CHAPTER V

FOUNDATIONS OF ECONOMIC DEVELOPMENT
Economic development is the basic prerequisite of nation building since societies ought to be modernised before the states and the nations can be built. Economic development precedes political development which "requires national unification, economic modernisation and also a welfare state".\(^1\) Political modernisation requires enhanced capacity of people which can not be accomplished unless their economic power increases and their role changes in society. Since economic development refers to the growth in the total economic activity and output of a society, industrialisation is an essential base of modernisation. When industrialisation takes place it not only raises the per capita income of people, even the thought pattern and way of life also get transformed to match the needs of political development. The improved material condition drags people in the process of nation building. Industrialisation, therefore, is a crucial factor in nation building since "industrial society contributes to a milieu which can sustain political development".\(^2\) In fact "the industrial societies,

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whether democratic or not, set certain standards of political behaviour and represent the appropriate goals of development for all other systems. The industrial development and thereby the material condition of people gets higher priority in a Marxist framework. Under this framework, the political, social and culture behaviour of men is a function of the economic process of society. For Marx, the foundation of a civil society has to be sought in its political economy. "The mode of production of material life conditions the social, political and intellectual life process in general." In practice, the modernisation of nation's economy is considered essential "as a strategy for achieving the millenial goals of Communism on the one hand, and as a necessary corollary of the achievement of the socialist revolution on the other." This makes the case for rapid industrialisation still more essential for the desired political development.

Industrialisation is a stage of economic change which is brought about by modern technology of production. The economic change, in return, brings

changes in society necessary for the modern nation building. Among these are "political changes from absolutist institutions to responsible and representative government", and from feudalism to capitalism and to socialism. "The term industrialisation and its synonyms or derivatives refer to processes by which a society may change from a pre-industrial, or traditional, or underdeveloped to an industrial, or modern, or developed condition. This idea of change suggests, albeit vaguely, that a number of factors are at work such that change with regard to one or several of them will induce changes in one or more dependent variables." In this sense, nation building is dependent upon the modernisation of an economy. This is all about the theory of modernisation of nation building.

The pattern of industrial growth and the political system associated with industrialisation differ substantially among nations. In capitalist societies, like Great Britain, political participation and welfare state followed industrial revolution, in socialist societies, industrial development precedes political institutionalisation.

and development. In a socialist society, the economic development is made to suit the building of a new nation. Furthermore, under a socialist strategy, the national economy is socialised. This is necessitated for two purposes; first, to destroy the economic base of feudals and capitalists through which they influence the national political structure; and second, to force accumulation of economic resources for rapid and planned economic development by rationalising consumption. Moreover, a deliberate economic arrangement is made so that the stage of capitalism can be by-passed and the people of society can acquire national consciousness and citizenship rights.

In the post-revolutionary phase, a socialist economy has to resolve a number of contradictions, the foremost among them is "between the workers, the producers, on the one hand, and the remaining elements in society, the bourgeois on the other". This gets resolved through transforming ownership of productive resources from private to public. But a structural transformation of the economy is not enough for building a nation on pattern. Organisation

of more efficient production is equally essential for breaking the barrier of poverty and subsistence. A traditionally backward economy is inherently incapable of coping with the programme of industrialisation, necessary for destroying the feudal economic base and for creating a modern economy. Moreover, growth under the sole stimulus of material incentive is not always cogenial. It can consolidate some branches of the economy at the expense of others. What is required for a nation building is a balanced development of the economy. This is achieved through the process of a centralised economic planning. Thus, public ownership of the means of production and centralised economic planning are the two pre-requisites of economic development for by-passing the capitalist stage of nation building.

There is a well defined rule under Marxism as to how a country achieves nationhood. According to this theory, the nation building process is an economic evolution which lies in the whole historical epoch of transition between capitalism and the lower phase of communism. Lenin, reconstructed the Marxist theory of economic evolution and propounded a new approach. He pronounced that "with the aid of the
proletariat of the advanced countries, backward countries can go over to the Soviet system and through certain stages of development, to communism without having to pass through the capitalist stage". He provided a strategy as to how one of the three stages, from feudalism to socialism, can be avoided. Mongolia followed this theory and accordingly passed through a comparatively long and specific transitional period of four decades from feudalism to socialism. Before the people's revolution, Mongolia was a backward country devoid of even a developed social division of labour, what to talk of the development of capitalism. The basic source of existence of the local population was animal - husbandry. Temporal feudals, foreign traders and usurers ruled the country. Arats had no rights, political or economic. There was no class contradiction because there was no industry. Even then Mongolia launched a programme of avoiding the capitalist path of development (by-passing capitalism) and entering a socialist phase of economic reconstruction with the help of advanced socialist countries, particularly, the USSR. The Mongolian People's Republic was the first country after USSR which attempted to take the non-capitalist path of nation building from feudalism to socialism.

1. Abolition of Feudalism - 1921-39

Before the Revolution of 1921, Mongolia was unable to proceed for building a new nation, which required among other requisities, the modernisation of national economy. In other words, Mongolia was much less prepared for the development of a socialist economy along Marxist lines. The economic sectors like agriculture and industry were neither matured nor demarcated. "Before the liberation there had been no industrial enterprises of national importance whatsoever in Mongolia."

There was no contradictory classes of bourgeois and proletariat. There was only one economic sector in the economy connected with pastoral activities and there were only two classes of feudal and serfs. At the time of the revolution of 1921, 90 percent of Mongolians were nomads, and 10 percent Lamas. In fact, the period prior to 1921 was predominantly pastoral and nomadic and therefore unfit for modernisation of the economy of Mongolia. "Mongolia was poor, backward, feudalistic in structure, dominated spiritually and, to a great extent, materially also by a powerful, well organized

and self-assured church."\(^{10}\) Mongolia had an exploited and subsistant economy, producing what it required for consumption of a very low level. "The economy as a whole was in a state of utter stagnation. The country's only industry was extensive cattle-breeding. The home market was undividedly dominated by foreign capital. Indebtedness to foreign traders and money-lenders mounted steadily. Half of all the cattle, the country's main wealth, was owned by secular and church lords, making up only 7.8% of the population. Serfdom persisted until the people's Revolution. A heavy burden to the arat cattle breeders were the countless feudal duties: Corvée, the metayer system, horse-mail service, the support of monasteries."\(^{11}\)

The period of 1921 to the beginning of the Second World War, however, was not uniform in its structure and appearance so far as the economy of the country was concerned. This period, therefore, can further be divided in three sub-periods on the basis of their distinguishing features. The distinguishing features of each of the period are: that Mongolia was


proclaimed in 1924 as a People's Republic; that during 1924-32 the country went through "the struggle for the maintenance of the General Line of the Party"; and that during 1932-40 the path of non-capitalist development was earmarked in the country.\textsuperscript{12}

The nation building under socialist framework, in general, pre-supposes that it has already passed through the stage of capitalist development. This is because the contradiction of capitalist forces generates momentum for a socialist revolution. But in Mongolia, transition to socialism began not with the second but the first stage of the economic evolution. This means that the victory of the Mongolian people's revolution and the establishment of the revolutionary democratic dictatorship of the arats (peasants) in 1921 set in motion the period of socialist transition. As a result of the revolution of 1921, and due to the preparatory phase of 1921-39, Mongolia switched over not only from feudalism, but also from the system of capitalism. Here lies the significance of this period. It was a preparatory phase. The economic preparation of this phase made

\textsuperscript{12} Bawden, op. cit., p. 238.
the Mongolian nation-building-process fundamentally different from the nation building process of other traditional countries of the Third world. This set in motion the transition from feudalism to socialism completely by-passing the experience of capitalist stage in the process of nation building.

