

Mongolia at the Edge of the 21st Century

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1. The Land, People and Some Related Issues

Mongolia, a country roughly four times the size of Japan, has a population of only 2.38 million, 44% of who are under the age of 16. Average population density is 1.4 persons per km², which means that Mongolia is one of the most sparsely inhabited nations on earth. At the same time, Mongolia is a relatively urbanized country. More than 60% of its population reside in towns and settlements, including 26.4% in the capital city of Ulaanbaatar. 15% of all rural families, some 136,000 people, live in semi-nomadic conditions.

The official language is Mongolian, which belongs to the Ural-Altai group of languages, like the Japanese and Korean languages. Russian is widely understood in urban areas, and now many people can speak English and German. With the student youth, besides the above-mentioned languages, Korean and Japanese are popular. The Russian Cyrillic script was introduced in 1946, but in recent years the traditional Mongolian script has been taught again in primary and secondary schools.

The main religion is Buddhism, but between 1930-1989, many monasteries were destroyed or closed and religion almost disappeared. Since the democratic changes in Mongolia, religion has been practiced widely. Now people have freedom of belief and many monasteries have been reopened.

There are mountains in the north and west. Nearly 10% of the land is forested, mostly in the north. The central region is steppe, the southern part is Gobi or semi-desert. Mongolia has an extreme continental climate, very cold in winter and warm in summer. The average temperature ranges from 20 in summer to 25 in winter.

As for its geographical location, Mongolia is characterized by isolation from the gateways to the sea and main and developing market places, a landlocked location, and being totally surrounded by two giant countries. On the other hand, due to undeveloped infrastructure across a large territory, the population, which significantly is sparsely located, lacks a system of internal economic self-sufficiency. This causes an increase in transportation costs.

Due to harsh extreme climatic conditions, livestock and crop production industries depend to a great extent on nature.

2. Brief History

Man first inhabited the territory of present-day Mongolia in the 500th millennium BC. Archaeologists have identified a distinct Mongolian people as early as the second millennium BC. Several states of the Mongolian tribes such as the Hunnu, Jujan, Turkic, Uigur and Kidan

succeeded each other before the 12th century.

In 1206, the warring nomadic tribes were unified by Chinggis Khan, and, armed with a swift and powerful cavalry, he embarked on military campaigns across Asia, Russia and Eastern Europe. In the one and a half centuries that followed, Mongolians built up one of the largest empires known in the world. Before his death in 1227, Chinggis Khan divided the empire into four kingdoms to be ruled by his sons and grandsons. They extended the territory of the empire, conquering almost the whole Eurasian Continent from Southeast Asia to Central Europe.

By the mid-1300s, the Mongolian Empire began to weaken due to internal struggle for power among the princes. After several attempts to consolidate its parts, however, the empire collapsed. With the fall of the Yuan Empire established by Khubilai Khan, the grandson of Chinggis, Mongolians began to withdraw to their homeland.

In 1636, the Manchu (Qing dynasty in China) extended its rule over the southern part of Mongolia, known as Inner Mongolia, and in 1691, four principedoms of Khalkh Mongolia were subjugated to the same rule. The period of Manchu rule is remembered as a degrading period in Mongolian history.

When the Manchu-Qing Dynasty fell in 1911, Mongolian princes declared independence. After the proclamation of independence, Chinese and Russian warlords made several attempts to gain control over Mongolia. In this critical period, a new government headed by the Mongolian People's Party and supported by Socialist Russia came to power in 1921. In 1924, the Mongolian People's Republic was proclaimed. Thus, Mongolia became the second socialist country in the world. During the seven decades of its existence as a socialist country, Mongolia achieved considerable progress in terms of economy, culture and civil education. Beginning in December 1989, a series of public rallies were staged by the opposition and certain politburo members were removed. The first-ever multiparty elections were held in July 1990, in which the ruling Mongolian People's Revolutionary Party was victorious, but the opposition did well enough to be invited to join the cabinet. The national privatization policy and other enactments aimed at introducing market principles were adopted in 1991, allowing privatization of agriculture and state-owned assets.

