India-Mongolia Economic Relations: Current Status and Future Prospect

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Abstract

The long historical relation of India-Mongolia was translated to diplomatic relationship in 1955, after three decades of Mongolia's independence. With the India's Act East Policy, the relation with Mongolia plays a critical role towards India's association with Northeast Asian countries. The volume of India-Mongolia trade has been growing at a faster pace since last decade. However, it is under performed than its potential level. The paper indicates that India and Mongolia have strong trade potential in petroleum products, iron and steel products, cements, pharmaceuticals, minerals etc. India has potentiality to invest in diversified areas of trade and social sectors. Trade and investment will be enhanced by reducing barriers to trade and need to have stronger monetary policy and stable business environment. Mongolian government has shown their concern towards attracting foreign investment in different areas along with mining. The stronger bilateral relation will help two countries to unlock their trade and investment potential with more regional accessibility.

Keywords: trade, investment, trade potentiality, trade barriers, India, Mongolia
JEL code: F13, F18

1. Introduction

India and Mongolia share a long historical and cultural bond. India and Mongolia have a strong strategic dimension, thus making the association imperative towards India's foreign policy. India's economic and regional integration with Southeast and East Asian nations was embarked by the adoption of Look East Policy in 1992. India has moved into the Look East Policy Phase II, which is also known as the Act East Policy (AEP). AEP is an effort to intensify India's engagement with Southeast and East Asian countries – economically, culturally and strategically. Mongolia is occupying an important space in India's AEP[1] as an important partner for India's rising footprints in the North East Asia and also an integral part in the Central Asian programmes.

The historical and cultural ties of the two countries were driven by Chinggis Khan's dynasty, flowed by the Buddhism and then through Silk route of Asian continent. In 1921, Mongolia witnessed independence from Chinese rules. Three decades later, the diplomatic relations between India and Mongolia were established in 1955. In 2015, India and Mongolia celebrated their 60 years of diplomatic relations. The occasion of the 60th anniversary was engraved by the visit of Mr. Narendra Modi, Prime minister of India to Mongolia and elevates the level of comprehensive partnership to strategic partnership.

Mongolia being a landlocked country relies heavily on foreign trade and investment. China and Russia account for a lion's share of Mongolia's trade and investment. The volume of India-Mongolia trade has also been growing at a faster pace in recent years. However, compared to its potential, current economic engagement is limited to trade in minerals only. The visit of the

Indian Prime Minister to Mongolia in 2015 has resulted in the emergence of new opportunities in bilateral relations between the two countries, which have never been explored in recent past.

In this paper we try to identify trends and opportunities of future economic cooperation between India and Mongolia. We also highlighted the barriers related to non-tariff measures and transportation that are the main obstacles to trade and investment between two countries.

In the course to analyse the bilateral relation, it was observed that there was no study done on India-Mongolia relation prior to the De and Pan (2017). They analyse India-Mongolia relation in very dimension to induce bilateral economic cooperation. Their study indicates Mongolia's world integration in terms of transportation, cooperation and also proposes recommendations to strengthen India-Mongolia strategic relation.

With limited source of information on these two-country relation, our study rely on the De and Pan (2017), joint statement release on the occasion of Prime Minister's visit in 2015 at Ulaanbaator, and has been benefitted from discussions with several experts and stockholders.

Rest of the paper is organised as follows. Section 2 analyses the trade relations between India and Mongolia. Investment scenario is discussed in Section 3, followed by presentation on trade obstacles that hinder trade between India and Mongolia in Section 4. Finally, conclusions are drawn in Section 5.

2. Trade Relations between India and Mongolia

India, located in South Asia, and, Mongolia, located in North East - Central Asia, is having an aerial distance of 3330 km. between New Delhi and Ulaanbaatar. However, it is the long maritime distance between them, around 7000 km, makes the bilateral trade an expensive and non-competitive affair. Mongolia has 2.88 million people residing over 1.56 million sq. km – an area almost half of the size of India.[2] Mongolia is one of the least densely populated countries in the world, having a per capita income of US$ 7487.84 (in PPP term), almost twice that of India's US$ 3866.17.[3]

India and Mongolia are service-driven economy with falling agricultural share in GDP. India ranked 15th as an export destination to and 18th in import from Mongolia in 2015.[4] Mongolia's major trade share is occupied by its neighboring countries like China, Russia, Japan, Korea and EU, etc. With a less than US$ 1 million trade before 2004, India's export to Mongolia was geared up in 2010 with US$ 19.63 million (Table 1). Export from India to Mongolia increased to US$ 8.26 million in 2015 with a peak of US$ 42.06 million in 2012, whereas India's import from Mongolia witnessed a continuous fall till 2014 after reaching an all time peak of US$ 21.77 million in 2011. In 2015, the bilateral trade volume was US$ 12.31 million, where US$ 8.26 million and US$ 4.05 million were registered as India's export to and import from Mongolia, respectively. Bilateral trade between India and Mongolia is not only very low at the moment but also loosing the momentum.