During the period from 1921 to 1939, Mongolia made concerted effort to prepare an economic surface capable of transition from feudalism to socialism. This mode of nation building through non-capitalist path set a historical experience of the MPR since it made a new application of Marxist-Leninist teachings on one of the backward countries of the world. It was the execution of economic policies during this period that set in motion the period of transition to socialism in Mongolia, a specific feature of the socialist path of nation building, an age of the disintegration of the colonial system of imperialism.

In the period of 1921-39 the nationalisation of the basic means of production was partially executed which was the first building block of making a socialist economy. The feudal property in land and livestock in Mongolia was expropriated. Thus the feudal structure of Mongolian economy was reshaped.
Foreign capital was driven out of the economy by organising national state co-operative trade. On the same line, the local capitalist elements were at first restricted and finally expelled from the economy. Through these measures, during this period, a requisite ground was prepared for restructuring the peasant households of Mongolia. The feudal mode of production of Mongolia acquired a different national character by joining the main stream of economic transformation. The state-cum-cooperative structure emerged in the economy providing the basic foundation for the development of successive socialist economic transformation in Mongolia. This was how capitalism was by-passed. Through these economic preparation the Mongolian nation building process tried to find solution to a number of tasks for the socialist construction. In essence, it resolved the first economic task in the sphere of circulation (trade, banks and currency) and thereafter gradually in different spheres of material production (industry, transport, communication and agriculture). The resolution of the tasks related to both of these structures in course of time served the material-technical basis for the emergence of appearance of a national class society and congenial economic surface for moving towards constructing a socialist economy of Mongolia.
The main thrust of this period was the replacement of feudal mode of production, foreign trade and usurious capital and the petty-commodity production of peasants within a short period of time. The process of preparation for introducing the socialist mode of nation building began in 1921 from the day when the state power in Mongolia switched over to the people. The first phase of nation building was basically completed in 1940 with the creation of a new infrastructure of public ownership of means of production.

The change during 1921-39 that took place was democratic in nature without any violence and repression. The objective and subjective conditions for a march towards economic modernisation were created during this period for a peaceful transition to socialism. The end this period marked a decisive turning point and a completion of the first stage of nation building. The impact of such preparatory economic changes got reflected in the proceedings of the 10th congress of the MPRP, in the 13th session of the People's Hural, in the Programme of the MPRP and in the adoption of Constitution of the MPR of 1940. The overwhelming change brought about in economy of the MPR, by the end of this period, consisted of two
basic economic sectors - socialist and petty commodity - and two basic similar classes - workers and peasants. The experience of this period of Mongolian history can be summed up that it was a democratic phase in the process of modern nation building in Mongolia. The MPRP played a crucial role in the success of this period. It "liberated the (peasants) arats from oppression by the feudals and foreign capital, boosted their economic initiative by granting them state assistance and privileges in the form of credits and reduced taxes, restricted the development of capitalist elements, and encouraged various forms of agricultural co-operation, thus giving the development of the arat farms a socialist orientation. The encouragement of various forms of agricultural co-operation gave rise to arat communities and facilitated the establishment of socialist relations in agricultural production". 13

The significance of this period lies in the fact that a transition was made possible through non-violent means and that it avoided a long period of the development of capitalism in Mongolia. This period, thus, ushered a new era of Mongolian nation building.

The programme of institution building for socialist construction during 1940-65 would not have been possible in the absence of the democratic transformation phase of 1921-39.

2. **Economic Performance During 1940-1965**

The economic development of Mongolia must be examined within the framework of a planned economy and in the context of the assistance from the USSR. The state ownership of the basic means of production and the active state guidance of the allocation of national resources are the two indispensable conditions of socialist economic planning. Planning by definition is a deliberate effort of the government to mobilise the national resources for achieving certain goals under the direction of a central planning authority. "Economic planning", thus defined, "comprises the following essential features: (i) rational arrangement of economic resources; (ii) predetermined and well defined objectives; (iii) objectives to be achieved within a given interval of time; and (iv) control of resources by the state." ¹⁴ Mongolian economic planning was initiated and executed within this

framework of planning. The task of the five year plans was to "develop by all means the country's productive forces on the basis of maximum use of domestic resources, to strengthen public forms of economy and to raise the living standards and cultural levels of the people." 15

(a) **Principles of Economic Planning**

The essential features of Mongolian economic planning can be clubbed under the following four heads.

**First, a party approach to planning.** By this is meant the embodiment in economic plans of the tasks set by the Communist party to be executed by the Mongolian state. The tasks of each stage of the development of the Mongolian economy find expression in the Party's programme documents. Mongolia had followed Lenin's guideline: "without a programme a party cannot be an integral political organisation capable of pursuing its line whatever turn events may take." Following this approach, the programme of

planned development of Mongolia aimed at laying the foundations for socialist construction, was adopted at the 10th Congress of the MPRP in July 1940. The Party Programme clearly stated that "the policy of the Mongolian People's Republic is aimed at completely liquidating the remanants of feudalism in this country's economy, at combating the remanants of feudalism and, further, at developing this country along the non-capitalist path in order to prepare for entering socialism." In September 1946 the MPRP Central Committee politburo issued a resolution "on drawing up the First Five Year Plan to develop the MPR's National Economy and Culture". On the basis of the particular resolution the State Planning Commission worked out the draft of the First Five Year Plan. The Eleventh Congress, in its Report submitted by Y. Tsdenbal, the First Secretary of the MPRP, issued an appeal to Party workers "to be leaders of the working masses for the fulfilment of the Five Year Plan and to be disciplined labour models." Thus, the originator of plan programme...
for economic development of Mongolia is the MPRP and its execution is done by the Mongolian People's Republic.

