolia was adopted in 1991. The purpose of this law was to encourage foreign investment, to protect the rights and property of foreign investors in Mongolia, and to regulate matters relating to the foreign investment. Amendments to the law were made in 1993, 2001, and 2002. The objectives of these changes were to create a more favorable and competitive foreign investment environment. Currently Mongolia entered into agreements on avoidance of double taxation with twenty seven countries of Asia and Europe. Mongolia was keen to attract capital from abroad, particularly into export production and the mining sector, through further liberalization measures like the amendments to the 1991 Law on Economic Units and the new Foreign Investment Law, which came into force in July 1993. The latter would be investors of foreign capital in the Mongolian economy with easy remittance of profits abroad and exemptions from duty and tax. Meanwhile, the approval of foreign airline over flights began to make a contribution to Mongolia’s revenues, at the rate of USD 400,000 a month. In 1993, hard currency trade accounted

506 www.investmongolia.com/law14_2.pdf  
507 Ibid, pp. 79-93
for 51.6 percent, barter 35.2 percent and other kinds of trade (including re-
exports) 13.2 percent of exports; the corresponding figures being 59.9, 29.5
and 10.6 percent respectively for imports. Imports were 75.4 percent for
industrial goods and 24.6 percent consumer goods. Almost 30 percent of
imports, mostly industrial goods, were covered by loans and aid. In 1994,
hard currency trade rose to 71.3 percent of exports, barter fell to 19.6 percent
and other trade 9.1 percent, corresponding figures for imports were 68.5
percent, 20 percent and 11.5 percent respectively Imports were 79.9 percent
industrial goods and 20.1 percent consumer goods.\footnote{509}

Russian fuels (electricity and petroleum) accounted for 32.6 percent
of industrial imports in 1993. Supplies were disrupted by Russia’s inability
to met delivery commitments on time. Imports of petroleum totaled 506,700
tons, compared with 824,000 tons in 1988, 789,800 tons in 1990 and
628,000 tons in 1992. Petrol imports- 260,000 tons of motor fuel and 3,000
tons of avgas (aviation fuel) in 1992, already less than the 280,000 tons and
29,500 tons required- fell to a total of 174,300 tons in 1993, and bus and
local airline services were frequently at a standstill. In 1992 Russia supplied
75,000 tons of fuel oil and 290,000 tons of diesels (56,000 tons and 281,800
tons respectively in 1993). In 1994 imports of Russian oil were 28.8 percent
of industrial imports, reaching only 47.3 percent of the 1993 level. Mongolia
and Russia had agreed to barter 40,000 tons of Mongolian copper ore for
300,000 tons of Russian oil, but Baganuur and Sharyn Gol open cast mines,
the main coal suppliers to the capital and central industrial region, were
closed in May-June by shortages of diesel for dump trucks and locomotives.
The diesel generators supplying electricity to most of Mongolia’s provincial
towns and rural settlements remained inoperative. Overall Mongolian trade

\footnote{509}Tom Ginsburg, “Political reform in Mongolia: between Russia and China”, \textit{Asian Survey}, Vol.35,
No.5, 1995, p.46.
turnover with Russia fell 1991-1994 from USD 472.1 million to US$ 218.2m.\textsuperscript{510}

A Chinese standard-gauge (1,435mm) railway spur and electric power transmission line were built from Ereen in Inner Mongolia-terminus of the Mongolian Railway’s Russian gauge (1,520mm) track- to Zamyn-Uud, where the new international goods yard was under construction with a Japanese loan. The British firm Wimpey and a German partner were carrying out improvements to the runway and terminal building at Ulaanbaatar (Buyant-Uhaa) airport under a USD 32 million scheme backed by the ADB.\textsuperscript{511} The ADB issued tenders for construction of hard-top roads from Darkhan to Erdenet and from Ulaanbaatar east to Baganuur and south to Choyr and Saynshand. Mongolia’s merchandise exports and imports in 2006 totaled $1.5 billion and $1.3 billion, respectively. The top three Mongolian exports were copper, gold, and animal hairs. Its top three imports were oil; machinery, equipment, and electrical appliances; and transport equipment. China is Mongolia’s largest export market (accounting for 67.4% of total, mainly minerals), followed by Canada (11.1%) and the United States (7.7%). Russia is Mongolia’s largest source of its imports (36.6% of total), followed by China (27.6%) and Japan (6.8%).\textsuperscript{512} According to the Mongolian government, at the end of 2010, there were 3,042 registered foreign investment companies from 73 countries with cumulative FDI of about $1.2 billion.\textsuperscript{513} Around $237 million was invested in Mongolia in 2004; of which 46% went into mining and oil exploration (the United States was the third largest foreign investor in this sector), 13% into trade

\textsuperscript{510}Morris Rossabi, Mongolia in the 1990’s from Commissars to Capitalists www.eurasianet.org/resource/mongolia/links/rossabi.html


\textsuperscript{511}Economist Intelligence Unit, Mongolia, May, 2007 & 2010.

