

# ***The Current Situation for Mongolian Foreign Trade and Cooperation with Northeast Asian Countries***

**N. Otgonsaikhan**

Head of Commerce Program, Business School, National University of Mongolia

## **1. Introduction**

The first Northeast Asian Conference, held in Changchun, People's Republic of China, in 1990, recognized the Northeast Asian Region and the first steps of economic cooperation were taken. The second conference, held in 1991 in Changchun, was convened with a theme of "Economic Development of the Coastal Countries of Northeast Asia" and it became the first conference to discuss the overall economic development issues of Northeast Asia as a distinct region. The Conference declared that the northern part of the People's Republic of China (China), Eastern Siberia and the Far Eastern regions of the Russian Federation (Russia), the Republic of Korea (ROK), the Democratic People's Republic of Korea (DPRK), Japan, and Mongolia would be termed the Northeast Asian Region. The natural resources of Siberia and Mongolia and the rapid development of Japan, the ROK and China were identified as the factors for regional development.

Mongolia's limited participation in regional exchange and trade has recently been expanded from tourism, wool and cashmere to minerals and natural resources. Mongolia is a country having an advantageous geopolitical location, has a relatively undisturbed environment, and maintains ecological balance. Therefore, regional collaboration on trade and economy, and infrastructure and energy, and the role for Mongolia's participation need to be studied carefully.

The role of the Northeast Asian Region within global trade is on the rise and this tendency is expected to continue further. However, trade within the region is still limited due to logistical difficulties leading to high transportation and other costs. Thus, there is a great need for increasing free-trade regulations and jointly acting to solve the difficulties being faced.

## **2. Foreign Trade of Mongolia**

Foreign trade is playing an important role in the country's socio-economic development and it is expanding rapidly. During the transition to a market economy, the country's foreign trade was faced with various challenges and trade turnover decreased by 57% to US\$708.9 million in 1991, but it has stabilized and gradually increased since the second half of the 1990s.

Mongolia's foreign trade turnover exceeded US\$1 billion in 2000 for the first time in a decade and it gradually rebounded to its 1990 level in 2003. In 2011, exports and

imports equaled US\$4.8175 billion and US\$6.5984 billion, respectively. This was an 86.9% increase in trade turnover on the preceding year, while imports almost doubled, achieving the highest growth ever.

In 2014, Mongolia traded with 135 countries. Foreign trade turnover reached US\$11.0112 billion, whereas exports stood at US\$5.7746 billion and imports at US\$5.2366 billion. This was a 35.3% increase for exports and a 17.6% decrease for imports from the previous year's level; thus the trade balance improved by 125.8%, increasing by US\$2.6267 billion from a year earlier and became positive, reaching US\$537.9 million.

In terms of trading partners, trade with neighboring countries was predominant, and trade with China accounted for 61.8% of the total, or US\$6.7999 billion, while trade with Russia accounted for 14.6% of the total or US\$1.6109 billion. This represented a 23.9% increase in trade turnover between Mongolia and China and a 0.8% decrease in trade turnover between Mongolia and Russia.