3. The Political and Legal System

The new constitution, guaranteeing human rights and private ownership, was adopted by the transitional parliament in January 1992.

The State Great Khural is the highest organ of State

and supreme legislative power is vested only in the State Great Khural. The State Great Khural is unicameral and has 76 seats.

The President of Mongolia is the head of State and the symbol of the unity of the people. Within his power, he may issue decrees compatible with the laws.

The Government is the supreme executive body of the Mongolian State. The Prime Minister, appointed by the State Great Khural, submits in consultation with the President his proposed Cabinet members to the State Great Khural. The State Great Khural appoints the Cabinet members for a period of four years.

The Mongolian judicial system consists of the Supreme Court, Aimag and Capital City court, intersomon and district courts. The implementation of the Constitution is supervised by the Constitutional Court.

4. Economic Conditions and Some Issues

If, in the beginning of the century, the Mongolian economy comprised of only one agricultural sector, over the 70 year period until 1990, it turned into a many-fold economy with exploration, processing industries based on

agriculture and minerals, transport, communication, construction, crop production, health, culture and education.¹

Basically, until 1990, the economy of the country was regulated according to centrally-planned principles. Starting in the second half of the 1980s, a process of economic growth and efficiency decline took place.

A reform process based on democratic principles initiated in Mongolia since 1990 is on the way. Due to unfavorable initial conditions for economic reform, the Mongolian economy suffered serious decline, starting in 1991. Specifically, GDP fell by 20% in the period 1990-1993, with imports declining by 2.6%.

Since 1994, the economic downfall has been stopped, the inflation level decreased from 325.5% in 1992 to 53.2% in 1996, with a further decline to 17.5% in 1997, and 6% in 1998. Since 1993, the current budget balance has reached a positive level, international reserves have been recovered and equated to 8-12 weeks of imports. These are considered as main signs of macroeconomic stability, and this trend has been basically maintained for the last four years.

Table 1: Main Development Indicators of Mongolia
モンゴルの主要発展指標

	1995	1996	1997	1998	1999
Population (thousands) 人口(千人)	2,312.8	2,347.1	2,379.6	2,413	2,446.4
Economically active population (thousands) 経済活動人口(千人)	839.8	847.2	852	859.3	869.8
- of which Employees (thousands) - うち雇業者(千人)	794.7	791.8	788.3	809.5	830
- of which Unemployed (thousands) - うち失業者(千人)	45.1	55.4	63.7	49.8	39.8
GDP at current prices (Tugrik million) 名目GDP(百万トグリク)	550,253.7	646,559.3	832,635.6	817,393.4	873,679.2
GDP per capita: Tugrik トグリク 一人当たりGDP US\$ 米ドル	239,877 537	277,505 507	352,319 445	341,106 407	359,583 335
Annual change of GDP (%) 年間GDP成長率(%)		2.4	4	3.5	3
Export (US\$ million) 輸出(百万米ドル)	473.3	424.3	451.5	345.2	358.3
Import (US\$ million) 輸入(百万米ドル)	415.3	450.9	468.3	503.3	512.8
State Budget - Revenue, at current prices (Tugrik million) 名目国家予算 - 歳入(百万トグリク)	144,622.9	162,923.6	222,528.4	239,998.1	259,437
- Expenditure (Tugrik million) - 歳出(百万トグリク)	149,349.9	211,264.6	287,648.6	342,145	344,375.3
Consumer price index (1995=100) 消費者物価指数(1995年=100)	100	144.6	174.2	184.7	203.1
Annual average exchange rate (Tugrik/US\$1) 年間平均為替レート(1米ドル)	446.96	547.21	790.95	837.36	1072.7
Number of Livestock (thousands) 家畜頭数(千頭)	28,572	29,300	31,292	32,897	33,568
of which: - camels ラクダ	367	357	355	356	355
- horses 馬	2,648	2,770	2,893	3,059	3,163
- cattle 牛	3,317	3,476	3,612	3,725	3,824
- sheep 羊	13,718	13,560	14,165	14,694	15,191
- goats 山羊	8,520	9,134	10,265	11,061	11,033

Source: Mongolian Statistical Yearbook 1999
出所:モンゴル統計年鑑1999

¹ Authors team: B. Huldorj, M. Badarch, Ch. Chuluuntsetseg, A. Demberel, D. Jamyanaa, N. Oyunerdene, P. Tsetsgee, Mongolian Action Programme for the 21st Century, (Map-21) Ulaanbaatar, 1999.