\textsuperscript{511}Foreign Investment and Foreign Trade Agency (FIFTA), government of Mongolia
and services (e.g., wholesale and retail trade, restaurants, and cafes), and 8% into light industry (mainly textiles and apparel). China became the largest foreign investor in Mongolia in 2004, followed by Canada and the United States (at $135.4 million).

Table.2 Major Mongolian Merchandise Exports and Imports: 2010

<table>
<thead>
<tr>
<th>Major Commodity</th>
<th>$millions</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>1,531.1</td>
<td>100</td>
</tr>
<tr>
<td>Cooper concentrate</td>
<td>635.2</td>
<td>42.7</td>
</tr>
<tr>
<td>Gold and gold products</td>
<td>270.1</td>
<td>17.6</td>
</tr>
<tr>
<td>Cashmere and cashmere products</td>
<td>143.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Total Imports</td>
<td>1,334.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Mineral products (mainly oil)</td>
<td>446.3</td>
<td>33.4</td>
</tr>
<tr>
<td>Machinery, equipment, and electrical appliances</td>
<td>270.6</td>
<td>20.3</td>
</tr>
<tr>
<td>Transport equipment, vehicles, and spare parts</td>
<td>158.5</td>
<td>119.5</td>
</tr>
</tbody>
</table>

6.2 DEPENDENT ECONOMY

Mongolia is still highly dependent on foreign aid and assistance, which in many ways have simply replaced the large subsidies enjoyed during the Soviet period. Such external dependence has had an influence on domestic economic policy, where the combination of market liberalization and privatization on the one hand and Western aid on the other has ‘undermined the social security system and the relative economic equality that had been previously created by Soviet development aid’.

Soviet protection of Mongolia’s independence and its assistance in developing the latter’s economic and social sectors for 70 years came at a high price. Mongolia’s political structure and economic development were shaped largely by its close relations with the USSR. This resulted in the

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514 Ibid.
515 Economist Intelligence Unit, Mongolia, May, 2010.
country’s transition from a peasant, feudal agrarian society with strong religious and cultural traditions to a state with a centrally planned economy. Owing partly to these circumstances and partly to its geography, Mongolia remained almost completely isolated from the international community for most of this period. The policies pursued during these seven decades produced a highly distorted economic structure typified by inefficient use of state assets, slow growth, and stagnation. The relics of 70 years of waste and mismanagement were evident throughout the country when Mongolia threw away central planning in 1990 and started constructing a market economy. Apart from cutting its aid, Moscow claimed that Mongolia owed the USSR 9,685.4 million transferable (convertible) roubles for Soviet construction projects and balance of payments support under thirty-four different agreements since 1949. As of 1992 the grand total had risen to 10,456.7 million transferable roubles, although by then the USSR and transferable rouble no longer existed. All the same, Moscow calculated (at USD 1= R 0.6) that the debt was equivalent to no less than USD 17 billion. Moscow’s sudden decision had severe consequences for Mongolia, since it depended on the former Soviet Union not only for economic aid but also for the supply of vital economic commodities. In the past the Soviet Union rendered to Mongolia the highest economic aid-42.6 percent to Mongolia out of its total economic assistance to the socialist countries of Asia. Previously Russia had traded economic development and technology for livestock, meat and wool, but the 1970s-1980s saw the establishment of big Mongolian Soviet joint ventures in Mongolian mineral development—copper, uranium, gold and fluorspar. Starting pretty well from scratch, the USSR had built a miniature of itself in Mongolia, not just industrial enterprises and livestock herding cooperatives, but urban developments like

