

MONGOLIA's Pre-1990 ECONOMY: An Extended Overview

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Abstract

Mongolia, the second socialist country in the world, pursued non-capitalist and socialist paths of development and practiced a centrally planned economic system under the rule of one political party up to 1990. During this course, Mongolia was successful in transforming from a poor, pastoral livestock based agrarian economy into a dynamic, industry-driven economy. Former CMEA members were its donors and development partners, where the FSU played a dominant role.

Owing to its manufacturing industry development based on the country's abundant livestock-origin raw materials, Mongolia could achieve relatively high and sustained economic growth. Rapidly expanding manufacturing industries and economy-wide increases in productivity drove overall improvements in the country's living standards. Social sectors, such as health, social security, education, culture and sports, maintained a stable share of total budget expenditure. There were no unemployment or income inequalities during this period.

However, Mongolia continued to rely on foreign sources for its investments and foreign loans as the share of primary revenues grew. Also, per capita real growth was lower than that of the overall economy. Despite population growth, population income as a share of final expenditure and household consumption share of total use decreased, whereas that of administration expenditures increased. Overall, investments into tangible assets were preferred over boosting intangible assets or human capital incentives. This situation might have triggered dissatisfaction among the population and led to the demands for change that eventually put an end to the planned economy and socialist system practiced in Mongolia for nearly 70 years.

Keywords: Mongolian economic history, Mongolian economic study, socialist systems.
JEL Codes: N15, O53, P20.

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1. Introduction

Mongolia, being the second socialist country in the world, pursued non-capitalist (1921-1923) and socialist (1924-1989) paths of development and practiced a centrally planned economic system for almost 50 years (1941-1989), all the while power was concentrated in the hands of one political party. The victory of the people's revolution led by the Mongolian People's Party (MPP)¹ in 1921 was a crucial turning point in the country's recent history and its economic development course. Mongolia began transiting towards a market economy in 1990 and its first free elections were held in 1990. The first democratic constitution, approved in 1992, pronounced a multi-party parliamentary system and the country's name was changed to Mongolia from the former Mongolian People's Republic (MPR).

Historically, the establishment of the Great Mongolian State in 1206, 17 years after Temujin (Chinggis Khaan) became the King of Khamag Mongols (All Mongolians) in 1189, "...put an end to the strife of Mongolian tribes and ensured favorable conditions of the nation's formation. Opportunities were provided for further development of nomadic civilization, including the Mongolian language, culture and customs" (MONTSAME, 2008, p.23).

The Mongolian economy prior to 1921 was characterized by the feudal system, which found its origins since the early 13th century. Although concrete data on the economic development processes of the Mongolian Empire is lacking, many historical literatures note that during the periods of Mongolian Great Khans (Kings), the largest land empire in human history, conditions were favorable for the world economy to develop, especially for trade and technologies. However, after 162 years of rule, the Mongolian Empire came to end in 1368, and the so-called "Small Khans' Period" continued to 1634, during which time 22 Khans were in power. Due to internal conflicts, various parts of Mongolia² came under Manchu³ rule, and later in July 1755, the Manchu began to govern all of Mongolia and continued to do so until 1911. Religion (Tibetan Buddhism) was strongly encouraged during Manchurian rule to contain Mongols, with almost one-third of Mongolian adult males becoming Buddhist monks, who were limited to engage in productive labor. Therefore, despite the fact Buddhist temples and shrines were strengthened economically, the entire economy was weakened (Boldbaatar, J and Lundeejantsan, D, 1997).

¹ Founded on 1 March 1921 and was renamed as the Mongolian People's Revolutionary Party (MPRP) in 1925;

² Inner Mongolia in 1636, Ar (Outer) Mongolia in 1691, and Zuungar (West Mongolia) in 1755;

³ An ethnic minority in China whose predecessors established and ruled the Qing dynasty (1636-1912);

As a result of continuous uprisings against foreign rule, Mongolia declared its independence on 29 December 1911 and the Bogd Khan was proclaimed as the country's head. But with widespread instability, Chinese military commanders and White Russian soldiers were permitted to interfere in the country's affairs from 1915 to 1921.

Influenced by the "October" Revolution under the leadership of Lenin, V.I. Ulyanov in Russia, a revolution led by the MPP was successful in 1921 with the backing of Russian communists. Mongolia established its first diplomatic relations with the Former Soviet Union (FSU) on 5 November 1921. Between 1921 and 1924, Mongolia exercised a form of theocratic state headed by the Bogd Khan, whose rights were limited to religious aspects of governing. After Bogd Khan's death in 1924, a non-capitalist path of development was chosen, with the First Constitution proclaiming the Mongolian People's Republic (MPR) adopted on 26 November 1924⁴. A parliamentary system of governance was established by the First Constitution, abolishing the monarchical theocracy system. Also, an economic advisory consul was established in 1924 under the government. The Mongolian Commercial and Industrial Bank was founded on 2 June 1924 and the national currency, Mongolian to'grog (MNT), was first issued on 9 December 1925 along with the start of financial reforms throughout the country. In 1940, the 10th Mongolian People's Revolutionary Party (MPRP) Congress declared an end to the "democratic" stage of revolution in the country and the commencement of a socialist stage, which was practiced in the country until 1990. Despite the presence of a parliamentary system, the country's development was led by one political party, the MPP. (MAS, 1990; Sanders, Alan J.K., 2003; Boldbaatar, J and Lundeejantsan, D, 1997).

In 1940 and 1960, the Second and Third Constitutions were adopted, taking the FSU Constitution as a model. Mongolia began to practice a centrally planned economic system in 1941, and annual economic development plans were adopted. Soon after World War II, economic development planning was shifted to a five-year planning system. More detailed annual plans based on these five-year plans were also prepared. The first five-year plan for 1948-1952 was adopted in 1947 and a total of 8 five-year plans were implemented up to 1990⁵, except for a three-year plan spanning 1958-1960 as part of an interim plan to shift to a more convenient interval. Also, long-term development forecasts for 10- to 20-year periods were established based on these plans, titled the "General Scheme" and "Targeted Program". These plans were carried out by the State Planning Committee, which was established in 1945. Mongolia sought to join the United Nations

⁴ The Constitution of 1992 proclaimed the country's name as Mongolia;

⁵ i.1948-1952; ii.1953-1957 (a three-year plan: 1958-1960); iii.1961-1965; iv.1966-1970; v.1971-1975; vi.1976-1980; vii. 1981-1985; viii. 1986-1990);

as early as 1946 but was not made a full-pledged member until 27th October 1961. In June of 1962, it joined the CMEA⁶.

Starting from the mid-1980s, the overly centralized nature of government planning began to weaken and direct state orders for the production and sales of more than 2,000 items were abolished, except for 20 export items and those considered as necessities for the population. The production and sales of the remaining products were then regulated by market demands and contracts between producers and suppliers (Namjim, 2000a). An annual fair for producers and suppliers was organized at the former Central Exhibition Hall in Ulaanbaatar.

Although various literatures and studies, including periodicals issued by multinational development banks and institutions, portray Mongolia's economy since the transition in 1990, research on the country's economic structure and development trends prior to then remain scarce. Thus, this paper provides an overview of Mongolia's economic development until 1990, focusing on the planned economy period, i.e. 1940-1990. In particular, the country's macro-economic trends, economic structure, labor force, state budget, agricultural and industrial outputs, and investment, foreign aid and foreign trade issues are analyzed. Although most of the analyses provided in this paper cover the periods of the MPR, the country's current name – Mongolia – is used throughout.

2 Mongolia's Economic Development Prior to 1990

2.1 Population

A research group led by Russian scholar, I.M. Maiskii, carried out the first population census in Mongolia in 1918. Records show that the total resident population in Outer Mongolia was 647,500, of which 317,300 were females, and more than 15% were Chinese or Russian nationals. As was noted by the research team, the census was incomplete. However, after evaluating the other historical data available in the Mongolian archive, it became the country's official baseline data (NSO, 2003a, Namjim, 2000a).