Second, the scientific principles of planning. This is an essential feature of economic planning of Mongolia. This requires that every economic plan must be scientifically based. This, in other words, means that economic plans must conform to the objective laws governing the development of society taking into account the relevant progress made in the field of technology suitable for raising the levels of production. "In a socialist economy the structure and methods of planning are most closely related to (are even part of) what Marx called the 'social relations of production'; affecting as they do the way in which workers in production are related to one another and to the system of production as a whole". 19

Ideology plays an important role in the economic planning of a socialist economy. This is because there being a "link between action and fundamental belief, ideology helps to make more

explicit the moral basis of action".20 A powerful ideology gives to the mass of individuals a sense of identity and solidarity with their fellow countrymen together with a sense of purpose and commitment in their involvement in nation building. In modernising society, "ideology is helpful in bringing about some integration of the system and in providing programmatic guides for functional rules" to the members of society.21

In Mongolia, the Mongolian People's Revolutionary Party committed itself to follow a non-capitalist path of economic development on the basis of Marxist-Leninist ideas. According to this theory a complete dissociation from the legacy of monarchism, petty bourgeois and religious prejudices, is an essential pre-requisite of modernisation for building a new nation. "It is due to the steady consolidation of its ideological unity and structural strength, the solid support enjoyed among the broad popular masses, and close cooperation with the international communist movement" that Mongolia "has managed to successfully direct the nation's economic

and cultural construction" along a planned framework. 22

Third, democratic centralism in planning. The national economic planning of Mongolia is prepared by the central planning authority, an adaption to the Soviet model. 23 "In 1941, a Board of Planning, Accounting and Control was set up and annual plans were elaborated to implement the Party's Third Programme (1940) to 'build the bases of socialism'. In 1945 the Board was reconstituted into the State Planning Committee". 24 The plans, which propose the future development of the national economy of Mongolia, became binding on all concerned. Every central agency, local organisation, productive enterprise and economic unit has to strictly abide by the planned assignments fixed by the central planning authority. Thus, the state economic plan of Mongolia is, strictly speaking, a government decree. It is, in this sense, that Mongolian economic planning is a


centralising planning. The local authorities and enterprises, however, take adequate initiative in drafting and executing the current and long term plans. In fact, the estimates and calculations chalked out by enterprises, sectors and districts with the active participation of the working people (arat), form the national targets of economic development. This is the element of democratisation introduced in a centrally planned system of Mongolia.

Socialist planning inherently is a centralised process of allocating resources. A socialist economy therefore, is called a command economy. Socialist planning is an integrated process which covers the entire country and "is supposed to be centralised." There are several grounds on which a centralised planning is advocated to be the best in the interest of economic development of a nation. First, in an economy where large structural changes are designed to occur, a centralised planning of allocation of resources is more appropriate for achieving economic development. Second, a society which gives higher priority to social objectives than to economic growth, a centralised planning is more conducive. Third, for achieving a balance among different

sectors of economy, "Centralised control and steering is necessary to maintain the momentum of growth". Fourth, if the initial economic levels are low, from which the growth process has to start, "the necessity for centralised methods will probably be greater."26 And fifth, for maintaining popular morale and for achieving the requisite tempo of human effort, a centralised system is needed. It is for all these reasons that a "centralised planning is likely to show greater superiority" and success over other forms of planning.27

A centralised planning, however, is not completely devoid of inbuilt limitations. First, the concentration of decision at the top amounts to a one way flow of directives to producers who are under obligation to carry out the targets mechanically. Second, the scope of displaying initiation remains inhibited in a centralised system which prevents full participation towards higher level of production. And third, over-centralisation breeds bureaucratisation and inefficiency in the entire system of production. Therefore, a process of decentralisation is designed

27. Ibid, p. 12
both while formulating the plans of development and at the level of enterprise. The element of decentralisation provides checks and balances in economic planning.

And fourth, the mutual assistance of Socialist countries. One of the essential features of economic planning of Mongolia has been the aid and assistance received from other socialist countries, particularly the USSR. Since the Soviet Union had a deliberate objective to facilitate and accelerate "the movement towards communism for the entire socialist community", all communist countries including Mongolia took advantage of economic and technical assistance, called cooperation, from the USSR. It was for this purpose that the establishment of "the Council for Mutual Economic Assistance" in 1949, played significant role in "promoting economic, scientific and technical cooperation between the fraternal countries" and adopted "new forms of cooperation in the spheres of industry, transport, trade, financial links and international currency settlements." 28 Mongolian experience exhibits that mutual trade, scientific and technological exchange and joint

organisation of various types of industrial production have been the most important forms of economic cooperation between Mongolia and the USSR.

Mongolia joined CMEA in 1962. The entry of Mongolian Peoples' Republic into CMEA, proved to be very useful for economic development of Mongolia since it "opened up vast opportunities to develop economic, scientific and technological cooperation with the other CMEA member states". It also made possible of mastering the methods of economic management in a socialist manner and of acquiring economic and technical assistance. In the 15th Congress Tsedenbal stated: "Such coordination of our national economic plan with paternal countries is a requisite condition for fully utilising the superior aspects of the socialist system for the sake of expediting the development of our country." Mongolia realised the Comprehensive programme of Scientific and Technological progress for a period upto the year 2005. The framework of CMEA made it possible for Mongolia to enjoy" a number of privilages, such as

credit on favourable terms, stable and stimulating prices for Monglian export goods, and reduced tariffs on the transit of commodities and export expenditure. 31

(b) **Economic Plans of Mongolia**

Mongolia had an aspiration right from the time of revolution to reconstruct its national economy on the basis of the needs of society and under the direct involvement of state in it. As early as in 1924, it "considered that the non capitalist development path was the only correct path for Mongolia to follow in the future". The third Congress of the MPRP also resolved not to "grant material wealth by concessions to either foreign capitalist or to private Mongolians but 'to exploit it with the national and co-operative forces". 32 The first-People's Great Hural in November 1924 resolved to adjust the direction of the Mongolian economy to the needs of livestock industry and to establish state farms. "Industry must be the direct supplier to the livestock economy' based on exploiting

the natural wealth of this country, having in view such things as hide processing, wool washing, soap making, cheese making, butter production, the exploitation of such minerals as gold and coal and the establishment of handicraft industry co-operatives."\^{33}

The planning system of Mongolia operates at four levels:

1) Five-year plans and annual plans drawn up by central planning organs;

2) Plans for the development of particular branches of national economy drawn up by ministries and central departments;

3) Plans for the development of towns and provinces, under the control of local bodies; and

4) At enterprise (factory and farm) level, production and financial plans based on the plans drawn up at levels 2 and 3.

\[^{33}\text{Newspaper of the National Great Hural (Ulan Bator, 1924), Vol. 1, p. 155.}\]
The operation of economic planning is such that it involves the realisation of all plan targets by each economic unit and each member of society.

The Constitution of the MPR clearly states that the MPR Council of Ministers shall exercise direction over planning the national economy, and will discharge these functions through the Ministry of Finance and the State Planning Commission.

The Five Year Plans are based on draft guidelines released for public discussion two months before the five-yearly party Congress, which adopt the guidelines as the basis of the plans, with amendments, if any, and submit them to the Hural for approval. The drafting of plans is done by the standing commissions of the People's Great Hural dealing with economic affairs, including planning and budget, industry, agriculture, transport and communications, internal trade and services, and use of labour resources. The annual plan for the following year is presented in details by the Chairman of the State Planning Commission to the regular year end session of the People's Great Hural for approval. The national economic plan "includes the main indices for the development of
social production, the population, labour force-
employment and living standards of the population, as well as the programme for the development of the branches of material production and services.  

