



**TRADE POLICY REVIEW**

REPORT BY

MONGOLIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Mongolia is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Mongolia.

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## **1 INTRODUCTION**

1.1. Mongolia joined the World Trade Organization in 1997, will have equal rights to trade with many countries of the world wide, was contribute to the decision-making in their global trade and economic cooperation.

1.2. This is the second trade policy review of Mongolia and the main objectives of which are, to bring to the attention of the Members the major results and changes that occurred in trade policy within the reporting period, as well as the current economic and trade situation of the country, issues, constraints and policy directions in the future.

1.3. The Government believes, that the review shall play an important role in determining and bringing the economic development objectives to the right path, in coherence with rules and regulations of the WTO.

1.4. This report attempted to reflect current economic liberalization issues, external trade and foreign direct investment (FDI) environment and structural changes therein, changes in major economic sectors, multilateral and bilateral trade situation and trends and directions in trade and economic development.

## **2 MONGOLIA AND MULTILATERALISM**

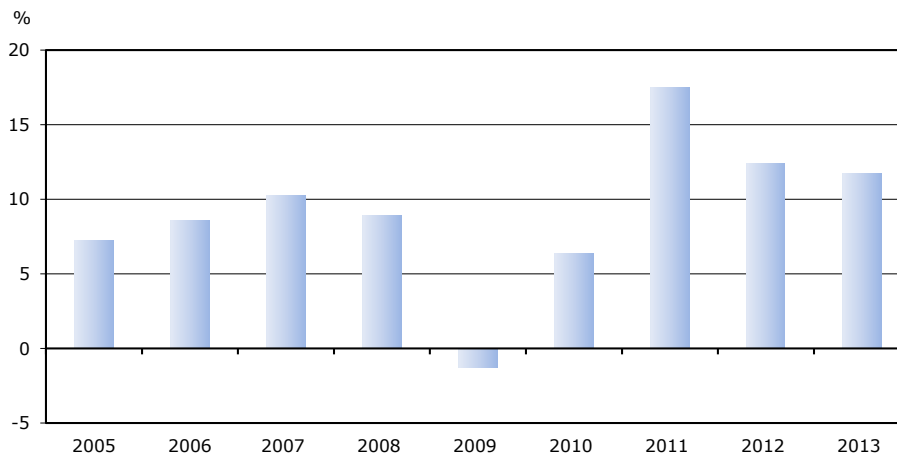
2.1. The Government of Mongolia consider that multilateral trading system plays an important role in economic development and bringing the living standards of the population up, especially for Mongolia, 37.1% of the GDP of which account for exports.

2.2. Mongolia has been implementing liberal trade policies and does not belong to any regional trade and economic agreements. The Government of Mongolia studies the possibilities of acceding to and/or initiating any such multilateral and bilateral agreements. As such Mongolia has successfully concluded the negotiations with all participating States for its accession to the Asia-Pacific Trade Agreement (APTA) and started the negotiation of an Economic Partnership Agreement with Japan.

2.3. The Action Plan of the Government of Mongolia for 2012-2016 set to thoroughly study the possibilities that arise from regional cooperation agreements, possible accession to APEC and other similar agreements, as well as to increase Mongolia's role in regional development, promote and intensify trade and investment cooperation within the region and to negotiate free trade agreements with trading partners.

## **3 ECONOMIC AND TRADE DEVELOPMENTS (2005-2013)**

3.1. Mongolian economy has recovered significantly, after global financial and economic crisis in 2009. In 2006-2008, the economy grew significantly, due to the increase of world gold and copper prices. In 2009, commodity price decline has led to a significant decline in real GDP. The increase in the trade deficit led to a depreciation of the exchange rate and the banking sector's non-performing loan ratio has risen. A combination of support from the International Monetary Fund through a Stand-By-Arrangement and donors as well as a rebound in copper prices was effective in reversing the deterioration in the trade balance, stabilizing the currency, and providing much needed budget support.

**Chart 3.1 GDP growth rate, 2005-13<sup>a</sup>**

a Preliminary data.

Source: National Statistical Office.

3.2. Parliament of Mongolia adopted the Law on the Development Bank of Mongolia in 2011 created legal environment for the Bank. The Development Bank of Mongolia was established to support economic growth and finance development projects with strategic importance such as "New Construction" mid-term target program, State policy on Railway transport, Sainshand industrial complex.

3.3. In the past few years, the Government paid more attention to develop mining sector, commercialize mineral raw materials and started its exploit major gold, copper and coal deposits. For example: The Investment agreement was signed to use Oyu Tolgoi copper and gold deposits in 2009.

3.4. For the first time, Mongolia issued Government guaranteed securities of Mongolian Development Bank equal to 7.4% of GDP on the international financial markets successfully.

3.5. Development Bank of Mongolia issued its first Samurai bond that will be backed by a guarantee from the Japan Bank for International Cooperation (JBIC).

3.6. In order to create a legal environment for the Secondary market, a draft "Law on Asset-backed securities" and amendments to other relevant laws developed and approved by the Parliament in 2010.

3.7. The government sold a US\$500 million tranche as a five-year bond with a yield of 4.125%, and another US\$1 billion tranche at 5.125% successfully to the financial institutes.

3.8. Within framework of implementation of State policy on food, agriculture and light industry to enhance sustainable economic growth, increase investment in the sector and mature the market system and create favorable environment, related laws such as "Law on legal status of Industrial and Technological Park", "Law on agricultural commodity exchange", "Law on custom tax exemption", "Law on Value-added tax exemption", amendments to the "Law on agriculture", "Law on personal income tax", "Law on value added tax" are approved.

