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Mongolia Trade Brief

Trade Policy

Mongolia began its transition to a market-based economy in 1991 and liberalized its trade in the course of its WTO accession in 1997. As represented by a MFN Tariff Trade Restrictiveness Index (TTRI)[1] for overall trade of 4.3 percent, Mongolia has a slightly more liberal trade policy than its East Asia and Pacific (EAP) regional neighbors (which scored an average TTRI of 4.8 percent), and a significantly more open market when compared to lower-middle-income countries (which have an average TTRI of 8.6 percent). It ranked 54th (where 1st is least restrictive) among 125 countries. The country's import barriers remain slightly lower for non-agricultural goods than for agricultural goods, with TTRIs of 4.2 and 5.3 percent, respectively. The simple average of the MFN applied tariff rate was 5 percent in 2008. Yet it still remains well below the average for the EAP region and lower-middle-income countries, which are 9.3 and 11.4 percent, respectively. Mongolia decreased its maximum tariff on all goods (excluding alcohol and tobacco) in 2007 from 15 to its current value of 10 percent. The trade policy space, as measured by the overhang, has remained constant over the past several years and in 2008 was equal to 12.6 percent. Regarding the extent of its commitments to services trade liberalization, Mongolia ranked 65th out of 148 countries according to the GATS Commitment Index.

In response to rising food prices in the first half of 2008, Mongolia removed import tariffs on wheat and 40,000 tons of wheat flour.[2] Wheat seed imports were exempted from the country's value added tax (VAT) through May 2011 and in February 2008 the government exempted high-tech irrigation facilities, technology, machinery and fertilizer from VAT and customs duties through the end of 2009.[3] In June 2008, after food prices peaked globally, the government abolished customs tariffs for imported wheat flour, butter, green tea, pork, fish and other food items for three months.[4] High fuel prices prompted the government to abolish excise taxes, customs duties and VATs for imported petrol and diesel fuel in July 2008, which were later re-imposed in October 2008.[5] To stimulate exports in the face of falling global demand, the government removed an export tax on raw cashmere in June 2009, and raised the number of authorized ports with China to export cashmere from 3 to 20.[6]

External Environment

Mongolia's Market Access TTRI[7] (including preferences) for 2007 is 1.6 percent for all goods, with no significant difference found between agricultural and non-agricultural goods. Its exports face lower barriers than the average for both the EAP region and lower-middle-income countries, which have MA-TTRIs of 3.8 and 2.4, respectively. The simple average of the rest of the world tariff faced by Mongolian exports is 10.1 percent. When weighted by actual exports, it is 1.9 percent, with the rate faced by agricultural goods (7.8 percent) substantially higher than non-agricultural goods (1.4 percent). Mongolia benefits from the EU's GSP plus scheme of preferences for 7200 types of products and remains the only WTO member not signed on to a FTA. In January 2008, Canada announced that it would begin negotiations of a bilateral investment deal with Mongolia.[8] Towards end 2008, as exports dropped, it became extremely costly ($365 million dollars in reserves between July and December 2008) to maintain the Mongolian tugrug/tugrik at its effectively pegged rate to the US dollar, and the tugrug was allowed to depreciate in November 2008.[9] The currency depreciated 38 percent over the two quarters (October 2008- March 2009).[10]

Behind the Border Constraints

Mongolia was placed in the top third of favorable global business environments in the Ease of Doing Business index for 2009, being ranked 60th out of the

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Mongolia Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at http://www.worldbank.org/wti.

183 countries. However, the country placed in the bottom 10 percent in the Logistics Performance Index 2007, a measure of the ease of trade facilitation. As a landlocked country which relies on transit transportation (through Russia and China), Mongolia's score was weaker than its regional and income group comparators. As a member of the Central Asia Regional Economic Cooperation (CAREC) Program, a group of eight regional neighbors created to increase economic cooperation, Mongolia agreed in November 2008 to invest significantly towards upgrading the infrastructure in a number of trade corridors by 2017.[11] In spite severe fiscal constraints, the government has committed to infrastructure development and maintenance.

Trade Outcomes

During 2008, Mongolia's total trade in goods and services combined grew by 53.6 percent in nominal US dollar terms during 2008.[12] The Mongolian economy is highly dependent on exports from its mining sector, particularly copper and gold, which accounted for 33 and 24 percent of total exports in 2008, respectively.[13] It is also the second largest global cashmere producer.[14] Exports of goods and services (almost three-quarters of which are sent to China) increased by 34.4 percent in 2008, as the high prices for gold and copper in the first half of the year, buoyed the sharp decline in copper prices in the second half of 2008. This decline, coupled with the decrease in worldwide demand for minerals, led to an overall decrease in exports during the last quarter of 2008 of 3.2 percent and a further decrease of 44.4 percent in the first quarter 2009, on a year-on-year basis.

Mongolia imports most of its non-meat food and petroleum and as a result imports increased by 70.8 percent in 2008, causing high inflation. China and Russia are the source for almost two-thirds of its imports, with oil making up the greatest share of imports from Russia. As prices fell in late 2008 and early 2009, inflation eased, and although imports grew by 36 percent on a year-on–year basis in the last quarter of 2008, they fell by 39 percent in the first quarter of 2009.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009 and State Great Khural Resolution No. 96.
3. Mongolian Law on VAT and State Great Khural Resolution February 27, 2008.
4. State Great Khural Resolution No. 235.
5. State Great Khural Resolution No. 282.
6. Global Trade Alert, 2009.
7. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
8. Bilaterals.org, 2008.
9. World Bank, February 2009.
10. World Bank, July 2009
11. Asian Development Bank, 2008.
12. All output data is from IMF 2009.
13. Bank of Mongolia, 2009.
14. Economist Intelligence Unit, 2008.

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