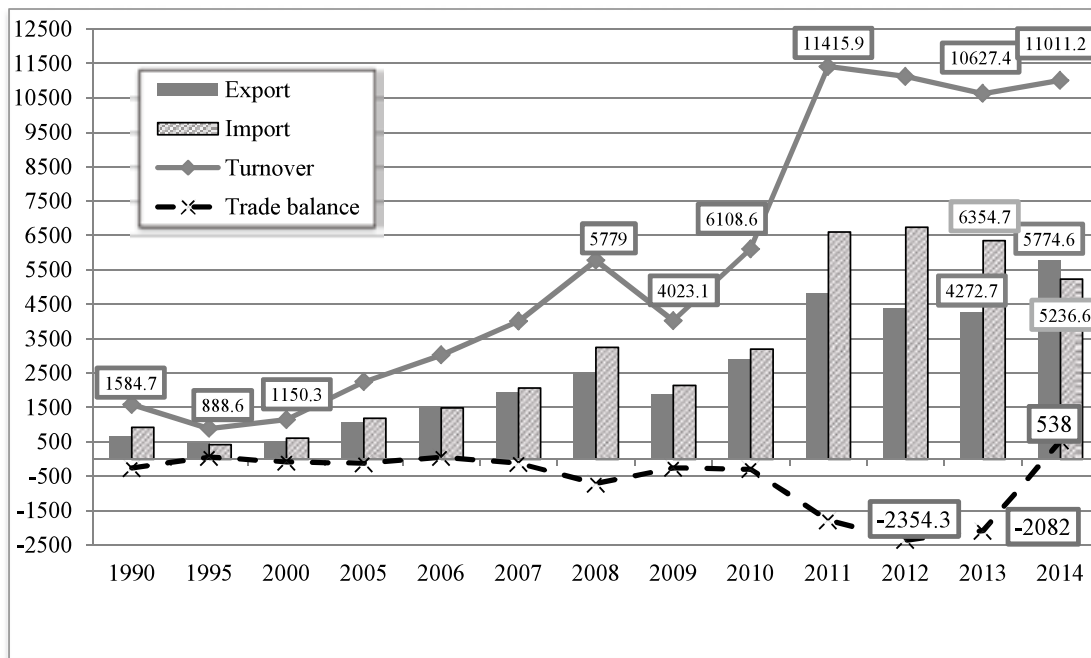
The foreign trade balance was positive in 1994–1995, as well as in 2006, due to the revitalization of the manufacturing sector in the former period and the price increases for export commodities in the latter. However, despite the country's continued economic growth, the trade balance was negative during all other times and the trade deficit grew. In 2012, the trade deficit reached its peak level, standing at US\$2.4 billion, which was 32% higher than the 2011 level and an 8-fold increase on the 2010 level (Figure 1).

Due to limited exports to Russia and imports of petroleum and petroleum products from Russia, Mongolia's trade deficit with Russia has been on an increasing trend, with the exception of 1991, when Mongolia had a trade surplus of US\$3.1 million. The trade deficit was highest in 2012, reaching US\$1.769 billion. However, Mongolia's trade with China has been experiencing a surplus, due to the predominance of mineral product exports to China.

Mineral products have been playing an increasingly significant role in Mongolia's exports and their share of exports has increased from 35.2% in 2000 to 91%<sup>1</sup> in 2012. Exports of hard coal, copper concentrate, molybdenum concentrate, fluorite, iron ore, zinc ore and unprocessed coal comprised 99.2% of total mineral product exports in 2013.

In 2013, 100% of the copper concentrate and iron ore were exported to China, while 53.5% and 8.1% of the molybdenum concentrate was exported to China and Hong

<sup>1</sup> Broken down as: coal 43%; copper concentrate 19%; iron ore 12%; crude oil 8%; zinc ore and concentrate 3%; unprocessed and semi-processed gold 3%; feldspar, leucite, and nepheline 2%; and molybdenum ore 1%.

**Figure 1: Foreign Trade of Mongolia, US\$ Million (1990–2014)**

Source: Mongolian Statistical Yearbook, various issues

Kong, respectively, and the remaining 29.6% to the ROK. As for fluorite, 50.4% was exported to Russia and 48.4% to China. The exports of major mineral commodities are illustrated in Table 1.

In terms of the composition of imports, machinery, equipment, electric appliances, transportation vehicles, their spare parts, oil, diesel petrol, iron and iron products, food products, chemicals, chemical products, plastics, rubber and rubber products make up 90% of total imports. For example, of the total imports in 2013: mineral products constituted 27.4% (of which 81.1% were oil products); machinery and equipment, and electric appliances, 22.0%; road and air transportation vehicles, 15.8%; animal- and plant-derived products, 9.2%; and iron and iron-derived products, 8.7%. Additionally, imports of chemicals and chemical products accounted for 4.7% of the total, and plastic and plastic products' share was 3.7%. Together, these products comprised 91.3% of total imports.

In terms of Mongolia's trading partners, the country exported to 60 countries in 2013. The shares of total exports

were: China, 86.6%; Britain, 4.7%; Canada, 3.2%; Russia, 1.4%; and Italy, 1.2%. The combined shares of exports to these countries accounted for 92.1% of Mongolia's total exports.

In terms of imports, Mongolia imported from 137 countries in 2013, of which the shares accounted for by the main import partners were: Russia, 24.6%; China, 28.1%, the United States, 8.1%; Japan, 7.0%; the ROK, 8.0%; Germany, 3.9%; and Belarus, 2.4%. The combined shares of these countries were 82.1% of the total.