### 3.1 Current Macro economic situation

3.9. In 2013, Mongolian economic growth has reached 11.7% compared with previous year and an inflation rate was 12.5%, the unemployment rate was 7.6%, GDP per capita reached US\$3,972 and increased by 22.7% compared with previous year. The foreign trade balance was a deficit of US\$2,082 million, decreased by 13% compared to 2012. Trade sector produced 17.4% of total GDP and accounted 12.4% of workforce and its considered as high workforce absorbing sector. Thus, trade sector plays significant role in employment and national workforce development.

3.10. Intensifying economic development-means structures funded by Chingis bond and Development Bank continuing public investment enhanced construction work and it has increased by 2.6 times from the previous year. It is expected to support further economic growth in coming years.

3.11. Promoting development of the private sector has been one of the key objectives of the Government of Mongolia. In order to improve the legal environment, to direct Public- and Private partnerships for economic development, the Concession Law was adopted in 2010. The Government implemented actions such as promote private investment in infrastructure projects, transfer some of the Government functions to the non-governmental organizations, professional association. A particular attention was paid to privatization of state-owned enterprises and privatization guidelines for 4 years have been planned.

### 3.2 External trade, foreign direct investment

#### a. Foreign trade

3.12. By becoming the Member of the WTO in 1997, Mongolia has chosen the path of multilateral trading system and made its principles the engine for development. Mongolian foreign trade turnover 92.3% to compared with GDP in 2013. This shows that the country's economy is still heavily depend upon external trade. Therefore, it is important for the country like Mongolia land-locked in-between the two giant states, to correctly identify and accurately implement trade policy. The choice of multilateral trading system and its principles, on the basis of which the pursuance of a more liberal trade policy in general has had positive reflection on the economy.

3.13. The total trade turnover of the country accounted for US\$10,627 million in 2013, that is compared to that of 2005 the increase by 4.7 times.

3.14. Although the total trade turnover has steadily been increasing, trade remains in deficit for the whole period except for 2006. For instance, trade deficit in 2007 accounted for US\$221 million, in 2013 US\$2,082 million and which compared to the 2007 increased by 9.4 times. The reasons lying behind the increase of trade deficit over years, on the one hand trade dependency on few export commodities, high percentage of raw materials in exports, heavy dependency of these raw materials on world market prices caused the trade deficit, on the other hand due to investment, there are significant increase of importation of equipment and machinery and mechanism.

**Table 3.1 Foreign trade turnover**

(US\$ million)

	2006	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>
<b>Total turnover :</b>	3,028.4	4,119.3	5,779	4,023.1	6,108.6	11,415.9	11,123	10,627
<b>Export</b>	1,542.8	1,949.1	2,534.5	1,885.4	2,908.5	4,817.5	4,384.6	4,272.6
<b>Import</b>	1,485.6	2,170.1	3,244.5	2,137.7	3,200.1	6,598.4	6,738.3	6,354.6
<b>Balance</b>	57.2	-221	-710	-252.3	-291.6	-1,780.9	-2,353.7	-2,082

a 2013 preliminary.

Source: Statistic of Customs General Administration.

3.15. In 2013, Mongolia trade with 135 countries. The PR of China, Russian Federation, the United States, Canada, the EU, Republic of Korea and Japan are our main trading partners, accounting for 90% of total foreign trade turnover.

3.16. Table 2 below shows our major trading partners and their share in total trade.

**Table 3.2 Main partner countries**

(%)

	2006	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>
<b>The PR of China</b>	48	51	44	48	56	57	53	52
<b>Russian Federation</b>	20	20	23	21	18	15	17	15
<b>U.S</b>	5	4	3	3	3	5	5	5
<b>Canada</b>	6	5	3	4	3	2	2	2
<b>EU</b>	7	7	12	12	7	7	7	9.3
<b>Republic of Korea</b>	3	4	4	4	3	3	4	5
<b>Japan</b>	3	4	5	3	3	4	5	4

a Preliminary data.

Source: Statistic of Customs General Administration.

3.17. In order to make the customs procedures more appropriate, the Customs and the Customs Tariff Laws were revised in 2008. In 2012, the Law on Customs was amended in order to reduce number of documents required for customs clearance. Total of 8 documents reduced to 4 documents. The web based CAIS system was used since 2010, which is facilitated a more simplified and speedy customs clearance procedures. As well, a "one-stop" service principle was introduced to fasten the customs services and to reduce the bureaucratic ladder for businesses.

3.18. The national standards are adopted by the National Standards Council on the basis of consultation between the Government, producers, businesses and the consumers. The Law on Standards and Conformity Assessment was renewed in 2008 to ensure the compliance with the WTO Agreement on Technical Barriers to Trade.

b. Mongolia's bilateral trade relations

3.19. Russian Federation, The PR of China and the United States, and the European Union and the Republic of Korea and Japan are the major trading partners of Mongolia. More than 70% of our total foreign trade accounts for trade with the Russian Federation and the PR of China. The main export products of Mongolia to Russia are mainly products of animal origin and minerals, including horse meat, fluorspar and copper concentrates and gold and to The PR of China are coal, iron ore, copper and molybdenum concentrates, wool, cashmere, hides and skins.