Table 1: Trends in India-Mongolia Bilateral Trade (US$ million)

Year	Indian Export to Mongolia	Indian Import from Mongolia	Total Trade
2005	1.21	1.27	2.48
2010	19.63	2.10	21.73
2015	8.26	4.05*	12.31
CAGR	21.17%	12.33%	17.39%

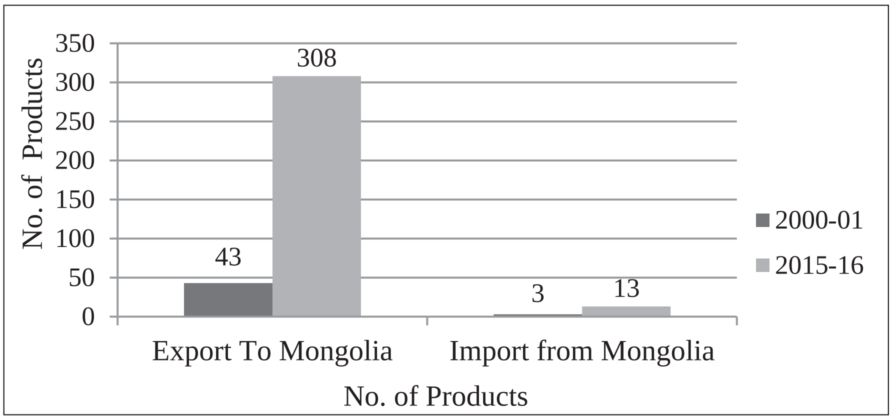
* Estimated data
Source: Direction of Trade Statistics Yearbook (DOTS), IMF

2.1 Trade Composition

In 2000-01, Indian exports to Mongolia at HS 8-digit level were 43 items and increased to 308 items in 2015-16. While import from Mongolia registered only 13 items in 2015-16 at 8-digit level with marginally increased from 3 items of 2000-01 (Figure 1).

In 2015, the top 15 commodities that India exported to Mongolia accounted for 58 per cent of the total export to Mongolia (Table 2) and witnessed a compositional shift of export items form 2000-01. It was registered that top exporting 15 commodities in 2000-01 were contributed over 87 per cent of India's export to Mongolia, reflecting an increase in trade diversification over the last decade. Except vaccines for human medicine (HS 300220), India's top 15 export products at 6-digit HS level in 2015-16 were not those the country exported in 2000-01 to Mongolia. In 2015-16, pharmaceuticals were the main export item and contributed over 35 per cent of total exports to Mongolia. The other major export items in 2015-16 were medical instruments, motorcycle, rice and parts and electrical machinery.

Figure 1. India's Trade with Mongolia: Number of Products Traded at 8-Digit HS Level



Source: Calculated based on Export Import Data Bank, Ministry of Commerce and Industry, Government of India

Table 2: Indian Exports to Mongolia at 6-Digit HS, 2015-16: Top 15 Products

HS Code	Product Description	Export Value (US$ million)
300220	Vaccines for human medicine	0.95
902221	Apparatus based on the use of X-rays, whether or not for medical, surgical, dental or veterinary uses, including radiography or radiotherapy apparatus :-- For other uses	0.56
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	0.40
902214	Apparatus based on the use of X-rays, whether or not for medical, surgical, dental or veterinary uses, including radiography or radiotherapy apparatus :-- Other, for medical, surgical or veterinary uses	0.35
870322	Other vehicles, with spark-ignition internal combustion reciprocating piston engine :-- Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc	0.25
300420	Medicaments containing other antibiotics and put up for retail sale	0.24
240399	Products of tobacco, substitute nes, extract, essences	0.22
300450	Other medicaments containing vitamins or other products of heading No. 29.36	0.14
848180	Taps, cocks, valves and similar appliances, nes (other appliances)	0.13
871120	With reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc but not exceeding 250 cc	0.13
130232	Mucilages and thickeners, whether or not modified, derived from locust beans, locust bean seeds or guar seeds	0.12
330610	Dentrifrices	0.12
902300	Instruments, apparatus and models, designed for demonstrational purposes (for example, in education or exhibitions), unsuitable for other uses.	0.12
845891	Other lathes :-- Numerically controlled	0.11
	Total of above	5.64 (66.82)
	Total	8.44