### 3. Mongolia's Trade with Northeast Asian Countries

Trade with China, Russia, the ROK, and Japan accounts for approximately 80% of Mongolia's total trade turnover, wherein China and Russia predominate (Figure 2).

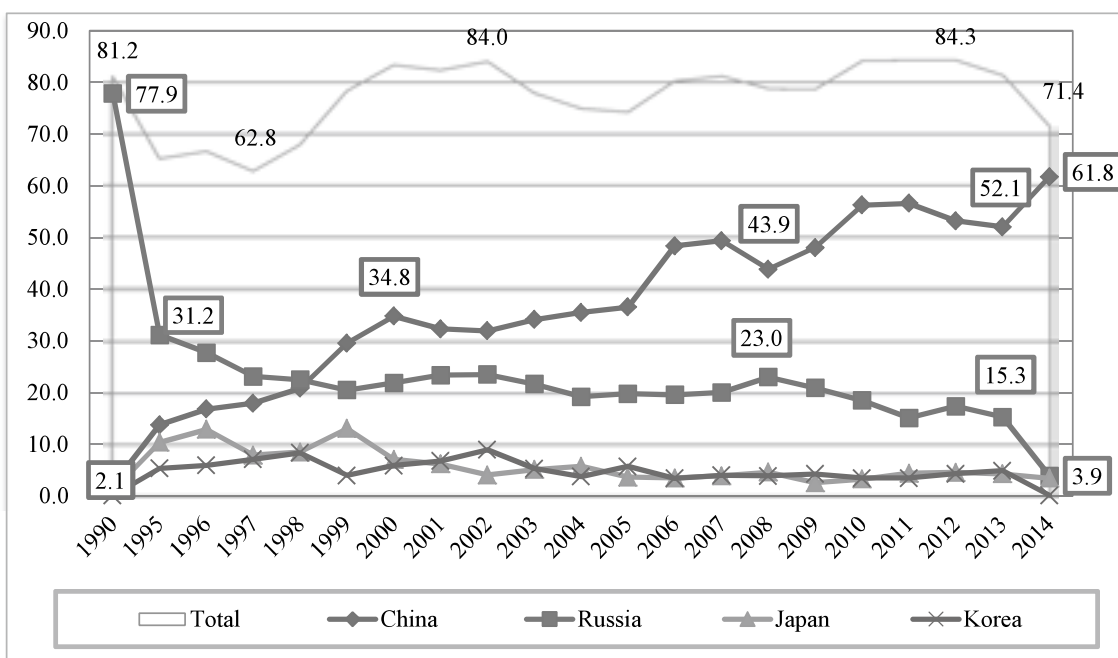
Prior to 1990, the former USSR accounted for 80% of Mongolia's foreign trade, but since the country's transition to a market economy, trade with China has been consistently on the rise, reaching 52.1% of the total in 2013,

**Table 1: Mongolia's Major Mineral Commodity Exports**

	2011	2012	2013	2013/2012, %
Coal, thousand tonnes	21,296.0	20,915.5	18,367.5	87.8
Copper concentrate, thousand tonnes	575.9	574.3	649.8	113.1
Iron ore	5,802.0	6,415.9	6,724.5	104.8
Crude oil, million barrels	2,553.7	3,568.0	5,243.8	147.0
Zinc ore concentrate, thousand tonnes	121.2	140.9	130.9	92.9
Unprocessed and processed gold, tonnes	2.6	2.8	7.6	271.4