Local government organs—Hurals of People's Deputies and their executive committees—direct economic construction, direct and control the work of economic and cooperative organisations and confirm the economic plan and local budget on their territory, according to the MPR Constitution (Article 55).

Mongolia chalked out its first Five Year Plan for the period of 1931-35. This targeted ambitious increase in production in all sectors which proved unrealistic, and consequently, it failed. Forced collectivization prejudiced plans for agricultural production, investment and export plan was met at first by the confiscation of livestock. It failed because of being unpractical. During the years of the Second World War, Mongolia introduced annual plans in 1941. It remained confined only to

34. G. Dashdawaq, (et al.) (Eds.), Mongolian People's Republic (Ulan Bator, 1981), p. 84.
deal with the problems of shortages arising out of war contingencies.

The planned development of the economy of Mongolia actually began from 1948. "Economic Planning on a regular five year basis began after the war, and the Five Year Plan for 1948-52, now counted as the first, was marked by the establishment of several Mongolian-Soviet joint stock companies to set up and operate mineral extracting enterprises like Mongolneft and Soumongolmetall." According to government sources, the first plan "produced tangible results; the total livestock population grew by 3.7 percent and the gross industrial output doubled in 1952 as against 1947". Independent observers, however, claim that during the First Five Year Plan the "goals were never achieved."  

The MPRP twelfth Congress, convened in Ulan Bator on November 19-24, 1954 approved the guidelines of the second Five Year Plan. "The

35. Sanders, op. cit., p. 108
36. Information Mongolia, op. cit., p. 186.
37. Sanders, op. cit., p. 108.
targets of the Second Five Year Plan lay first of all in supporting from all aspects the members of arat household units along with tireless expansion and strengthening of socialist branch of the national economy in demonstrating to them superiority of socialist economic units, and in raising the material living and cultural standards of the working people. As a result "the socialist sector of the economy was considerably strengthened and the cooperative movement unfolded in the rural areas". By the close of the Second Five Year Plan, capital instrument in industry grew 4 fold, the gross industrial output increased by 69 percent and a large number of large scale projects were completed. Mongolia's planners are trained in Soviet planning methods, often in the Soviet Union itself, and they can draw on the assistance of Soviet and other CMEA planning organisations in drawing up national economic plans and drafting projects for individual enterprises.

Subsequent to the Second Plan, a Three Year Plan (1958-60) was launched in Mongolia. This was probably conceived as a short cut to alignment with the Soviet Five Year Plan cycle, except that the Soviet Seven Year Plan of 1959-65 temporarily prevented it. This also made a coincidence of the five year cycle of MPRP Congress, which approves "Basic Guidelines" for the plans. The Thirteenth Congress, convened in March 1958, approved the guidelines for the Three Year Plan (1958-60). The Congress considered that "we must collectivize and negdelize the majority of arat household unit members during the three years on the basis of voluntary principle." It aimed at raising the livestock population by 7.2 percent over 1957. It also planned to expand the production capacity of industries, to establish additional industrial enterprises and to increase the level of the production.

The MPRP Fourteenth Congress was convened on July 3-7, 1961 and approved the guidelines of the

Third Five Year Plan (1961-65). This plan had special significance since it was formulated after the adoption of a new constitution for the MPR. The Congress announced that with the Third Five Year Plan Mongolia enters into a new phase of its nation building, a phase of completing the building of a socialist society, since by 1960 Mongolia has succeeded in transforming the "socialist production realtionships in all branches of our country's economy".\textsuperscript{40} The Third Plan was marked by the all intensive development of capital construction in the economy. Many new industrial complexes came into being and the overall industrial output increased by 52 percent. Compared with 1960 the total amount of industrial products for 1965 increased 1.6 times. The state farms expanded substantially; "more than a dozen state farms were built in virgin land regions."\textsuperscript{41} During this plan "considerable Soviet loans were granted and repayments on earlier loans deferred".\textsuperscript{42} An agreement was signed on September 9, 1960, between the USSR and the MPR in

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\textsuperscript{40} Shirendyb, op. cit., p. 597
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\textsuperscript{41} Information Mongolia, op. cit., p. 186.
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\textsuperscript{42} Sanders, op. cit., p. 109.
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Moscow for economic and technical help for the implementation of the Third Five Year Plan. According to this agreement the Soviet agreed to render "all help to Mongolia in the construction of new industrial enterprises" in addition to the provisions that "the Soviet Union specialists would participate directly and the Mongolian workers would go to the Soviet Union for technical training".  

(c) **Sectoral Development of the Economy**

The re-orientation of a country towards building a new socialist nation requires planned economic growth. The growth of the economy raises per capita income and thereby material conditions of people together with their political consciousness and the way of life. But the economic growth cannot be properly understood unless it is analysed in terms of its sectoral composition and growth. It has been conclusively demonstrated that "there is a positive relationship between the growth of the national income and in terms of shares, that of the industrial sector while it is negative in the case

of the agricultural sector and somewhat mixed though positive in the case of the tertiary sector. In other words, as the economy grows, the share of industry and services rises and the share of agriculture goes down. This is true for both types of countries: those building their nations through capitalist frame of development and also those adopting socialist frame of growth.

Economic development, in general, moves through a shift in sectoral composition of the economy. "Agriculture's share in production and employment - which is typically high in the early stages - begins to decline, and that of manufacturing industry to increase". The share of agriculture gradually gets reduced in the national product and a corresponding increase in industry and services takes place. This is the universal pattern of economic growth. This, however, does not minimise the importance of agriculture. The World Bank states that the experience of "several decades

44. V.K.R.V. Rao, "Inaugral Address", The VIII World Economic Congress (New Delhi, 1986).
of development have demonstrated that growth in agricultural production and productivity in developing countries can match or surpass the growth in industrial countries. The record has shown that agriculture can in a dynamic sector in developing countries contribute greatly to growth in real incomes, employment and foreign exchange earnings and to the alleviation of poverty.\textsuperscript{46} What it indicates is that a sectoral proportion is essential for development and industry must occupy, at the appropriate stage of development, a place of prominence among the sectors of the economy. This sequence of sectoral development is applicable to capitalist as well as socialist economies.

There are several reasons as to why a country can not switch over to a high industrial level as and when it wishes. First, there is a possibility of resistance to switch over to a new pattern of economic activity. "Collectivisation was resisted by the propertied classes and the peasants and nomads. It could not proceed without official

'persuasion' and the process led to an appalling loss of both human and animal life. During the Lama Rebellion of 1932, many nomads slaughtered hundred of thousands of their livestock and made their way into China. It has been estimated that one third of the live stock in Mongolia was killed in this effort to resist collectivisation". This only suggests that for a switch over to industrialisation a mental infrastructure is required and this consumes time. This is a vital lesson from the experience of Mongolian economic development.