Note: Data in parentheses presents share in total export.
Source: Export Import Data Bank, Ministry of Commerce and Industry, Government of India

Table 3: Indian Imports from Mongolia at 6-Digit HS, 2015-16

HS Code	Product Description	Import Value (US$ million)
510211	Fine animal hair, not carded or combed	2.24
510129	Degreased wool nes, not carded, combed or carbonized	1.40
510119	Greasy, including fleece-washed wool :-- Other	0.29
271490	Bitumen and asphalt, asphaltites and asphaltic rocks	0.12
252921	Fluorspar :-- Containing by weight 97 % or less of calcium fluoride	0.10

253090	Mineral substances, nes	0.05
510111	Greasy, including fleece-washed wool :-- Shorn wool	0.05
510510	Carded wool	0.03
860900	Containers specially designed and equipped for carriage by one/more modes of transport	0.01
	Total	4.30

Source: Export Import Data Bank, Ministry of Commerce and Industry, Government of India

In compare with export, Indian imports from Mongolia have been driven mostly by wool (HS chapter 51), which had a share of 93 per cent in India's total imports from Mongolia in 2015-16 (Table 3). Imports of other products have been very negligible. Contrary to popular belief, India is yet to be the destination of Mongolia's major exports of copper, gold, coal, oil, and other resources.

Finally, potential of diversification of Indian exports to Mongolia can be judged based on the number of products exported between the two years (Figure 1). With an increasing export share, diversification opportunities exist in case of India's exports to Mongolia and vice versa.

2.2 Trade Indicators

Magnitude of bilateral trade depends on the potentiality and complementarily of both trading partners and it would also determine the future prospects of trade. The decision of right export market is based on the Trade Intensity Index (TII), and trade potential between the two countries can also be judged based on trade complementarity index (TCI). TII determines whether the value of trade between two countries is greater or smaller than the expected on the basis of their importance in the world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner.[5] An index score of more than one indicates a bilateral trade flow that is larger than expected and vice versa, given the partner country's importance in world trade.

Table 4: Trade Intensity Index (TII) for Mongolia and India, 2015

Mongolia's export to India			India's export to Mongolia		
HS Code	Product Description	TII	HS Code	Product Description	TII
130190	Natural gums, resins, gum-resins, balsams and other natural oleoresins (excl. gum Arabic)	12.49	845891	Lathes; for removing metal, numerically controlled, other than horizontal lathes	718.19
710812	Gold (Including gold plated with platinum) unwrought or in semi manufactured forms, or in powder form	6.45	854230	Other monolithic integrated circuit	542.74
510129	Degreased wool, non-carbonized, neither carded nor combed (excl. shorn wool)	2.27	845730	Metal machines; multi-station transfer machines, for working metal	355.09

510530	Fine animal hair, carded or combed (excl. Wool)	2.17	847529	Machines; for manufacturing or hot working glass or glassware, not for making optical fibres and preforms thereof	297
510121	Wool, not carded/combed, degreased, not carbonised, shorn	1.03	284321	Silver compounds; silver nitrates	200.79

Source: Authors

Table 4 presents TII scores for Mongolia and India. It indicates that Mongolia has less intense trade relations with India with having only five products TII score greater than 1. These are natural gums (excl. gum Arabic), resins, gum-resins and oleoresins, gold and woolen products. On the other, India shows relatively intense trade relations with Mongolia on 130 products, which are having TII score greater than 1. The TII products of Indian export to Mongolia are more diversified, which includes machineries and equipments, organic and inorganic chemicals, base metal, papers, iron and steel etc.

Table 5: Trade Complementarity Index (TCI) for 2015

Reporter	Partner	TCI (%)
India	Mongolia	37.43
Mongolia	India	33.14

Source: Authors

TCI measures the degree of export pattern of one country matches the import pattern of another. An increasing trend of the index scores between two countries also provides some indication of the useful information on prospects for bilateral trade. TCI is a type of overlap index. A high degree of complementarity is assumed to indicate more favourable prospects for a successful trade arrangement. TCI takes a value between 0 and 100, with zero indicating no similar goods are exported or imported by both the trading partners. While 100 indicates a perfectly match of export and import of the partner countries. The calculated TCI scores are presented in Table 5 for both India and Mongolia as bilateral trade partners. Given the aggregation bias, the TCI scores indicate that Indian has relatively higher trade complementarity in compare to Mongolia.

2.3 Trade Potentiality

The indicative potential trade has been computed for each 6-digit product. The supply is represented by the exports of the selected country to the world. The demand is represented by the imports of the selected partner country from the world. The minimum between the two from which the bilateral trade is subtracted is the indicative potential trade.