3.20. The share of the U.S. in the country's total trade was about 5% as at the end of 2013, that is compared to 2005 is the increase by 2.8 times. However, since 2010 there was no export has made to the U.S. Mongolian imports from the U.S. machinery and equipment such as bulldozers, levelers, truck and air transportation equipment. In September of 2013, Mongolia and the U.S. signed an Agreement on Transparency in Matters Related to International Trade and Investment to increase further bilateral trade and investment. The Government of Mongolia believes that, mutually committed to ensure transparency in trade and economic relations between the two countries will lead positive steps.

3.21. Trade with the EU accounts for about 9.3% of our total trade. In 2013, trade between Mongolia and the EU increased by 3.2 times, compared to 2005. Gold, textiles and cashmere goods are the main export goods of Mongolia to the EU. From 2006, Mongolia became eligible for GSP+. However, due to technical barrier and requirements and high standards, trade deficit in 2005 was US\$26.1 million and reached US\$702 million in 2012. The objectives in bilateral trade cooperation with the EU in the near future include the registration of Mongolian traditional export goods as geographical indications, as well as increasing export products.

3.22. Japan and Republic of Korea accounted for around 10% of our total sales. In 2005, trade with Republic of Korea is 6% of our total foreign trade turnover has dropped to 5% in 2013. In 2006, trade between Mongolia and Japan was 3% of total trade turnover and has increased to 5% in 2013. There remain enough constraints in the increase of Mongolian exports to these countries as their tariffs and import requirements for animal products are still very high. Mongolia launched Negotiation of Economic Partnership Agreement with Japan in 2012, as a result of the agreement, trade turnover between two countries, especially export to Japan expected to increase.

3.23. High costs for transportation through the territories of the Russian Federation, as well as of the PR of China and other obstacles in transportation make the transit transportation costly, thus

difficult to access the markets in the EU, the U.S., Japan and the Republic of Korea. Taking this into consideration, expediting the negotiations of the tripartite Agreement on Transit Transportation between Mongolia, Russian Federation and The PR of China is more than important for the country. Addressing these problems also requires additional technical assistance.

### c. Exports

3.24. Mongolian exports are composed of few items, namely minerals such as copper, molybdenum and fluorspar concentrates and gold, coal, crude oil, natural stones, textiles and animal originated raw materials such as wool, cashmere, hides and skins, meat and intestines.

3.25. Exports of mineral products was 42.7% in 2005, increased to 81.8% in 2013. Exports of Non-mineral products was 57.3% in 2005 and has been constantly declining and reached 18.2% in 2013.

3.26. The country's main export destinations are The PR of China, Canada, European Union, Russian Federation and Republic of Korea.

**Table 3.3 Mongolian exports, by countries**

(%)

Country	2006	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>
The PR of China	68	72	65	74	85	92	93	87
Canada	11	9	7	8	5	2	3	3
EU	6.2	5	1.6	1.2	0.2	1.7	1.1	6.7
Russian Federation	3	3	3	4	3	2	2	1
Republic of Korea	1	2	1	1	1	1	0	0

a Preliminary data.

Source: Statistic of Customs General Administration.

3.27. With the purpose of increasing exports and their diversification, taxes are eliminated on exports of metal scraps and raw cashmere. Law of customs duty rate imposed on some goods amended in 2005 and 2009. Currently export tax on male and female camel wool and wood, sawn has been continuously implemented, in order to protect forest wood and to retain camel wool, which is main raw material to make rope which encircles the ger (nomadic herder home).

3.28. Some of the Mongolian export items enjoy preferential tariffs under the GSP schemes of the U.S., the EU, Canada, Japan and Russian Federation. From 2014, Mongolia is eligible to "GSP Plus" of European Commission on sustainable development and good governance, and around 7,200 products may be exported to European Union member countries duty-free for 10 years and it enhance a possibilities, that our export products to access to the EU market.

3.29. The Government aims to pursue the trade policy that would facilitate the one-sided structure of exports. Within this framework, the objectives are to diversify exports, promote new products, improve their competitiveness, reduce trade barriers, develop business relations with the South and North Eastern Asia and Europe, as well as actively work towards including more Mongolian products in the GSP schemes of developed countries.

### d. Imports

3.30. The country's imports are more diverse and less centralized compared to its exports. For instance, in 2013, heavy machinery, equipment, electrical appliances counted for 8.6% of total imports, fuel 20.7%, vehicles 12.5%, textiles 10.4% and food and foodstuffs 7.7%. The imports of these goods account for more than 60% of total imports.

3.31. From 2002, the current tariff rate of 5.0% was imposed, which compared to many countries is a fairly low level and this shows that the country is committed to more liberal trade. On the other hand, such a low tariff is followed to promote the capacity of producers and traders to allow them to compensate for high transit transportation costs. In other words, higher import duties would particularly increase the consumer prices, thus make the supply of food and consumer goods difficult to access. The Government aims to impose differentiated import duties in order to



promote domestic production, encourage the transfer of advanced technology, as well as for the concerns related to food security and better quality foodstuffs.

3.32. The share of imports in the GDP in 2008 accounted for 57.7% and in 2013 it increased reaching 66.5%.

3.33. The main importing countries to Mongolia are the Russian Federation, the PR of China, the EU, the Republic of Korea and Japan. Imports from the above five countries account for more than 80% of the total imports in 2013.

