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Master's Thesis

**Evaluation of Mongolian Trade
Performance since Accession to the WTO**

세계무역기구 가입 이후의
몽골 통상 이행에 관한 평가

2013 년 2 월

서울대학교 국제대학원

국제통상학과

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Performance since Accession to the WTO**

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Evaluation of Mongolian Trade Performance since Accession to the WTO

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Abstract

More than fifteen years have passed since Mongolia accessed to the WTO. Membership of WTO has provided a better market access and open trade with rest of the world. However capitalization of this opportunity requires Mongolia to improve the political and industrial environment and infrastructure.

This research aims to present a detailed analysis of Mongolian trade performance since accession to the WTO and its role and impacts on the Mongolian economic development.

Economic growth, trade balance, structure of export and import, export trend: winning losing sectors and revealed comparative advantages (RCA) analysis will be employed in this research to evaluate Mongolian foreign trade performance after WTO membership.

The research will be concluded with the policy implication that Mongolia should give more importance to trade policies especially export diversification to stimulate the export and economic growth.

Keywords: WTO accession, Mongolia; Economic Development; Trade Balance; RCA;

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Abbreviations

AfT	Aid for Trade
ATC	Agreements on Textiles and Clothing
ASEAN	Association of Southeast Asian Nations
APEC	Asia Pacific Economic Cooperation
ADB	Asian Development Bank
CGE	Computable General Equilibrium
CIS	Commonwealth Independent States
CIT	Countries in Transition
COMECON	Council for Mutual Economic Assistance
GATS	General Agreement for Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
FDI	Foreign Direct Investment
FILM	Foreign Investment of Mongolia
FIFTA	Foreign Trade and Foreign Investment Agency of Mongolia
MFA	Multi Fiber Arrangement
MFN	Most Favored Nation
NSO	National Statistic Office of Mongolia
PECC	Pacific Economic Cooperation Council
RCA	Revealed Comparative Advantages
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNDAF	United Nations Development Assistance Framework
UNIDO	United Nations Industrial Development Organization
UNESCAP	United Nations Economic and Social Commission for Asia and Pacific
USA	United States of America

USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
WB	World Bank
WIPO	World Intellectual Property Organization
WP	Working Party
WRP	Working Party Report
WTO	World Trade Organization

Chapter I: Introduction

Mongolia, former centrally planned economy, landlocked between the Russian Federation and China, began its transition to a market-based economy in 1991. There has been impressive progress in economic and political transition for instance sweeping reforms were implemented speedily, including farm, livestock privatization, price deregulation, financial sector liberalization, significant privatization of state entities and trade liberalization.

Mongolia became the 130th member of the WTO on 29 January 1997 after 6 years negotiation. Trade policy objectives of the country are to support economic growth through an open trade policy, promote the industrial, agricultural and services sectors to increase exports.

Since WTO accession, Mongolian GDP per capita¹ has increased from 503 US\$ in 1997 to 3056 US\$ in 2011 and trade turnover² was accounted for 1036.8 million US\$ in 1997 and reached 6108.5 million US\$ in 2010 which shows 5.8 times of increase. These economic and trade growth are largely in response to the comprehensive reforms, programs and changes have taken with the contexts of WTO accession.

Therefore it is important to evaluate the impact of WTO membership on the economic and trade performance to increase the benefits from trade liberalization and moreover to find out better foreign trade policy option for the country.

1.1 Problem description

Mongolia is so poor in the industry area and the development of this sector is very slow. There are difficulties for the business environment and investment in industry to develop due to the country's landlocked geography, small population of 2.8

¹ Table 5. Economic Growth: Pre WTO , Table 6. Economic Growth: Post WTO

² Figure 4. Trade Balance

million and increasing dependency from neighboring countries. Moreover, landlocked geography has increased not only trade dependency with China and Russia but also increase the time and cost of exportation and importation.

According to WTO dispute statistic, Mongolia has no dispute case since her membership of the organization. Knowledge of WTO related issues are typically low even in among government institutions and decision makers. Civil society in many cases is not knowledgeable enough to influence or participate in policy formulation on the country's trade strategies or on multilateral trading rules. The government is still in lack of needed policy, technology, experience and experts in trade sector and so on. Moreover, there are not many detailed analyzed researches and studies conducted on Mongolian trade performance since accession to the WTO.

1.2 Research Objectives

This research study has following objectives:

- To analyze Mongolian economic development and trade performance in the context with WTO accession,
- To evaluate Mongolian winning and losing sectors after WTO accession,
- To find future trade policy options for Mongolia,

Comparative static analysis to compare the situation before and after a given changes has been used to fulfill above objectives in this thesis. Tables, Figures, and statistical data have been used to analysis the results and the findings.

The combination of descriptive and explorative research design has been employed during this study.

1.3 Hypothesis

The hypothesis that will be tested is that however Mongolia is one of the landlocked countries and its share in global trade is barely 0.01%, *trade liberalization and WTO membership would help to increase the trade and lead to achieve economic growth of the country.*

1.4 Data description

The data used in the thesis is mainly downloaded from Mongolian National Statistic office (NSO), World Bank (WB), International Monetary Fund (IMF), Foreign Trade and Foreign Investment Agency of Mongolia (FIFTA) and other related resource and covered period is from 1991 to 2010. UNCOMTRADE database is used to calculate RCA of commodities at SITC 3. Processing of the foreign trade data is based on information of the Customs Office Administration of Mongolia. The Commodities were classified according to the “Harmonized System of Coding Goods” developed by the WTO.

1.5 Organization of the thesis

The thesis will be divided into following main integrated chapters.

Chapter-1: The chapter contains a general introduction of Mongolia and current problem description of the trade, objectives of research, hypothesis and data description of the research.

Chapter-2: Literature review mainly focused on materials which covers impact of WTO accession to the country’s economic development and related studies has reviewed.

- Chapter-3: Overview of Mongolian accession protocol of the WTO and its implementation with current trade policies and laws have explored in this chapter.
- Chapter-4: Impact of WTO membership on Mongolian economic development and trade performance has studied in this section. Making the analysis on economic development since accession to the WTO, trade balance, export and import structure, and trend of export: winning losing sectors and revealed comparative advantages (RCA) analysis have employed.
- Chapter-5: Conclusion of the study and remaining challenges have discussed in this chapter.

Chapter II. Literature Review

There have been number of studies shown that benefits and impact of the WTO accession on country's trade performance and economic development.

Chang and Lee (2011) wrote that since its creation in 1947, the General Agreement on Tariffs and Trade (GATT) has played an important role in the international trading system. It has sponsored eight rounds of trade policy negotiations that successfully brought down the average tariff rates on industrial goods and also expanded the set of substantive rules governing international trade beyond tariffs to nontariff barriers, and beyond trade in merchandise to trade in services. This process culminated in the establishment of the WTO in 1995. WTO members have also grown from a small set of 23 countries to 157 countries as of August 2012.

Goldstein, River, and Tomz (2007) have showed how the GATT/WTO influenced patterns of international commerce. Their analysis not only confirms that the institution stimulated trade but also identifies to whom and during what time periods the agreement had its greatest impact. They argued that benefits of the GATT/WTO extended to all members, including developing nations, many of which today argue that they have gained little from international rules.

Olivier and Carlos (2009) wrote that accession to the WTO has been driven by different motives in different countries. Joining the WTO is not only about improving the efficiency of trade policies, but also about embracing certain economic and political ideas that were developed in the aftermath of World War II, and that affect the society as whole.

Tang and Wei (2006) found that WTO/GATT accession since the start of the Uruguay Round affects a country's macroeconomic performance. Some developing countries were eligible to obtain membership without serious reforms. Most others would have to undertake a set of policy changes that concern not only trade-related

issues but also broader policy regime. Their empirical results showed that WTO/GATT accessions are associated with significant increases in growth and investment for those acceding countries that have to undertake substantial reforms. This suggests that binding policy changes enforced by a credible third party (WTO) serve as a substitute for governance in promoting economic development.

Zdenek Drabek (1996) wrote that the WTO agreements have no explicit requirement that a member must have fundamentally a market economy. Most importantly, by acceding to the WTO, countries in transition (CIT) will make their commitments internationally binding or, at least, internationally agreed upon and thus subject to international 'surveillance' and, in the case of conflicts, to 'dispute settlement' mechanisms. In other words, CIT will 'lock in' their commitments, and their trade policies will become more credible and predictable.

Constantine Michalopoulos (2001) categorized the benefit of WTO membership as following:

- (i) strengthening of domestic policies and institutions for the conduct of international trade in both goods and services which is needed before accession into the WTO can be accomplished,
- (ii) improvements in the ease and security of market access to major export markets,
- (iii) access to a dispute settlement mechanism for trade issues,

Damdin Tsogtbaatar (2005) emphasized that membership of WTO is therefore an important goal for small countries like Mongolia. Smaller countries can secure gain through full exploitation of the opportunities offered by the WTO in the global market. The WTO, with its strengthened dispute settlement mechanism, facilitates an equal and fair environment for all member countries.