According to the National Statistical Office of Mongolia, Mongolia's population was 636,700 in 1900 and the annual population growth rate was 0.1% - the lowest growth in the country's recent history. Sex ratio or the number of males per 100 females averaged 104.1 until 1935. These figures were associated with high infant and maternal mortality rates during that time. As documents indicate, more than 50% of newborn babies died

⁶Council for Mutual Economic Assistance (Economic Union established on 5-8 January 1949 and dissolved on 28 June 1991. The member states were Bulgaria, Cuba, former Czechoslovakia, former East Germany, Hungary, Mongolia, Poland, the FSU (included 15 Republics) and Vietnam.

before reaching 1-year old and 13.2% of mothers died while giving birth. Population growth accelerated after the people's revolution in 1921, along with Mongolia beginning its social-oriented path of development and the emergence of its first health care system. According to the population census in 1935, Mongolia's population totaled 738,200, growing at 0.8% per annum since the previous census in 1918. However, population growth slowed to 0.3% per annum thereafter due to impacts of the mass repressions carried out in the country in the late 1930s and war times (The Second World War (WWII) and conflicts at Khalkh River). Especially, the number of males failed to grow during the period of 1935-1944, and consequently, the sex ratio dropped to 95.7 in 1944. Moreover, the populations aged 18 to 45 and over 45 had decreased by 4.9% and 6.7% respectively from their levels in 1935 (NSO, 2003a, Table 2.1.1).

Table 2.1.1 Selected Indicators of Mongolia's Population 1911-1944

Indicators		Population Census Years				1944/1935
		1900	1918	1935	1944	(% change)
Population, 1,000 persons		636.7	647.5	738.2	759.1	2.8%
	Male	324.7	330.2	370.8	371.3	0.1%
	Female	312.0	317.3	367.4	387.8	5.6%
Age Groups, % of total	0-7	N/A	N/A	13.8	16.6	20.3%
	8-17/18	N/A	N/A	18.3	19.3	5.5%
	18/19-45	N/A	N/A	42.7	40.6	-4.9%
	46+	N/A	N/A	25.2	23.5	-6.7%
Sex Ratio (#M/100F)		104.1	104.1	100.9	95.7	-5.2%
Periods			1900-1918	1918-1935	1935-1944	
Inter-census Annual Growth, %	Both Sexes	-	0.1	0.8	0.3	
	Male	-	0.1	0.7	0.0	
	Female	-	0.1	0.9	0.6	

Source: Compiled from NSO, 2003a, 2011.

Mongolia's population growth accelerated thereafter supported by the country's path of social-oriented development. The population grew 0.9% per annum during the period of 1944-1956 but increased to 2.7% from 1956-1963, surpassing 1 million in 1963. Further, population growth accelerated at 2.9% per annum from 1969-1979, and although it slightly slowed to 2.5% during 1979-1989, Mongolia's population doubled in the 26 years between 1963 and 1989, hitting 2.044 million in 1989. Overall, the period of 1956-1989 is regarded as Mongolia's "baby-boom", a time when sex ratio and age distribution

of the population stayed relatively stable. However, population growth slowed to 1.4%-1.5% per annum after 1990, when the country began its transition towards a market-oriented economy (Table 2.1.2).

As a result of the baby-boom, Mongolia's population continued to be young, and the median age was less than 19 during 1969-1989. Dependency ratio or the number of dependents per working age person was highest during this period, equaling 101.8 in 1969, when 44.4% of total population were under 15 years of age. Life expectancy at birth in 1979 was 63.02 and it had slightly increased to 63.29 by 1989. Mongolia's urban population share rose steadily from 21.6% in 1956 to 57% in 1989, similar to the global trend (Table 2.1.2).

Table 2.1.2 Selected Indicators of Mongolia's Population 1956-2015

Indicators	Population/Population and Housing Census Years							
	1956	1963	1969	1979	1989	2000	2010	
Population, thousand persons	845.5	1,017	1,198	1,595	2,044	2,374	2,755	
% of total	Male	49.7	49.9	49.9	50.1	49.9	49.6	49.5
	Female	50.3	50.1	50.1	49.9	50.1	50.4	50.5
	Urban	21.6	40.2	44.0	51.2	57.0	56.6	49.5
	Rural	78.4	59.8	56.0	48.8	43.0	43.4	50.5
Age Group, % of total	0-4	12.6	16.8	16.6	16.5	15.9	10.4	10.6
	5-14	17.8	22.3	27.8	27.7	26.0	25.4	16.7
	15-64	63.4	54.7	49.6	50.8	54.1	60.8	69.0
	65+	6.2	6.3	6.0	5.0	4.0	3.5	3.7
Median age	26.7	22.8	18.6	17.5	18.8	21.6	25.8	
Sex Ratio	98.8	99.8	99.5	100.4	99.7	98.5	98.1	
Dependency Ratio, %	57.8	82.8	101.8	96.9	84.8	64.6	45.0	
Life Expectancy	N/A	N/A	N/A	63.02	63.29	63.76	68.05	
Density per sq.km		0.65	0.77	1.02	1.31	1.52	1.7	
Periods	1944-1956	1956-1963	1963-1969	1969-1979	1979-1989	1989-2000	2000-2010	
Inter-census annual growth, %	0.9	2.7	2.8	2.9	2.5	1.4	1.5	

Source: Compiled from NSO, 2003a, 2011.

2.2 Macro Economy

As in the former USSR (Union of Soviet Socialist Republics, further the FSU) and other CMEA (or COMECON) countries, gross social product (GSP) and net material product (NMP) were the key macroeconomic indicators for monitoring economic growth

of Mongolia prior to 1990. The NMP equals to the GSP net of cost of materials (NMP = GSP - Cost of Materials), representing the value-added components. The counterparts of GSP and NMP are output and GDP in the System of National Accounts (SNA). NMP was a special core indicator for development planning in former socialist bloc countries. In fact, the GDP counterpart was named “National Income” in these countries. However, it covered goods and services related to the production and distribution of only tangible goods and products, with many non-tangible services, such as housing, passenger transport, health care, education, sciences and general administration not included in NMP estimations. Therefore, in order to distinguish this indicator from the GNI (Gross National Income) in the SNA, the term NMP was introduced at international level (Khomenko, Tatiana A., 2006).

Mongolia’s GSP in 1919 was tiny, totaling MNT 300 million evaluated at constant 1986 prices, where NMP accounted for MNT 244.7 million and the cost of materials equaled MNT 55.3 million. Agriculture or pastoral livestock rearing was the foremost economic activity in 1919, accounting for 86% of the country’s total NMP (Table 2.2.1).

Table 2.2.1 NMP (at constant 1986 prices, MNT Million)