**Table 3.4 Mongolian imports, by countries**

(%)

Country	2006	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>
Russian Federation	37	34	38	36	33	25	27	25
The PR of China	28	31	28	25	30	31	28	28
EU	8.2	10.1	9	11.6	11	11.1	11.2	11.08
Republic of Korea	6	6	6	7	6	5	7	8
Japan	7	6	7	5	6	7	7	7

a Preliminary data.

Source: Statistic of Customs General Administration.

e. Foreign Direct investment (FDI)

3.34. Law on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance enacted in 2012, caused significant decrease of investment. New Investment Law, which is approved in 2013, has replaced the controversial Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance and has made it easier for foreign investors to invest in Mongolia. The law on Investment provides a general regulation for both Mongolian and Foreign investors not classifying as local and foreign. In the scope of the law, investors will be guaranteed with stabilized tax environment if invested MNT10 billion. Moreover, an investor will be issued a Tax Stabilization Certificate for projects over MNT15 billion, conforming with economic development, introduced eco-friendly new technologies, increase of employment and the Government of Mongolia believes, it creates favorable condition to promote FDI.

**Table 3.5 Foreign direct investment**

(US\$ million)

	Share in FDI	2006	2007	2008	2009	2010	2011	2012	2013.10 <sup>a</sup>
<b>Total amount</b>	34.4	366.54	499.96	708.92	801.15	1,025.9	4,986	3,198.7	1,076.1
<b>The PR of China</b>	71.31	172.01	339.61	497.8	613.06	176.04	1,015.2	243.19	30.9
<b>Canada</b>	7.44	72.18	0.5	2.74	1.03	147.81	72.28	18.62	7.1
<b>Republic of Korea</b>	6.35	16.43	22.99	41.77	31.67	38.76	54.97	54.02	14.4
<b>Japan</b>	3.12	4.73	2.45	46.62	5.59	7.13	21.46	34.24	12.9
<b>USA</b>	5.93	37.17	4.29	6.47	2.57	13.91	127.23	62.59	2.7
<b>Russian Federation</b>	5.84	11.65	39.77	3.8	6.14	2.27	58.01	129.58	1.8

a 2013 preliminary.

Source: Information provided by MED.

3.35. In 2012, foreign direct investment has reached US\$3.2 billion and it declined by 33.6% to US\$1 billion in 2013.

3.36. To protect and promote FDIs, the Government has concluded Agreements on the Promotion and Mutual Protection of FDIs with about 43 countries and Agreements on the Avoidance of Double Taxation with 24 countries.

3.37. Mining, information and technology, agricultural production and tourism have been identified by the Government as priority sectors for development and FDIs. The imports of some equipments and heavy machinery in these sectors enjoyed customs and VAT tax exemption.

3.38. The Government considers FDI as an important thrust in the economic development of the country. In reaching its objective to ensure economic growth, the Government in its Action Programme stated to create an environment that protects FDIs. Within the framework of this Programme, a policy that creates incentives for both foreign and domestic investment and a more stable legal environment, attracts new sources of FDIs, as well as to ensure a more effective use of FDIs will be carried out.

### **3.3 Legal and Structural Changes in External Trade**

3.39. Since its accession to the WTO, the Government has undertaken a number of measures directed towards refining and making trade laws in line with the WTO rules, regulations and requirements. The Trademarks and Geographical Indications Law, Customs law, Land law, The Insurance Law, Company law, General tax law, Investment law, the Food Law were recently adopted. Also, necessary amendments were made to the licensing law, the Minerals law, the Environmental protection law, the Customs tariff law, the Bankruptcy law, the VAT Law, the Accounting Law, the Excise Tax Law, the Patent Law, the Standardization and Conformity Assessment Law, the Labor Law, the laws on the Legal Status of Altanbulag and Tsagaannuur Free Trade Zones, the Free Zone Law.

3.40. The Parliament Resolution No. 5 of 1998 on the "List of goods prohibited to cross the borders and the goods subject to non-tariff regulation" and the Government Resolution No. 219 of 2002 on the "List of licensed goods", together with this "Regulation on export and import licensing of goods subject to state control" set the list of prohibited goods and goods allowed for import and export with licenses. In accordance with the Regulation, breeding animals, rare and very rare animals, raw materials there from, semen of animals, cultures of micro-organisms, uranium and thorium ores and concentrates, poisonous chemicals, human blood and organs for therapeutic and prophylactic purposes, explosives and guns are subject to licensing. Licensing is carried out by sectoral ministries. In order to create genetically modified organism, use and enter into the country cross border, ensure bio security within territory "Law on Genetically modified organism" is adopted in 2007.

3.41. According to the current regulations, there are 901 types of licenses issued by sectoral ministries and working group headed by Cabinet Secretary, is working on formulating proposal to make some amendments to the related laws and regulations to eliminate 367 unnecessary licenses.

3.42. A number of projects implemented in trade and industry fields in the last years with the financial assistance of international organizations and donor countries, including the UNDP on trade and human development, GIZ on enhancing capacity of bilateral negotiations, USAID on Economic policy reform and its competitiveness. Also Mongolia has been actively participated meeting and programs organized by CAREC and ESCAP and expressed its position.

3.43. Mongolia has set up bilateral intergovernmental foras in the form of committees and roundtables with some of its trading partners to discuss relevant issues concerning trade, economic, cultural, scientific and technical cooperation. For instance, such committees are established with the Russian Federation, the PR of China, the EU, Bulgaria, Hungary, the Czech Republic, Austria, Finland, the Republic of Korea, France, India, Kazakhstan, the Kyrgyz Republic, Ukraine, Belarus, Viet Nam, Cuba and Turkey and with the UK, Canada and the DPR of Korea discussions are organized as roundtables.