UNDAF³ (2006) pointed out that Mongolia's vulnerabilities are accentuated by the country's landlocked geographical location, its dispersed and sparse population and harsh climatic conditions. Becoming a membership of international organization like WTO, participating regional cooperation and agreements can play a particularly important role in addressing critical issues relating to:

- (i) trade liberalization, export and industry diversification and increasing competitiveness especially in high value goods,
- (ii) greater regional economic integration,
- (iii) the development of better Information Technology based industries,
- (iv) development of the transit system and its accompanying infrastructure with the possibility of promoting cross country transit regimes such as a tripartite agreement with Russia and China.

Doha Declaration (2001) stated that international trade can play a major role in the promotion of economic development and the alleviation of poverty. GATT/WTO shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development.

These literatures try to give the message that accession to the WTO and its membership is beneficial for the country in many ways. Thus, this research will evaluate how accession to the WTO is affecting the countries economic and trade performance by making analyzes on Mongolian case.

³ United Nations "Development Assistance Framework 2007-2011", Ulaanbaatar 2006

Chapter III. An Overview of Accession Protocol and Implementation

Process of accession to the WTO is demanding and has been very lengthy for the most of countries.

With the collapse of the Soviet Union its constituent members each had to determine which international trade arrangements they would subscribe to. Latvia, Lithuania, and Estonia joined the European Union and the WTO, and the others formed the Commonwealth of Independent States (CIS). Forming CIS was not enough to promote trades between the states and to the rest of world. Thus, CIS countries approached to WTO one by one.

Mongolia, former close alliance of Soviet Union, also had to fundamentally alter its place in the world economy. It had to seek new trading partners in a competitive environment and these processes logically let her approach to the WTO.

H. Oyuntsetseg, one of official members of Mongolian negotiating team, once said that “the GATT and the international trading rules was an unknown subject. Mongolia applied to join the GATT when its market-reform processes were still in their infancy and when the legacy of the seven decades old centrally-planned economy was still strong. The government did not have any experts trained in market economics. The accession process itself was a great learning process, a process of formulating new development strategies”.⁴

Negotiations with the GATT began in July 1991. It became the 130th member of the WTO as of January 1997.

⁴ H. Oyuntsetseg’s speech at “Accession to the WTO: Country Experiences and Technical Assistance” a joint BMZ BMWA GTZ World Bank Conference held in Berlin on 17 to 19 November 2004

Mongolia was one of the early applicants to the WTO among former Soviet Union countries as well as first country joined the WTO among her neighbors countries China and Russia as shown in Table 1.

Table 1. GATT/WTO accession status of Mongolia, China and CIS countries as of 2012

Country	Current Status	Application Year	Joined Year
Mongolia	Member	1991	1997
China	Member	1986	2001
Armenia	Member	1993	2003
Belarus	Observer	1993	-
Moldova	Member	1993	2001
Russia	Member	1993	2012
Uzbekistan	Observer	1994	-
Georgia	Member	1996	2000
Kazakhstan	Observer	1996	-
Kyrgyz Republic	Member	1996	1998
Azerbaijan	Observer	1997	-
Tajikistan	Observer	2001	-

Source: WTO website

Accession involves two different sets of negotiations that run in parallel to one another. The first set of negotiations is conducted in a WTO “working party” (WP) on a multilateral basis between the applicant and Members. Through these negotiations, the economic and trading systems of the applicant are reviewed, and a “protocol of accession” and a “working party report” (WPR) are drawn up describing the conditions of the applicant for conforming to the WTO rules. The other set of negotiations, often referred to as “market access negotiations”, is conducted bilaterally on a request and offer basis between the applicant and WTO Members who wish to negotiate. These bilateral negotiations involve tariff

reductions, the reduction and elimination of non-tariff barriers, and commitments in services so as to improve access to the applicant’s markets. The results of these bilateral negotiations are applied to all Members under the principle of “most-favored-nation treatment”.

During the negotiations the applicant is requested to submit relevant legislation on a variety of issues which is reviewed in detail for its consistency with the provisions of WTO agreements. These commitments are noted in the working party report. Numbers of commitments made by the countries are different from each other as shown in the Table 2.

Table 2. Number of Commitments in final WPR

Country	# Commitments in WPR
Mongolia	17
China	147
Moldova	28
Russia	163
Georgia	29
Kyrgyz Republic	29

Source: WTO website

Issues raised in each accession WPR vary somewhat depending on the country. The most commonly WTO membership requires that the country’s policies and institutions to be brought in line with the provisions of the main international agreements administrated by the organization regarding trade in goods (General Agreement on Tariffs and Trade, GATT), trade in service (General Agreement for Trade in Services, GATS) and trade related aspects of intellectual property rights (TRIPS) and other related issues.

For example the Government of Mongolia undertook series of measures aimed at the implementation of her commitments of WTO. Decree No.6 (1997) by Prime Minister of Mongolia was an important act because it listed the laws and

regulations that had to be modified and amended in order to bring them in conformity with WTO law.⁵ Through Decree No.6, the government sought to introduce comprehensive changes into the trading regime of Mongolia, including, inter alia, the development of double column custom tariff system, review of the customs valuation rules, reform of the internal taxation system, simplification of exportation and importation procedures, elimination of bans on certain products and modification of the intellectual property protection regime.⁶

3.1 Trade in Goods

There are no specific rules as to the maximum level at which a country has to bind its tariffs, or how many services it will liberalize; or whether to establish anti dumping legislation or not; or how fast it will liberalize its agricultural trade. Countries thus have a strategic choice to make during the negotiations phase: How liberal their trade regime will be, consistent with the overall WTO disciplines.⁷

Table 3. Tariff range as of 2011

Country	Bound tariff	Applied tariff
Mongolia	17.5	5
China	10.0	9.6
Russia	n.a	9.4
Armenia	8.5	n.a
Moldova	7.0	4.6
Georgia	7.4	1.5
Kyrgyz Republic	7.5	4.6

Source: WTO, tariff profiles

⁵ Prime Minister of Mongolia, *Decree No.6 (1997)*, Ministry of Foreign Affairs Archives.

⁶ Dandin Tsogtbaatar, “Managing Challenges of WTO participation 45 Cases Studies, case study of Mongolia”, 2005.

⁷ Constantine Michalopoulos, “WTO accession for Countries in Transition”, 2001.

According to Table 3, Mongolian tariff range is much higher than her neighbor countries and other CIS countries. Mongolia made some special commitments on agricultural negotiation upon accession to the WTO.

In order to protect the domestic infant industries, a seasonal import duty rate of 15% is imposed on flour and vegetables (potatoes, onions, cabbage, radish, turnips and yellow carrots). The duty is imposed during the period 1 August to 1 April, after harvesting period of the products concerned. Outside this period, the applied duty rate is 5%.⁸ The licensing procedures of export and import were also subject to reform.

Mongolia undertook to reduce the number of products subject to import and export licensing. According to the Customs Law, restriction or prohibition of export and import requires the authorization of Parliament. Currently, prohibited goods of export and import include certain drugs and narcotics (raw materials and equipment that can produce them) and certain dangerous and poisonous chemicals and all types of pure spirits.⁹

Mongolia accepted to convert the existing ban on the export of raw cashmere into an export tax bound at the ad valorem equivalent rate of 30% and which agreed to be eliminated after ten years in 2007. Government requested the extension of this phase out period by another five years due to the importance of cashmere to the economy. The Council for Trade in Goods, on 9 July 2007, approved a request by Mongolia for a five-year till end of 2012 waiver on its accession commitment on cashmere.¹⁰ The decision to extend the export tax on raw cashmere has been subject of heated debate in Mongolia.

⁸ WTO, "Trade Policy Review Mongolia" WT/TPR/S/145, 2005.

⁹ See the appendix 1 and appendix 2

¹⁰ http://wto.org/english/news_e/news07_e/good_counc_9july07_e.

3.2 Trade in Service

Mongolia made various GATS commitments during its accession to the WTO. It liberalized 6 service sectors and 68 subsectors. Its commitments included no limitations on market access or national treatment for the cross-border supply (mode 1), consumption abroad (mode 2), and commercial presence (mode 3) in postal, courier and insurance services, as well as in many value-added telecommunication subsectors, most insurance services, and many banking and other financial services. Similar commitments were made in several business services and almost all tourism-related services (hotel and restaurants, travel agencies and tour operators, and tourist guide services). Distribution services (excluding commission agents' services) were scheduled, including commitments to have no market access or national treatment limitations on supply modes 1, 2 and 3 for wholesale trade and on mode 2 for retail trade. Installation and assembly construction and related engineering services were also scheduled, and included commitments for no limitations on modes 2 and 3. No mode 4 (presence of natural persons) commitments were made for any service.¹¹ Mongolia made no MFN exemptions.