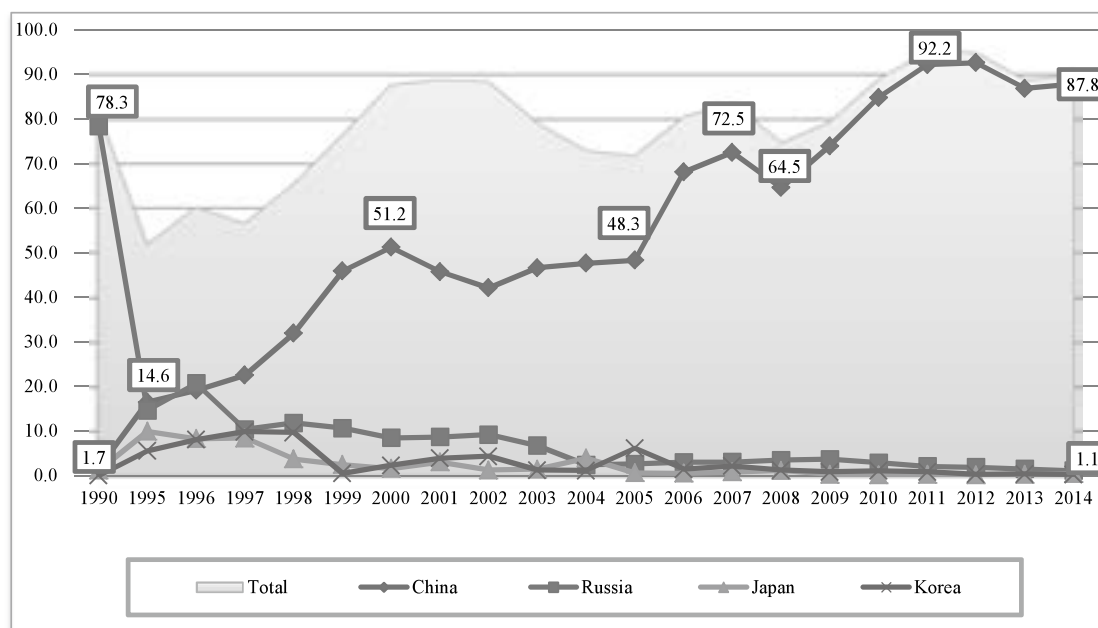
Source: <http://www.nso.mn/>

**Figure 2: NEA Share of Mongolia's Foreign Trade by Country, % (1990–2014)**



Source: Mongolian Statistical Yearbook, various issues

**Figure 3: Mongolia's Exports to NEA by Destination**



Source: Mongolian Statistical Yearbook, various issues.

while the share of trade with Russia declined to 15.3% of the total.

Approximately 90% of Mongolia's exports are to Northeast Asian countries, among which China is the main export market for Mongolia and it had a share of 87.8% of total exports in 2014 (Figure 3).

China became Mongolia's key trading partner and the trade structure of the two countries is illustrated in Table 2. As shown in Table 2, in 2012 minerals and ores accounted for 96.2% of Mongolia's exports to China, whereas in terms

of China's total imports from Mongolia the shares for these products were 0.7% and 1.2%, respectively, thus indicating China's independence of Mongolia in terms of imports of such items.

The overall structure of China's exports has expanded in terms of product variety, including value-added items. China mainly exports final products, while importing spare parts and equipment. Therefore, China will only import raw materials from Mongolia in the near future.

The overall structure of China's imports from Mongolia

**Table 2: Structure of Trade between Mongolia and China**

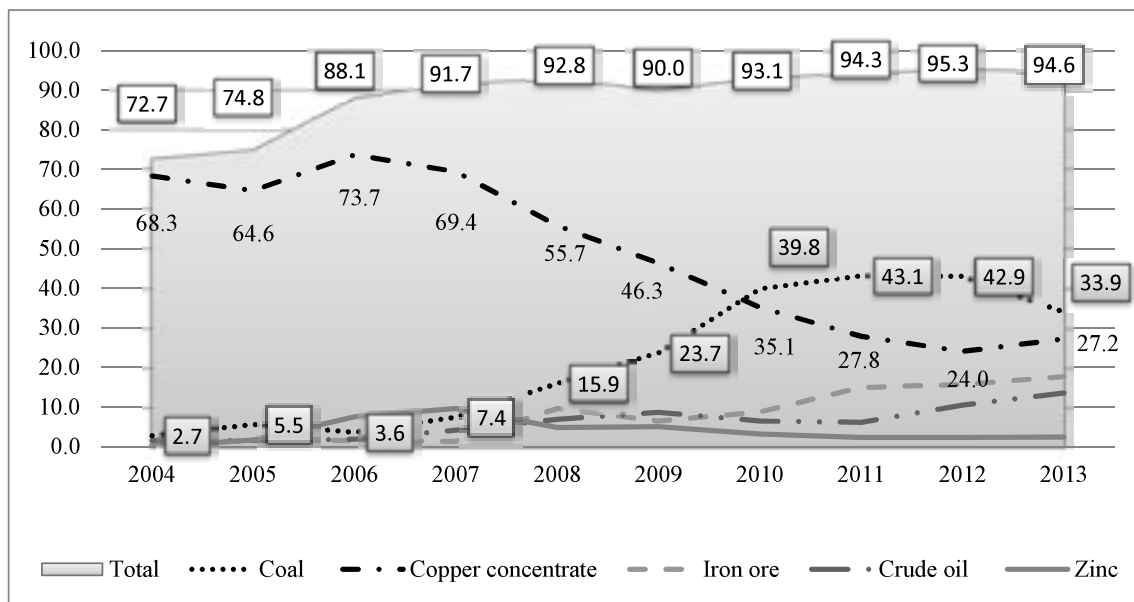
(Percentage of total)

