SUMMARY

1. Since its previous Trade Policy Review in 2005, Mongolia has continued to maintain a generally open trade regime. Its economy has grown substantially, as has per capita GDP while unemployment has fallen, and the Human Development Index ranking has improved. With large mineral reserves and a big market in neighbouring China, the economy is likely to continue to grow. However, the rate of growth has fluctuated, and will probably continue to fluctuate depending on investments in mineral resources and changes to prices and volumes of exports. Since 2005, real GDP growth has varied from -1.3% in 2009 to 17.5% in 2011. Clearly, managing the fluctuations in investment, exports, and Government revenues is one of the main policy challenges facing the country.

2. Despite data problems, it is evident that both exports and imports increased substantially during the review period, with exports reaching US$4.4 billion and imports US$6.7 billion in 2012. The importance of minerals to the economy has increased as well; in 2012, over 84% of exports were of minerals, nearly all which went to China.

3. The authorities are aware of the problems that can arise from dependence on a narrow economic base. The Millennium Development Goals-based Comprehensive National Development Strategy of 2008 states that, while mineral deposits are to be exploited, Mongolia is also pursuing a policy of diversification; the Strategy sets out a number of priority areas, including export-orientated, private sector-led, high technology-driven manufacturing and services such as information and communication, bio- and nano-technology, transit transportation, logistics, financial mediation services, and deeper processing of agricultural products. Particular attention is paid in the Strategy, inter alia, to promote SMEs to produce import substitution products while supporting imports of advanced technologies.

4. Foreign investment is important to the economy for both the exploitation of minerals and for development of other sectors. However, foreign direct investment declined from 53% of GDP in 2011 to 20% in 2013. To some extent, this was due to the requirements under, and uncertainty about the 2012 Law on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance. To address these concerns and to improve the investment climate, the 2012 Law and the Foreign Investment Law of 1993 were replaced by the Investment Law of 2013 (which applies to both foreign and domestic investment), which simplified investment and registration requirements, and provided greater legal precision to several terms, including the definition of a foreign-invested entity and a foreign government-owned legal entity.

5. In addition to the new Law on Investment, several other laws were introduced in 2013 which, amongst other things, are intended to improve the investment climate and promote fiscal stabilization including, the Fiscal Stability Law, the Integrated Budget Law, and the Social Welfare Law. These legislative changes, along with the steps taken by the Bank of Mongolia (the central bank) to stabilize the national currency, control inflation, and improve regulation of the commercial banks, should help to improve foreign and domestic investment.

6. A number of steps have also been taken to improve customs procedures, including a revision of the Customs Law and the Law on Customs Duties and Tariffs of 2008 which, amongst other things, allow for post clearance customs control, as well as the introduction of the Customs Automated Information System allowing for the submission of electronic documents and electronic payments.

7. In acceding to the WTO in 1997, Mongolia bound all its tariffs, most of them at 20% although the applied rate is, in most cases, much lower. However, for about 60 tariff lines, the applied tariff of 5% is greater than the bound rate of 0%. There are also import bans on several products, including ethyl alcohol, which were adopted on the grounds of health and national security. Furthermore, a variety of products, including breeding animals, are subject to non-automatic licensing for exports and/or imports. Export taxes are applied to a small range of products, although they were removed from raw cashmere in 2009. As part of the efforts to diversify exports, the Development Bank of Mongolia was established in 2011 and provides export finance, including pre- and post-shipment financing, export factoring, export credit guarantees, and export credit insurance.

8. Mongolia has continued to develop and apply new standards many of which are mandatory technical requirements and, out of a total of over six thousand, less than half are aligned with international standards.

9. Although the economy is essentially market driven and has been privatised, there were about 100 fully or partially state-owned enterprises involved in many different sectors of the economy. According to the authorities none of these have any special rights or privileges. Between 2005 and 2011, about 90 entities were privatized while several, including the national airline (MIAT) and some power plants had their privatization postponed.

10. Mongolia's laws on intellectual property rights have also undergone some changes during the period under review, with the Copyright Law and Patent Law revised in 2006, the Law on Trademarks and Geographical Indications amended in 2010, and the Law on Crop Varieties and Seeds amended in 2011. However, enforcement actions, in terms of the number of inspections and other indicators, have declined since 2010 and it is not clear if this was due to better compliance or reduced enforcement.

11. Although investment and trade in minerals dominate foreign direct investment and exports, agriculture still accounts for one-third of employment and 15% of GDP. The agriculture situation in Mongolia is quite particular with a short growing season and harsh winters and nomadic herding of livestock being the main activity. In response to concerns about import dependence, the Government has introduced several programmes to promote production of some staple products (wheat and potatoes) and, as a result, imports of these have declined. However, it is not clear if these programmes have reduced import dependence as imports of other products, such as rice, have increased. The main exports are cashmere, and hides and skins of sheep and goats.

12. Compared to the size of the Mongolian economy, the potential of the minerals sector is very large and the total investment in minerals over the past few years and the next few equivalent to several times annual GDP. Unfortunately, data for 2013 were not available at the time of writing. Nevertheless, in 2012 compared to 2004, the quantity of coal, and iron ore that was produced and exported increased considerably while the value of exports increased by even more as prices increased. As production of copper in Oyu Tolgoi increases and a the expansion of the Tovan Tolgoi coal deposit leads to greater production, the value and volume of exports will increase further. However, concerns about unused mining licences led to a moratorium on new exploration licences in 2010 and the moratorium is to remain in effect until a new law on minerals has been adopted.

13. Mongolia's low population density and harsh climate mean infrastructure projects like electricity, telecommunications, and transport are both important and expensive. There have been considerable investments in each area although more is needed, particularly for road and rail transport.

14. The banking and finance sector has undergone several upheavals over the past few years. Despite improvements in developing and applying regulations, the State had to take over three banks, in 2008, 2009, and 2013, and their operations have been transferred to the state-owned State Bank of Mongolia. There remain 13 registered commercial banks, which is a lot for the size of the country even if commercial banks account for 95% of total assets in financial companies.

15. Overall, Mongolia has made considerable progress towards improving living standards and investment and trade in minerals have contributed considerably. However, managing the resource based boom along with the legislative, and institutional challenges it presents, and the investment in infrastructure it requires are the biggest challenges facing the Government. At the same time, the geographical and climatic situation of Mongolia makes these tasks more difficult than in some other countries.