However, the East Asian crisis, economic difficulties in Russia and some other countries have affected negatively and led to a fall in prices for some commodities and the creation of unfavorable trade terms on the world market, which has reduced our export revenue by more than US\$60 million in 1999. GDP had fallen 2.35% in comparison to the preceding year. This situation persists even today, with a current account deficit and limited domestic savings, and appears as a main factor affecting negatively on economic growth.²

In addition, with the transition to the market economy, the poverty and unemployment problem emerged as a new phenomenon. Currently, 36.3% of the population is below the poverty line.

The growth of GDP increased in 1999 by 3.0% over the previous year and it is forecast at 4% in 2000.

The immediate challenges are reducing poverty and resolving the public sector imbalances. Mongolia's short-to-medium term prospects depend on the issues of banking sector reforms and the strength of export performance.³

There are a number of barriers and obstacles to be overcome for further economic development to be facilitated. They are as follows:

Firstly, economic and foreign trade misbalance and low level of domestic savings cause a serious shortage of capital and financial resources. Moreover, the financial sector needs to be properly developed.

Plants and factories built under the past system are huge, economically ineffective, technologically obsolete and are totally incapable of competing in the market. At the same time, there is a risk of being affected by international market price fluctuations, being dependent on a small variety of commodities like copper and cashmere. The status of major enterprises as state owned enterprises is a main obstacle to increasing economic efficiency, management improvement and promotion of fair competition.

In order to improve the living standards of the

population, a short term economic strategic objective of Mongolia for the next three years is defined as inventing a private sector driven economic system through acceleration of economic growth, enhancement of economic and social sectors' structural adjustment, penetration into new export markets, rapid increase of foreign direct investment and domestic savings.⁴

5. Main Sectors and Their Prospects for Development

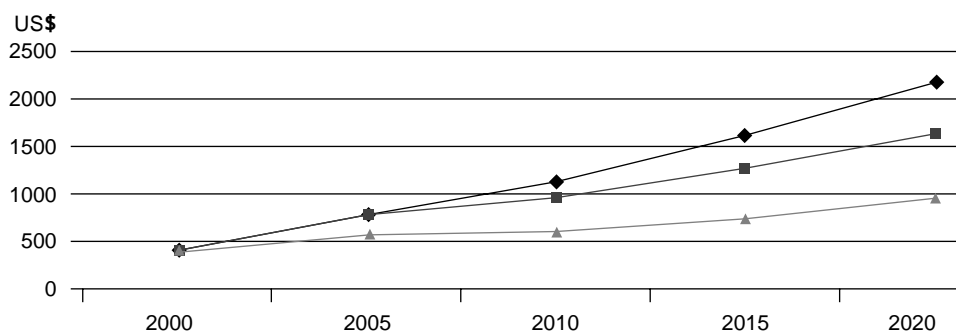
Population growth prospects in Mongolia

Generally, the pattern is characterized by a total population of 4 million at the 2020 level and a gradual aging of the population. However, it is forecast that for the first half of the new century, more than half of the population will be represented by youngsters under 25, and the percentage of the population of those of working age would be 55-66% of the total population. Although the level of the urban population will increase in a stable manner, due to the relatively low birth rate of the urban in comparison to the rural population and migration process activation derived from rural infrastructure improvement, its share in the total population is to decrease. Vulnerable groups in terms of health care demand, like infants and elderly people, will increase by 1.5-2%, where as fertility rates will increase by 2.4%, causing an increase in health care, social protection and social safety net cost.⁵

Mongolian economic development options

The Ministry of Finance made a projection assuming that the maximum GDP annual growth rate will be 5% in 2000 and 7% in 2004, with a further sustainable increase beyond 2020. According to this projection, if the growth rate in 2020 is to be at its highest level of 7%, GDP per capita would reach US\$2,100, with a 5% growth rate, US\$1,600 and with a 3% growth rate, US\$900.