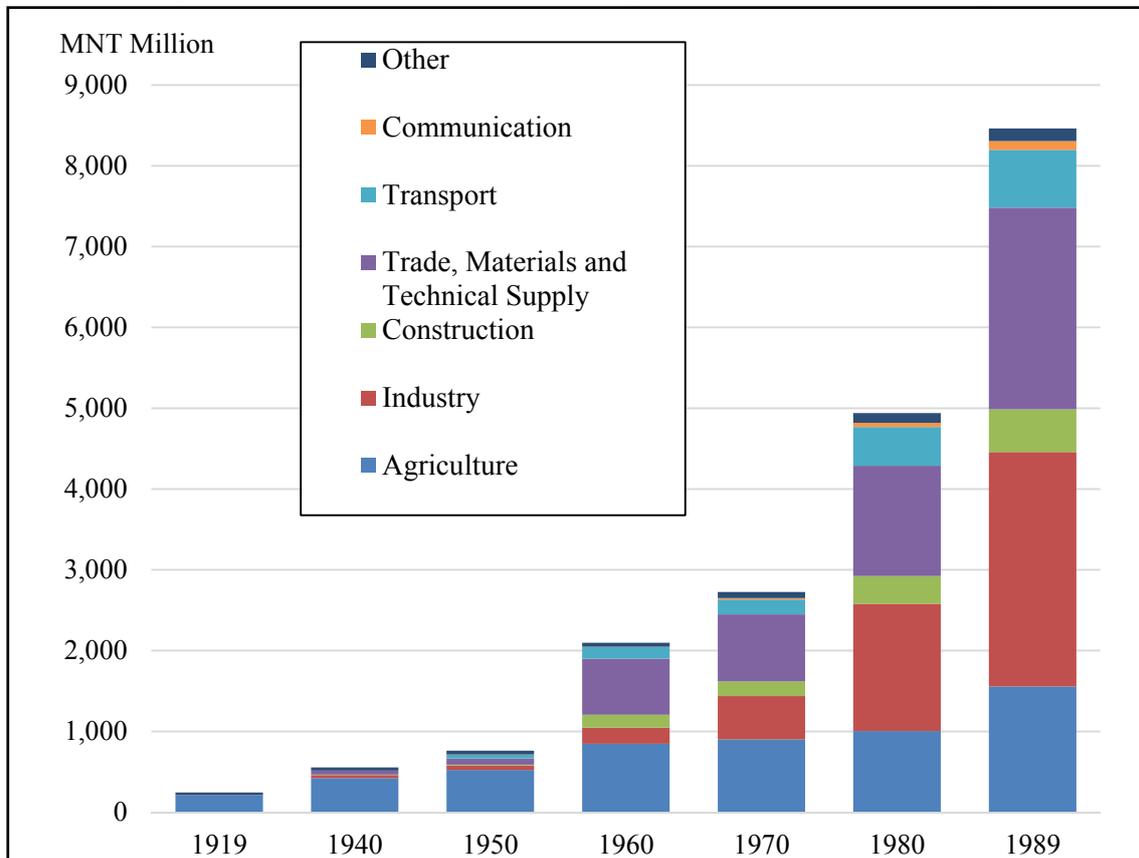
Sectors	1919	1940	1950	1960
Agriculture	210.5	421.8	522.3	846.1
Industry	0.1	38.7	54.4	200.9
Construction	0.0	4.8	11.4	160.1
Trade, Materials and Technical Supply	0.0	46.9	77.6	692.6
Transport	2.5	3.2	44.1	143.7
Communication	0.0	0.3	4.8	3.7
Other	31.6	38.3	47.9	50.0
Total	244.7	554.0	762.5	2,097.1

Source: Compiled from NSO, 2011.

Mongolia’s experienced moderate economic development until 1950, impacted by internal and global instabilities such as the Great Repressions of the 1930s in Mongolia, the worldwide Great Depression, World War II and its aftermaths. But economic growth accelerated after 1950 and the economy had increased in size more than 11-fold by 1989 in real terms on its level in 1950. Industry sector development was the major driving force behind this growth, as the share of industry increased to 34.3% of total NMP in 1989 from a mere 7.1% in 1950. Also, trade, materials and technical supply emerged as the next largest component of NMP by increasing its share to 29.5% in 1989 from 10.2% in 1950. The transport, construction and communication sectors also experienced surges during

this period. As a result, the NMP share of agriculture shrank to 18.4% in 1989 from 68.5% in 1950 (Figure 2.2.1).

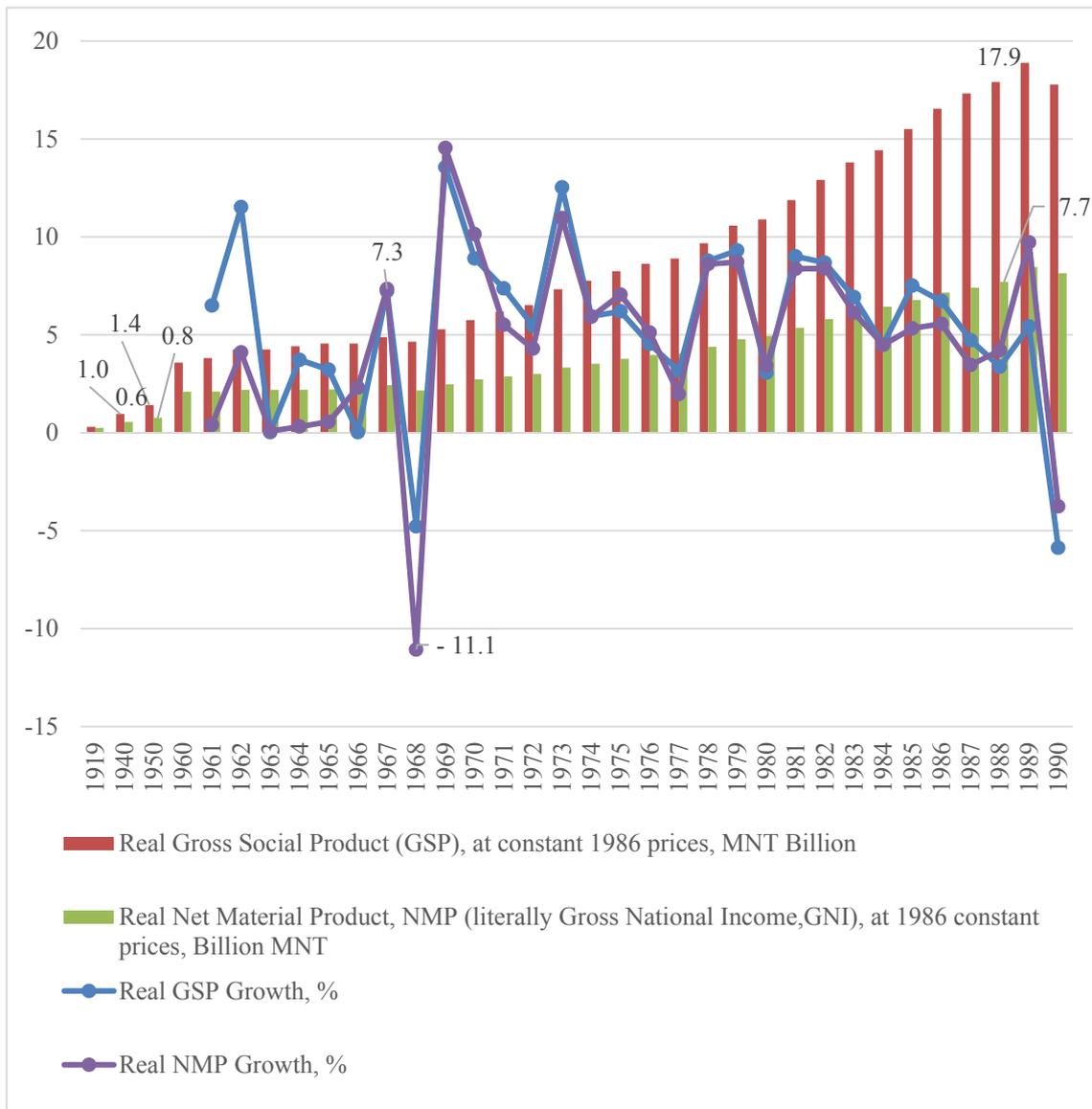
Figure 2.2.1 NMP Trend and Its Composition (At constant 1986 prices)



Source: Compiled from NSO, 2011a, b.