Table 6: Bilateral Export Potential, 2015 (US$ million)

	Actual	Potential
India's export to Mongolia	8.23	3,788.37
Mongolia's export to India	3.80	4,665.48

Source: Authors

In a formal way, the unrealised trade potential for any commodity between India and Mongolia is given by [Min (Yi, Xj) – Zij], where Yi, Xj and Zij are country i's global exports, country j's global imports and existing trade between the country i (exporter) and country j (importer), respectively. Products having trade potential were identified as those with (a) adequate demand in the importing country, and (b) adequate supply capabilities in the exporting country. The caveat is that the estimates of trade potential have to be treated with caution as they are merely indicative of the untapped trade possibilities. The estimate of trade potential is the maximum possible trade that two countries can have if they sourced all items from each other which they sourced from the rest of the world, ceteris paribus. The estimates also vary depending on the year of reference.

Table 7: Trade Potential: Mongolian Exports to India, 2015 (US$ million)

HS Code	Product Description	Indicative export potential
260300	Copper ores and concentrates	2280.135
270112	Bituminous coal, whether or not pulverised, non-agglomerated	534.589
270900	Petroleum oils and oils obtained from bituminous minerals, crude	387.217
710813	Gold, incl. gold plated with platinum, in semi-manufactured forms, for non-monetary purposes	332.939
260111	Non-agglomerated iron ores and concentrates (excluding roasted iron pyrites)	227.2
740311	Copper, refined, in the form of cathodes and sections of cathodes	66.675
270119	Coal, whether or not pulverised, non-agglomerated (excluding anthracite and bituminous coal)	20.269
80290	Nuts, fresh or dried, whether or not shelled or peeled (excluding coconuts, Brazil nuts, cashew ...	14.564
261310	Roasted molybdenum ores and concentrates	14.521
410510	Skins of sheep or lambs, in the wet state "incl. wet-blue", tanned, without wool on, whether ...	12.274
	Total Trade	4665.48 (3.79)

Note: Data in parentheses is current value of trade.
Source: Authors

Table 8: Trade Potential: Indian Exports to Mongolia, 2015 (US$ million)

HS Code	Product Description	Indicative export potential
271019	Other petroleum oils and preparations	428.28
271012	Light petroleum oils and preparations	278.46
240220	Cigarettes, containing tobacco	52.24
252329	Portland cement (excluding white, whether or not artificially coloured)	44.65
732591	Grinding balls and similar articles for mills, cast (excluding such articles of non-malleable ...	41.33
300490	Medicaments nes, in dosage	40.84 (1.66)
847490	Parts of machinery for working mineral substances of heading 8474, n.e.s.	37.05
870323	Motor cars and other motor vehicles principally designed for the transport of persons, incl. ...	34.45
210690	Food preparations, n.e.s.	31.19
842952	Mechanical shovels, excavators and shovel loaders; with a 360 degree revolving super structure	29.75
	Total Trade	3788.36 (8.22)

Note: Data in parentheses is current value of trade.
Source: Authors

The calculated trade potentials, reported in Tables 6 to 8, show that the untapped bilateral trade potential was about US$ 8.45 billion in 2015 against the current trade of US$ 12.03 million (Table 6), of which Mongolian export potential to India accounts for US$ 4.66 billion, and Indian export potential to Mongolia is US$ 3.78 billion. At the product level, Mongolian export potential lies mostly in minerals (copper, coal, gold, zinc, etc.), whereas Indian export potential comprises petroleum products, iron and steel products, cements, pharmaceuticals, etc. With an immense bilateral trade potentiality, India and Mongolia should encourage more bilateral trade by reducing barriers of trade.

3. Indian Investments: Trends and Opportunities

In the investment context India contributes US$ 8 million FDI and occupies 13th rank as Mongolia’s FDI partner in 2015. Major investors are the EU (US$ 4.77 billion) and China (US$ 2.62 billion), which together contribute about 60 per cent of total FDI inflows to Mongolia. Around 80 per cent of the FDI inflows have been in the mining sector. During the period 2001 to 2012, Indian FDI in Mongolia was only US$ 8 million (Table 9), which is very negligible amount. Indian FDI has been limited to only financial, insurance and business services (Table 10). As on December 2015, there are about 20 Indian enterprises carrying out their business activities in Mongolia, distributed largely among information and communication technology, service, tourism, and energy. India has already signed the bilateral investment treaty (BIT) and double taxation avoidance agreement (DTAA) with Mongolia to root the investment opportunities.