3.3 Trade Related Aspects of Intellectual Property Rights (TRIPS)

Mongolia committed to fully apply the provisions of the WTO Agreement on TRIPS by the date of its accession to the WTO in 1997. Mongolia did not obtain transitional periods to phase in its obligations. Parliament and the Government undertook certain activities to bringing national legislation on intellectual property rights into conformity with the TRIPS Agreement and other international conventions and agreements on intellectual property. In this context, the Law on

¹¹ WTO, "Trade Policy Review Mongolia" WT/TPR/S/145, 2005. pp55

Patent and Copyright of 1993 was amended in 1999 with a view to assuring compatibility with the TRIPS Agreement. Parliament has adopted the Law on Joining the World Intellectual Property Organization (WIPO) Copyright Treaty, and the WIPO Performers and Phonograms Treaty in 2002.¹² The Intellectual Property Office is also in charge of settling disputes and grievances. If the disputing parties disagree with the decision of the Intellectual Property Office, they can refer the matter to the court.

3.4 Other Issues - Trade Facilitation

The provisions in Articles V (Freedom of Transit), Articles VIII (Fees and Formalities connected with Importation and Exportation) and Articles X (Publication and Administration of Trade Regulations) of the GATT 1994 have very specific significance in trade expansion. This is an issue that has a particular importance in for trade especially for land-locked developing small country like Mongolia. According to Table 4, trade is more costly for Mongolia compare to her neighbor countries.

Table 4. Trading Across Border Data

Country	Customs Valuation (numbers)		Transportation (Days)		Cost of per container (US\$)	
	Documents to export	Documents to import	Time to export	Time to import	Export	Import
Mongolia	8	8	46	47	2131	2274
China	7	5	21	24	500	545
Russia	8	13	36	36	1850	1850

Source: Doing business 2011, WB

¹² Ibid. , pp 39

Reducing transit costs, simplifying customs procedures, improving the business environments are of main issues to be addressed in the trade facilitation.

3.4.1 Customs Procedure

The rules incorporated in the Customs Tariff Law of Mongolia (1996) were developed with base of the WTO Customs Valuation Agreement. The law defines the organizational structure and legal basis of the Customs, under the Customs General Administration of Mongolia, as well as the procedures of customs control, clearance and enforcement of the customs legislation relating to the customs tariffs, the adaptation/modification of duty rates, customs valuation, and collection of customs duties.¹³

With the aim of fasten the custom services, easing the administrative burden on enterprises and saving time for importers, custom broker service, “one-stop” services, and Automated System for Customs Information Management (GAMAS since 2003) were introduced to custom procedures.

The introduction of the “Harmonized System” (HS) was market a serious step forward in the facilitation of trade promotion. The translation of the HS was published in 1998. Currently commodity groups and product nomenclature are classified according to the “Harmonized Commodity Description and Coding System” developed by the World Customs Organization.

With the result of above mentioned actions, customs valuation procedure in Mongolia is much eased and days spending for export and import documentation are almost same as the neighbor countries as shown in the Table 4.

¹³ The Customs Tariff Law was adopted by Parliament on May 20, 1996 and entered into force on July 1, 1996

3.4.2 Transportation

High transport and transit costs are the main obstacle for most Landlocked developing countries. According to the Table 4, Mongolia pays 2131 US\$ for per container to export which is 4.2 times higher than China and 1.5 times higher than Russia. Furthermore, for the transportation Mongolian exports take 46 days to reach the final destination whereas China spends 21 days, Russia spends 36 days. Mongolian trade is almost entirely dependent on a single rail link running through the country from the northern border with Russia to the southern border to China. The rail carries 95% of national freight.

In 2005, the Government issued Decree 66 to establish a National Committee for Coordinating Transit Transportation Issues, which became the National Committee for Simplification of Procedures for Transport and Trade in December 2006. This committee aims to increase the volume of foreign and domestic trade, as well as developing international transportation, reducing obstacles to trade while protecting national security.

Due to its importance of transportation in the trade, Mongolia established several agreements with her neighboring countries such as Transit agreement with the Russia 1991, Transit agreement with China 1991, Road transport agreement with China 1991, Road transport agreement with Russia 1996.

Also Mongolia initiated negotiations for a Tripartite Transportation Agreement with Russia and China. Mongolia has been proactive in these negotiations because it is likely to be the biggest relative beneficiary. The three countries also need to harmonize their systems of processing customs declarations so that one of the country's customs certification would be enough to have the transit freight cross the border until reaching the targeted destination, e.g. sea ports. Although Mongolia had been working actively with the other two countries on customs

documentation, systems, practices, and tariffs, progress has been slow. Varying concerns and issues on the negotiations were beyond the control of Mongolia.¹⁴

Mongolia has signed the Intergovernmental Agreements on Trans-Asian Railway Networks, which has brought together 18 of the 41 countries that participated at an international conference of Transportation and Railway Ministers in 2006 at the initiative of United Nations economic and Social Commission for Asia and the Pacific (UNESCAP)¹⁵. Both the rail and road plans are expected to bring down trade costs and partially relieve Mongolian trade constraint associated with landlockedness.

In 2007, Mongolia hosted a Global Event of Landlocked Developing and Transit Countries on Trade and Trade Facilitation as a follow-up to the Almaty Conference.¹⁶ The Global Event adopted the Ulaanbaatar Declaration, which stated that landlocked developing countries should unite their efforts towards reflecting their special needs in trade facilitation including market access, special and differential treatment, Aid for Trade (AFT), and requesting technical support from international organizations.

3.5 Free Trade and Regional Agreements

The Government is making efforts to resolving trade issues that are hindered within multilateral trading system through bilateral mechanisms. The initiatives are being made to launch the interest of establishing free trade agreements with the major trading partners. Negotiations with Japan to establish “Free Trade Agreement” has started in March 2012 and both parties are actively participating the ongoing negotiation process.

¹⁴ADB, “MONGOLIA: Trade Facilitation and Logistics Development Strategy Report”, 2009

¹⁵ http://www.unescap.org/ttdw/common/TIS/TAR/text/tar_agreement_e.pdf

¹⁶ The Almaty Ministerial Conference (2003) was the first global venue to specifically address the problems of landlocked developing countries (LLDCs).

Besides supporting and promoting the principles of the multilateral trading system, the Government of Mongolia attributes due importance to the regional cooperation in the Asia and the Pacific. At present, Mongolia is the sole country that does not belong to any of the regional agreements. However, the Government attentively follows the activities of the ASEAN, the APEC and the PECC and maintains the observer status in some of them.

Chapter IV. Impact of WTO Membership on Mongolia

There has been significant changes, ups and down in Mongolian economy and trade sector after accession to the WTO.

In the lead up to its accession and in the years following, Mongolia liberalized its trade regime through a combination of trade policy reforms such as privatization, reducing tariffs and export taxes, removing restrictive the import licensing arrangements, eliminating a number of WTO incompatible non-tariff barriers, and taking steps for providing transparent customs valuation procedures through acceding to the WTO's Agreement on Customs Valuation.¹⁷

4.1 Overall Impact on Economy

According to the NSO data, average growth rate of GDP was 6.2% during the 1980s . The first years of Mongolia's accession process were the hardest period the country had experienced during the past 50-60 years. The sharp transition in 1990 to a new political and economic system, coupled with the end of Soviet aid, led to a serious economic crisis, whereby the country's GDP, exports and trade declined catastrophically, leaving half of the population below the poverty line.

In the initial crisis years of 1990-1993, GDP growth rate was continuously declined for 3 years in a row and minus 3.2% in 1990, minus 8.7% in 1991, minus 9.3% in 1992 as shown in the Table 5.

¹⁷ World Bank, "Mongolia Promoting Investment and Job Creation", Report No.41036-MN, 2007

Table 5. Economic growth: Pre-WTO

Indicator	1990	1991	1992	1993	1994	1995	1996	1997
GDP growth rate (%)	-3.2	-8.7	-9.3	-3.2	2.1	6.4	2.2	3.9
GDP per capita (US\$)	1168	1069	585	338	405	630	579	503

Source: World Bank data

“Pre-WTO” macroeconomic condition were miserable, basically a shortage of foreign exchange, reduced oil deliveries, damaged transport and energy production. Only from 1994 Mongolian economy start to rebound. The average growth rate was 3.6% between 1994-1997. Industries producing for export, especially the copper, gold, and cashmere industries benefited from high export prices in the mid 1990s.