Figure 1: GDP per capita projection- Mongolia
モンゴルの一人当たりGDP 予測



Source: Development Forecast, Ministry of Finance, Mongolia, 1999
出所: " 発展予測 ", 財務省、モンゴル、1999

² D. Jargalsaikhan, Country Report: Mongolia, for JICA " Investment Promotion Seminar, " April 11-May 19, 2000, Tokyo, Japan.

³ " Special Chapter: The Social Challenge in Asia , " Asian Development Outlook 2000, P.12

⁴ Mongolia Economy, Medium Run Social Development Strategy, Government of Mongolia, 1999

⁵ B. Huldorj, M. Badarch, Ch. Chuluuntsetseg, A. Demberel, D. Jamyanaa, N. Oyunerdene, P. Tsetsgee

However, once growth is accelerated and reaches 7%, there could be possibilities for further high rate growth. If this is to be the case, it could be assumed that the GDP per capita of Mongolia will be at the level of US\$2,100-5,200 in 2020 or, in other words, it will provide for and above the current international level of 7% growth and US\$4,603.

Mineral resources and mining

There are a number of mineral resource deposits with feasibility studies already done at certain levels, including 10 deposits of iron ore, 5 of white tin, 4 of uranium, 40 of fluorspar, 50 of coal, 60 of salt, 7 of mixed metal/zinc, black tin, silver, cadmium and bismuth and over 100 of gold deposits. In total, there are over 300 deposits for industrial use.⁶

In the 1992-1999 period, the mining sector produced an average of 30% of total Mongolian industrial output and accounted for 65.5% of exports. According to the East- West Center study, until 2005, 2-3 medium sized and 4-6 small to medium sized gold deposits are to be newly exploited and Erdenet Copper Mill is to be expanded with the introduction of a melting section. For the period 2006-2020, 3-5 new medium sized and a number of other small to medium sized gold deposits, one each of copper and sulphidum deposits of significant size, one of medium sized zinc and black tin deposits, and 3-4 silver deposits, are to be developed. The expected outcome of these developments should be to raise gold production to 11, 20-25 and 20-40 tonnes by 1998, 2010 and 2020 respectively.⁷

According to the program "Mineral Resource," adopted by the Government of Mongolia, 1998-2000, the aims are as follows: (1) put in place a structure to support the program implementation, organization and legislative framework; (2) identify priorities; (3) develop and implement a short run policy in line with the Government action plan; (4) implement the "Gold 2000" program, increase the resource base of main gold mines, double gold production from the 1997 level, with the introduction of a gold refining industry domestically, and (5) develop and implement "Uranium," "Copper" and "Steel" programs.

During the second stage, 2000-2010: (1) expedite minerals research and exploration according to identified priorities; (2) conduct an assessment of resource market value, and furthermore develop an infrastructure; (3) set up new exploration and processing plants involving foreign investment and modern technology and modernize and expand existing enterprises. Exploitation of new gold, mixed metal and uranium concentrate deposits, based on foreign capital and modern technology, is planned, with an improvement of sectoral structure and a rapid increase in export capacity.

The third stage, after 2010, envisages: (1) construction of large mineral exploitation and processing plants; (2) development of color, rare and metal ore, and concentrate complete processing metallurgical mills; (3) production, exportation and domestic supply of pure metals; (4) semi processed and finished products of high quality; (5) copper melting and refining; (6) development of a metal mill and Tavan Tolgoi coking coal mine and the establishment of a zinc and black tin metallurgical plant in Dornod aimag. The bottom line, as it is identified in the program, is that GDP and export volumes are to increase 2-3 times in comparison to current levels.

Energy sector

The industrialization of the country led to the foundation of the present network of energy supply. Mongolia has developed energy production based on coal burning thermal power plants. There are 6 major thermal power plants of different capacities.