Table 9: Trends in FDI Inflows to Mongolia by Country (US$ million)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
EU	7	6	6	8	14	14	27	14	70	271	2,362	1,969	4,768
China	50	140	47	113	228	172	340	498	613	176	1,015	243	2,620
Singapore				1	5	1	1	32	9	31	403	227	710
Russia	6	2	3	3	7	12	40	4	6	2	58	130	273
Australia	1	1			12			3	1	2	82	96	198
USA	9	10	7	9	6	37	4	6	3	14	127	63	295
Korea, Rep.			6	7	19	16	23	42	32	39	55	54	293
Japan	2	3	7	5	6	5	2	47	6	7	21	34	145
Canada		6	120	43	2	72	0	3	1	148	72	19	486
Malaysia		1	2	1	3	1		5			3	2	18
Philippines												2	2
Kazakhstan							12		2		1	2	17
New Zealand					1			2	1		1		5
Thailand											3		3
Vietnam						20	1	1		1	1		24
India				1			5	1	1				8
World	132	187	206	235	317	367	500	709	801	1,026	4,986	3,199	3,454

Source: UNCTAD

3.1 Potential Sectors of Investment in Mongolia

Foreign investment is important to the economy for exploitation of minerals as well as for development of other sectors. As noted earlier, FDI has declined in the recent years in Mongolia. To some extent, this was due to the falling commodity prices of Copper and Coal 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). According to MacDougall (2015) “Mongolia has introduced several positive changes in mining and investment legislation. This has included a renewed investment law, a new mining law and policy, and new governing bodies aimed at attracting further foreign investment into the country.” The simplified investment and registration requirements along with greater legal precision including the definition of a foreign-invested entity and a foreign government-owned legal entity have strengthened the foundation of the Mongolian economy and the FDI environment.

Table 10: Selected FDI Outflows from India to Mongolia

Year	Name of the Indian Party	Name of the JV/WOS	Major Activity	Total (US$ million)
2012 August	Intercontinental Consultants & Technocrats Pvt. Ltd.	ICT Sain Consulting LLC	Financial, Insurance, Real Estate and Business Services	0.101
2013 January	Vintage Rides Pvt. Ltd.	Vintage Rides and Tours LLC	Transport, Storage and Communication Services	0.100
2014 January	Intercontinental Consultants & Technocrats Pvt. Ltd	ICT Sain Consulting LLC	Financial, Insurance and Business Services	0.025
2014 June	Intercontinental Consultants & Technocrats Pvt. Ltd.	ICT Sain Consulting LLC	Financial, Insurance and Business Services	0.042

Source: Reserve Bank of India (RBI)

Mongolian government welcomes foreign investments in the areas of mining, agriculture, construction, education and science, energy, transportation, industry, population development, social securities, culture, sports, tourism and health.[6] These are the sectors where Indian companies have been investing in the world,[7] and Mongolia should invite Indian investments in these sectors with attractive package of incentives. The Mongolian government took the new investment law[8] in 2013 to make the country more investment friendly destinations for foreign investors. The law is intended to improve the investment climate and promote fiscal stabilisation 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 stabilise the national currency, control inflation, and improve regulation of the commercial banks, should help to improve foreign and domestic investment.

Table 11: Ranking on Investment Environment, 2016

Indicator	Mongolia	India
Ease of Doing Business Rank	64	130
Starting a Business	36	155
Dealing with Construction Permits	29	185
Getting Electricity	137	26
Registering Property	46	138
Getting Credit	62	44
Protecting Minority Investors	26	13
Paying Taxes	35	172
Trading across Borders	103	143
Enforcing Contracts	85	172
Resolving Insolvency	91	136

Source: Doing Business Data, World Bank

Table 11 shows that among 190 countries Mongolia perform better than India in terms of ease of doing business rank.[9] All indicators reveal that Mongolia is more focused in attracting foreign investors. The Mongolian government has initiated to create an attractive environment for FDI and trade through an open policy and ensuring public sector efficiency, legal certainty and sound governance.