3.44. On the purpose of establishing an institutional framework in order to increase Mongolia's export revenues, ensuring proper structure for foreign trade, supporting exports and providing efficient funding for export activities, Export Promotion Program is adopted in 2013 and started its implementation.

3.45. A specific attention was paid by the Government to the importance of the private sectors participation in developing and formulating trade policy. With the purpose of creating partnership

and cooperation between governmental and non-governmental organizations and enhance active participation on formulating promotion policies on industry, service and investment, close cooperation is maintained between the Mongolian National Chamber of Commerce and Industry, the Mongolian Employers' Federation and other professional associations.

## **4 MAJOR ECONOMIC SECTORS OF MONGOLIA**

### **4.1 Mining**

4.1. Mining is one of the major sectors that plays an important role in the economy of the country. As of 2013, the share of the sector in the GDP accounts for 28%.

4.2. Since 2005, there was a substantial changes in the structure of minerals exports and in 2009, 26.64% of exports were copper concentrate, 17.7% - gold, 16% - coal, 6%- crude oil and in 2013 22.2% were copper concentrate, 7.3% - gold, 26.1%- coal and 12.1%- crude oil, 15.3%-iron ore etc.

4.3. To develop private sector driven, transparent, responsible mining sector and in order to create balanced diversified economy in short and medium term, Mining sector policy until 2025 adopted by Parliament resolution No. 18, 2014. The Government set out the policy and directions in mining sector and have been organizing Annual Investment forum such as Coal-Mongolia and Metals-Mongolia since 2009, in order to attract and increase investment in geological and mining sector. As a result of a number of specific measures, investment in the sector in the last four years has increased by about 3.4 times.

4.4. Government of Mongolia aims to establish Oil refinery based domestic crude oil deposit. Within framework of this objective, export crude oil mined from oil deposit to the PR of China and in return for importing petrol "Mongol 93", centralize export revenue from crude oil to state budget, increase production of crude oil year by year. In 2013, mined 5.42 million barrel crude oil and exported 5.13 million barrel crude oil, production increased by 38% and export increased by 43.5%.

4.5. Mongolia supplies its domestic demand by 100% imports and 1,408 thousand ton petroleum products imported in 2013 and is 15.2% increased compared to the previous year. In 2013, 74.7% of petroleum products imported from Russian Federation, 8.5% from Belarus, 7.4% from Republic of Korea, 1.7% from Malaysia, 5% from the PR of China, 1% from Lithuania and 0.7% from Kazakhstan.

4.6. There are 22,629.8 hectare land is registered as damaged due to mining operation. In 2013, technical restoration in 10,878.4 hectare land, biological restoration in 4,812.6 hectare has made and spent MNT68.7 billion. In the future, a particular attention is to be paid to environmental rehabilitation of mining areas, the increase of minerals' exports, the increase of oil extraction and the creation of processing capabilities of crude oil.

### **4.2 Agriculture**

4.7. The main foundation of Mongolia's economy, pasturing livestock husbandry plays an important role in the economy, employment and export revenues of Mongolia. For the preliminary estimates of 2013, 27.9% of GDP was produced by the agriculture sector, of which 77.5% accounts for livestock husbandry. As well, 35.0% of total labor force of the country is engaged in the agricultural sector and 7.0% of export income is contributed by the agriculture sector. Production of livestock husbandry industry for 2013 preliminary estimates was MNT2,531.2 billion at 2005 constant prices. Compared to 2012, it increased by 27.9% at current prices, by 13.5% at constant prices.

4.8. In 2013, in total 45.1 millions livestock heads were counted, grown by 4.2 million heads or 10.3% compared with the previous year.

4.9. The Government proclaimed Year 2008 as "Year of Food supply and security" and aimed to ensure a self sufficiency of major stable food products such as meat, milk, wheat flour, potatoes and vegetables. Within framework of the food security goals, "A third National Crop rehabilitation"

campaign was launched. As a result of this campaign, in 2013, 80% of domestic demand of wheat, 100% of potatoes, 54.9% of vegetables supplied by domestic harvest.

4.10. In 2003, the Government adopted the "Food and Agriculture Policy" until the year 2015, which aims to create a better economic and business environment, increase production capacity and capability, ensure stable development and growth of livestock, crop and food sectors, produce a more ecologically clean and safe foodstuffs and improve their quality and distribution. A detailed work-plan was developed to ensure the implementation of the policy, which is being monitored. Law on Food products and food security was adopted in 2012.

### **4.3 Industry**

4.11. The total output at current prices of the industrial sector was MNT7.3 billion in 2013 and was increased by 7.3% compared with 2012.

4.12. In order to strengthen competitiveness of products, introduce modern management, techniques and technology in priority sectors such as mining, meat, wool, cashmere and hides and skins processing industries, various concepts and programmes such as "State policy on food and agriculture sector" (2003), "State policy on minerals" (2014), "State policy on Petroleum sector until 2017" (2011) have been implemented and positive results have occurred in the development of the industrial sector.

4.13. The Government's policy in the industrial sector is directed towards the implementation and establishment of free economic and trade zones, industrial parks to promote small and medium-sized enterprises (SMEs), expansion of micro-credit system and promoting the use of industrial machinery and equipment via soft loans and leasing.