The Economic growth of “Post WTO” period is shown in the Table 6.

Table 6. Economic growth: Post-WTO

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP growth rate (%)	9.8	3.1	1.1	3.0	4.7	7.0	10.6	7.3	8.6	10.2	8.9	-1.3	6.4	17.3
GDP per capita (USD)	435	443	471	521	568	642	792	991	1009	1614	2108	1690	2250	3056

Source: World Bank data

“Post WTO” macroeconomic condition was on the recovery path. But the recovery was mixed, public industries were still in the need of privatization, and especially those based on agricultural inputs were still struggling. By 1998 the private sector contributed around two-thirds of total GDP of the country. Falling world prices of Mongolian export, the slow progress of privatization process and huge losses of

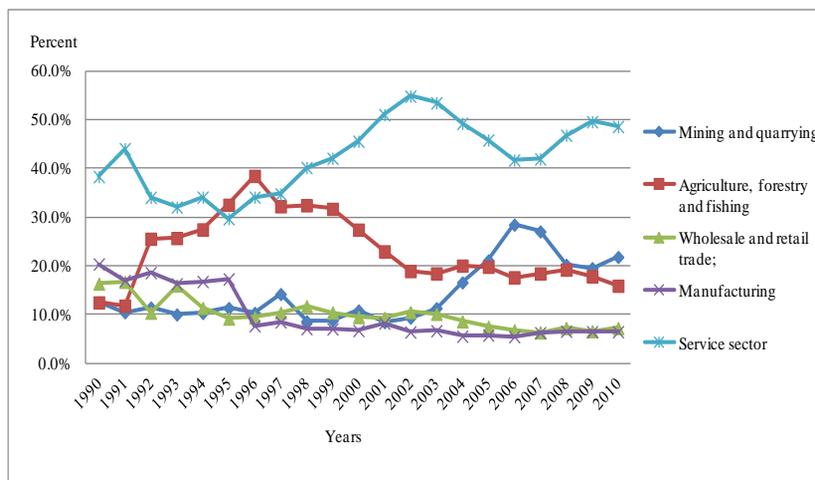
livestock due to harsh weather in late 1999 and early in 2000s were causes for drop of GDP growth to 1.1% in 2000.

Mongolia enjoyed relative macroeconomic stability since 2004. GDP growth rate was always in positive number except in 2009 as shown in the Table 6.

Mining sector, mainly of gold, copper, coal and fluorspar, are the economy’s backbone. The GDP growth rate was minus 1.3% in 2009 then sharply rose to 17.3% in 2011. It implies that Mongolian economy is very vulnerable to the price of mineral products.

There have been significant changes in sectoral contribution to the economy after accession to the WTO.

Figure 1. Sectoral Contribution to the GDP



Source: NSO data

As shown in the Figure 1, in “Pre-WTO” period main sectors contributed to the GDP were service sector, manufacturing and agriculture including forestry and fishing. The main subsectors of service sector are transport, storage, and communication. In 1996, agriculture including forestry and fishing was the largest sector contributed the 38.5% of total GDP. This trend has changed after accession to the WTO. The service sector displaced agriculture including forestry and fishing to become the largest sector which contributed the 34.1.0% of total GDP in 1996,

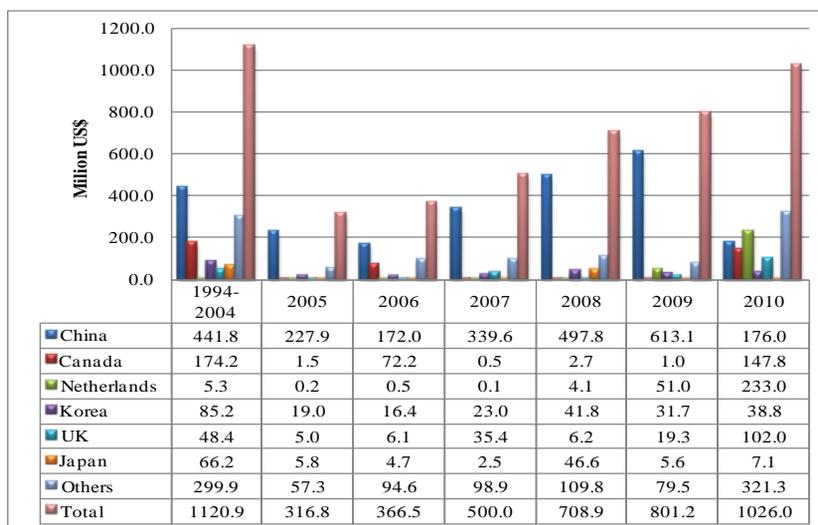
53.5% in 2003, and 48.6% in 2010. Contribution of agriculture including forestry and fishing to the GDP has decreased from 38.5% in 1996 to 15.9% in 2010. Increasing trend of the service sector contribution to the GDP shows trade liberalization has helped to promote the service sector in Mongolia. Manufacturing share in GDP had declined sharply from 20.4% in 1990, 8.5% in 1997, and 5.4% in 2006. Many industries such as machinery, chemicals, metal, transport and electrical products which were dependent on state intervention had been facing difficulty. The manufacturing sector has undergone considerable restructuring and reforms. Recent years it has showed the slow increase 6.4% in 2009 and 6.5% in 2010. Mining and quarrying contributed 8.8% of total GDP in 1999, 16.6% in 2004 and 21.8% in 2010. These compositional changes of GDP reflect substantial structural adjustment in the economy, largely in response to the comprehensive reforms, programs and changes with the context of accession to the WTO.

Consistent with its desire to attract FDI, Mongolia has established a foreign investor-favoring regime of policies, laws and attitudes. The Foreign Investment Law of Mongolia (FILM) is the legal foundation for FDI. It was amended in 2002 to allow franchising, leasing and local representative offices. FILM sets up a Foreign Investment and Foreign Trade Agency (FIFTA)¹⁸ in 1993 charged with promoting and registering investments, and facilitating government and foreign investor relations. Moreover, strategic goals are to maintain steady growth of FDI, to promote export, to improve investment and business environment through various measures including upgrading quality of investment registration service and information provision, and to influence in creating more favorable environment for small and medium scale industry development.

¹⁸ FIFTA; www.investmongolia.com

As shown in the Figure 2, in 2010 annual FDI inflows to Mongolia were estimated about 1026.0 million US\$ which nearly increased 3 times compare to 316.8 million US\$ in year of 2005.

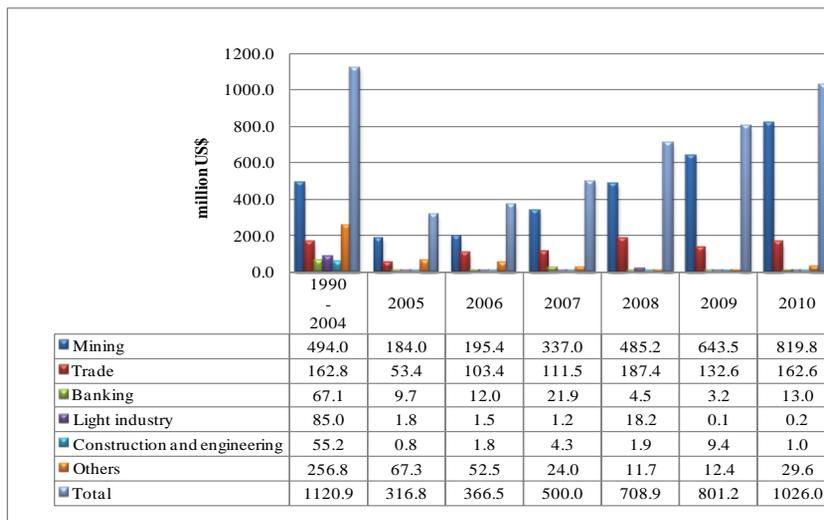
Figure 2. Foreign Direct Investment in Mongolia by Countries



Source: FIFTA database

FDI coming from China is the highest among other countries based on the FIFTA data. FDI registered from China was 339.6 million US\$ in 2007, 613.1 million US\$ in 2009 and dropped to 176 million US\$ in 2010 due to mineral products price change in the world market. Since FIFTA establishment, 1994 to 2010, the FDI from China accounted over 51% of total FDI. There is a trend that FDI coming from other countries are increasing. FDI from Canada was 1 million US\$ in 2009 and increased to 147.8 million in 2010. FDI from Netherlands was 51.0 million US\$ in 2009 and increased to 233 million US\$ in 2010. FDI from Korea, Japan and other countries all has increasing trend in recent years. This implies to after WTO accession, after policy reforms the world started to interest in Mongolia.