3.2 India's Approaches towards Promoting Investment in Mongolia

Mongolia has untapped natural resources and minerals reserve, which promise an unprecedented growth potential. Indian government also extended their assistance towards Indian investors to invest in Mongolia. Indian companies investing in Mongolia get support from the Reserve Bank of India (RBI).[10] For example, the RBI has relaxed the norms for domestic companies investing abroad by doing away with the ceiling for raising funds through pledge of shares, domestic and overseas assets. In addition to joint ventures (JVs) and wholly-owned subsidiaries (WOSs), the RBI has announced similar concessions for pledging of shares in case of step down subsidiary. RBI has also liberalised/rationalised guidelines for foreign investments abroad by Indian companies. It raised the annual overseas investment ceiling to US$ 125,000 from US$ 75,000 to establish JVs and WOSs. The RBI has relaxed norms for foreign investment by Indian companies by raising the borrowing limit. The financial commitment to be undertaken by an Indian party will be limited to within 400 per cent, compared to the earlier 100 per cent of the company's net worth. The RBI has also allowed limited liability partnership (LLP) firms to undertake financial commitment to/on behalf of JVs or WOSs of Indian companies abroad. Indian investment in Mongolia would be one of the foremost steps to enter into the Northeast Asian market, and, therefore, it should be facilitated.

4. Barriers to Trade

The substantial natural and mineral resource rich Mongolia attracts foreign investors, although it has some obstacles that hinder Mongolia's trade prospect.

4.1 Tariff and Non-Tariff Barriers

In acceding to the WTO in 1997, Mongolia bound all its tariffs, most of them at 20 per cent, although the applied rate is, in most cases, much lower. In case of Indian export to Mongolia, MFN applied tariff in Mongolia has slightly increased from 4.55 per cent in 2000 to 4.91 per cent in 2013 with the rise of maximum rate from 5 per cent in 2000 to 15 per cent in 2013 (Table 12). Along with the rise of overall trade during 2000 and 2013, India has witnessed higher dutiable imports in Mongolia. Ratios of free lines and dutiable lines or free imports and dutiable imports also support this trend. In other words, India's export has been witnessing relatively higher tariff barrier in Mongolia. We need to identify how much of applied tariff exceed bound rate, which, if found, may be corrected.

Table 12: Trends in Mongolia's Tariff on Imports from India: 2000 and 2013

Tariff Year	Trade Year	Variables	Duty Type	
			BND	MFN
2000	2000	Simple Average, %	16.35	4.55
2013	2013	Simple Average, %	18.79	4.91
2000	2000	Maximum Rate, %	30.00	5.00
2013	2013	Maximum Rate, %	30.00	15.00
2000	2000	Number of Free Lines	45	7
2013	2013	Number of Free Lines	26	11
2000	2000	Number of Dutiable Lines	102	71
2013	2013	Number of Dutiable Lines	579	647
2000	2000	Number of Total Lines	147	78
2013	2013	Number of Total Lines	605	658
2000	2000	Free Imports in Million US$	0.000	0.308
2013	2013	Free Imports in Million US$	3.739	0.232
2000	2000	Dutiable Imports in Million US$	1.762	1.454
2013	2013	Dutiable Imports in Million US$	30.541	34.049
2000	2000	Imports Value in Million US$	1.762	1.762
2013	2013	Imports Value in Million US$	34.281	34.281
2000	2000	Ratio (Free lines/Dutiable Lines), %	30.612	8.974
2013	2013	Ratio (Free lines/Dutiable Lines), %	4.298	1.672
2000	2000	Ratio (Free imports/Dutiable imports), %	0.000	17.468
2013	2013	Ratio (Free imports/Dutiable imports), %	10.908	0.675

Note: Most Favoured Nation (MFN) and Bound Tariff (BND).
Source: Calculated based on WITS

On the other, Indian MFN applied tariff on imports from Mongolia have been drastically reduced from 27.50 per cent in 2000 to 7.36 per cent in 2013, showing India has gradually opened up the market for Mongolian exports (Table 13). The largest proportion of tariff lines (71.7 per cent) has been subject to a tariff rate between 5 per cent and 10 per cent, while 10.7 per cent of lines were subject to a tariff rate greater than zero but lower than 5 per cent. India has non-ad valorem rates for several tariff lines. India's bound tariff levels are higher than the applied rates (MFN) and so are Mongolia's.[11] These gaps allow both the governments to modify tariff rates in response to domestic and international market conditions.

Table 13: India's Tariff on Imports from Mongolia

Tariff Year	Trade Year	Variables	Duty Type	
			BND	MFN
2000	2000	Simple Average, %	61.00	27.50
2013	2013	Simple Average, %	36.52	7.36
2000	2000	Maximum Rate, %	100.00	38.50