### **4.4 Energy**

4.14. Within framework of major restructuring of the Energy sector, enhance Public-private-partnership in order to ensure stable operation and supply national energy demand, which is increasing constantly, "Energy law" was amended in 2011. With Technical assistance of ADB, renewing of "Energy sector system" program is started based on revised "Energy sectors development plan". "Law on Energy saving" is drafted in order to create mechanism to promote energy efficiency and energy saving.

4.15. Importation of electricity was 156.5 million Kwt/h in 2009, it reached 393 million Kwt/h in 2013 and mostly imported from Russia. Share of imported electricity was 8% of total consumption and Power plant based on coal deposits is planned, for instance in Tavantolgoi power plant with capacity of 450 MWatt in near future.

4.16. Within framework of the implementation of Law on Renewable Energy adopted in 2007, "National Renewable energy program (2005-2020)", policy is followed to promote production of renewable energy. Renewable energy resource provide 8% of total energy supply by its capacity and 2% energy production. According to the "National Renewable energy program (2005-2020)", the Government of Mongolia has set the target to increase electricity generation from Renewables 20-25% by the year 2020. Wind power plant with 50 MWatt capacity in Salhit is operating properly.

### **4.5 Communications**

4.17. The establishment of Information and Communication Coordination Committee was established in addition to several measures such as liberalization of the information and communication sector, promotion of fair competition and establishment of public service fund. The Committee carries out such activities as issuing of licenses, eliminating restrictions, deepening the openness of the market, promotion of fair competition.

4.18. The medium-term development strategy within the Information technology sector has been developed and implemented in 2013. Moreover, programs such as "National e-Governance Program," and "National broadband network," and "Radio and television broadcasting to digital transfer" are also being implemented.

4.19. Taking into account the rapid enhancement of various services based on information technology the "Law on E-signature", was adopted in 2011. Also "Law on Information Security", "General Law on Information Technology", "Law on E-agreement", as well as "Law on E - governance" have been drafted. Citizens are provided with the opportunity to follow the activities of the Government and to participate in drafting of laws by giving their comments through open government website on [www.zasag.mn](http://www.zasag.mn) operating within the framework of the law.

4.20. As a result of the above mentioned measures and introduction of new technologies into the communication sector the income of communication service increased dramatically in the few last years, reaching MNT563.1 billion in 2012, which 22.7% increase in comparison with the previous year. The number of mobile telephone users has increased reaching 3.4 million in 2012. This is an increase of 4.4% comparing to 770 thousand which was calculated in 2006. The number of internet users has also increased continuously and reached 696 thousand subscribers in 2012 which is 50% increase compared to the previous year.

#### **4.6 Transport**

4.21. As of today, Mongolia has signed 7 international convention and inter-governmental agreements on transportation with 8 countries such as Kazakhstan, Ukraine, Russian Federation, DPR of Korea, Turkey, Belarus, Kyrgyzstan and The PR of China.

4.22. Transit-Mongolia program is adopted by Government resolution No. 183 of 2008, in order to developing transit transportation and logistics, by using its geographical advantages, based on market demands, with the active participation of private sector and foreign investors.

4.23. Mongolia has concluded agreements on the utilization of Mongolian air space with 34 countries and with EU and 43 foreign air companies and provided flight administrative services and ensured safety.

4.24. Mongolia is geographically a bridge between two giant countries. Thus, Mongolia aims to create a reliable, inexpensive, efficient road and transportation network by developing international transport corridor.

#### **4.7 Construction and Urban development**

4.25. Construction and maintenance work has increased steadily since 2006. For example, the construction and maintenance work performed in 2006 was MNT266.8 billion and has increased to MNT1,452.2 billion in 2013 which is a growth of 5.4 times.

4.26. The "Law on Construction" and the "Law on Water Supply of Urban Area and Utilization of Cleaning Pump" and "Law on Addressing" were adopted in 2008, 2011, and 2013 respectively. Package of Law on Land is drafted. Amendments to the "Development plan for Ulaanbaatar city until 2020", "Development guidelines until 2030" "Regulation on addressing streets, roads, immovable properties" adopted by Government resolutions.

4.27. Currently there are 3,181 licensed construction companies of which 52 are foreign invested companies.

4.28. The Government of Mongolia aims to ensure conditions of secure and convenience living by increase efficiency of policy on construction materials, urban development, land relations, geodesy and housing.

#### **4.8 Banking and finance**

4.29. As of 2013, there are 12 banks operating in the banking sector. Local currency deposits rose by 19.8% at the end of 2012 compared to 2011, due to increased citizens deposits by MNT522.6 billion.

4.30. The banking sector accounts for 95% of the country's financial sector. Thus, gross domestic product growth in the financial sector relies on the growth of the banking sector. The gross

domestic product of financial sector was 143.6 billion in 2010 which has increased two times in the following two years adding up to 277.0 billion in 2012.

4.31. As a result the stability in the financial sector and other positive trends strengthening bank activities in accordance with international standards and public transparency, as well as methods of inspecting measures such as implementation of monetary policy are clear within the outcome.

4.32. At the end of 2012, 329 companies were registered at the Mongolian Stock Exchange, 52 of which are state-owned companies and 277 private companies.

4.33. State Property Committee, the Mongolian Stock Exchange and the London Stock Exchange have created the "Master contract" in order to reform capital market. In 2012, the Millennium IT commercial system was installed and implemented in order to assemble international standards and capital market infrastructure. The Millennium IT is used by London Stock Exchange and other major exchanges commercial centers.