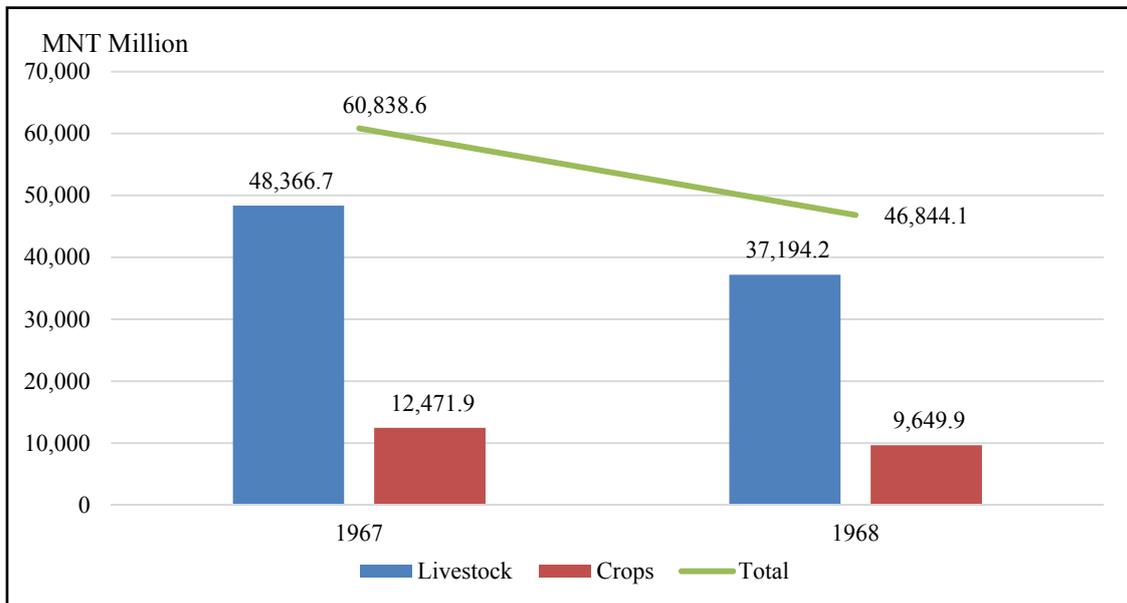
Mongolia’s economy continued to expand, except in 1968 when the country suffered from the phenomenon called “*dzud*”, in which massive livestock losses result from extreme weather. The country’s real gross agricultural output dropped by 23% in 1968, resulting in an 11.1% contraction of the real economy. During the *dzud* or so-called “Monkey-year *dzud*” of 1967-1968 which continued for 165 days from 11 November 1967 to 30 March 1968, 20% of total livestock (4.4 million head) were lost. However, the following year saw economic revival and the real NMP grew by 14.5% - the highest rate ever attained prior to 1990. The NMP evaluated at constant 1986 prices equaled MNT 8.5 billion in 1989, while the real GSP was MNT 18.9 billion. These represented 13.4-fold and 11.1-fold increases from the respective values of GSP and NMP in 1950 (Figures 2.2.2; 2.2.3).

Figure 2.2.2 Mongolia's Real GSP and NMP Dynamics (1960-1989)



Source: Compiled from NSO, 2011a, b.

Figure 2.2.3 Gross Agricultural Output, 1967-1968
(At constant 1993 prices, MNT Million)



Source: Compiled from NSO, 1996

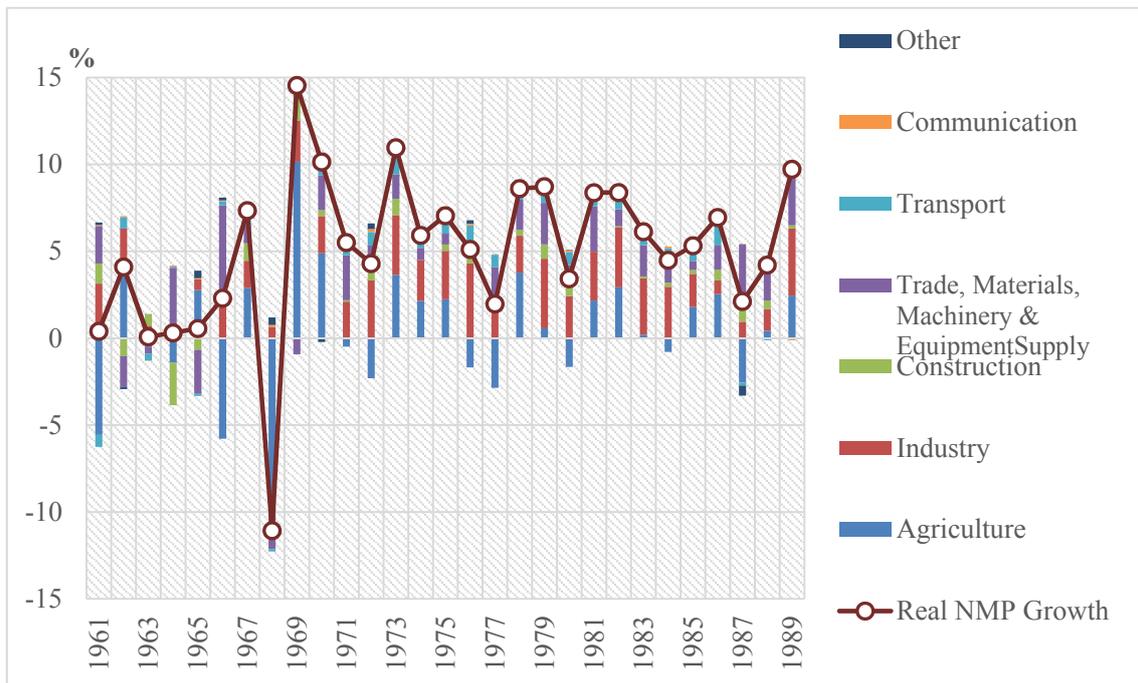
The period of 1970-1989 was the “golden era” of Mongolian economic development. The compound annual growth rate of real NMP more than doubled to over 6% during the 1970s and 80s from 2.7% in the 1960s. The industry and trade sectors were the major drivers behind these growths, followed by transport and construction. On average, the industry sector was responsible for almost half (45.7%) the growth during the 1970s and 80s, while trade, materials and technical supply gave rise to 35.6% of growth over these two decades. Further, the transport and construction sectors witnessed 7.8% and 5.7% annual growths on average respectively over the same period (Table 2.2.2 and Figure 2.2.4).

Table 2.2.2 Compound Annual Growth Rates of Mongolia’s Real NMP by Sectors, %

Sectors	1961-1970	1971-1980	1981-1989	1970-1989
Real NMP	2.7	6.1	6.2	6.3
Agriculture	0.7	1.1	5.0	3.5
Industry	10.3	11.4	7.0	9.4
Construction	1.3	6.5	5.0	5.7
Trade, Materials and Technical Supply	1.8	5.1	6.9	6.0
Transport	2.5	10.1	4.5	7.8
Communication	16.3	12.1	8.5	10.2
Other	4.3	4.6	3.0	3.3

Source: Estimated from NSO, 2011 a, b.

Figure 2.2.4 Contributions to Real NMP Growth, 1961-1989, %

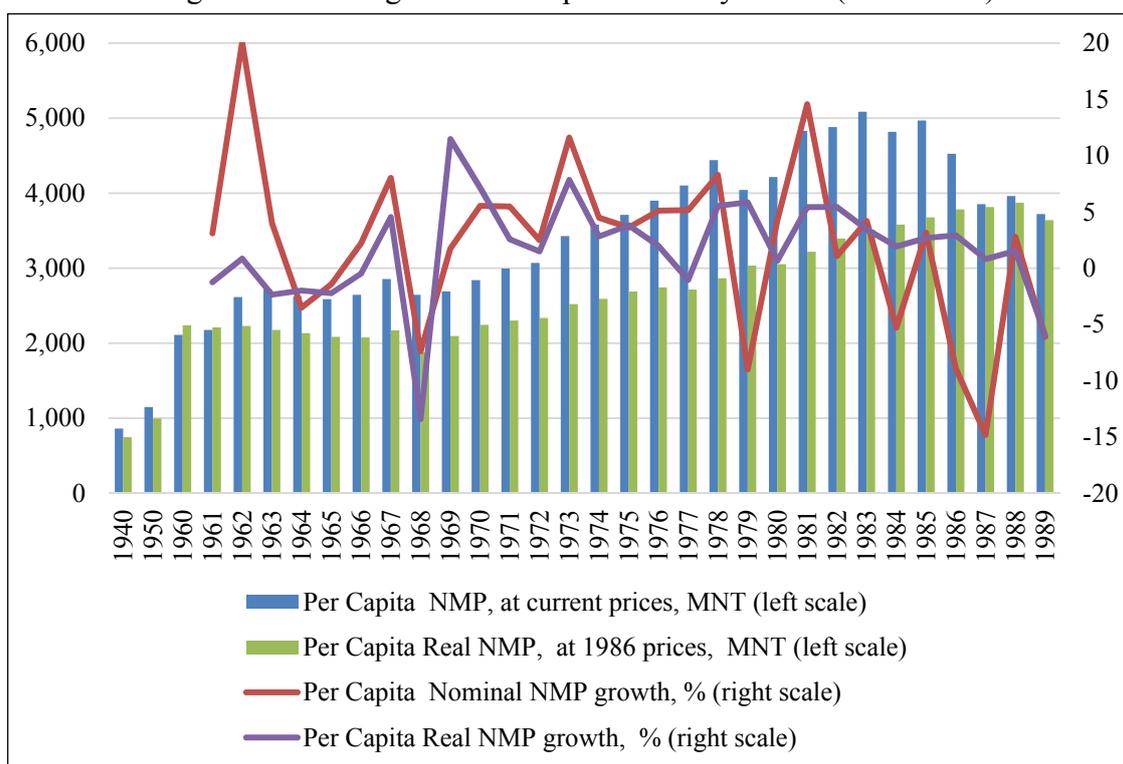


Source: Compiled from NSO, 2011 a, b.