2013	2013	Maximum Rate, %	100.00	10.00
2000	2000	Number of Free Lines	0	0
2013	2013	Number of Free Lines	2	8
2000	2000	Number of Dutiable Lines	5	6
2013	2013	Number of Dutiable Lines	11	22
2000	2000	Number of Total Lines	6	6
2013	2013	Number of Total Lines	14	30
2000	2000	Free Imports in Million US$	0.000	0.000
2013	2013	Free Imports in Million US$	0.019	0.019
2000	2000	Dutiable Imports in Million US$	0.211	0.211
2013	2013	Dutiable Imports in Million US$	8.745	8.745
2000	2000	Imports Value in Million US$	0.211	0.211
2013	2013	Imports Value in Million US$	8.764	8.764
2000	2000	Ratio (Free lines/Total Lines), %	0.000	0.000
2013	2013	Ratio (Free lines/Total Lines), %	14.286	26.667
2000	2000	Ratio (Free imports/Total imports), %	0.000	0.000
2013	2013	Ratio (Free imports/Total imports), %	0.222	0.222

Note: Most Favoured Nation (MFN) and Bound Tariff (BND).
Source: Calculated based on WITS

What follows both the countries have to rationalize the tariff barriers against each other's trade. As imports from India have higher spillover effect on the Mongolian economy, Mongolia may consider more free imports from India, particularly in intermediate and parts and components. Ultimately, this would lead to facilitate value chains aiming to serve the North East Asian market. At the same time, NTMs also have to be rationalised and/or removed.

Indian exporters face a series of trade restrictiveness in Mongolian market and vice versa. Mongolia has NTMs in force related to health safety and hygiene, standardization and conformity assessment, labelling and certification, etc. India and Mongolia have several NTMs – conformity assessment measures related to food safety such as certification, testing and inspection, and quarantine, and measures such as labelling, standards on technical specifications and quality requirements, and other measures protecting the environment. Harmonisation and/or streamlining the NTMs would be critical to bilateral trade as well as value chains. Enhancing the regulatory environment in goods sector is essential to eliminate unnecessary regulatory divergences that can only restrict the trade flows at bilateral level (India and Mongolia) or regional level (India and North East Asia).

4.2 Transportation

Mongolia is a land-locked country in the Northeast Asia bordering China in the south and Russian in the north. Thus, transportation plays a vital role to the development of Mongolian economy. The Logistic Performance Index (LPI) for 2016 reveals that Mongolia is much behind in all trade logistics areas (Table 14). Mongolia should emphasize on building infrastructure to facilitate trade with other countries. The Mongolian transport sector covers air, road, and rail transport modes, and its international trade is conducted through ports of China and Russia.

Table 14: Logistic Performance Index, 2016

Indicator	Rank	Score
LPI Rank	108	2.51
Customs	100	2.39
Infrastructure	140	2.05
International shipments	129	2.37
Logistics competence	129	2.31
Tracking & tracing	108	2.47
Timeliness	65	3.4

Note: Lower rank and higher score indicates well performance and vice versa.
Source: The World Bank

Main international transportation link with the sea gates of China and Russia are as follows:

- Through Xingang port of China shipments to (from) South Asia, Middle East, Oceania, North and Central Asia, North, Central and South America and Europe.
- Through Vladivostok port of Russia shipments to (from) South Asia, Central and South America and Europe.
- Through St. Petersburg port of Russia shipments to (from) Europe and America.
- Through Novorossiysk port of Russia shipments to (from) Middle East and CIS countries.

Most of Mongolia's trade has been carried through Xingang port of China. Xingang port is the closest open sea gate to Mongolia and is directly connected to Mongolian border station both by rail and road. The Trans-Siberian Railroad of Russia is another important route that connects other Russian sea ports with Mongolia. The Trans-Mongolian Railway is the main rail link between Mongolia and its neighbours. There are other paved roads that connecting Ulaanbaatar with the Russian and Chinese border. Other than rail, road Mongolia has single international airport located at Ulaanbaatar, which is known as Chinggis Khaan International Airport. Mongolia is also being associated with China –Mongolia-Russia Economic Corridor and CAREC Corridor to enhance regional trade and cooperation.

India and Mongolia have long maritime distance between them – around 7000 km with transit at Tianjin Port in China that makes the bilateral trade an expensive affair. At present, it takes over 45 days for a container to reach Ulaanbaatar from New Delhi.[12] In other words, the connectivity constraints had slowed down the process of economic interactions between the two countries. Connectivity constraints prevent Mongolia to diversify exports, select more trade partners, to mention a few. High trade costs arising from low accessibility to seaports negate its strategic location as gateway to Northeast and Central Asia.[13]

4.3 Others Barriers

The role of financial institutes and banks are one of the important pillars to create business environment and attract FDI to a country. According to Central bank of Mongolia, it had only 10 operational banks with 106 branches in 2014.[14] The World Bank has noted that Mongolia's banking sector is still remained in tight funding conditions with deterioration in its asset quality.[15] Mongolian government needs to take strong monetary policy and facilitates banking and other financial services to drive foreign investment in the country.