Ulaanbaatar city centre, Darkhan and Erdenet.\textsuperscript{519} The Soviet aid received by Mongolia ensured 40 percent of Mongolia’s national income, 90 percent of the imported machinery and equipment, 50 percent of the consumer goods sold in the Mongolian market, 90 percent of the erected facilities and installations, etc.\textsuperscript{520} Mongolia had around 40,000 Soviet citizens working as advisers in Mongolia.\textsuperscript{521} The early 1990’s focused Mongolian diplomacy on filling the political vacuum created by the demise of the Soviet Union- Mongolia’s sole creditor and overwhelming trading partner. Much needed help was sought by break the previous isolation, and establishing and maintaining all round cooperation with the USA, Japan, and Western Europe. Mongolia’s admission to the International Monetary fund (IMF), the world Bank, and the Asian Development Bank (ADB) in February 1992, was an important step towards promoting ties with the international community and the country’s further integration with the world economy.\textsuperscript{522} Following the establishment of diplomatic relations, the Republic of Korea pledged to provide Mongolia with telecommunications and television broadcasting equipment worth USD 30 million.\textsuperscript{523} Mongolia receives more than $300 million in foreign aid each year, one of the highest per capita assistance levels in the world. The Asian Development Bank (ADB) is the single largest multilateral donor. Other multilateral donors include the World Bank, International Finance Corporation, European Union, and various UN agencies. The Japan is Mongolia’s major bilateral source of loan as well as grant assistance.\textsuperscript{524} Both the United States and Germany provide substantial grant assistance to the country. A number of other donors provide modest

\textsuperscript{519} Usha Prasad. Mongolia, Making of Nation State (1st ed.), 1995 Delhi, p. 98
\textsuperscript{519} Marina Trigubenko, “The USSR and friendly Countries of Asia”, Far Eastern Affairs, No. 1, 199, p. 131
\textsuperscript{519} Far Eastern Economic Review, Hong Kong , September 19, 1991, p.34

\textsuperscript{522} Morris Rossabi, opcit.p.255.
\textsuperscript{523} A. J. K. Sanders, Asia 1991 Yearbook.
\textsuperscript{524} Nixon and Walters, “Mongolian Economy”, Asian Development Bank, Mongolia, p. 147
amounts of additional support. These other donors include Sweden (governance); Netherlands (energy conservation); Canada (rural and urban development); Korea (energy and health); the Czech Republic (health); Russia (humanitarian aid); China (housing); and India (information technology). Another possible and relatively unusual donor nation is the United Arab Emirates (UAE), which recently offered to help finance a hydroelectric plant in the countryside. 525 While the problems Mongolia has to resolve are similar to those of the countries of Eastern Europe and the former USSR, the development of contacts with the Western powers helps guarantee Mongolia’s sovereignty. The west’s response has been positive and generous, with aid and loans from Mongolia’s third neighbors- Japan, the USA and EU, whose TACIS programme. 526 was extended to Mongolia in 1994, and the various international economic and financial structures they dominate. In February 1991, the International Monetary fund, the Asian development bank, and the World Bank all admitted Mongolia to membership, qualifying the country for loans and grants. 527 The past 16 years, had it not been for assistance and involvement on the part of the international community, Mongolia would have met numerous obstacles in its quest for political democracy and market economy.

FOREIGN AID FOR THE 1994 ANTI-POVERTY PROGRAMME (USD MILLIONS)

<table>
<thead>
<tr>
<th>Donor</th>
<th>Credit</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Development Bank</td>
<td>3.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Danida</td>
<td>---</td>
<td>5.0</td>
</tr>
<tr>
<td>International Agricultural Development Fund</td>
<td>---</td>
<td>5.0</td>
</tr>
<tr>
<td>UN Development Program</td>
<td>---</td>
<td>1.0</td>
</tr>
<tr>
<td>World Bank</td>
<td>7.0</td>
<td>0.8</td>
</tr>
</tbody>
</table>

526 TACIS: Technical Assistance to CIS (Commonwealth of Independent States).
527 Country Study for Japan’s official Development Assistance to Mongolia: A Committee Report, Based on the discussions and findings organized by Japan International Cooperation Agency, Tokyo, March 1997, 40
Total 10.0 12.4

Note: Figures rounded to nearest USD 100,000.  