Figure 3. Foreign Direct Investment in Mongolia by Sectors



Source: FIFTA database

FIFTA reports that in 2010 most new FDI was registered in mining including exploration about 819.8 million US\$, trade about 162.6 million US\$ and banking 13.0 million US\$ respectively as shown in the Figure 3. After WTO, especially from 2000, FDI in mining sector is noticeably increasing. Other sectors such as trade, banking are having increased FDI in recent year.

To protect and promote FDI, the Government has concluded Agreements on Mutual Protection and Promotion of Investments with about 40 countries, and Agreements on avoidance of double taxation with more 34 foreign and partner countries. Also Mongolia is a signatory of the Multilateral Investment Guarantee Agency.¹⁹ These agreements and commitments have eased the country's trade and other types of relations in the areas of economics, cultural and political relations and cooperation.

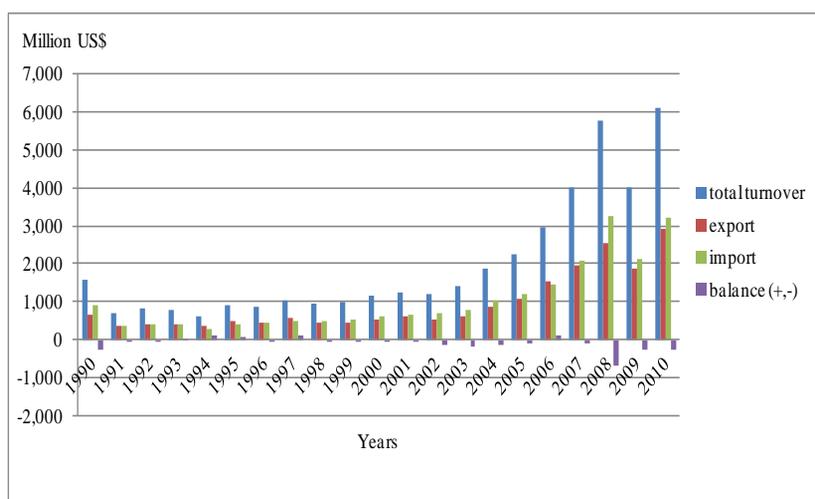
¹⁹ USAID, "Foreign Direct Investment in Mongolia: An Interactive study" 2007.

4.2 Overall Impact on Trade

Physically, Mongolia is a landlocked country, having just two large neighboring countries on its borders. These two large neighboring countries are the only exits to the rest of the world. Mongolian trade policy objectives are to support economic growth through an active trade policy, promote the industrial, agricultural, and services sectors to increase exports.

Mongolian industrialization process which began in 1962 was greatly abetted by its membership of COMECON. It transformed from an agricultural country to one with sizeable industrial manufacturing and mining sector country. Mongolian thirty year long participation in COMECON ensured Mongolia comfortable trade opportunities such as guaranteed access to the markets of the member economies, “incentive prices” for imports, and trade deficit financing by the Soviet Union.²⁰ After COMECON collapse in 1991, Mongolian industry was hit hard by a shortage of raw materials from Eastern Europe, including oil and energy from USSR. Trade balance from 1990 to 2010 is shown in the Figure 4.

Figure 4. Trade Balance



Source: NSO data

²⁰ Damdin Tsogtbaatar, “Managing Challenges of WTO participation 45 Cases Studies, case study of Mongolia” 2005

During 1990-1994, total trade turnover decreased 2.5 times from 1584.8 million US\$ to 614.5 million US\$.

From 1993-1995, trade balance was in positive number but it's due to the sharp drop of import and export volume. Since 1995 total trade turnover has been increasing. According to the Figure 4, If in 1997, the total trade turnover of the country accounted for 1036.8 million US\$, in 2007, after ten years of WTO accession, it reached 4009.3 million US\$ which shows increase of 4.8 times. Reforms, regulations, and actions related with accession to the WTO have helped the increase of trade.

Although the total trade turnover has been increasing, trade remains in deficit for the whole period except for 1995, 1997 and 2006. The biggest trade deficit was 710 million US\$ in 2008. The reasons lying behind the increase of trade deficit over years include the trade dependency in few export commodities, high percentage of raw materials in exporting products, heavy dependency of these raw materials on world market prices, the ever increasing needs for imports and more costly foreign trade due to high transit transportation costs.

4.2.1 Export and Import Compositions

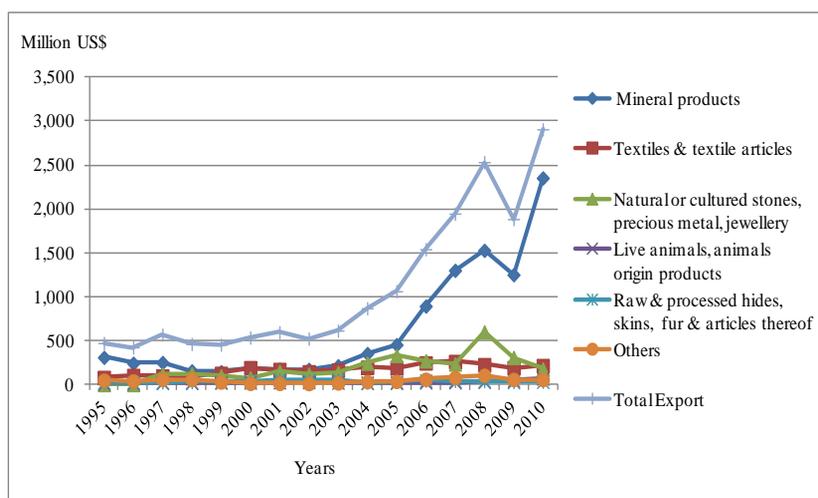
Due to date availability, export and import composition graphs are drawn only for period of 1995 to 2010. That makes it hard to deeper analysis on period of "PRE-WTO" export and import of Mongolia.

4.2.1.1 Export Composition

Mongolian export are composed of few items, namely minerals such as copper, molybdenum and fluorspar concentrates, and gold, textiles and animal originated raw materials such as wool, cashmere, hides and skins, meat and intestines.

Export composition by commodities is shown in the Figure 5 .

Figure 5. Export Composition by Commodities



Source: NSO data

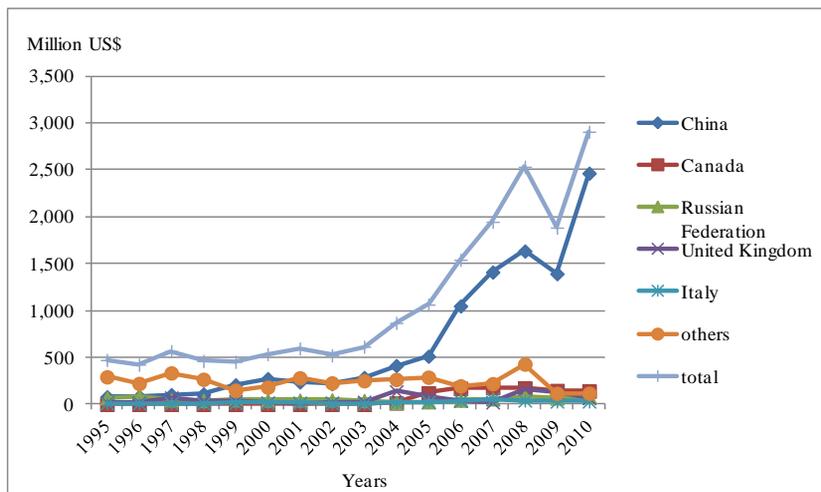
Since 1997, total exports have been increasing except minor drops in 1998, 1999, 2002 and 2009. In comparison with 1997, the total exports were increased by 5.1 times from 568.5 million US\$ to 2909.5 million US\$ in 2010.

According to the Figure 5, exports of mineral products are sharply increased from 251.4 million US\$ in 1997 to 2354.5 million US\$ in 2010 which shown 9.3 times increase. Contrary, the exports of other commodities such as textiles and textiles articles, natural or cultured stones, and live animals, animal origin products all have slightly increased since 1997.

Even though total volume of exports has been increasing after accessions to the WTO, exports volumes of main commodities are barely increasing expect mineral products. Mineral processing is single largest industry accounting for 81% of total exports of 2010. Therefore, it implies that Mongolian export growth has driven by only one sector and that makes the export structure more vulnerable.

The country's main export destinations are the China, Canada, United Kingdom, Russian Federation, and Italy.

Figure 6. Export Composition by Countries



Source: NSO data

Early years of WTO accession, there were mixtures of countries Mongolia exports. Since 2000, China has become the dominant export market and export to China has increased by 23.8 times from 103.3 million US\$ in 1997 to 2466.3 million US\$ in 2010 as shown in the Figure 6. The majority of Mongolian mineral products, washed and raw cashmere, raw and processed hide's skin goes to China. Export to China accounted for 2466.3 million US\$ which is nearly 84.7% of total exports of 2010.