Currently, 80% of total energy and heat are being produced by coal-powered stations in the country. Although annually 20 mines produce and supply electronic power stations with 6 million tons of coal, it is not sufficient to meet the urban demand. Moreover, the situation is likely to persist, and therefore, it is vitally important to initiate a renovation of equipment and the technological base of the coal mines, or to introduce a modern capacity to substitute failing equipment.

As for heat and electricity sources, the current capacity will be sufficient to meet overall demand through the year 2000, after which entirely new sources will be required. In order to meet overall energy requirements, the country needs to diversify its energy sources, provide for regional cooperation in the sector, rural electrification, mitigate environmental degradation and introduce new technologies and market principles in relationships arising from interrelation of energy producers, transformers and consumers.⁸

It is assumed that Mongolia possesses enough potential in terms of petroleum resources. However, as of today, there are no sources identified so far. As B. Ts. Petilla stated in 1994, Mongolia possesses a petroleum resource of 3-6 billion barrels, of which 85% is probably oil and the remaining 15% is gas.⁹

The East-West Center, based in the USA, estimated the daily oil production capacity of Mongolia as being 14,000 in 2005 at the average level of 2000 and 2010, increasing further to 80,000 barrels in 2020, which would eventually enable the country to build pipelines and export the product to China.¹⁰

Transportation

Specific conditions of the country predetermine the development of its transportation network, dominated by

⁶ U. Mavlet, B. Enebish, Mineral Resources of Mongolia, pp. 34-51

⁷ The Assessment of Future Infrastructure and Financing for the Development of Northeast Asia- On Mongolia, Draft Final Report, Korea Development Institute, East- West Center, May 1999.

⁸ B. Huldorj, M. Badarch, Ch. Chuluuntsetseg, A. Demberel, D. Jamyanaa, N. Oyunerdene, P. Tsetsgee

⁹ W.C. Pentilla, Journal of Petroleum Geology, vol. 17 (I), January 1994, pp. 89-98

¹⁰ The Assessment of Future Infrastructure and Financing for the Development of Northeast Asia- On Mongolia, Draft Final Report

auto-transportation in the inland territory and by railroad. Air-transportation is vital for the remote aimags. A small fleet of cargo boats operates on the lake of Khovsgol and on the Selenge River. Mongolia is also seeking to establish its own ocean fleet operating from the nearest port. Legislation regarding such matters as registration and domicile is being drafted and will be enacted.

The Trans-Mongolian Railroad connecting the Russian and Chinese railroad network runs through Central Mongolia from north to south. This 1,400 km stretch of railway today provides the major link for Mongolia with Russia and China and the rest of the world.

The main industrial and commercial centers, such as Ulaanbaatar, Darkhan, Erdenet, Sainshand and Sukhbaatar, are located along this railroad. The Mongolian rail system was established driven largely by an emphasis on expanding the mining industry.

Taking into account the favorable geographical position of Mongolia on the routes linking the European continent and Pacific region, it might be economically justifiable to develop an air transport system.

The national air-transportation company (state enterprise) MIAT is the major domestic carrier. MIAT serves regular links with Irkutsk, Moscow, Beijing, Hukhe-hot, Berlin and Seoul. The company also operates charter flights to Osaka, Singapore and other cities.

Telecommunications

The national integrated telecommunication network of the country consists of 4,000km analog microwave and 30,000km of open wire lines connecting aimag centers and somons. There are 325 switching systems with a capacity of 100,600 telephone lines in the network.

The establishment in 1990 of the ground station of the "Asiasat" and "Intelsat" system in Ulaanbaatar has enabled Mongolia to be connected automatically with a telex and fax network of over 190 countries. The international telecommunication services are handled through 74 channels of satellite systems including Intelsat, Intersputnik and Asiasat. In 1992-1993, a new Ulaanbaatar city digital technology telephone exchange with capacity of 40,000 lines was installed and is now in full use.