Assistance from USA

During US Secretary of State James Baker’s Official visit to Mongolia at the beginning of August 1990 agreements were concluded providing for the dispatch of US Peace Corps units to Mongolia and the development of trade. Baker said that ‘the US would be prepared to grant Mongolia most-favored-nation status as soon as it had satisfied itself with regard to Mongolia’s emigration laws.’ Mongolians would be given training in the US in banking, management, agriculture, legislation and the development of democratic institutions. Cable and wireless installed its own satellite dish in Ulaanbaatar during the summer of 1990 providing Mongolia with the first reliable telephone, fax and telex links with the outside world. The US secretary of State, James Baker, urged other countries to join the broad based world community support for Mongolia. U.S. assistance programs in Mongolia, a strategically-important nation which has actively supported U.S. policy goals in the East Asia-Pacific region and in the global war on terrorism, aim to help the country transform itself into a free market democracy. Economic Support Funds target private sector development and effective and accountable governance. FMF supports efforts aimed at controlling Mongolia’s borders with China and Russia against trafficking in illegal drugs and goods. IMET objectives include civilian control of the military, respect for international human rights standards, officer

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530 Secretary Baker has served as a strong booster for Mongolia throughout the 1990s. Within the next two years, a variety of international organizations, including a few at the instigation of secretary baker, began to arrive in Mongolia to complement the United Nations Development Programme and other agencies already in the country.
### U.S. Assistance to Mongolia, 2004-2008

(Thousands of dollars)

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<tbody>
<tr>
<td>ESF</td>
<td>9,941</td>
<td>9,920</td>
<td>7,425</td>
<td>6,625</td>
<td>6,200</td>
</tr>
<tr>
<td>FMF</td>
<td>995</td>
<td>992</td>
<td>2,970</td>
<td>2,970</td>
<td>1,000</td>
</tr>
<tr>
<td>IMET</td>
<td>872</td>
<td>992</td>
<td>866</td>
<td>874</td>
<td>970</td>
</tr>
<tr>
<td>INCLE</td>
<td>0</td>
<td>1,009</td>
<td>0</td>
<td>0</td>
<td>670</td>
</tr>
<tr>
<td>Peace Corps</td>
<td>1,646</td>
<td>1,694</td>
<td>1,747</td>
<td>1,694</td>
<td>1,995</td>
</tr>
<tr>
<td>PKO</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>14,454</strong></td>
<td><strong>13,615</strong></td>
<td><strong>13,008</strong></td>
<td><strong>12,163</strong></td>
<td><strong>10,835</strong></td>
</tr>
</tbody>
</table>

#### Food Aid

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<tr>
<td>FFPa</td>
<td>8,572</td>
<td>3,658</td>
<td>5,375</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Section 416(b)a</td>
<td>0</td>
<td>0</td>
<td>-</td>
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</table>

training, military justice, and preparation for participation in peacekeeping operations. Since 2004, Mongolia has been eligible for MCA assistance.

In September 2005, the government of Mongolia submitted a proposal to the Millennium Challenge Corporation for several projects to be funded by MCA funds, including railroad construction, improved housing, and health services. The top bilateral aid donors to Mongolia are Japan, Germany, and the United States.

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531 U.S. Department of State; USAID; U.S. Department of Agriculture.


533 Asia Times Online - [www.atimes.com/atimes/Japan/IB28Dh01.html](http://www.atimes.com/atimes/Japan/IB28Dh01.html)

ASSISTANCE FROM JAPAN

Japan has been Mongolia’s largest single aid donor since 1991, providing a total of 140 billion yen in official development assistance. In November 1990 President Ochirbat visited Tokyo, where Prime Minister Toshiki Kaifu responded positively to Mongolia’s request for economic and technical assistance. The first Tokyo aid donor’s conference in September 1991, by granting Mongolia some US$ 150 million in aid, finally brought the prospect of large scale international relief for the faltering economy during the transition to a market system of which Japan’s share alone equaled US $ 55 million. Co-sponsored by Japan and the World Bank, the conference was also attended by major multilateral donors like the IMF, ADB, UNDP and EC.

Economic cooperation

(1) The economic cooperation and aid extended by Japan to Mongolia has expanded rapidly since 1991, accounting for approximately one-third of total aid for Mongolia by foreign countries and international organizations.

Initially, economic cooperation was principally in the form of humanitarian aid for the Mongolian people, who were suffering deprivation amid the deteriorating economic situation in Mongolia at that time. Gradually, however, the cooperation came to be focused on the development of infrastructure to assist the gaining of economic self-sufficiency.