Second, industrialisation needs capital, technical manpower and market. For the accumulation of capital, agriculture provides savings and surpluses. Through the surpluses of agriculture, the industrial development takes place. Moreover, industry depends heavily on rural demand for their products, on agricultural products as inputs for processing, and on the foreign exchange earned through the exports of agricultural products. Whenever explicit emphasis is given to the growth of industrialisation, even at the cost of agricultural farmer's productivity, the results have not been

very encouraging. Furthermore, it takes huge toll in terms of repression to the farmers. Russia during Stalin adopted this strategy of industrialisation. On the whole, a heavy push to "agricultural growth has generally been associated with successful industrialisation and sustained gains in overall output and productivity." 48

Mongolian planned economic development during 1940-65 attests the gradual shift of proportional sectoral development from agriculture to industry. Since agriculture could not be neglected partly because of the age old attachment of arats to animal husbandry and partly because agriculture became the base for industrial development. "Since 1960, the proportion of industrial production of state owned industries to that of cooperatively owned industries has been fairly constant; about 80 percent for the former, as compared to 20 percent for the latter". 49 A detailed analysis of the development of different sectors of the economy during this period is presented here.

49. Petrov, op. cit., p. 75.
During the period of 1940-65, the economic performance of Mongolia has been impressive, as indicated by the government statistics. The national income at the aggregate level increased by 4.5 times in 1965 compared to the level of 1940. There are three significant aspects to the development of Mongolian economy. First, the development of industries has been faster than agriculture; industrial output grew by 8.7 times as against 1.9 times of the agricultural output. Second, in terms of ownership of the means of production, the expansion of public sector including state and cooperative sector, has been extraordinarily fast during this period. And, third, the framework of economic development and the economic assistance for development were provided by the Soviet Union.

(i) **Agricultural Development:** Of all the spectacular changes in the MPR, the most striking has been in agriculture - the biggest branch of national economy. Agriculture is organised under three heads, the state farms, the production association (nengdel) and the machinery and live stock stations. The table below gives an idea of the development of state farms and cooperatives during this period.
### Table 5.1

**Agricultural Enterprises & Farms**

(In numbers)

<table>
<thead>
<tr>
<th>S.No.</th>
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<th>1940</th>
<th>1950</th>
<th>1960</th>
<th>1965</th>
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<td>State Farms</td>
<td>10</td>
<td>12</td>
<td>25</td>
<td>29</td>
</tr>
<tr>
<td>2.</td>
<td>Agricultural Cooperatives</td>
<td>91</td>
<td>139</td>
<td>354</td>
<td>289</td>
</tr>
<tr>
<td>3.</td>
<td>Individual Arat Farms</td>
<td>2099</td>
<td>2106</td>
<td>08</td>
<td>00</td>
</tr>
</tbody>
</table>

Source: *50 Years of the MPR, Statistical Collection (Ulan Baton, 1971)*, p. 69.

The state farms expanded rapidly during this period. These farms pay a cash wage to their workers and are largely concerned with the growing of crops, fruits and vegetables. It is because of state farms that the sown area under crops increased from 26.6 thousand hectares in 1940 to 480.6 thousand hectares in 1965. Similarly, the production of grains increased from 1.2 thousand tons in 1955 to 8.6 thousand tons in 1965. Mongolia has become self sufficient in foodgrains.
Production Associations (negdel) are similar in structure to the Soviet Collective farms (Kolkhoz). In negdels payment to members is still in kind as well as in cash. The various benefits resulting from the pooling of efforts and resources and from state aid have now attracted most hardsmen into the negdels.

The number of machine and livestock stations increased during this period and simultaneously their service to co-operatives became wider and more effective. In 1956 there were only 4 such stations in the country which serviced 15 agricultural co-operatives. In 1960 their number increased to 36 and the number of co-operatives attended by them in all essential field worked out to 180. Technical equipment of these stations also improved during this period.

The whole rural population of Mongolia joined the agricultural cooperatives. Land in Mongolia was nationalised in 1921. Many agricultural cooperatives (about 82 percent of them) are engaged in land cultivation in addition to the traditional livestock breeding. From 1957 Mongolia embarked on
large-scale cultivation of virgin soil. The sown area increased three fold while the cereals output grew 5.5 times. From 1961 Mongolia became self-sufficient in cereals. As a result of the formation of cooperatives 289 cooperative farms appeared in the country. These cooperatives in content and consequence constitute a deep social revolution. Petty-bourgeois production relations are replaced by socialist production relations; the roots of economic inequality, exploitation and social differentiation among the peasantry is fully liquidated. The most numerous and toiling class has been converted into direct builders of socialism. Due to the success achieved in agriculture and animal husbandry, "the MPR has been converted from a backward land of animal husbandry into an agrarian-industrial country with a co-operative agricultural system, which is increasingly being mechanised." 50

One of the most important bases of quick development of agricultural production has been the mechanisation and introduction of improved methods of land tilling. All the basic works such as sowing, weeding, harvesting, thrashing, loading and unloading have been mechanised. According to 1960 figures 6.2 tractors and 4.6 grain harvester combines worked on every 1,000 hectares. Mechanisation of the main agricultural production created the most favourable conditions for introducing improved techniques in the other branches of agriculture.

During the period of 1940-65 impressive development took place in agriculture making it possible to become the foundation of a socialist economy. Tremendous changes took place in the country's farming enterprises. Its agricultural cooperatives and state farms, which were converted into large diversified husbandries, became the main producers and suppliers of farm products. In 1965, there were 289 cooperatives each with an average of 60,000 heads of commonly owned livestock and an annual income of more than 1,500,000 tugriks.
The Deputy Premier and Minister of Agriculture, while speaking about the achievements in the rural sector of the economy of Mongolia said: "the growth of the industry and other branches of the national economy and the triumph of the socialist production relations in the whole of the economic system by no means diminished the role of the rural economy, on the contrary, demanded its further drastic development. Our rural economy has been transformed into a large scale on the socialist pattern. Rural economy from its individual ownership basis to collective socialist footing creating favourable social conditions for mighty growth of the agricultural production and that of the entire national economy."51

(ii) **Industrial Development:** The planned development of Mongolia made a concerted effort to industrialise the economy. The absence of industrialisation was a great bottleneck for moving towards building a new nation. It was only after the 30s that a plant for processing animal raw

material in Ulan Bator was commissioned. The period of 1940-65, therefore, had to make all round effort to start industries and diversify them in course of time. This was made possible by the planned development of the economy which began during this period.

The industrial output increased substantially during the period of 1940 to 1965. The total industrial output in 1924 was only 300,000 Tugriks, measured at 1967 prices, had increased to 124.7 million Tugriks in 1940. Every successive plan committed increasing amount of capital resources for the development of industries. By 1965 the total value of gross industrial output increased to the tune of 1081.9 million tugriks. The development of industry, therefore, was impressive in Mongolia.