Along with the rapid economic growth of the 1970s and 80s, overall living standards of the population improved. Mongolia's per capita NMP annual growth equaled 3.8% and 2.8% in real terms respectively during these periods. The highest per capita level was attained in 1988, equaling MNT 3,962 at current prices and MNT 3,873 calculated at 1986 prices, which was 3.89-fold higher on its 1950 level. However, this was much lower compared to the overall economic growth of 11-fold during the same period as the population was also growing rapidly (Figure 2.2.5).

According to the World Bank Atlas method, Mongolia's GNI per capita in 1988 was USD \$1,690, placing it in the lower-middle income country group at the time, and it was the highest level attained prior to transition. Mongolia's per capita GNI was higher than the world average and those of Japan and Singapore in 1962. Also, Mongolia's per capita was almost 10-fold and 6-fold higher than those of China and the ROK respectively in that year. Although Mongolia performed much better than low and middle economies and those of East Asia & Pacific, excluding high income countries, the country's per capita growth was much slower than those observed in high income, capitalist economies during the 1970s and 1980s. Mongolia's per capita level had slid to the world average by 1970 and fallen behind Japan and Singapore, and the ROK by 1980. Also, the per capita income gap with China began to narrow in the 1970s as a result of China initiating reform and opening up its economy under an open-door policy in late-1978 (Table 2.2.3).

Figure 2.2.5 Mongolia's Per Capita NMP Dynamics (1960-1989)



Source: Compiled from NSO, 2011a, 2011b.

Table 2.2.3 GNI per Capita, Atlas method (current US\$),
Selected Regions and Countries, Selected Years

Regions and Countries	1962	1970	1980	1983	1988	1989
World	481	801	2,613	2,454	3,915	4,063
High income	1,542	2,785	10,036	9,538	16,970	17,883
Low & middle income	N/A	208	647	656	773	773
Lower middle income	N/A	140	409	460	509	499
East Asia & Pacific	143	305	1,286	1,255	2,474	2,652
East Asia & Pacific (excluding high income)	71	121	291	304	402	403
Mongolia	742*	804*	1,190*	1,440	1,690	1,590
Japan	610	1,830	10,860	10,270	24,910	27,000
Singapore	490	970	4,730	6,170	9,320	10,320
ROK	120	280	1,860	2,150	4,460	5,310
China	70	120	220	220	330	320

Notes: 1. *Estimated using data of per capita NMP dynamics; 2. N/A-not available.

Source: Compiled from WB, 2020.

2.3 Supply and Use Structures

In line with the Soviet style national income account system practiced in the former socialist countries, a balance table of the production, consumption and savings of the GSP was compiled in Mongolia. Similar to the Supply-and-Use framework of the System of National Accounts SNA (System of National Accounts), this table provides information on the supply of goods and services by domestic production and imports and the use of goods and services for intermediate consumption and final use (consumption, gross capital formation and exports).

In 1965, domestically produced agricultural goods at basic prices accounted for 86.5% of total supply and that of imports was equal to 0.4% of the total, while transport and trade margins accounted for 3.3% and 9.7% respectively. This structure did not change much over the examined periods. In terms of industrial products, a shift towards domestic production can be observed and the share of industrial products at basic prices increased to 52.1% of total supply in 1988 from 42.4% in 1965, while those of imports decreased to 21.7% of total supply in 1988 from 26.5% in 1965. Despite the fact that 43 construction materials plants were in operation throughout Mongolia as of 1985 and produced 10.8% of the country's gross industrial output (Namjim, T. 2000a), import dependence of the construction sector was highest, with its import share equaling 50.8% of total supply in 1985 but dropping to 33.8% in 1988. This indicates that the domestic production capacity of construction supplies was short of the booming demands during those periods. Also, the trade margin for industrial products was largest in 1965 at 27.5% of total supply but decreased by almost half to 13.6% in 1988. Although the transport margin for agricultural products experienced increases, while that of forestry and others decreased, the overall transport margin changed little, accounting for 6.6% of total supply over the periods (Table 2.3.1).

In terms of use structure, intermediate use of both agricultural and industrial products increased during 1965-1988. More than half of these products were used as production inputs in 1988, while their final consumption shares were shrinking. The household consumption share of agricultural products fell to 25.6% of the total in 1988 from 31.3% in 1965, while those of industrial products dropped to 28.6% of the total in 1988 from 50.4% in 1965. However, export share of industrial goods increased to 14.1% in 1988 from just 2.8% of the total in 1965. At the same time, the share of capital formation of construction stayed relatively stable at over 80% of the total. Overall, in line with the growing industrial production, the share of intermediate use increased, while that of household consumption decreased over the periods (Table 2.3.2; Figure 2.3.1).

Table 2.3.1 Supply Structure Prior to 1990, Selected Years

Year	Products by Sectors	Total Supply, at current prices, MNT Million	Structure, % of total supply at current prices				
			Domestic Production at basic prices	Imports at basic prices	Transport and Trade Margins		
					Transport Margin	Trade Margin	Total
1965	Agriculture	1 172.6	86.5	0.4	3.3	9.7	13.1
	Industry	2 903.9	42.4	21.7	8.5	27.5	36.0
	Construction	598.0	100.0	0.0	0.0	0.0	0.0
	Communication	14.9	100.0	0.0	0.0	0.0	0.0
	Forestry and others	114.9	82.9	0.0	5.2	11.9	17.1
	Total	4 804.3	61.5	13.2	6.1	19.3	25.3
1975	Agriculture	1 851.2	82.1	0.8	4.7	12.5	17.2
	Industry	6 290.4	48.8	18.8	8.8	23.6	32.4
	Construction	1 409.6	50.8	49.2	0.0	0.0	0.0
	Communication	39.2	100.0	0.0	0.0	0.0	0.0
	Forestry and others	132.0	86.1	0.0	3.9	10.0	13.9
	Total	9 722.4	56.2	19.4	6.6	17.8	24.4
1985	Agriculture	2 660.0	85.7	1.5	8.5	4.3	12.8
	Industry	14 457.6	49.9	24.6	7.7	17.8	25.5
	Construction	2 998.5	49.2	50.8	0.0	0.0	0.0
	Communication	24.9	100.0	0.0	0.0	0.0	0.0
	Forestry and others	172.2	84.6	0.0	3.9	11.5	15.4
	Total	20 313.2	54.8	25.2	6.6	13.3	19.9
1988	Agriculture	3 303.6	86.2	1.5	7.9	4.4	12.3
	Industry	16 419.4	52.1	26.5	7.9	13.6	21.4
	Construction	3 144.6	66.2	33.8	0.0	0.0	0.0
	Transport	308.6	100.0	0.0	0.0	0.0	0.0
	Communication	219.8	100.0	0.0	0.0	0.0	0.0
	Forestry and others	179.8	95.9	0.0	2.3	1.8	4.1
	Total	23 575.8	60.2	23.1	6.6	10.1	16.7