HS code <sup>3</sup>	Description	Mongolia's Exports to China			Mongolia's Total Exports			China's Imports from Mongolia			China's Total Imports		
		2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
27	Mineral fuels, mineral oils and products of their distillation	46.9	49.8	54	39.4	43.5	48.6	0.6	0.7	0.7	13.5	15.8	17.8
26	Ores, slag and ash	48.6	47	42.2	41.7	41.1	38.4	1.1	1.2	1.2	7.8	8.6	7.6
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric.	2.3	1.7	2.4	3.5	2.7	3.1	2.1	1.7	2.6	0.2	0.2	0.2
25	Salt, sulfur, earth, stone, plaster, lime and cement	0.3	0.3	0.4	2.7	2.4	2.2	0.1	0.2	0.3	0.3	0.3	0.4
41	Raw hides and skins and leather	0.4	0.4	0.4	0.5	0.5	0.4	0.2	0.2	0.2	0.4	0.4	0.4
76	Aluminum and articles thereof.	0.1	0.1	0.1	0.1	0.1	0.1	0	0	0.1	0.6	0.6	0.5
Total		98.6	99.3	99.5	88	90.4	92.9	4.2	3.9	5.1	23	26	27

Note: Estimated from the International Trade Center data.

during the past decade demonstrated that coal, copper concentrate, crude oil, iron ore and zinc concentrate have been predominant since 2007 (Figure 4).

Mongolia's major export products to Russia are fluorite and meat, comprising 90% of the total, and cashmere and wool products, carpets, camel and sheep wool are exported

**Figure 4: Mongolia's Exports to China by Major Items (2004–2013, % of total)**

Source: International Trade Center.

<sup>2</sup> In 1990, PRC, 2.4% and Russia, 77.5%; in 2011, PRC, 30.7% and Russia, 24.6%.

<sup>3</sup> The Harmonized Commodity Description and Coding System, also known as the Harmonized System code (HS code) of tariff nomenclature is an internationally standardized system of names and numbers to classify traded products. It came into effect in 1988 and has since been developed and maintained by the World Customs Organization (WCO).

<sup>4</sup>  $RCA_{ij} = RXA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$ : Revealed comparative advantage or revealed export advantage

**Table 4: Current Import Positions of the NEA Countries in the World Market for Mongolian Export Goods with Comparative Advantage**

HS code	Descriptions	Japan	Russia	ROK	China
2	Meat and edible meat offal	1	5	10	12
5	Products of animal origin, not elsewhere specified or included	3	20	11	6
25	Salt; sulfur; earth and stone; plastering materials, lime and cement.	5	13	12	1
26	Ores, slag and ash	2	46	3	1
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3	60	4	2
41	Raw hides and skins (other than fur skins) and leather.	22	48	6	1
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric.	5	51	7	1
57	Carpets and other textile floor coverings.	5	16	26	24
61	Articles of apparel and clothing accessories, knitted or crocheted	3	12	21	28
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof	11	35	22	10
74	Copper and articles thereof	12	36	5	1

Source: International Trade Center

in limited quantities. Thus, opportunities for Mongolia to increase exports to Russia are still weak.

In terms of export structure, both Russia and Mongolia have a similar pattern that is based on natural resources, including oil, coal, metal, iron, alumina, gold, diamonds and wood. These items constitute 60–70% of the total exports of the two countries. However, the main import items are machinery and equipment that mostly originated in China.

