

Institutional Aspects of the Mongolian Economic Transition

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Summary

Since 1990, Mongolia has undergone a rapid transition to a market-oriented economy by pursuing a neo-liberal "shock-therapy" policy that quickly dismantled its 50-year old centrally-planned, command-economy system and legal and institutional frameworks. However, the poorly planned implementation of the policy along with weak institutional capacities to manage the transition resulted in a sizeable initial contraction and delayed recovery of the economy, thereby imposing further costs on the economy and people.

Despite the fact that Mongolia has established democratic institutions and processes, developed the executive, legislative, and judicial arms of the government since the early years of transition and put in place many important laws and regulations in the early 1990s, the economic and social development outcome for Mongolia was poor. The country's GDP exceeded its 1989 level by just 2% in 2002 and current per capita GDP in 2006 (\$1,037) was still well below its pre-transition level. Thus, the economic advances attained prior to transition have been undermined.

Though it was more democratic than some other transitional economies, the country's institutional capacity to carry out its fundamental functions was weak. Substantial downsizing of the government's financial strength during the transition resulted in deterioration of its ability to perform its basic functions in providing public goods to society. The rule of law was poorly maintained and even deteriorated, leading to increases in various offences. This led to institutional decay, and virtual collapse in some areas, such as research and development. Opportunities for corruption increased at both the "petty", or administrative, and "grand", or elite, levels. This situation obviously created a poor business environment in the country and undermined the credibility of the government. Therefore, one can argue that the poor economic and social development of Mongolia during its transition was in fact associated with the institutional collapse observed over the period.