The private sector has introduced telecommunications services such as e-mail and pager services and a mobile telephone system. A government short run objective is to introduce a digital technology switch system in Ulaanbaatar and other major cities and aimags, as well as to replace telecommunication equipment with modern compact technology at the soum level, giving more emphasis on satellite telecommunication services. Within the framework of the telecommunication sector "Master Plan," it is spelled out that the sectoral primary objective is to promote investment, both foreign and domestic, and introduce a digital network of radio, television and satellite communication by setting up a national information infrastructure, covering rural areas completely with the satellite national network, getting connected through fiber cables with the regional and global information network, and thus establishing a national information infrastructure

that facilitates long distance training, provision of medical services, video conferencing and development of various information technologies, such as satellite communication pager devices. To comply with the national basic network policy, the GMPC System is also being introduced to attract any investment initiative in the sector.

Agro-Processing

This sector is primarily focused on animal husbandry and crop farming. 315,000 ha are planted with wheat, barley and oats, and 97,000 ha are planted with vegetables. The total size of the national herd is 31.3 million livestock, including 14.1 million sheep, 10.3 million goats, 3.6 million cattle, 2.9 million horses and 355,000 camels. Mongolia produces more than 25% of the world output of cashmere, and also exports high quality skins, hides, wool, meat and other animal products. Agro-processing industries have great potential in Mongolia due to abundant local supplies of high quality raw materials, including cashmere, camel hair, wool, animal skins and hides and timber.

Mongolia produces the finest raw cashmere in the world and this sector has great potential for downstream development. Mongolian cashmere is noted for its length, woolen plushness and strength.

The leather sector accounts for 15% of total industrial output and 10% of exports. The country annually produces nearly 6 million pieces of sheep and goat skins, nearly 7 million pieces of horse and cow hides and over 31 thousand pieces of camel hides. The capacity for processing is currently just under 7 million pieces of skins and hides per year.

Tourism

The Government plans to raise services to the world standard and enact extensive measures to increase tourist arrivals in Mongolia and to create attractive tour options. There are currently 219 tourism operators in the country. Untouched nature, magnificent wildlife, ancient history and the unique nomadic traditions and culture of the Mongols present a fabulous potential for the development of the Mongolian tourism industry, with special potential in Eco-tourism, including hunting and fishing.

We believe that tourism is an important source of foreign exchange and therefore it can become a vital part of the Mongolian economy. After the political and economic changes of 1990, Mongolia opened its borders. The number of foreign visitors in 1999 exceeded 110 thousand, of which 15% were tourists. Most of the tourists came from Japan, Western Europe and the USA.

6. Foreign Investment and Foreign Aid

As of today, around 1,200 joint ventures and foreign-owned companies from 61 countries with investment of US\$260 million have registered with the FIFTA (Foreign Investment and Foreign Trade Agency) and China, Japan, Russia, USA and South Korea have been leading investors in Mongolia.¹¹

¹¹ D. Jargalsaikhan

Mongolia has signed bilateral agreements on investment encouragement and protection with 26 countries and double taxation avoidance agreements with 16 countries. In addition, Mongolia has joined the Washington Convention on the Settlement of Disputes and the Seoul Convention on Investment Insurance. Mongolia also became a member of the WTO, as of 1 January 1997.

Mongolia has the following comparable advantages to offer investors:

- Stability of political environment and an open society
- A strategic easy access location to the giant markets of Russia and China
- Extensive and largely untapped natural resources
- A favorable legal environment
- A well-educated and highly literate population
- Pristine air, water and environmental conditions
- A hospitable and friendly culture in which foreign investors are welcome and can operate with ease.

The main incentives enjoyed by foreign investors are specified in the Foreign Investment Law and the Taxation Law. According to these laws, a business entity with foreign investment engaged in the following areas shall be granted exemptions from income tax and other taxes:

- Business entities engaged in power and thermal plants and power transmission networks; highways, railways and air cargo transportation facilities; or engineering, construction and telecommunications networks are entitled to 10 years of complete tax exemption and a 50% tax exemption in the following 5 years.
- Business entities engaged in mining and the processing of mineral resources (Except precious metals), oil and coal, metallurgy, metal processing, chemical production, machinery and electronics are entitled to 5 years of complete tax exemption and a 50% tax deduction in the following 5 years.
- Business entities that export more than 50 % of output are entitled to a total income tax exemption for 3 years and a 50% tax exemption in the following three years, and
- Business entities with foreign investment that are not engaged in any of the above economic activities may also be granted income tax preferences. Decisions in these cases are to be made by the Parliament on a case-by-case basis upon presentation to the Government of Mongolia.