Japan’s economic cooperation with Mongolia (million yen)

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant aid</td>
<td>494</td>
<td>3,308</td>
<td>3,908</td>
<td>4,535</td>
<td>5,905</td>
<td>5,825</td>
<td>4,803</td>
<td>4,298</td>
<td>29.987</td>
</tr>
<tr>
<td>Loan assistance</td>
<td>0</td>
<td>4,836</td>
<td>2,458</td>
<td>3,321</td>
<td>4,753</td>
<td>4,493</td>
<td>5,827</td>
<td>5,046</td>
<td>49,583</td>
</tr>
</tbody>
</table>
Technical cooperation

151 402 681 1,810 2,272 2,337 1,813 1,933 16,108


(2) In addition, not only with regard to bilateral relations, but also in the international arena, Japan is actively taking initiatives in aid of Mongolia. Since 1991 a total of seven conferences of countries providing aid to Mongolia have been held, of which six conferences were held jointly with the World Bank in Tokyo. The seventh conference was held in Ulaanbaatar with the Chair of the World Bank in June 1999. It is of note that at the Conference, the Government of Japan expressed its intention to provide the largest ever amount of aid, totaling US$ 320 million, which has been of great assistance to Mongolia's development efforts.  

Access to external resources was essential for economic recovery and sustained growth in Mongolia. With a large fiscal deficit and low saving rates and the need to build-up adequate foreign exchange reserves, substantial net capital inflows were required throughout the 1990s. The IMF, ADB and the World Bank have worked closely together to support the Mongolian government’s macroeconomic stabilization and reform program since 1991. Six meetings of the Mongolia Assistance Group (MAG) were held in Tokyo to 1997 under the joint chairmanship of Japan and the World Bank as the Chair. The seventh meeting was attended by 25 countries including Mongolia and, in addition twelve organizations including the World Bank. The meetings of MAG are an important mechanism for aid coordination among donors. The most recent MAG meeting agreed to establish thematic groups to cover the key areas of governance, financial

537 Tsendamba Batbayar, opcit, p. 52
537 english.moh.mn/index.php?...japan...mongolia.
sector, and the social sectors including poverty. The groups will include representatives from the Mongolian Government, civil society, the private sector and donors. Donors could participate in the groups on a voluntary basis. In the fight against pandemic influenza, the Mongolian Ministry of Health received 500 oximeter machines used to rapidly monitor blood oxygen levels in patients from Japan which was handed over at a ceremony by Japanese Ambassador to Mongolia H.E. Mr Takuyo Kidokoro to Mongolian Minister of Health.539

Role of ADB

The ADB is playing the lead facilitating role for the thematic group on governance. The ADB currently focuses its operation in the five core sectors, namely, finance, public sector, social sector, agriculture, and urban development.540 Besides providing loans, the ADB is committed to being actively involved in policy dialogue with the government, particularly with regard to continuing of reforms in the promotion of good governance in formulating effective policies and establishing efficient institutions;

(i) public sector management and finance which lay a foundation for effective macroeconomic management;

(ii) financial sector, particularly the banking system to provide affordable financing services badly needed for increased private sector investment and production efficiency.

World Bank

Following its entry to the World Bank in February 1992, Mongolia has been receiving assistance in the form of grants and loans from the World Bank. Mongolia became a member of the World Bank group in February 1991. Following severe external shocks in 1989-1990, after the withdrawal of soviet assistance and the collapse of the council for Mutual Economic

Assistance’s trading system, the World bank groups international development Association (IDA) offered a programme of support that focused on quick disbursing balance of payment assistance and technical assistance for economic management.\textsuperscript{541} The IDA has committed a total of US$ 150 million to date for various projects. The average lending programme has averaged US$ 25-30 million equivalent.\textsuperscript{542} In Mongolia, the WB’s assistance strategy outlines steps needed to advance the government's goals of reducing poverty, stabilizing the economy, reforming the financial sector, and developing infrastructure and the rural economy.\textsuperscript{543} The latest assistance strategy involves a USD-88,000,000 assistance plan effective 2004-2008, which contains loans, analysis and sector work, and technical support.\textsuperscript{544}

The IMF

Although Japan, the World Bank, and the ADB are leading donors for Mongolia, one cannot undermine the role of IMF as a policy maker on behalf of donor community towards Mongolia. At the end of October 1991, the executive director of the IMF, Michel Camdessus, went to Mongolia and committed the support of the IMF to Mongolia, its 155\textsuperscript{th} member country, in the implementation of a joint set of measures directed at pulling Mongolia out of its crisis. The IMF pledged about US$30 million, half of it devoted to stabilizing Mongolia’s balance of payments.\textsuperscript{545} This measure allayed some

concerns about the country’s economic viability and quickly elicited the interest of other donor institutions and individual countries.