The expansion of industrial enterprises during this period was substantial. The table below reveals this. The important aspect of this feature of industrial development had been that the state owned enterprises increased more rapidly than cooperatives. This suggests that the process of
nation building on socialist lines was vigorously pursued during this period in Mongolia.

The industrial production, ownershipwise, had the same structure. The table below attests this feature.

In 1964 the total output of the state and cooperative industrial enterprises all together rose more than 50 percent as compared with 1960. During 1961-64 more than 70 industrial units were built of which more than 10 units were built with the help of the USSR. The capacity of the electric power stations increased 43.5 percent in 1964 compared

### Table 5.2

<table>
<thead>
<tr>
<th>Heads</th>
<th>1940</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number</td>
<td>175</td>
<td>189</td>
</tr>
<tr>
<td>State owned</td>
<td>24</td>
<td>120</td>
</tr>
<tr>
<td>Cooperative owned</td>
<td>151</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: *50 years of the MPR, Statistical Collection (Ulan Bator, 1971)*, p.158.
Table 5.3

Output Ownershipwise
(In constant prices of 1967, Million Tugriks)

<table>
<thead>
<tr>
<th>Type</th>
<th>1940</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Enterprises</td>
<td>100.9</td>
<td>875.5</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>23.8</td>
<td>206.4</td>
</tr>
<tr>
<td>Total</td>
<td>124.7</td>
<td>1081.9</td>
</tr>
</tbody>
</table>


with that of 1960 and the output of electric power increased 89.2 percent compared with that of 1960. By 1965 industrial output in the Mongolian People's Republic increased more than nine folds as compared with 1940 and accounted for about 50 percent of the total produce in the country. Mongolia achieved a substantial rise in the growth and diversification of industries. An "important range of industries" came into being, "such as coal and ore mining, oil power, metal working and building material plants as well as light and food industries". 52

A 700 km. long railway was completed in 1956 linking the MPR with the USSR and the PRC. Rapid development of motor transport was also accomplished during this period. The transport during this period also helped the economy in fulfilling its targets.

Initially, the industrial development was localised either to the origin of raw materials or to markets. "By the end of 50s, the Ulan Bator industrial hub had formed on the basis of the industrial combine, rebuilt and enlarged with Soviet aid to comprise specialised plants engaged in tanning, sheepskin coat manufacture, shoe making, wool washing and worsted cloth and felt making. In 1960, Ulan Bator produced 56 percent of the country's gross industrial product. In general, a trend towards decentralisation or policentralism began, with aymag (provincial) centres setting up their own modern food processing factories and flourmills."\(^{53}\) There occurred tremendous change in the geographical pattern of industrial locations. In fact, the period of 1940 to 65 witnessed a diversification and decentralisation of industrial activities in Mongolia. The areas of ore mining,

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53. Sanders, op. cit., p. 87.
metal working, timber processing and consumer goods industries were important from the point of diversification of industries. On the whole, this period achieved important results in opening new industrial enterprises, in operating production effectively, in fully utilizing internal resources, in making intensive use of capital and in improving the quality of products.

(iii) External Economy :- The external economic relations of Mongolia was confined to the fraternal socialist countries during the period of 1940 to 65. The Soviet Union was practically Mongolia's sole trade partner. The table below gives an account of the magnitude of foreign trade of Mongolia and its trade relations with the countries of the world.

More than nine tenth of Mongolia's foreign trade is with socialist countries. The trade relations got "established with a number of countries like Peoples Republic of China, Czechoslovakia, the GDR, Hungary, Poland the Democratic Peoples Republic of Korea, Vietnam, Rumania, Bulgaria, Yugoslavia, Albania and Switzerland." The Soviet Union is its major trading

Table 5.4

Foreign Trade

(in Million Rubels)

<table>
<thead>
<tr>
<th>Heads</th>
<th>1950</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Turnover</td>
<td>63.5</td>
<td>161.5</td>
</tr>
<tr>
<td>Export</td>
<td>32.8</td>
<td>72.9</td>
</tr>
<tr>
<td>Import</td>
<td>30.7</td>
<td>88.6</td>
</tr>
</tbody>
</table>

Foreign Trade By Country Groups in 1965

(in percentage)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td></td>
</tr>
<tr>
<td>(1) To Socialist Countries</td>
<td>99.2</td>
</tr>
<tr>
<td>(2) To Capitalist Countries</td>
<td>00.8</td>
</tr>
<tr>
<td>Import</td>
<td></td>
</tr>
<tr>
<td>(1) From Socialist Countries</td>
<td>99.8</td>
</tr>
<tr>
<td>(2) From Capitalist Countries</td>
<td>00.2</td>
</tr>
</tbody>
</table>


partner, making up more than four-fifths of Mongolia's exports and imports. This is because Mongolia meets its basic needs in machinery, equipment, oil products, rolled ferrous metals and
consumer goods by importing them from the USSR and other socialist countries of CMEA.

Mongolian economy was totally assimilated with the economy of the USSR. This can be gauged by the statement of the Party's first leader Sukhbaator that "the mainstay for the rapid development of Mongolia is the working people within the country and Soviet Russia beyond its borders". Mongolia was thoroughly integrated into the Soviet Union. "Until 1934 Mongolian foreign transactions were valued in Soviet gold rubles - but the ending of the severe inflation association with the 'left wing excesses' of 1928-32 enabled a stable tugrik to come into general use". The establishment of state monopoly over foreign trade in 1930 further strengthened economic ties between these two countries. This is an important aspect of nation building of Mongolia. The dependence of Mongolian economy on the Soviet Union signifies the fact that there existed centre - periphery relationship between the two countries. Since Mongolia built its economy on the image and with the help from the Soviet Union, Mongolia as a nation which lacks autonomy. Mongolia achieved modernisation of its economy but at the cost of its autonomy, as the critics say.

(d) **Evaluation of Planned Development**

The economy of Mongolia made significant advances during 1940-65. Success was possible because the preparatory work of abolishing feudal institution was completed and foreign capital was squeezed out during the first phase of 1921-39. A national workers' class and working intelligentsia came into being, the basic means of production became state property, the government of Mongolia acquired commanding heights of the economy, the links between peasant and workers were strengthened, and co-operativisation was initiated, all these together, offered vanguard role to the MPRP.