Canada has become second largest exporting market from mid of 2000. Russia is the main importer of fluorspar concentrate and Mongolian meat products. Mongolia also exports cashmere products to Italy and some other European countries.

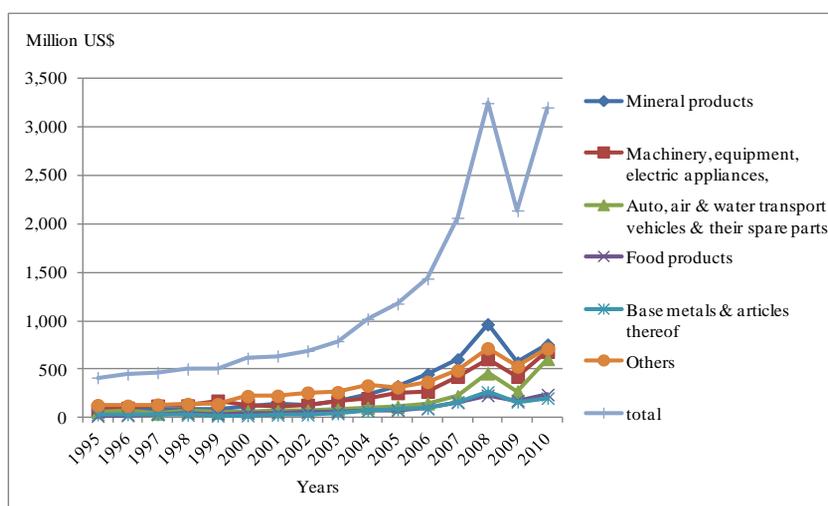
From the Figure 6, it can be seen that except for China, exports to other countries are declining year by year. Not only export commodities but also export destinations of the countries have been shrinking by years. Lack of competitiveness, collapse of manufacturing sector, dependence on one sector (mining), landlocked situation, and high transportation costs are major reasons for export shrinking.

4.2.1.2 Import Composition

Mongolian imports are more diverse and less centralized compare to her exports. The imports are expected to cover all consumption and production needs. Main importing commodities are found to be mineral products (petroleum, gas), machinery equipments, manufactured goods and food products.

Import composition by commodities and countries are shown in the Figure 7 and Figure 8.

Figure 7. Import Composition by Commodities



Source: NSO data

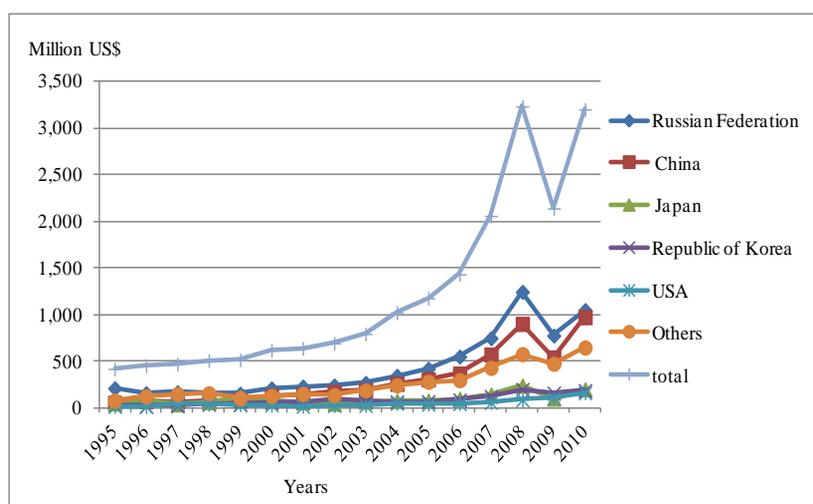
Since 1995, total imports have been continuously increasing except some drop in 2009. Total imports have reached 3200.1 million US\$ in 2010 which increased by 6.8 times compare to 468.3 million US\$ import in 1997. The increased price of petroleum products, growth of consumption, and importation of heavy equipments for mining sectors are the main causes of imports increase.

Importations of main commodities are having similar trend of increase but the food production has opposite trend in recent years. Import of wheat declined by 60 thousand tons, potatoes by 2.7 thousand tons, tomatoes by 1.5 thousand tons, and

cucumber by 277 tons, showing that import substitution policy was effective.²¹ In the future, more products that are feasible to be produced locally need to be made locally.

The main importing countries are found to be Russian Federation, China, Japan, South Korea and USA. Russia supplies almost all of the Mongolian petroleum product needs, as well as electricity and processed some food products. Primarily manufactured goods and consumer products are mainly imported from China, Korea and Japan. Imports from other countries are also showing the increasing trend since 2000. But due to transportation cost, that makes imports more expensive for Mongolia.

Figure 8. Import Composition by Countries



Source: NSO data

Increasing FDI especially in mining sector will lead to more imports of heavy equipments and machinery of its spare parts. Moreover the consumption of importing gasoline, fuel will continue to increase in parallel with the ever growing number of imported vehicles and equipments. Therefore it implies that Mongolian imports are expected to increase for the future, as result of rising per capita GDP,

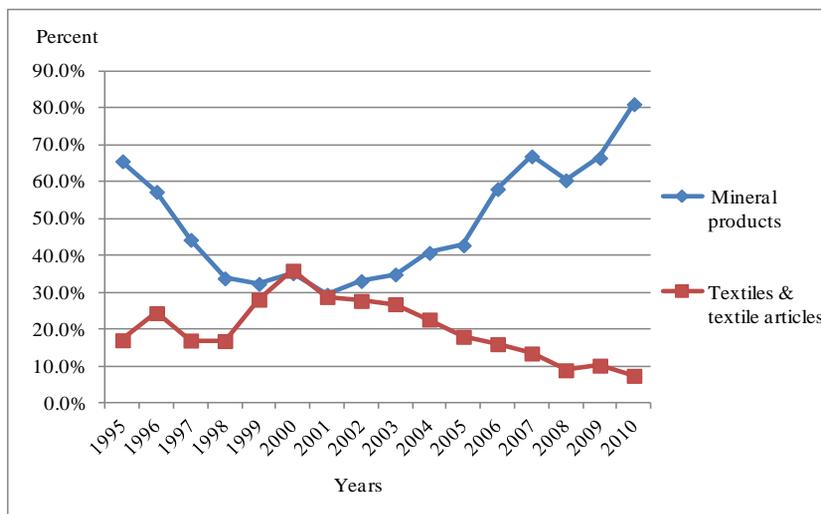
²¹ National Development and Innovation Committee, “Economic outlook of Mongolia”, 2011

increasing FDI, growing demand for consumer goods and high world prices for essential goods like gasoline and fuel.

4.2.2 Export trend: Winning and Losing Sectors

To evaluate the WTO impact on the country’s trade performance, it is important to make an analysis on the export trend specifically share of export commodities contributed to the total exports. There are two extreme sectors in the country’s export composition by commodities after accession to the WTO. One is mining and its products share of the total exports is sharply increasing and other sector is textiles & textiles articles and its share of total export is noticeably decreasing since 2000. These two sectors are named as the “Winning and Losing Sectors” after accession to the WTO and shown in the Figure 9.

Figure 9. Export trend: Winning and Losing Sectors



Source: NSO data

4.2.2.1. Winning sector: Mining

Along with accession to the WTO, share of mineral products export has been stabilized and starting from 2002, it has been sharply increasing. In 1997, export of mineral production was accounted for 44.3% of the total exports but in 2010, it

became the single largest industry accounted for 81.0% of the total export as shown in the figure 9. The mining sector employs over 34,000 people which cover the 33% of the total industrial sector workforce.²² FDI registered in mining sector is continuously increasing and it accounts for 80% of total FDI in 2010.²³ Four percent of total geological expenses disbursed worldwide were spent in exploration activities in Mongolia.²⁴ These increases have largely been facilitated by the 1997 “Minerals Law of Mongolia” and by increases in world prices for mineral products. The Law on Foreign Investment was endorsed by the State Great Khural in 1993 and amended in 2001 and 2002. This law allows foreign investment in all industries and services, unless otherwise prohibited, and provides legal guarantees, rights and obligations of foreign investors.

The investment agreement stabilizes the tax rate and grants license holders to transact in foreign currency commensurate with their export earnings. As a member of the WTO, Mongolia is bound by the Agreement on Trade Related Investment Measures.

Due to trade liberalization, openness, attracting FDIs, granting favorable conditions by law, the mining sector is booming in Mongolia.

4.2.2.2. Losing sector: Textile and textile articles

On the other hand there is severe damaged sector in Mongolian trade due to trade liberalization.