Other legal protections and rights guaranteed to foreign investors by law include the following:

- A land lease shall be determined by the duration of the operation of the business entity. Such a lease may be for as long as 60 years and may be extended for an additional period of up to 40 years.
- Legal guarantees also secure the rights of foreign investors as regards: non-discriminatory treatment, i.e., national treatment, in respect of the possession, use and

disposal by foreign investors of their property within the territory of Mongolia; transfer of profits and dividends; repatriation of proceeds from the sale of the assets in the event of liquidation of the business; and freely transferable compensation for any assets expropriated for a legitimate public purpose, without discrimination, following the due process of law.

- Additionally, the Mongolian legal system provides appropriate guarantees concerning investment dispute settlement procedures and ensures free access by foreign or domestic investors to international commercial arbitration unless otherwise provided for by the contracting parties.

Between 1962 and 1990, Mongolia received a great deal of financial and economic assistance from member-countries of the Council of Mutual Economic Assistance (CMEA).¹² Foreign grants and technical assistance have played a huge role in overcoming economic backwardness and setting up the basis of the Mongolian national economy. More than 700 industrial, agricultural and cultural projects and enterprises have been set up.

Since 1990, Mongolia has been receiving technical assistance from donor countries and multinational organizations such as the World Bank, the International Monetary Fund and the Asian Development Bank.

From then until now, Mongolia has received total Official Development Assistance of US\$1,707.1 million from 18 donor countries and 14 international organizations for about 840 big and small projects in all spheres of the economy, US\$931.8 million of which is accounted for by grant assistances and US\$775.3 million is accounted for by grant loans. The biggest donor is Japan, providing an ODA of US\$647.6 million, followed by the ADB with US\$325.7, Germany with US\$127.8, the World Bank with US\$125.2, the USA with US\$121.6, Russia with US\$55.7 and the IMF with US\$53.9 million.

7. Conclusion

For any country, involvement in the global process of integration is inevitable.

Based on the specifics of the initial conditions such as vast open territory, sparse population, limited market capacity, economic underdevelopment, two thirds of the entire population conducting a settled way of life, recent economic liberalization, continuing economic transition and macroeconomic stabilization, one can develop a general concept of three closely interrelated objectives as follows: Mongolia is to develop guided by the general principles of international global integration, sustainable development and based on an infrastructure that provides for utilization of human, livestock and land resources along with preservation of its unique cultural heritage.

It is a fact that for any country, the funds available are limited. In particular, for a country like Mongolia, they are rather limited and insufficient, and therefore instead of wasting them, it is more rational to allocate them into one specific priority area through investing

¹² Note: Council of Mutual Economic Assistance (CMEA) was a multilateral organization between former socialist countries.

efficiently into certain projects.

The immediate challenges are reducing poverty and resolving the public sector imbalances. Mongolia's short-to-medium term prospects depend on the issues of banking sector reforms and the strength of export performance.

At present, in an environment of global climate changes, intensive desertification and scarce water and forest resources that directly affects the future of the Mongolian people, it is becoming even more urgent to have the general public share the concerns and feel as if they have individual, direct responsibility to protect the environment, combat desertification and launch reforestation projects in the country.

Promotion of foreign investment is a matter of high importance, not only in the medium term, but it is also a crucial factor that determines the future development of Mongolia.

Therefore, it is of paramount importance to create a favorable business environment for foreign investors that enables the pursuit of a policy of foreign direct investment promotion, declaration of certain regions within this framework as free economic zones, establishment of a structure of an export oriented economy and to link it with

the policy of privatization of the most valuable enterprises, and especially, to encourage the emergence of business and information networks, bringing together infrastructure, urban and rural areas.

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