The success of planned economic development in the building of a new nation was made possible because of the rising magnitude of investment in the economy. This laid the foundation for the development of modern economy of Mongolia. The table below gives an idea as to how the volume of investment continuously increased over time and also the priority for industrialisation of the economy. The MPR, therefore, could begin socialist construction only at the end of the 1940s. This marked the end of the second world war in the
Table 5.5

**Mongolian Investment By Planning Period**

(Millions of Tugriks at Current Prices)

<table>
<thead>
<tr>
<th>Period</th>
<th>Construction</th>
<th>Equipment &amp; Installation</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>First Plan (1948-52)</td>
<td>148</td>
<td>39</td>
<td>17</td>
<td>204</td>
</tr>
<tr>
<td>Second Plan (1953-57)</td>
<td>614</td>
<td>166</td>
<td>32</td>
<td>811</td>
</tr>
<tr>
<td>Three Year (1958-60)</td>
<td>393</td>
<td>164</td>
<td>22</td>
<td>579</td>
</tr>
<tr>
<td>Third Plan (1961-65)</td>
<td>2421</td>
<td>1185</td>
<td>257</td>
<td>3862</td>
</tr>
<tr>
<td>Fourth Plan (1966-70)</td>
<td>3400</td>
<td>1574</td>
<td>316</td>
<td>5290</td>
</tr>
<tr>
<td>Fifth Plan (1971-75)</td>
<td>4456</td>
<td>2174</td>
<td>381</td>
<td>7011</td>
</tr>
<tr>
<td>Sixth Plan (1976-80)</td>
<td>9505</td>
<td>4532</td>
<td>977</td>
<td>15013</td>
</tr>
<tr>
<td>Seventh Plan (1981-85)</td>
<td>12779</td>
<td>6543</td>
<td>2097</td>
<td>21419</td>
</tr>
</tbody>
</table>


victory of the Soviet people and hence the most favourable international environment for creating economic institutions for nation building.

Socialist transformation of agriculture is the general law of nation building in all socialist
countries. Combining this general law with the specific features of Mongolia, the MPR successfully completed the cooperativisation of peasant households during the period under study. A little over 330 collective farms appeared on the surface of Mongolian economy during this period. These cooperatives in contents and consequences constituted a deep social revolution in which petty-bourgeois production relations got replaced by socialist production relations. The management of rural economy through negdel attacked the roots of economic inequality, feudal exploitation and social differentiation among the peasantry of Mongolia.

The formation of peasants' cooperatives in the MPR had many peculiarities compared to the experience of collectivisation in other socialist countries. First, in Mongolia not only land was socialised but cattle was also brought under social ownership. The main branch of peasant economy was not land rather cattle. It was, therefore, necessary that cattle also must be considered as a means of production. Cattle, in fact, fulfilled two roles simultaneously; as a means of production and as an article of personal consumption. This created peculiar
contradiction between the need of retaining cattle as personal property, because of being an article of consumption, and socialising it as a means of production. It was to the credit of Mongolia that it solved this contradictions in different ways at different stages of cooperativisation. Thus, inspite of peculiarities and difficulties of nationalisation, the collectivisation in Mongolia succeeded in forming a socialist agricultural system. The economic policy of collectivisation proved a new economic institution of collectivisation, ushered socialist relations of production along with the scope of utilising scientific and technical methods of production. The collective and state farms became highly productive and multi-purpose economic institutions. This paved a new direction to the agrarian economy of Mongolia which blossomed in the 70s and 80s. This can be seen from the table below. During 1976 and 1986 the production of gains, potato and vegetables more than doubled. The production of meat and milk also made some advances. This was due to the economic institutions of cooperativisation and state farms created during the period of 1940-60.

In the field of industry, Mongolia achieved
Table 5.6

Food Production

(in Thousand Tonnes)

<table>
<thead>
<tr>
<th>Food</th>
<th>1976</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>376.9</td>
<td>869.4</td>
</tr>
<tr>
<td>Potato</td>
<td>47.9</td>
<td>132.8</td>
</tr>
<tr>
<td>Vegetables</td>
<td>23.3</td>
<td>46.5</td>
</tr>
<tr>
<td>Meat</td>
<td>469.4</td>
<td>485.1</td>
</tr>
<tr>
<td>Milk</td>
<td>236.3</td>
<td>267.7</td>
</tr>
</tbody>
</table>

Source: Central Statistical Board Under the Council of Minister of the MPR, National Economy of the MPR for 65 years (1921 to 1986) (Ulan Bator) pp. 200-7.

significant successes during this period. Compared to 1940 industrial production in 1960 increased by 7.4 times and during 1955-65 by 4 times. By the end of the 50s the industry began to produce more than 40 percent of the total output of the country. By mid 60s industry consisted of many branches of heavy and light industry, mining and processing works. The data on output per head of population in the fields of electrical energy, solid fuel, various types of
minerals, raw materials, non-ferrous metals, meat, grain and wool, focus to the fact that not only the structure of Mongolian economy transformed but the levels of living of people also improved. This led to the acceleration in the rate and volume of industrial production in the improved subsequent period. From the table below it is obvious that since 70s the

Table 5.7

Annual Growth Rates of Industries
(Figures in percentage)

<table>
<thead>
<tr>
<th>Heads</th>
<th>1971-75</th>
<th>1981-85</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Industry</td>
<td>9.2</td>
<td>9.2</td>
</tr>
<tr>
<td>Electric &amp; Thermal Energy</td>
<td>10.2</td>
<td>11.5</td>
</tr>
<tr>
<td>Metal Working</td>
<td>9.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>10.5</td>
<td>10.6</td>
</tr>
<tr>
<td>Textile Industry</td>
<td>9.9</td>
<td>17.8</td>
</tr>
</tbody>
</table>


industrial development has been very rapid. The rate of growth of industry increased from 0.9 percent in 1961-70 to 9.2 in 1981-85. Rapid industrial growth
led to the benefit to agriculture, to external trade and to the diversification of the economy. Had the foundation not been laid during 1940-65, the subsequent rate of industrial growth would not have been possible. On the whole, the industrialisation of key economic branches, steady development of socialist industry, the setting-up of new economic branches, the development of modern means of transport and communications, the strengthening of socialist agriculture made it possible to complete the process turning Mongolia from an agrarian-industrial to an industrial-agricultural economy.

The period of 1940 to 1965 prepared ground for the rapid economic development of the next stage; i.e. the stage of "the intensive construction of a socialist society in the Mongolian People's Republic". It was the foundation laid during this period that Mongolia experienced a continuously rapid rise in the national wealth of the economy: Table below. It exhibits that the rate of rise in national income along with industry, agriculture and trade went on increasing. The success of this period got its echo in various ways and at various levels. In the 15th Congress of 1966, a representative of the Italian Communist Party stated: "You have traversed a great
Table 5.8

Performance of Mongolian Economy

(Growth Indicators)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income</td>
<td>1.0</td>
<td>3.7</td>
<td>5.8</td>
<td>11.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Gross Industrial Output</td>
<td>1.0</td>
<td>5.4</td>
<td>13.9</td>
<td>32.2</td>
<td>50.1</td>
</tr>
<tr>
<td>Gross Agricultural Output</td>
<td>1.0</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Retail Trade Turnover</td>
<td>1.0</td>
<td>5.3</td>
<td>10.4</td>
<td>18.1</td>
<td>22.4</td>
</tr>
</tbody>
</table>