Between 1960- 1990, Mongolia built up a large specialized textile and cloth (T&C) industry, which by 1990, was the largest industrial employer with more than 20,000 workers.²⁵ Like other light manufacturing industries, however, the T&C

²² NSO, Statistical book, 2010

²³ Figure 3, pp 24

²⁴ UNDP, Trade Policy and Human Development in Mongolia”, 2007.

²⁵ Ibid., pp. 94

industry virtually collapsed during the post-1990 transition. The respite came when the United States extended full WTO treatment to Mongolia and export oriented foreign investment companies began to pour into the Mongolian T&C sector, seeking to avoid quotas that had been imposed by the United States and other developed countries against competitive suppliers, particularly China, under the GATT Multi-fiber Arrangement (MFA). As a result, the share of textile & textile articles export were increasing 16% in 1998, 28% in 1999, and 35.9% in 2000. This boom was made possible by two main factors. Mongolian exports were unrestrained in the US market, while those of its major competitors were not. The country also possessed a pool of trained workers from the T&C industry prior to 1990 that could be rapidly deployed to service orders for large USA retail chains like Wal-Mart, QVC shopping, J.C. Penney and Target.

The industry emerged as the third largest recipient of FDI after mining and services.²⁶

Right after Chinese accession to the WTO in 2001, situation of Mongolian textile industry has noticeably changed. The purchasing companies shifted their orders from Mongolia to China, where production, transportation costs and other competitive conditions were more favorable.

According to the Figure 9, starting from 2000, share of textile and textile articles have dropped slowly 28.8% in 2000, 27.7% in 2001, and 26.8% in 2002.

From 2005, WTO Agreement on Textiles and Clothing (ATC) was fully implemented by abolishing all the remaining quotas. China benefitted from this liberalization as it member of WTO. The elimination of quotas again impacted on Mongolian textile industry. The share of textile and textile articles exports are sharply dropped 18% in 2005, 13.5% in 2007, and 7.4% in 2010. FDI in light industry which includes T&C sector barely reaches 0.2%.

²⁶ Figure 3, pp24

This is real example that shows Mongolian government's ill preparation for Chinese accession to the WTO and quotas elimination of MFA GATT.

4.2.3 Revealed Comparative Advantages Analysis of Mongolian Export

The revealed comparative advantage (RCA) is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It is based on the Ricardian comparative advantage concept; most commonly refers to an index introduced by Béla Balassa in 1965.²⁷ RCA is measured relative export performance by country and industry/commodity, defined as a country's share of world exports of a commodity divided by its share of total world exports.

The index for country I commodity j is calculated as follows:

$$RCA_{ij} = (X_{ij}/X_{wj}) / (X_i/X_w) \text{ ----Where}$$

X_{ij} = I country's export of commodity j

X_{wj} = world exports of commodity j

X_i = total exports of country I

X_w = total world exports

The index of RCA has a relatively simple interpretation. The higher RCA indicates the higher advantage to the country in exporting the commodity and the country can take export promotion strategies for the product. The factors that contribute to movements in RCA are economic structural change, improved world demand and trade specialization.

Table 7 is shown the Mongolian exporting commodities RCA calculated by using the export data downloaded from UNCOMTRADE at SITC 3 digit.

²⁷ www.wikipedia.com

Table. 7. RCA Analysis of Mongolian Commodities

Commodities	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Wool, Other Animal Hair	139	108	139	270	245	217	121	122	117	172	233	227
Copper Ores, Concentrates	417	424	384	368	324	310	292	239	225	168	153	160
Ore, Concentrate .Base Metals	31	30	34	27	16	14	27	32	20	31	48	64
Other Crude Minerals	38	38	40	37	38	39	35	31	25	24	24	27
Gold, Nonmontry Excl Ores	0	0	3	2	4	0	46	51	62	86	35	24
Coal, Not Agglomerated	0	0	0	0	0	0	0	3	5	5	7	16
Leather	0	0	0	0	3	32	28	32	10	12	13	11
Crude Animal Materials. Nes	21	22	27	25	24	25	23	17	16	14	8	9
Sugar Confectionery	0	0	0	0	0	0	0	0	0	0	0	5
Hides, Skins(Ex. Furs), Raw	47	48	79	94	92	40	27	15	8	7	7	5
Iron Ore, Concentrates	0	0	0	0	0	0	0	0	0	2	3	3
Briquettes, Lignite, Peat	0	0	0	0	0	0	1	0	0	0	1	2
Plastic Waste, Scrap Etc	0	0	0	0	14	0	1	2	4	3	3	2
Bovine Meat	4	8	10	14	14	13	13	7	3	1	1	2
Other Meat, Meat Offal	1	0	1	1	0	2	3	2	1	1	2	2
Copper	0	2	2	1	1	1	1	1	1	1	1	1
Floor Coverings, Etc.	0	1	0	2	2	1	1	1	1	1	1	1
Live Animals	0	1	0	0	0	1	2	2	2	1	1	1
Prefabricated Buildings	0	1	1	3	1	1	1	1	1	1	1	1

Source: UNCOMTRADE data, special item SITC 3 digit

Wool, other animal hair commodity has the highest RCA among the exportable commodities 233 in 2006 and 227 in 2007 even though Mongolia imposed export tax on the raw cashmere. Raw cashmere, raw and processed hides, skin and fur are the main sources of the herder's income.

RCA of copper ores concentrates are continuously decreasing 427 in 1997, 239 in 2003 and 160 in 2007 due to world price drop of copper ores and related commodities.

Due to foot and mouth disease in 2003, meat export from Mongolia to Russia and China were prohibited, which affected the decline of bovine meat commodity's RCA which were 14 in 2000 and barely reaches at 2 in 2007. Majority of Mongolian exporting commodities are raw materials and low value added products.

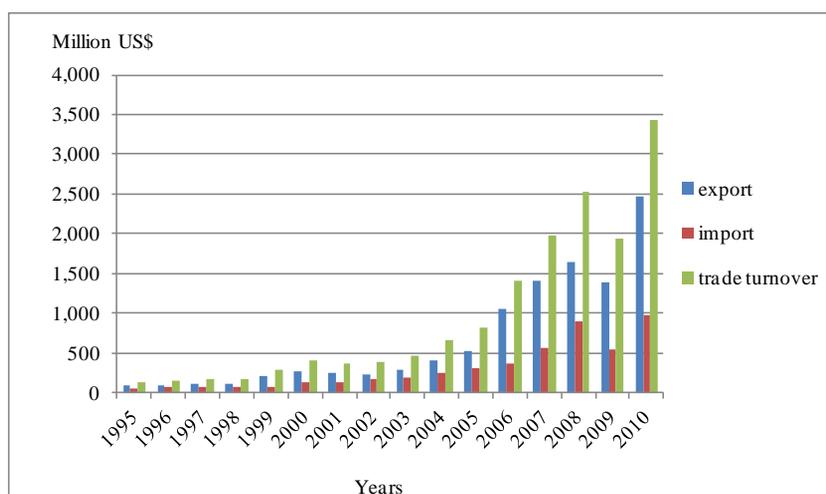
Based on the showing RCAs in the Table 7, it is very hard to name the specific

commodity which Mongolia has to specialize for the future. Thus, it can be interpreted as Mongolian exporting commodities are very few; export volumes are very small compare to world market. Moreover, exporting commodities are not competitive and not diversifying after 15 years of WTO membership.

4.3. Impact of Chinese WTO membership on Mongolia

Mongolian main trading partners are one being Russia and China. It has been more than a decade since China became a member of the WTO and Russia finally joined the organization in 2012. Therefore it is important to study on the impact of these neighbour countries WTO membership on Mongolia especially China. Mongolian trade flow with China is shown in the figure 10.

Figure 10. Trade with China



Source: NSO data

China has become an increasingly important trade partner of Mongolia since her accession to the WTO in 2001. Mongolian trade with China has increased by 9.1 times from 374.4 million US\$ in 2001 to 3437.2 million US\$ in 2010. Moreover China has purchased 84.8% of Mongolian total exports and supplied 30.3% of its

import in 2010.²⁸ According to the figure 10, it can be seen that Mongolia recorded a trade surplus in its trade with China since 1995.

Dr. Martin Bans did the study²⁹ that shows Chinese WTO membership impact on Mongolia using computable general equilibrium model (CGE). His study concludes that the gain of Chinese WTO-membership to Mongolia is an increase in total welfare by 7.4% which is equivalent to more than 85 million US dollar. One can expect that these gains are recurring, in the sense that they will occur in each following year, too.