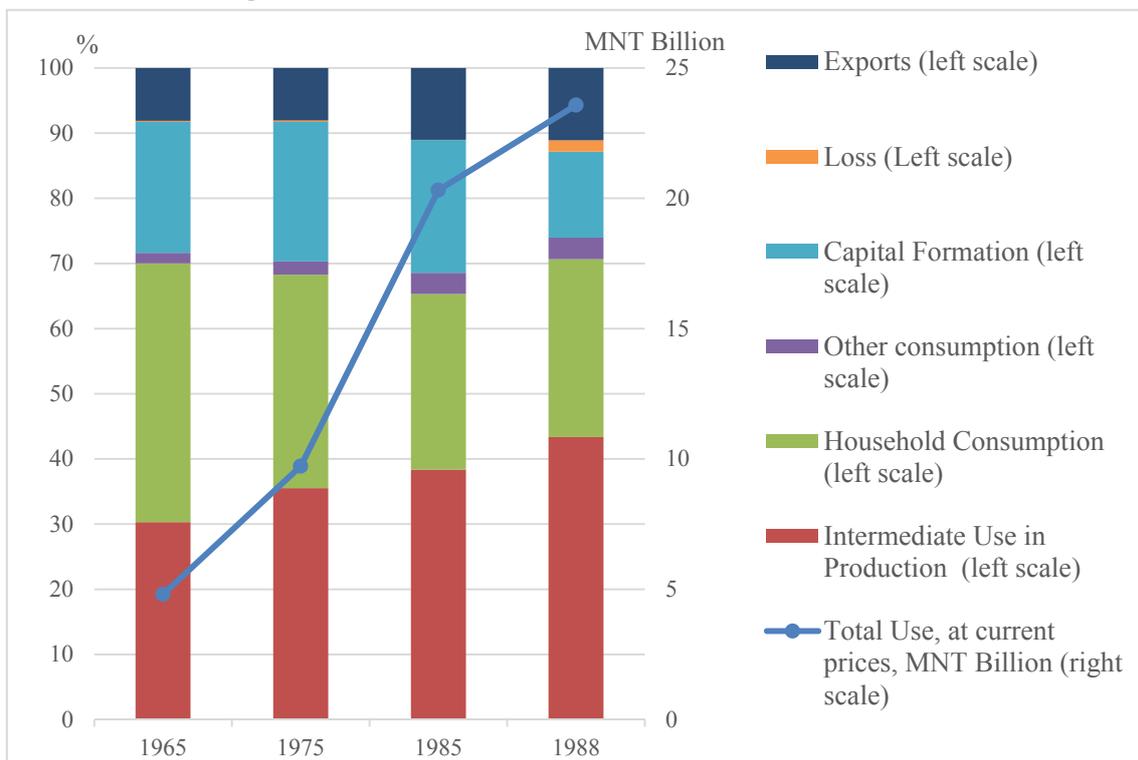
Source: Compiled from NSO, 2011a, 2011b.

Table 2.3.2 Use Structure Prior to 1990, Selected Years

Year	Products by Sectors	Structure, % of Total Use						
		Total Use, at current prices	Intermediate Use in Production	Final Uses				
				Final Consumption		Capital Formation	Loss	Export
				Household	Other			
1965	Agriculture	1 172.6	36.6	31.3	0.1	7.3	0.6	24.0
	Industry	2 903.9	31.4	50.4	2.4	13.0	0.0	2.8
	Construction	598.0	8.8	6.2	1.0	84.1	0.0	0.0
	Communication	14.9	100.0	0.0	0.0	0.0	0.0	0.0
	Forestry and others	114.9	40.2	36.1	1.1	0.0	0.0	22.5
	Total	4 804.3	30.3	39.7	1.6	20.1	0.2	8.1
1975	Agriculture	1 851.2	59.8	25.7	1.0	1.2	1.0	11.2
	Industry	6 290.4	34.3	40.6	2.3	13.8	0.0	9.0
	Construction	1 409.6	4.0	9.3	2.2	84.6	0.0	0.0
	Communication	39.2	100.0	0.0	0.0	0.0	0.0	0.0
	Forestry and others	132.0	72.7	18.6	0.0	0.0	0.0	8.7
	Total	9 722.4	35.5	32.8	2.0	21.4	0.2	8.1
1985	Agriculture	2 660.0	56.2	28.5	1.2	4.6	0.2	9.4
	Industry	14 457.6	42.1	30.9	3.8	9.6	0.0	13.5
	Construction	2 998.5	2.2	7.5	2.6	87.7	0.0	0.0
	Communication	24.9	100.0	0.0	0.0	0.0	0.0	0.0
	Forestry and others	172.2	70.6	11.3	0.0	0.0	0.0	18.1
	Total	20 313.2	38.4	26.9	3.3	20.4	0.0	11.0
1988	Agriculture	3 303.6	52.9	25.6	1.2	7.7	4.5	8.1
	Industry	16 419.4	50.2	28.6	3.9	1.7	1.6	14.1
	Construction	3 144.6	2.8	11.5	3.4	82.3	0.0	0.0
	Transport	308.6	0.0	100.0	0.0	0.0	0.0	0.0
	Communication	219.8	14.2	85.8	0.0	0.0	0.0	0.0
	Forestry and others	179.8	64.8	21.1	0.0	0.0	0.0	14.0
	Total	23 575.8	43.4	27.3	3.3	13.2	1.7	11.1

Source: Compiled from NSO, 2011a, 2011b.

Figure 2.3.1 Total Use and Its Structure, Selected Years

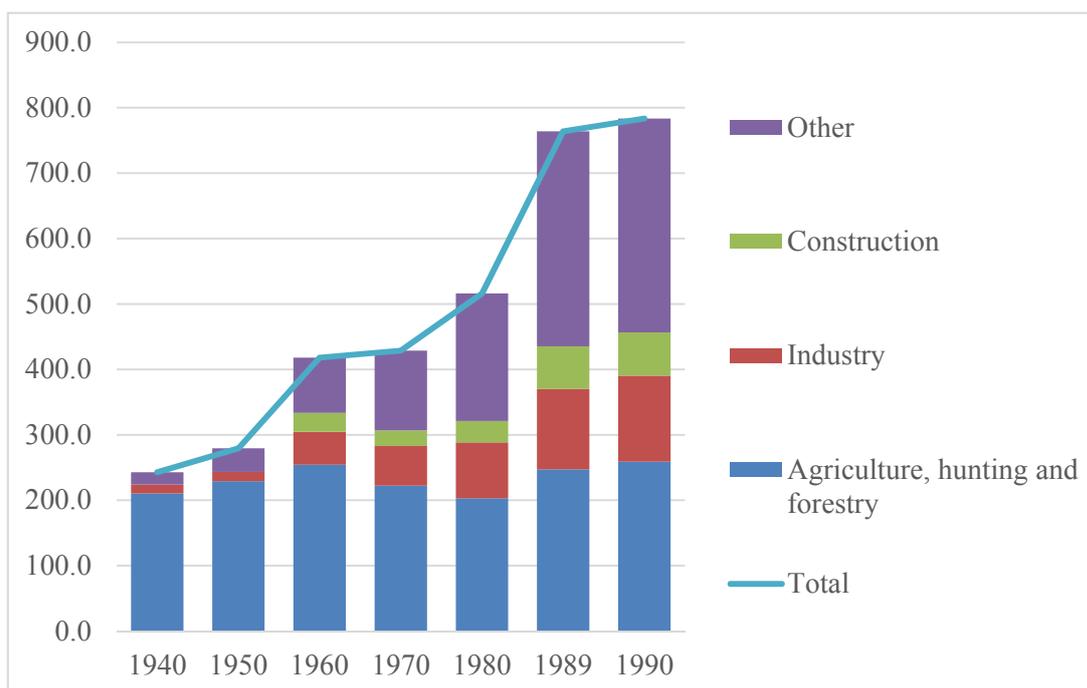


Source: Compiled from NSO, 2011a, 2011b.