IMF worked very closely with the government of Mongolia throughout the 1990s to accomplish many of the key reforms taken to date and to accomplish detailed macroeconomic policy agendas, including fiscal, budget and monetary policy. The IMF approved a three year long loan for Mongolia in July 1997 under the ESAF of about US$ 845 million to support the government’s economic programme during 1997-2000. The IMF in 1999 approved the resumption of Mongolia’s ESAF supported program and welcomed the return to a calmer political environment that had created the conditions for a fuller adjustment to the terms of trade shock, for private sector led growth. However, the Government of Mongolia in September 1999 asked the IMF “to be lenient and flexible with Mongolia and to impose conditions that will be too tough or too unnatural to meet’. On October 1, 2001, the IMF approved a three year arrangement for Mongolia under the poverty Reduction and Growth facility for about Us $37 million. The IMF emphasized that the government’s strategy for the medium term had to be centered on an ambitious, but realistic effort to gradually reduce the public debt burden, while simultaneously providing for the medium term had to be centered on the ambitious, but realistic effort to gradually reduce

Table 1. Selected Economic Data for Mongolia

<table>
<thead>
<tr>
<th></th>
<th>(estimated)</th>
<th>(projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2007</td>
</tr>
<tr>
<td>Nominal GDP ($billions)</td>
<td>2.3</td>
<td>3.9</td>
</tr>
</tbody>
</table>

GDP PPP basis ($billions)  6.7  8.5  9.4  9.7

Real GDP Growth Over Previous Year %  7.3  10.2  8.9  2.7

Per Capita GDP, PPP Basis($)  2,615  3,231  3,541  3,615

Consumer Price Index (% year-on-year change)  9.6  14.1  23.2  9.0

Exports of Goods ($billions)  1.1  1.9  2.5  1.9

Imports of Goods ($billions)  1.2  1.5  3.1  2.2

Current Account Balance ($millions)  29.7  264.8 -502.7 -261.8

FDI Flows ($millions)  257.6  360.0  682.5  316.5

Government Balance as a % of GDP (%)  2.6  2.8 -5.0 -6.0 549

the public debt burden, while simultaneously providing for the country’s social needs. The IMF recommended that given the country’s high external debt burden and its vulnerability to terms of trade and climate shocks, non concessional external public borrowing should continue to be avoided and the concessionality of aid flows maintained. The accelerated progress towards privatization and energy sector reform was welcomed in this context. As the IMF cautioned: ‘solid domestic political support and continued donor assistance will be essential in implementing the authorities

549 World Bank, IMF, and World Trade Atlas.
Mongolia, like most other countries of the world, has been hard hit by the current global economic slowdown (see Table 1). In April 2009, the IMF agreed to extend a $224 million loan to Mongolia to help it to meet its balance of payments needs.

In addition to the effects of the global economic slowdown, challenges Mongolia faces over the long term include a weak banking system, sharp fluxes in global mineral prices, high dependency on imported energy, high unemployment, and weak rule of law, government corruption, and inadequate infrastructure.

**DUTCH SUPPORT TO MONGOLIA**

Netherlands which is one of the few democracies in the region also promotes peace and stability at regional level. As of 2007, €7.5 million per year is available for development cooperation with Mongolia. Besides regular aid, Mongolia also qualifies for two private sector programmes: PSOM (emerging markets cooperation programme) and ORET (development-related export transactions programme). The Dutch environment programme is focused on promoting responsible management of natural resources and protecting the environment, in the conviction that this will help reduce poverty. Special attention goes to the two most pressing problems, desertification and the decline in biodiversity. The Netherlands support the Geo Information Centre, which collects data about the natural environment in Mongolia. Until now, there had been little knowledge on this subject and the information that was available on land use, forest fires, droughts and so on would not reach policymakers on time. The Centre will support the Mongolian Ministry of Environment and Ministry of Agriculture in developing environmental policy and legislation. The Netherlands also helps local and regional authorities in the areas of land conservation and