#### **4.9 Tourism**

4.34. The Government of Mongolia prioritizes the tourism sector as Mongolia's development goals and inter-sectoral coordination and management of development, infrastructure development, pursuing policies aimed at ensuring international standards of service quality.

4.35. The number of tourists in Mongolia was 386 thousand in 2006, and increased up to 417 thousand in 2013 with the average annual growth rate of 9% within the last 10 years. Tourists are mainly interested in Mongolia's natural environment, traditional cultures, as well as the history of Chingis Khan.

4.36. As of 2013, there are 212 tour operators, 400 hotels and 349 tourist camps operating in Mongolia and of which 85 are foreign invested companies.

4.37. Mongolia is a member of the World Tourism Organization and facilitates tourism and tourist receptions to eliminate encountered obstacles, ensure the safety of tourists and tourism industry in order to improve the legal environment. Cooperation in the tourism sector with intergovernmental agreements have been signed with the PR of China, Republic of Korea, India and Kyrgyzstan.

4.38. The Government of Mongolia is planning specific measures to undertake in order to preserve national, historical and cultural heritage, develop of environmentally friendly tourism policy, and create international - class tourist complexes and their essential services.

### **5 MULTILATERAL TRADE COOPERATION**

#### **5.1 Mongolia and the World Trade Organization**

5.1. Mongolia has continuously been encouraging multilateral trading system. Mongolia has, in the past, pursued a more open and liberal trade policy, eliminating step-by-step trade barriers by cutting high tariffs and reducing non-tariff measures. Although these measures resulted in the increase of the number of our trading partners and the advantage for Mongolia to trade with other countries on MFN-basis, our trade deficit does not decrease. This, in major part, is related to the high tariffs and tough non-tariff measures maintained by our trading partners. As such, due attention was paid to the use of advantages of multilateral trading system and strengthening the national capacity. Despite the successful implementation of a German-funded project on International Trade Policy/WTO, considering the complexity of the WTO agreements, additional technical assistance is required to ensure the full implementation of the agreements.

##### **5.1.1 Mongolia and Doha Development agenda**

5.2. The Government of Mongolia is convinced that trade liberalization plays and should play a vital role in improving the living standards of not only Mongolians, but the world population as a whole, and fighting poverty and positively affect the development of all countries. From this point of view, the Government is working to make the necessary contribution to successful



implementation of the Doha Development Agenda. Government of Mongolia thinks, every members contributions is necessary to bring forward stuck negotiations. Mongolia actively participate G-33, Small, vulnerable economies (SVEs), Recent new members (RAMs) groups and expressed our interests.

### **5.1.2 Agriculture**

5.3. Agriculture as one of the essential components of the DDA is an influential part in building a fair trading system. Agriculture, specifically livestock, is the major economic sector of the country. Therefore, the Government attributes major importance to the liberalization of trade in agriculture. In the past, the Government has eliminated export subsidies and domestic support systems in the sector and imposed a single tariff of 5% across the board, except for certain strategic goods, on which seasonal tariffs are followed. The support measures have been taken within the framework of the Green Box and the Agricultural Agreement requirements.

5.4. High tariffs, strict sanitary requirements, as well as huge export subsidies and domestic support provided to the sector by the developed and the developing countries create unnecessary barriers to access their markets and increase agricultural exports of developing countries. It is more than necessary to take measures directed towards improving the quality of agricultural products of mainly developing countries, thus increasing their competitiveness. For this purpose, more technical assistance is sought from donors. In addition, a joint effort is called to make the unnecessary barriers to trade, in terms of standards and other requirements, appropriate.

5.5. Mongolia, as developing country has been supporting the non-trade related issues as food safety, agricultural development and environment protection and Mongolian delegation attended the Ministerial meetings, meeting of "G-33" group and the Landlocked countries to express the position in recent changes in the negotiations of Doha, approach to continue the negotiations, which took place in 2009, 2011, and 2013.

### **5.1.3 Non-agricultural market access**

5.6. The Government of Mongolia is in support of "negotiations, which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries" as stipulated in the Doha Declaration. Mongolia, despite the deficit of its budget, within its commitments and to comply with the WTO agreements, maintains a single duty rate of 5% on almost all products across the board that is a fairly low rate compared to other countries and it is of the position to cut the tariffs in differentiated form for non-agricultural goods, in other words, high tariffs should be subject to more reduction.

### **5.1.4 Services**

5.7. Since its accession to the WTO, Mongolia has not taken additional commitments in services. In the services negotiations, Mongolia has not yet expressed its positions, although it carefully studies the process of negotiations and the positions of other countries. In the future, the Government intends to express the Government's views and ideas upon it.

5.8. It is appropriate that the negotiations in services be directed towards ensuring the promotion of all participants' economic growth, as well as the development of developing countries and the land-locked developing countries in particular. At this point, the Government of Mongolia is still of the position that the negotiations should be directed to open the markets of developed countries to developing countries in terms of the issues related to the movement of the population and increasing the types of services.

5.9. Mongolia's the market of trade services is totally open without any restriction as of today.

5.10. There are many difficult issues as standards and quality of services, differences of achievements on technical regulation level and shortage of skilled staffs to develop trade services of the developing countries. So it indicates that technical assistances from the international organizations and donors are need to be increased for these matters.

### **5.1.5 Trade facilitation**

5.11. This is an issue that has a particular importance in increasing trade especially for small island and land-locked developing countries with vulnerable economies. The Government of Mongolia pleased, that agreement has been completed successfully and believes that, members pay more attention to the implementation of the agreement.