Mongolia mainly exports agricultural products to Japan and about 60% of total exports were camel wool, knitted goods and cashmere up to 2007. According to the State Customs Department, the main products exported to Japan were minerals of the HS25, HS26 and HS27 categories, knitted goods of categories HS51, HS61 and HS62, and other various items of categories HS74, HS84 and HS97.

In terms of exports to the ROK, the main items were copper, copper concentrate and unprocessed and half-processed gold, which comprised 80.8% of total exports over the past 15 years. However, these exports were not sustained over the entire period and none of these items were exported in some years leading to fluctuations in the value of exports.

Prior to the transition to a market economy, 80% of Mongolia's imports were from Russia and this share dropped to 30–40% afterwards. Furthermore, the share of Mongolia's imports from Russia dropped to 27.4% of the total in 2012, and 24.6% of the total in 2013, while imports from China became predominant.<sup>2</sup> Additionally, Mongolia's imports from Japan and the ROK include transportation

vehicles, and they make up 70% and 30% of the total, respectively.

#### 4. Mongolia's Ability to Export Competitive Products to Northeast Asia

According to international trade theory, it is more efficient if a country produces a particular good with a comparative advantage, and trades it. The revealed comparative advantage or the revealed export advantage<sup>4</sup> index introduced by the economist Bela Balassa (1965), can be used to identify which goods Mongolia holds a strong position in for exporting to NEA markets.

When exporting products to a foreign market, it is paramount to specify product demands in that particular market, and have an ability to meet those demands. Therefore, the comparative advantage indexes of the NEA countries imports<sup>5</sup> were used to identify the NEA's demand for Mongolian imports, while the comparative advantage index of Mongolian exports was used to identify Mongolia's export capacity.<sup>6</sup>

Furthermore, in an attempt to define Mongolia's ability to export competitive products to the NEA market, the concurrence of comparative advantages of imports was identified as illustrated in Table 3.

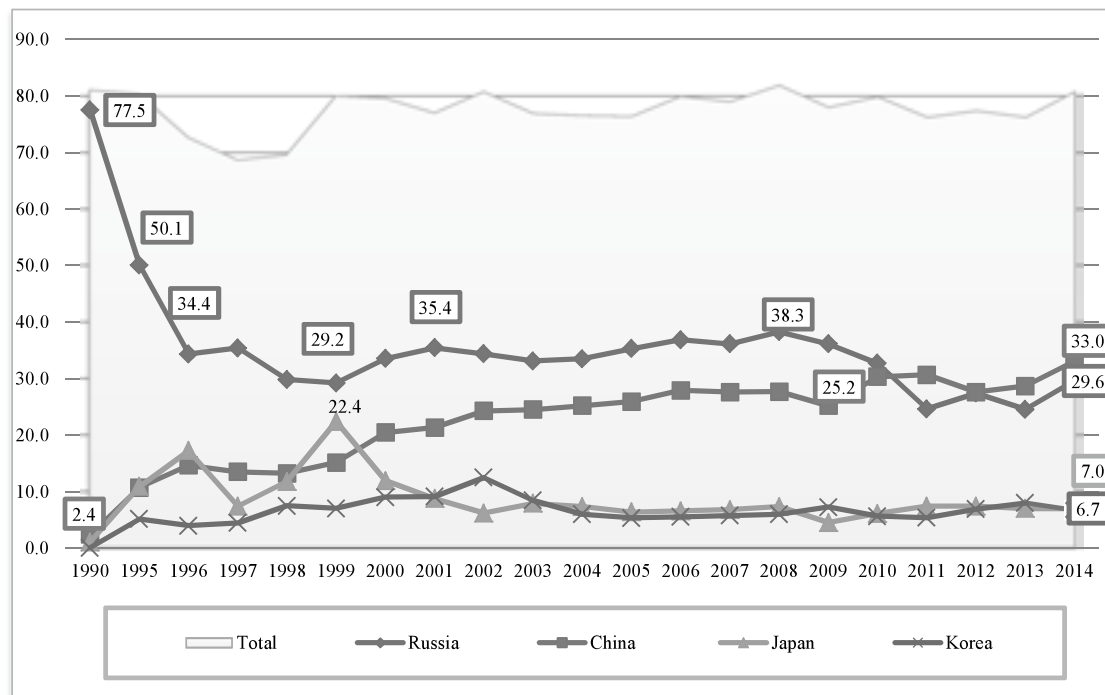
As shown in Table 3, it is possible to export products specified in the following categories:

- HS02 (Meat and edible meat offal) and HS25 (Salt; sulfur; earth and stone; plastering materials, lime and cement) to Russia;

<sup>5</sup>  $RMA_{ij} = (T_{ij}/M_{ij}) / (T_{wj}/M_{wj})$  : Revealed import advantage

<sup>6</sup> Using the Balassa technique we have identified comparatively advantaged goods or commodities that are able to be exported from Mongolia. Accordingly, the goods in the categories with HS codes 26, 05, 51, 71, 41, 02, and 25 are relatively advantaged, the goods in categories 57 and 61 are on a trend towards loss of comparative advantage, and the goods in category 27 are progressing towards gaining comparative advantage. The products in the categories of comparative advantage are beef, horsemeat, intestines, animal hooves and horns, feldspar, copper, tungsten, molybdenum ore and concentrate, cathode copper, coal, skins of camels, cattle, sheep, and goats, wool of camels, sheep, and goats, cattle molt, rugs and cashmere.

Figure 5: NEA Countries' Share of Mongolia's Total Imports



Source: Mongolian Statistical Yearbook, various issues.

Table 3: Concurrence of Comparative Advantages of Mongolian Exports and Imports of the NEA Countries

Comparative advantage of Mongolian export		NEA countries' import			
		Comparative advantage		Comparative disadvantage	
		RMA>2	2>RMA>1	1>RMA>0.5	RMA<0.5
HS code	Descriptions	Extremely High	High	High	Extremely High
2	Meat and edible meat offal	Russia (4.9) Japan (2.3)		ROK (0.9)	China (0.2)
5	Products of animal origin, not elsewhere specified or included	Japan (2.1)		ROK (0.8) Russia (0.8) China (0.6)	
25	Salt; sulfur; earth and stone; plastering materials, lime and cement.		Russia (1.2) China (1)	Japan (0.9) ROK (0.8)	
26	Ores, slag and ash	China (5) Japan (3.3) ROK (2.4)		Russia (0.9)	
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes		ROK (1.9) Japan (1.9)	China (0.8)	Russia (0.1)
41	Raw hides and skins (other than fur skins) and leather.	China (2.8)	ROK (1.3)		Japan (0.3) Russia (0.1)
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric.	China (2.7)	ROK (1.1)	Japan (0.9)	Russia (0.2)
57	Carpets and other textile floor coverings.			Russia (0.9) Japan (0.9)	ROK (0.2) China (0.1)
61	Articles of apparel and clothing accessories, knitted or crocheted		Japan (1.6)	Russia (0.2)	ROK (0.3) China (0.1)
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof			Japan (0.8) ROK (0.6)	China (0.3) Russia (0.1)
74	Copper and articles thereof	China (2.8)	ROK (1.7)		Japan (0.4) Russia (0.2)

Note: Estimated by Balassa's method using International Trade Center data.

- HS02 (Meat and edible meat offal), HS05 (Products of animal origin, not elsewhere specified or included), HS26 (Ores, slag and ash), HS27 (Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes), HS61 (Articles of apparel and clothing accessories, knitted or crocheted) to Japan;
- HS25 (Salt; sulfur; earth and stone; plastering materials, lime and cement), HS26 (Ores, slag and ash), HS41 (Raw hides and skins (other than fur skins) and leather), HS51 (Wool, fine or coarse animal hair; horsehair yarn and woven fabric), HS74 (Copper and articles thereof) to China; and
- HS26 (Ores, slag and ash), HS27 (Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes), HS41 (Raw hides and skins (other than fur skins)), HS51 (Wool, fine or coarse animal hair; horsehair yarn and woven fabric), HS74 (Copper and articles thereof) to the ROK.

The current import positions of the countries mentioned above are shown in Table 4. As described in Table 4, it can be said that there is an opportunity to export meat and edible meat offal to the Japanese and Russian markets if health and sanitation prohibition issues are resolved. Therefore, it is necessary to collaborate with these countries to discuss matters concerning the SPS (Sanitary and Phytosanitary) and TBT (Technical Barriers to Trade) agreements of the WTO (World Trade Organization).