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551 ubPost.mongolnew.mn/index.php?option=com_content
552 Mongolia Online.com
optimum grassland management, introducing techniques like rotation grazing and no-grazing intervals to protect the plains. The Netherlands contributes in other areas as well, such as a sustainable electricity supply for herdsmen and villages, participative forest management, integrated water management, drinking water and sanitation, private sector development and civil society. In this, the Netherlands works with the municipality of Ulaanbaatar and the Ministry of Environment, the Ministry of Agriculture, and the Ministry of Fuel and Energy. At the request of the Mongolian Ministry of Finance, the Netherlands is leading a working group for inter-donor cooperation in the environment sector. Capacity and institution building within the Mongolian government and local partners are stimulated by giving them an active, implementing role in the development cooperation programme, usually in partnerships with Mongolian and Dutch research institutes. In 2010, the Netherlands provided €5.67 million to Mongolia for environmental support. In previous years, aid totaled €4.23 million (2009) and €5.58 million (2008).\(^{553}\) The Netherlands accounts for nearly half of all foreign environmental aid to Mongolia. The money is primarily used to finance projects. In conjunction with the World Bank, the Netherlands has been supporting environmental activities by the Mongolian government since 2006.\(^{554}\)

**HELP FROM CHINA**

During Chinese President Yang’s visit to Ulaanbaatar in August 1991 China agreed to reschedule repayment of Mongolia’s debts to August 2001. China permitted landlocked Mongolia the use of the port of Tianjin for its import and export. It also committed itself to a package of loans and aid and an increase in trade, air services, and cultural and scientific exchanges, while Mongolia committed itself to protecting Chinese investments in

\(^{553}\) [www.mongolia-web.com/...689-mongolianpresident-requesta-dutch-support](www.mongolia-web.com/...689-mongolianpresident-requesta-dutch-support)

\(^{554}\) Dutch Ministry of Foreign Affairs_ Mongolia. html
Mongolia. Both countries also increased commercial opportunities and pledged to cooperate on the use of water along their borders, and the Chinese provided a sizeable loan for purchase of consumer goods and other Mongolian needs. Mongolia’s international partners met with the representatives of the MPRP government in Paris in May 2008 to discuss Mongolia’s renewed efforts to strengthen the foundations for growth and poverty reduction. Donors indicated new aid commitments of about US $330 million for the next year and stressed the importance of enhanced donor coordination.

The composition of aid going to Mongolia shows that its resource needs shifted rapidly from emergency assistance to long term financing for development projects. This shift reflected growing stabilization of the economy and it has laid the foundation for further growth. The rate of aid utilization remains low due to inefficient absorption capacity and the lack of internal structures for aid coordination as well as project appraisal and implementation. Official grants and confessional loan disbursements made during the recovery periods resulted in an increase of international reserves. Excluding gold, reserves stood at $117.03 million, $107.44 million, and $175.71 million at the end of 1995, 1996, and 1997, respectively. These were equal to 12.5, 11, and 17 weeks’ worth of imports in each of those years, also respectively. Nongovernmental organizations (NGOs) such as the Soros Foundation and World Vision make important contributions to Mongolia, each managing annual development programs valued at around $3 million. Numerous other NGOs from the United States, Japan, Europe, and elsewhere also provide important support, especially in the social sectors. Today Mongolia is the fifth most aid-dependent country in

559 Ibid.
The foreign factor will play even more important role in almost all spheres of contemporary Mongolian society. There is no single branch of Mongolian economy that could be developed without foreign assistance. For the Mongolians, there are historical reasons to see international aid as coinciding with larger, geopolitical interests. The sequence of Russian and Chinese aid reflected delicate balances between the superpowers to which the country had to submit but perhaps owed its survival as an independent nation. Indeed, Mongolia has become used to living with big expansionist neighbors and striking a balance between them for their existence. It has been a major challenge to Mongolian identity and national pride which naturally soared right after independence in 1990, in that the country only liberated itself from massive soviet subsidies in order to become dependent on international aid. Foreign aid now makes up 25 percent of GDP, a situation of dependency not too different from the later half of the 1980s when Mongolia’s dependence on Soviet aid corresponded to 30 percent of its GDP. Whereas Mongolian leaders previously traveled to Moscow to secure their subsidies, they now travel to Tokyo for the annual coordination meeting in the Mongolia Assistance Group. Even more challenging for the Mongolian identity is the fact that Russian and East European specialists, who previously supervised industry, agriculture, infrastructure, education and so forth, have now been replaced by Western consultants and aid workers. This new development has caused skepticism on the domestic political scene.\(^{561}\)


\(^{561}\) Rossabi, Modern Mongolia, opcit.315