UNIDO pointed out that the main challenge for Mongolia due to China's accession to WTO is the non-discriminatory treatment of Chinese products in third markets, as noted in the MFA discussion above, and the need to compete against Chinese products in these markets. Against this challenge, there are also opportunities for Mongolian manufacturers. All enterprises will have the right to trade in China. China will have to improve access to its own market and provide equal treatment to foreign firms. Thus, it will no longer be able to provide export and domestic subsidies, impose import quotas, dual pricing or tax exemptions, and it will have to provide non-discriminatory treatment to all WTO members, including Mongolia.³⁰ Here the WTO membership of China as well as Russia will reduce the risk of investing in Mongolia and the improved access to Mongolian markets may also encourage foreign investors to invest in Mongolia. Therefore, in the long run gains from China's WTO membership are likely to be larger than presented in this study.

²⁸ Own calculation based on the Figure 4 and Figure 10 data

²⁹ "Impact of Chinese WTO membership on Mongolia", Short term study in the GTZ Project, project –No. 98.2087.9.001-00

³⁰ United Nations Industrial Development Organization "Mongolia: Industrial and Trade Development Policy Review", Project MON/02/003/A/08/37, 2002

Chapter V. Conclusion and Remaining Challenges

Since accession to the WTO in 1997, Mongolia has substantially liberalized its trade regime. Liberalization has involved the many actions related with regulation, policy reforms, reduction of tariff rates, elimination of a number of export and import licensing requirements..., etc.

5.1. Summary and Findings

WTO membership has positive impact on overall Mongolian economic and trade performance. Total GDP per capita, trade volume, FDI, volume of export and import all increased since WTO accession.

The country has extensive mineral deposits such as copper, coal, gold, molybdenum, fluorspar, uranium, tin and tungsten, accounted for a large part of industrial production and foreign direct investments. In recent years, the Mongolian Government's main objectives are to speed up the development of the mining sector to renew its legal environment, turn strategic and large mining deposit into economic circulation and grant parts of the revenue generated by the mining sector to citizens. But from this research it can be concluded that given the concentration of exports on only a few products, which are subject to significant price fluctuations on the world market, the growth of Mongolian economy is highly vulnerable.

The dominance of raw and low value added products in its export makes the country unable to escape from the prolonged foreign trade deficit over the years.

Despite of mining sector's booming, Mongolian manufacturing sector, especially textile sector, strongly hit by trade liberalization. Government still needs to take serious action for remedy and recovery of the sector. Mongolian participation in trade negotiations and arrangements has been made difficult by its limited human,

technical, and financial resources. UNIDO concluded that Mongolia can undoubtedly become a more diversified economy than it is now, but the pace of diversification will depend on the industrial policies pursued by the government and the responsiveness of the private sector to the inducements to invest in new areas of activity.³¹

Therefore it is essential to study on trade composition to find and seek the possibilities and opportunities for export diversification.

5.2 Remaining Challenges

Mongolia should be careful for developing or focusing on only mining sector because the natural resources are the limited. Some countries have failed after temporarily mining sector booming. There has also been a lot of discussion on the phenomenon of Dutch Disease in economies fuelled by natural resource booms.

Therefore, how to industrialize, how to develop the manufacturing sector, how to protect the infant industries, how to be a competitive in increasingly competitive environment are the main challenges for Mongolia.

Reducing the public deficit is an additional challenge to develop a stable macroeconomic environment and that will encourage domestic investments and foreign direct investments.

Mongolia needs to improve its export performance by diversifying its markets and higher value added products. Thus, the effective policies and actions on the part of both the government and business sectors are needed to be intensified. Mongolian Government should build its capacity to participate strategically, efficiently, effectively involved in bilateral, regional and multilateral trade negotiations in order to maximize the benefits of open and free trade in the context of WTO regime.

³¹ United Nations Industrial Development Organization, “Strategic Directions on Industrial Policy in Mongolia” 2011

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Appendix 1: Goods subject to import or export license

Description	Export/import
I. Breeding animals	Export
01011000 Pure-bred breeding horses	
01019000 Other breeding horses	
01021000 Pure-bred breeding live bovine animals	
01029000 Other breeding live bovine animals	
01031000 Pure-bred breeding live swine	
01041000 Sheep	
01042000 Goats	
01069010 Camels	
Other live animals, raw materials originating therefrom, samples of animals for research purposes, semen of animals, cultures of micro-organisms	
Very rare animals (26 types of animals listed in the Animals Law)	
Rare animals (list to be determined by the Government)	
05079011 Antlers, filled with blood, of deer	
05079021 Horns, of deer	
05079029 Horns, of wild sheep and of wild goats	
05100011 Musk	
05100012 Penis, of deer	
05111000 Bovine semen	
05119910 Animal semen (other than bovine semen)	
05119990 Semen, of other animals other than breeding animals	
26121000 Uranium ores and concentrates	
II. Poisonous chemicals	Export / import
(96 types of chemicals indicated in joint order No. 83/A/160 of 1998 by the Ministers of Environment, Health and Social Welfare)	
III. Human blood and organs for therapeutic and prophylactic purposes that require necessary control	Export/ import
30011000 Glands and other organs, dried, whether or not powdered	
30012000 Extracts of glands or other organs or of their secretion	
30021000 Antisera and other blood fractions and modified immunological products, whether or not obtained by means of biotechnological processes	
30023000 Vaccines for veterinary medicine	
30029000 Other: human blood, cultures of micro-organisms	
IV. Explosives	Export / import
36010000 Propellant powders	
36020000 Prepared explosives, other than propellant powders	
36030000 Safety fuses, detonating fuses, percussion or detonating caps, igniters, electric detonators	
3604 Fireworks, signaling flares, rain rockets, fog signals and other pyrotechnic articles	
V. Guns, equipment and tools for military use and their spare parts	Export/ import

Source: Government Resolution No. 219 of 2002, Government of Mongolia.

Appendix 2: Goods prohibited to Export and Import

Goods code (HS 4digit)	Goods code (HS 6-digit)	Commodity description	Export/import
12.11	1211.90.00	Plants and parts (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy, or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered	Export/ import
13.01	1301.90.00	Lac. Natural viscous gums, resins, gum-resins and greasy-gums (balsams)	Export/import
29.22		Amino- compounds with oxygen-function	Export / import
29.24	2924.10.00	Carboxyamide-function compounds amide-function	Export / import
	2924.29.00	compounds of carbonic acid	
29.26	2926.90.00	Nitrile function compounds	Export/ import
29.33	2933.39.00	Heterocyclic compounds with nitrogen hetero-atom(s) only	Export /import
	2933.40.00		
	2933.90.00		
29.34	2934.90.00	Nucleic acids and thereof salts, heterocyclic compounds:	Export / import
29.39	2939.10.00	Vegetable alkaloids, natural or reproduced by synthesis, and their salts, ethers, esters and other derivatives	Export /import
	2939.90.00	All of kind spirits	Import
22.07		Undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol or higher: ethyl alcohol and other spirits, denatured, of any strength	Import
		Chemicals, the production of which is prohibited by an International Convention on the Prohibition of Production, Storage and Utilization of Chemical Weapons and their Proliferation	Export /import
		Poisonous chemicals, the use of which is prohibited in Mongolia /16 types of chemicals listed in the annex to the Order by the Minister of Environment No. 75 of 1997	Import
		Poisonous chemicals used in the production of weapons, wastes thereof	Export/ import
		Radioactive chemicals, wastes thereof, originating from nuclear weapons	Import
		Parts and compounds of nuclear weapons prepared for nuclear weapon purposes	Import
		Dangerous wastes	Import
		Human blood, blood fractions and organs, not proven to be non-infected with AIDS	Import

Goods code (HS 4digit)	Goods code (HS 6-digit)	Commodity description	Export/import
		Donor blood and organs for medical preventive purposes that are required to be under strict control	Import
30.01	3001.10	Glands and other organs for organotherapeutic uses, dried,	Import
	3001.20	whether or not powdered; extracts of glands or other organs	
	3001.90	or of their secretions for organo- therapeutic uses; heparin and its salts; other human or prophylactic uses, not elsewhere specified or included.	
30.02	3002.10	Human blood; animal blood prepared for therapeutic,	Import
	3002.20	prophylactic or diagnostic uses; antisera and other blood	
	3002.90	fractions and modified immunological products, whether or not obtained by means of biotechnological processes; vaccines, toxins, cultures of microorganisms (excluding yeasts) and similar products.	
		High-yielding animals, their semens	Export /import
01.01		Live horses, asses, mules and hinnies	Export / import
		Horses	Export / import
01.02		Live bovine animals	Export / import
01.04		Live sheep and goats	Export / import
01.06		Other live animals	Export / import
		Camel	Export / import
05.11	0511.10	Animal products not elsewhere specified or included; dead	Export / import
	0511.99	animals of Chapter 1 or 3, unfit for human consumption.	
		Printed magazines, books, movies, videos, pictures, etc. that propogate pornography	Export / import

Source: Government Resolution No. 54 of 2001, Government of Mongolia