5.12. Transit transportation costs for land-locked developing countries is relatively high (double) than for countries with access to the sea. Thus, the Government of Mongolia considers that provision of special and preferential tariffs for transportation by transit countries to land-locked developing countries would greatly contribute to fair competition.

5.13. High-level meeting for land-locked developing countries (LLDCs) was organized jointly by the Government of Mongolia, UNESCAP, Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States on 28th-29th August, 2007 and Ulaanbaatar Declaration was issued. During this meeting, Government of Mongolia initiated to establish International think-tank of LLDCs. Moreover, next High-level meeting for land-locked developing countries was held by the Government of Mongolia in collaboration with the Economic and Social Commission for Asia and the Pacific. Participants from 12 land-locked countries, donor and partner countries and representatives from international organizations attended the high-level meeting.

5.14. Multilateral agreement establishing "International think-tank for Land-locked developing countries" has been submitted for signatures in 2010. A total of 7 countries have signed and 4 countries have ratified. The government of Mongolia has invested MNT540 million in establishing the think-tank center.

5.15. Removing technical barriers to trade and reducing non-tariff measures will further contribute to trade liberalization and making trade freer in this globalizing world. the Government of Mongolia notes the necessity of technical assistance to build the capacity of developing countries in this particular issue. In the past, the Government of Mongolia jointly with the WTO and the ITC organized a national seminar on trade facilitation, as well it invited experts from these organization and the UN for making recommendations to the Government.

### **5.1.6 Rules and regulations**

5.16. With regard to anti-dumping, subsidies and countervailing duties, Mongolia has not up to now taken any measure against any country and no country has taken similar measures against Mongolia. Presently, the Government is working on draft laws on these issues. Within the framework of the WTO Agreements on Anti-Dumping and on Subsidies and Countervailing Duties, it is necessary to refine the domestic rules and regulations and relevant laws need to be drafted. The Government considers that the implementation of present WTO Agreements and commitments, more and effective technical support is required in general.

### **5.1.7 Trade Related Aspects of Intellectual Property Rights**

5.17. Since its accession to the WTO, Mongolia has attributed due importance to the implementation of the TRIPS Agreement, thus bringing the national legislation into compliance with the Agreement and acceding to international IP conventions. In 1999, the Patent and Copyright Laws were amended and in order to ensure the implementation of IP laws, State IP Inspection Unit was established in 2000. A new law on Trademarks and Geographical Indications was adopted in 2003. Mongolia became a party to the Berne Convention for the Protection of Literary and Artistic Works in 1998 and in 2002, the decision was made to sign the WIPO Copyright and Phonogram Producers Treaties. However, there remain difficulties in the implementation of some of the provisions of the TRIPS Agreement, namely with regard to the control of IPR-infringing goods, strengthening the border control for and border measures against such goods. In this relation, technical assistance is required in these particular enforcement measures.



### **5.1.8 Special and differential treatment**

5.18. S&D treatment, as one of the major instruments of the multilateral trading system to diminish the disparities in development between the Member States, it is considered that it should have a legally binding effect on all Members.

### **5.2 Regional Cooperation**

5.19. Besides supporting and promoting the principles of the multilateral trading system, the Government of Mongolia it 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. As well, Mongolia participates in the economic cooperation in North-Eastern and Central Asian countries and actively participates "Greater Tumen initiatives" project. In the future, it is intended to ensure a more active participation of the country in working groups of the APEC and possible accession to it.

### **5.3 Free Trade Agreements (FTAs)**

5.20. It is noted herein that the support from the bigger trading partners of the country plays an important role in the development of trade relations of such countries like Mongolia, land-locked with small and vulnerable economy and dependent on external trade. As such, the Government is making efforts to resolving trade issues that are hindered within multilateral trading system through bilateral mechanisms. For instance, the negotiations of Economic partnership agreement with Japan has launched and studies for possibilities to launch of free trade agreements with other major trading partners.

### **5.4 Free Trade and Economic Zones**

5.21. With the objectives to increase trade, attract more investment and promote export-oriented industries, the Government is working towards establishing free trade and economic zones, as well as industrial and technological parks. The legal basis for such endeavors has been established by adopting the General Law on Free Zones, the Laws on the Legal Status of Altanbulag (in the northern border) and Tsagaannuur (the western part) FTZs and of Zamyn-Uud (southern border) FEZ. "The legal status of Industrial and Technological Parks" was approved in 2009, it has launched Sainshand Industrial park establishment. Within industrial park, projects including a coal gasification power plant, oil refinery, and mineral processing facilities is planned to build and it required US\$10,986 million of investment.

## **6 FUTURE TRADE AND ECONOMIC POLICY DIRECTIONS**

6.1. As a result of Parliamentary election in 2012, the Government set key economic policy objective to reduce dependency on the mining sector, achieve a long term sustainable development and create a competitive and diversified economy. In order to enhance economic development, promote sustainable growth, actions regarding infrastructure, urban development are included in the Government programs. Trade and economic policy has resulted the stabilization of a macro economy. To strengthen these positive results, ensuring further stabilization of the economy and its growth remain the objective of the Government.

6.2. In order to achieve the key objective, implementing policies to ensure economic growth by increasing well balanced export and FDI, promote industry, agriculture, service sector, increase number of export products, create FDI protective environment. Government of Mongolia thinks, these policies will increase role of foreign trade and FDI's in economic growth.

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