Mongolia has an evolving telecommunication system, mainly developed in urban areas whereas, least densely populated rural areas are still lagging behind it. Mongolia need well connected telecommunication base to trigger the FDI.

The lack of transparency and consistency in regulations create an obstacles to trading with and doing business in Mongolia. The new elected government of Mongolia has given number promises to uphold business environment and stated economic priorities to attract FDI, undertake economic reforms, and reverse the economic downturn. This will bring new light to augment its journey towards global integration. India and Mongolia are willing to build high level of business and economic cooperation by reducing these trade restrictions.

5. Conclusions

During the visit of Prime Minister of India to Mongolia in May 2015, India announced a US$ 1 billion line of credit (LoC) to strengthen Mongolia's economic capacity and infrastructure, and also elevate the bilateral relationship into strategic partnership level. The visit of Indian Prime Minister opened up new visitors of cooperation by signing 13 agreements between the countries. This will induce more economic opportunities along with mutual interest of peace and prosperity of both the countries.

Mongolia has strong dependence on its mining industry, with collaboration with India, Mongolia can leverage India's strong Information Technology (IT) and Information Communication Technology (ICT) base. India could build IT parks by creating Special Economic Zones (SEZ) in Mongolia. Sectors like logistics, education, health, tourism, financial services, automobiles, daily, food processing, minerals, construction etc. have immense bussiness opportunities. These measures could help Mongolia to diversify its export opportunities in the global market.

Other than trade cooperation, India has also shown interest in renewable energy and defence sectors. Mongolia's immense mineral resource with radioactive mineral reserve that could help power India's low carbon growth. India could also provide the technology support to establish energy center in Mongolia with utilizing Mongolia's own minerals rather than depends on imports of energy. On the security aspect, India is committed to establish a Cyber Security Training Centre at Mongolia's defence ministry to undertake the training of Mongolian personnel in cyber security. India can also provide support to the Mongolian government in establishment of e-governance. India may consider to play a critical role to support Mongolia's infrastructure and institutions, especially in trade and education. Indian investment in social infrastructure like health and skill development can help foster the partnership between the two countries. Animal vaccination, medicines and veterinary care can be a potential area of cooperation between India and Mongolia, as animal husbandry sector is the fundamental source of food and raw materials and contributes 20 per cent in Mongolia's total GDP.

With the deep rooted history of interactions, India and Mongolia could engrave their relation by greater cooperation in economic, social, political, cultural and security areas. The relation between them could endeavor the untapped regional accessibility by stronger dynamic cooperation.

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[1] Mongolia is an integral part of India's Act East Policy (AEP). Refer, the India-Mongolia joint press conference issued during the visit of Indian Prime Minister to Mongolia in May 2015.
[2] Data source World Development Indicator
[3] Data source World Development Indicator
[4] Data source UNCOMTRADE
[5] It is calculated as: $T_{ij} = (x_{ij}/X_{it})/(x_{wj}/X_{wt})$, where x_{ij} and x_{wj} are the values of country i's exports and of world exports to country j and where X_{it} and X_{wt} are country i's total exports and total world exports, respectively.
[6] Refer, http://investmongolia.gov.mn/en/
[7] Direct investments by Indian firms were US$ 2.28 billion in October 2015, as per Reserve Bank of India (RBI) data. The investments were primarily a mix of issuance of guarantees (US$ 1.72 billion), loan (US$ 210.94 million) and of equity (US$ 341.82 million). FDI outflows in 2014 were mostly directed towards countries providing higher tax benefits such as the Netherlands (26 per cent), Singapore (14 per cent) and Mauritius (12 per cent). On the sector front, transportation, storage and communication services drew maximum investment outflows from India (28 per cent). Companies have also been actively investing in sectors such as manufacturing (24 per cent), agriculture and mining (21 per cent), wholesale, retail trade and restaurant (10 per cent), financial institutions and business services (8 per cent). Refer, for example, http://www.ibef.org/economy/indian-investments-abroad
[8] Refer, http://investmongolia.gov.mn/en/
[9] Lower the rank implies higher investment friendly environment.
[10] Uranium exploration is being keenly pursued by Jindal steel after acquiring 2 exploration licenses.
[11] The gap between the bound and applied MFN rates is called the binding overhang. Trade economists argue that a large binding overhang makes a country's trade policies less predictable.
[12] Based on authors discussion with a prominent international shipping line in New Delhi.
[13] Refer, Vorshilov and Ulzii-Ochir (2016)
[14] Central Bank of Mongolia.
[15] http://www.worldbank.org/en/country/mongolia/publication/mongolia-economic-update-november-2015

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