You have proved the fundamental Leninist truth on the possibility of by-passing the capitalist stage of development and building socialism. The overwhelming success of this period was summed up in the Fourth Party Programme as: "We shall finish building socialism under the leadership of the Mongol People's Revolutionary Party and gradually create the conditions for the transition to a communist society.

which is the mighty summit of our aim." 57

The progress of Mongolian economy was exhibited throughout the country. It was not only the government and the party officials who were happy over the progress of the economy but even the ordinary people in the streets were confident about the future of the nation. "In Mongolia in 1961 my wife and I found an atmosphere of confidence, which seemed to be justified by the ability of the Mongols to manage and direct new enterprises as well as to staff them with operating personnel. The stage of mere initiation seems to have been left behind". 58 Thus, the period of 1940-65 was a harbinger of future development of Mongolia. "On the material and organisational plane, if all goes well, the Mongols hope to evolve a balanced industrial and agrarian economy in which nomadism will have disappeared and even the felt tent will have yielded to the fixed dwelling. What outwardly distinguishes the Mongol from his Russian and Chinese neighbours will be eroded to the point where average Mongol will be city dweller working in factory or office, or a rural farm labourer tilling


the soil with the help of agricultural machinery, or looking after animals on farms equipped with proper accommodation, fodder supplies and veterinary care". 59

In a summary form, the period of 1940-65, was a take off stage in the nation building of Mongolia. The main features of this period are:

(a) in the sphere of productive forces --- to create the material-technical base of socialism by way of encouraging industrialisation and reordering the structural base of the economy;

(b) in the sphere of production relations --- to replace private property by a socialist one by forming co-operatives of peasant household and consolidating the state sector of the economy;

(c) in the sphere of culture --- to conduct and complete cultural revolution by creating a homogenous class of peasants and workers as a spiritual prerequisite for a socialist-society of Mongolia.

3. Matured Socialism and Beyond

The economy of Mongolia moved forward smoothly once the socialist foundation was laid during 1940-65. A steady progress was experienced in all sectors and in all branches of the economy. However, after 1986 demand began to be surfaced for the reform of the system. This happened after the announcement of Glasnost and Perestroika by Gorbachev in the Soviet Union. The collapse of communist system in the Eastern Europe intensified the demand for reform and after the fall of Gorbachev it became a national demand of no return. It is, therefore, necessary to examine as to what sent wrong that the system needs restructuring.

There is a section of openion that the command economy which delivered good results for nation building of Mongolia developed several weaknesses. They claim that the weaknesses are, to a large extent, inherent in the execution of a command economy. It was because of these weaknesses that the command system of the economy of Mongolia failed to cope with the changing situation. The result is that people feel to change the system so that the tempo of the process of nation building is further accelerated.
The critics of the socialist model of nation building of Mongolia indicate several drawbacks in the system and therefore inadequate for transforming Mongolia into a full nation.

The most severe attack of the critics is that the planned development of Mongolia was not an indigenous design of economic development. Though Mongolia got tariff preferences and also capital at favourable terms, it cannot be conclusively said that the entire relationship was favourable to Mongolia. On the contrary, there are reasons to believe that "the Mongolia had limited control over their own economy, and their plan of development was obviously linked to the needs of the Soviet export market." 60 The economic planning of Mongolia "did not have the opportunity to select the cheapest and most efficient way of achieving economic development. The record of the Outer Mongolia's history suggests that considerations of Soviet foreign policy continuously influenced the choice of policies the Mongolian government actually used. In addition, the solutions to economic development were those that had been worked out in the Soviet Union and were mechanically

transported to the MPR, regardless of whether they were optimal solutions for a small economy whose basic problems were quite different from those of the large economy of the USSR".  

The critics of Marxism-Leninism, particularly the western scholars, claim that the centralised system of economic planning in Mongolia was copied from the Leninist theory of by-passing capitalism. According to them, the greatest defect of a centralised planning is that it restricts incentives operating at the levels of enterprise and workers. A restricted economic growth experienced during 80s in Mongolia is the result of over centralisation of economic management, the genesis of which was instituted in the beginning of planning. Critics further assert that statistics of economic growth were not reliable and the conclusions drawn were not correct. The four tier planning structure was too much bureaucratic. The bureaucratic-cum-administrative planning mechanism had engineered ineffiency in Mongolia. The need for reform, therefore, was adequately exhibited in the plan package outlined at the 19th Congress of MPRP in 1986. Over

centralised planning, therefore, is being considered to be an obstacle in the perspective nation building of Mongolia.

And, third, there is a criticism that the planned process of nation building in Mongolia has generated a dualistic economy. The landowning class has been replaced by the bureaucracy. The state of Mongolia has rushed ahead towards a new modernised nation through entering into the age of machines and mass communications, the arats in the rural areas are still left behind in an earlier stage, their nomadism has not completely ended. The real culture and social processes have not changed completely - though there is an awful lack of information and analysis of Mongolian economy. The negdels of Mongolia must have gone through the same experience as that of the collective farming of the USSR. In the Soviet Union, a conflict between ideology and reality was imposed on the people "by political constraints and ideological predilection which were no more than an expression of an attempted rape of social realities". The principles of "cooperation, solidarity and economic progress" were really "the imposition with iron gloves of the very different principle of absolute priority and superiority of the interests of the State over the
interests of the producers".  

These criticisms are partially right because socialism requires socialist institutions, no doubt, but also demands a socialist commitment, particularly at the level of the management of Mongolian economy and society. Mongolian nation building process generated bureaucratisation which hampered qualitatively the march towards socialism. This, however, does not contradict the success achieved in Mongolia, in raising the levels of living of masses, in bringing politics to the level of the common man, and in generating in them the consciousness of nationalism. The Mongolian nation building model, however, failed to accommodate the changed aspirations of people. The upheavals in the Eastern Europe and the USSR ignited the flame of demand for reform. Perestroika or schnetchejel (renewal) gained ground in Mongolia demanding not only a change in the economic management but also the trial of the country's Leonid Brezhnev, former President Yujagiyun Tsendenbal", and the withdrawal of 75,000 Soviet troops from Mongolia.

Since 1990, privatisation is a key word in

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Mongolia. Mongolians want to move fast but, like other communist countries, there are three bottlenecks; first, there is no guiding principle as to how a command economy can switch over to a free market system; second, Mongolians neither have enough savings to start enterprise nor have the experience of managing a private enterprise; and third, there is not enough foreign capital flowing from the international market to contribute to the speedy execution of privatisation. "However, the government is working on a unique scheme to privatise. The total fixed assets of all government enterprises have been estimated, divided and distributed equally among about 2 million Mongolians born before June 1, 1991 through coupon system". There are two types of coupons; pink coupons for small privatisation and blue coupons for big privatisation. This has been introduced since Mongolia has become fascinated by the charms of the market economy. But it "is difficult to succeed since Mongolia does not have any stock market. Nor has the Mongolian population enough surplus funds to really buy and sell some of these investment coupons". The nation building process which followed a planned path for 70 years is being put on the track of free market system.

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