The current import positions of the NEA countries on the world market indicate that the ROK and China have relatively small markets for Mongolia's competitive products in manufacturing as these countries mainly import minerals and other raw materials. This is an indication of China's success in using imported raw materials to produce value-added finished products. The concurrence of raw materials being Mongolia's competitive product for export, and China's demanded product for import, encourages trade between these two countries that focuses mainly on raw materials. However, Russia and Japan have a relatively high number of import products for which there is a comparative advantage. More than 30 of 97 HS groups are such products and therefore there is massive opportunity for exporters.

## 5. Conclusion

According to Mongolia's international trade statistics, minerals and raw materials were the main export products in recent years. However, value-added or finished products are the country's main import products. This implies that manufacturing is not developed in Mongolia. Raw materials have been exported and bought back at higher prices as finished products. This inefficient trade pattern has continued for many years.

Therefore, in order to improve the foreign trade structure, it is important to create production clusters that encourage trade of value-added products with NEA countries. Introduction of new technologies from countries such as Japan and the ROK would increase the production of finished products in Mongolia.

China is home to the world's largest steel industry, followed by Japan and the ROK. Thus, there is a great opportunity for Mongolia's coal exports. Moreover, if the

SPS- and TBT-related issues are resolved, meat and edible meat offal products can be exported to the Russian and Japanese markets.

Mongolia is a landlocked country, which makes the transportation fees for Mongolia's export products some of the highest in the world and this affects the competitiveness of Mongolian products on international markets. Therefore, transit transport agreements for exporting products through countries such as China and Russia would be of great importance. For example, a mutually beneficial transit transport agreement can be made between Mongolia and China for transit cargoes from Mongolia to the ROK and Japan via China and from China to Russia and Europe via Mongolia.

It is also possible to trade with China in the energy sector. It would be especially beneficial to build power stations near Mongolia's large coal excavation areas and sell energy to the nearest Chinese cities. Additionally, according to mid- and long-term strategic agreements and mutual understandings between Mongolia and China, border-based trade between the two countries will be supported. Thus, areas such as Tsagaannuur and Altanbulag free trade zones and Zamyn-Uud special economic zone have great potential to create free trade regions.

## References

1. Otgonsaikhan N., Doljin M., SHIM Ui Sup: Opportunity analysis of the FTA between Mongolia and the Republic of Korea, *Journal of International Trade and Insurance*, V.15(1), ROK, 2014, pp. 49–62
2. Otgonsaikhan N.: Current Situation of Mongolia–China Trade, *Mongolian Journal of International Affairs*, Mongolia, 2014, No. 1, pp. 45–55
3. Otgonsaikhan N., Sharbandi R.: Certain Issues to Be Considered in Establishing a Mongolia–Japan Economic Partnership Agreement, National Conference of Economics and Business, 2013, Mongolia, 2013, pp. 154–160
4. Otgonsaikhan N.: Trends in the Development of Mongolian–Russian Cross-Border Trade Cooperation, *Journal of BSUEL*, Russia, 2013, pp. 132–138
5. Otgonsaikhan N., Doljin M.: Current Situation of Mongolia–Korea Trade and Its Opportunities for Further Cooperation, The 2014 international conference of KATCI: Trade Insurance and Economic Cooperation in Northeast Asia, Mongolia, 2014, pp. 47–58
6. Otgonsaikhan N.: Foreign Trade Policy Issues in Mongolia, The 4th Conference of the Northeast Asian Professor's Association (NAPA) "Greater Tumen Initiative and Local Economic Cooperation in Northeast Asia", ROK, 2010, pp. 261–272
7. Otgonsaikhan N., Sharbandi R.: Mongolian Exports' Current Situation and Future Tendency, The 3rd Conference of the Northeast Asian Professor's Association (NAPA, Ulaanbaatar, 2009, pp. 148–159
8. Batnasan N., Otgonsaikhan N., Narandalai D.: Free Trade Agreements and Mongolia: Opportunities and Risks, Research Work, BS 12/15, Ulaanbaatar, 2012, p. 109
9. <http://www.trademap.org>