2.4 Labor Force and Productivity

In accordance with the economic structure, the agriculture sector provided 86.6% of total employment in 1940. Although its share began to decrease following the emergence of other economic activities, agriculture remained Mongolia's largest employment provider. The number of persons employed in agriculture equaled 247,100 or 32.3% of the total in 1989, and it increased further to 258,800 or 33% in 1990. Industry was the second largest employment provider, with its share increasing from 5% of the total in 1950 to 16.1% in 1989 and 16.8% in 1990. The construction sector employed 65,200 persons or an 8.5% share of the total in 1989. At the same time, employment in the service sectors increased rapidly, especially since the 1960s. Numbers employed in the education sector were 86,800 in 1990, which was a more than 5-fold rise on its 1960 level. Also, employment in trade, transportation, communication, healthcare and social services increased about 4-fold during the period from 1960 to 1990. Overall, Mongolia witnessed a substantial rise in its workforce during the 1980s as the baby boomers first entered the labor market. At the same time, numbers of workers in public administration as a share of total employment almost doubled to 4.1% in 1990 from 2.1% in 1970 and 2.2% in 1980 (Figure 2.4.1; Table 2.4.1).

Figure 2.4.1 Employment by Sectors, Selected Years



Source: Compiled from NSO, 2011.

Table 2.4.1 Persons in Employment, Selected Years, Period end, 1,000 Persons

Sectors	1940	1950	1960	1970	1980	1990
Agriculture, hunting and forestry	210.4	229.2	254.2	222.3	203.0	258.8
Industry, total	13.7	14.0	50.4	60.6	85.4	131.6
Construction			28.9	23.7	32.7	66.1
Wholesale and retail trade, repair of household goods	7.3	8.6	14.7	23.7	34.5	54.6
Transportation, communication and storage	1.4	5.8	15.4	24.1	37.4	57.7
Financial and lending organizations		0.2	0.6	1.8	1.9	3.9
Public administration	4.9	8.1	19.1	8.8	11.6	32.1
Education	2.8	6.9	17.1	29.6	57.9	86.8
Health and social services	2.0	4.6	11.6	20.1	31.3	49.2
Social and private services	-	1.0	2.7	8.2	14.4	33.9
Other	0.3	1.0	3.3	5.8	5.9	8.9
Total	242.8	279.4	418.0	428.7	516.0	783.6

Source: Compiled from NSO, 2011.

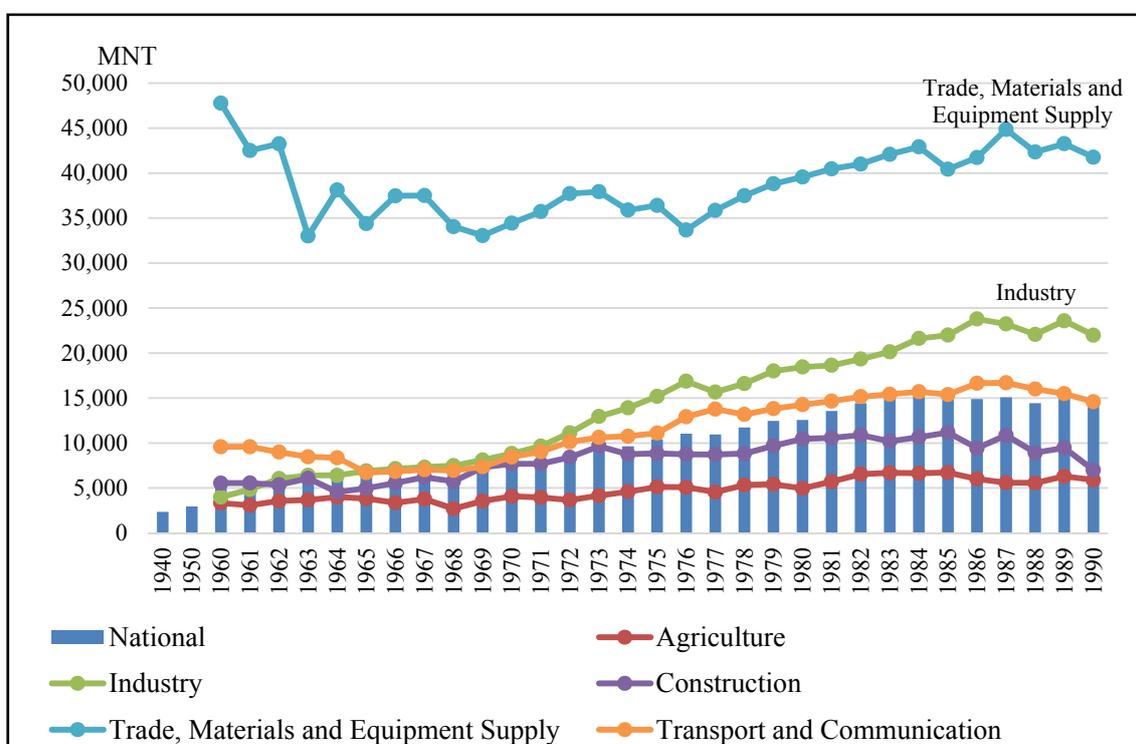
Labor productivity, which is a measure of technological development and living standards in a country, also improved in the period before 1990, with its growth accelerating fastest when Mongolia experienced intensive industrial development in the 1970s. Although the labor productivity level was highest in the trade, materials and technical supply sector, the industry sector was the main source of labor productivity growth. The annual average growth of labor productivity in industry equaled 8.5% during the 1960s and 70s, while it was 2.5% and 5.9% on a national level respectively. But in the 1980s labor productivity growth on a national level slowed to 2.3% per annum, while it was 2.8% per annum in the industry sector (Table 2.4.2; Figure 2.4.2;).

Table 2.4.2 Annual Growth of Labor Productivity, Period Average, %

Periods	National	Agriculture	Industry	Construction	Trade, Materials, Equipment Supply	Transport, Communication
1961-1989	3.6	3.0	6.5	2.4	-0.1	1.9
1961-1969	2.5	2.1	8.5	4.2	-3.4	-2.6
1970-1979	5.9	4.7	8.5	3.1	1.7	6.7
1980-1989	2.3	1.9	2.8	0.3	1.2	1.2

Source: Estimated from NSO, 2011a, 2011b and personal communication.

Figure 2.4.2 Labor Productivity by Sectors (at constant 1986 prices, MNT)



Source: Compiled from NSO, 2011a, 2011b and personal communication.

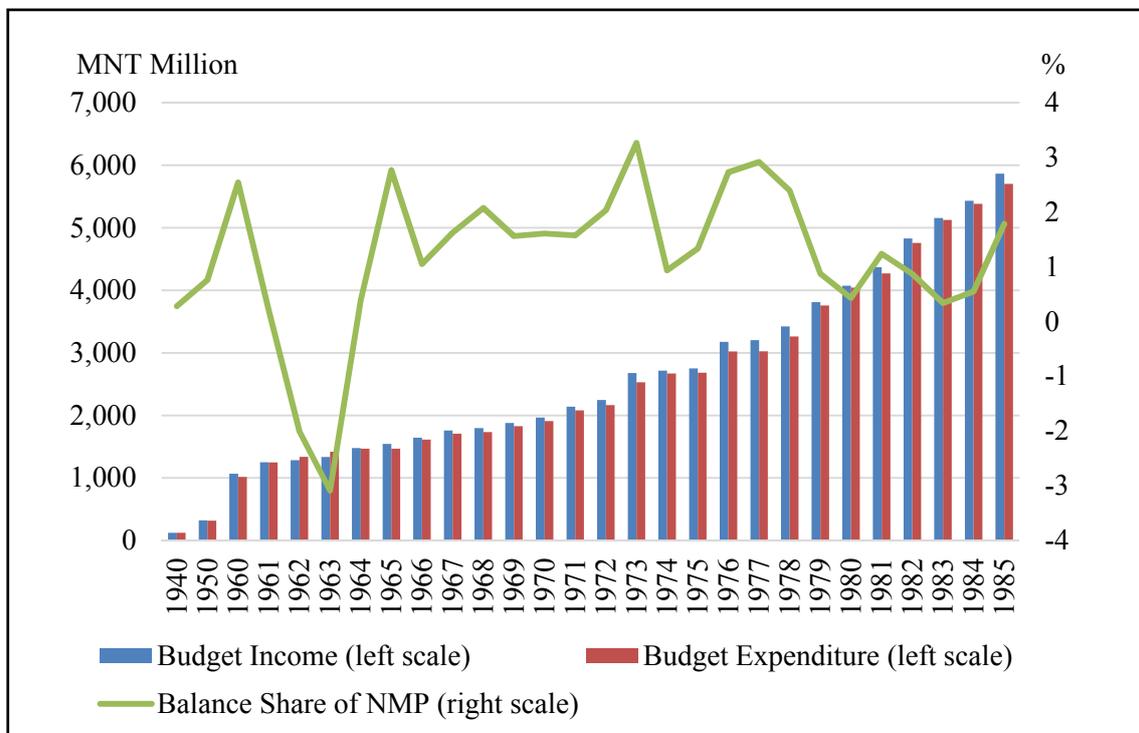
2.5 State Budget

Mongolia's state budget prior to 1990 was relatively well-balanced. Since the 1960s, the state budget income and expenditure shares made up around 55% of total NMP. Such a high share was not out of place for a country applying a socialist and centrally planned economic system. Further, balance of the state budget was positive, totaling 1%-3% of NMP during the period 1960-1985, except in 1962-1963. The largest state budget deficits over the period occurred in 1962 and 1963, equaling 2% and 3.1% of total NMP respectively (Figure 2.5.1).

The state budget plays an essential role in the financial system of socialism and a considerable part of national income or NMP is distributed through the budget. A large proportion of the budget was allocated to fund research and development and social services, such as education, health, pensions, etc., which were provided free of charge to the population.

Accordingly, in addition to economic development, Mongolia achieved remarkable progress in social development during this period. For example, Mongolia's adult literacy rate increased to 81.5% in 1969 and further to 96.5% in 1989 after climbing from a mere 2% in 1918 (NSO, 2011).

Figure 2.5.1 Mongolia's State Budget, at current prices, 1940-1985



Source: Compiled from NSO, 2011a, 2011b and personal communications.

As described in the Economics Institute of the UAS (2020), “the State Budget occupies a leading place in the financial system of socialism. Thanks to the predominance of social ownership of the means of production, the State Budget under socialism is closely connected with the whole national economy, and is an instrument for the planned development of socialist economy and rational use of productive resources in all branches of the national economy”. Also, socialist production serves as the material basis of the financial system, which rests on the growth of industry and agriculture and the extension of trade. With its help, the gross social product is distributed in a monetary form among the sectors of socialist production, as well as between the society as a whole and its members. The financial system must ensure the most rational use of all resources of a socialist economy and increase profitability of production (Economics Institute of the UAS, 2020).

According to the balance table of primary revenues and redistributed final consumption expenditures of Mongolia’s GSP, industry was the largest source of such primary revenues, followed by agriculture, and trade, procurement, public catering. The combined share of these sectors accounted for about 70% of total revenues in the 1960s and 1970s, but it decreased to 64% total in 1988 owing to expansions of the construction, transport and communication sectors. At the same time, foreign sources of total primary revenues jumped to 16% in 1988 from 6.6% in 1965. This trend indicates that Mongolia’s budget dependence on foreign sources or aid increased over time. On the expenditure side, the material production sectors held the largest share and accounted for more than half of total expenditures, while positive balances were maintained for all sectors. This implies that all material production sectors were not subsidized during these years. At the same time, population income (or salary) as a share of final expenditure decreased over the period, falling from 37.5% of the total in 1965 to 23.1% in 1985 (Table 2.5.1).

Total expenditures on non-material production or services, such as dwelling, urban, community and household services, culture, education, health, social security, sports, science and scientific services, administration and other non-production services, were maintained at less than 20% of the total. Along with Mongolia’s growing population and the government’s goal to improve the social environment, the number of housing, schools, hospitals, kindergartens and crèches increased in each of the consecutive 5-year planning periods. For example, the total amount of housing buildings put into operation increased to 2.3 million sq. m during 1985-1990 from 645,000 in 1971-1975. Further, whereas more than 90% of housing was owned by the state or cooperatives until 1985, the share of privately owned housing increased to 19% of the total during 1985-1990. Around 120 new schools were built during the 5-year periods with a total capacity of approximately 50,000 seats, while the number of kindergarten and crèche beds tripled between the 1971-

1975 and 1985-1990 periods. Also, the number of hospital beds made available increased to 3,635 during 1985-1990 from 2,235 during 1971-1975. At the same time, administration expenditures as a share of the total increased (Tables 2.5.1; 2.5.2).

Table 2.5.1 GSP Primary Revenues and Redistributed Final Expenditure Balance

Revenue and Expenditure Items		1965	1975	1985	1988
GSP Total, current prices, MNT Billion		4.5	8.9	18.1	21.6
Primary Revenue Structure, %		100	100	100	100
Domestic Production Revenues, total		93.4	87.6	85.8	84.0
	Industry	27.6	34.4	39.8	39.7
	Agriculture	22.7	17.0	12.6	13.2
	Trade, Procurement, Public Catering	20.7	19.3	14.9	11.0
	Construction	13.4	8.0	8.1	9.7
	Transport, Communication	6.9	7.6	9.6	9.7
	Forestry	0.2	0.4	0.3	0.2
	Other	2.0	0.9	0.5	0.6
Foreign Sources		6.6	12.4	14.2	16.0
Final Expenditure Structure, %		100	100	100	100
Material Production, total		48.8	55.0	59.3	57.5
	Industry	22.3	26.7	33.2	30.5
	Agriculture	9.1	9.8	9.2	11
	Trade, Procurement, Public Catering	7.8	5.7	3	0.5
	Construction	4.8	6.3	7.8	8.2
	Transport, Communication	4.5	6.4	5.9	7
	Forestry	0.1	0	0	0
	Other	0.2	0.1	0.1	0.2
Non-material Production (Services), total		13.7	16	17.6	19
	Dwelling, urban, community and household services	7.1	7.1	7.5	5.9
	Culture, education	2.6	3.3	3.5	3.5
	Health, social security, sports	1.8	2.6	2.1	2.1
	Science and scientific services	0.3	0.6	0.5	0.5
	Finance, insurance	0	0.1	-0.4	3.3
	Administration	1.5	2.3	4.4	3.8
	Other non-production sectors	0.3	0.1	-	-
Population		37.5	29.0	23.1	23.5

Source: Compiled from NSO, 2011b.

Table 2.5.2 Selected Social Indicators

Items Put into Operation	Unit	1971-1975	1976-1980	1981-1985	1985-1990
Housing buildings, total	1,000 sq. m	645.0	1,207.9	1,513.7	2,265.8
State and cooperative owned		610.5	1,154.3	1,419.9	1,836.4
Private owned		34.5	53.6	93.8	429.4
Schools:					
Units	number	124	103	124	122
Capacity	1,000 seats	47.7	39.1	53.1	49.5
Kindergartens, crèches	1,000 beds	4.5	10.7	15.2	15.0
Hospitals	beds	2,235	2,780	2,595	3,635

Source: Compiled from NSO, 1991

2.6 Agricultural Output

The favorable natural environmental conditions of Mongolia, well-suited to rearing domestic livestock, was the major reason for the development of the livestock sector as the country's first productive sector, although, as in other countries across the globe, the first economic activity undertaken by early humans living on Mongolia's plateau was hunting. The initial process of domesticating wild animals began in Mongolia between the 8th and 3rd centuries B.C. and became the focus of productive activity after the latter half of the 2nd century B.C. Traditionally, commonly raised domestic livestock in Mongolia were sheep, goats, cattle, horses and camels, while pigs, hens and other birds were seldom reared. Horses were the first animal to be domesticated in Mongolia (Baasanjav et.al., 1999).

The harsh continental climate of Mongolia, which is characterized by significant changes in the weather during the four seasons, as well as differences in the grassland available in different areas, cause the Mongolian people to lead a nomadic lifestyle based on pastoral animal husbandry. Research suggests that this was economically more effective than conventional agriculture (i.e. planting). Therefore, the classic Mongolian form of animal husbandry is considered an efficient production activity in terms of labor, economic payoffs and ecological considerations. The term "classic" denotes the original pastoral animal husbandry methods that have developed over time during the course of the nomadic lifestyle, and which have been passed down from generation to generation. Livestock in Mongolia is considered a part of the nation's wealth and is subject to state protection under the country's constitution.

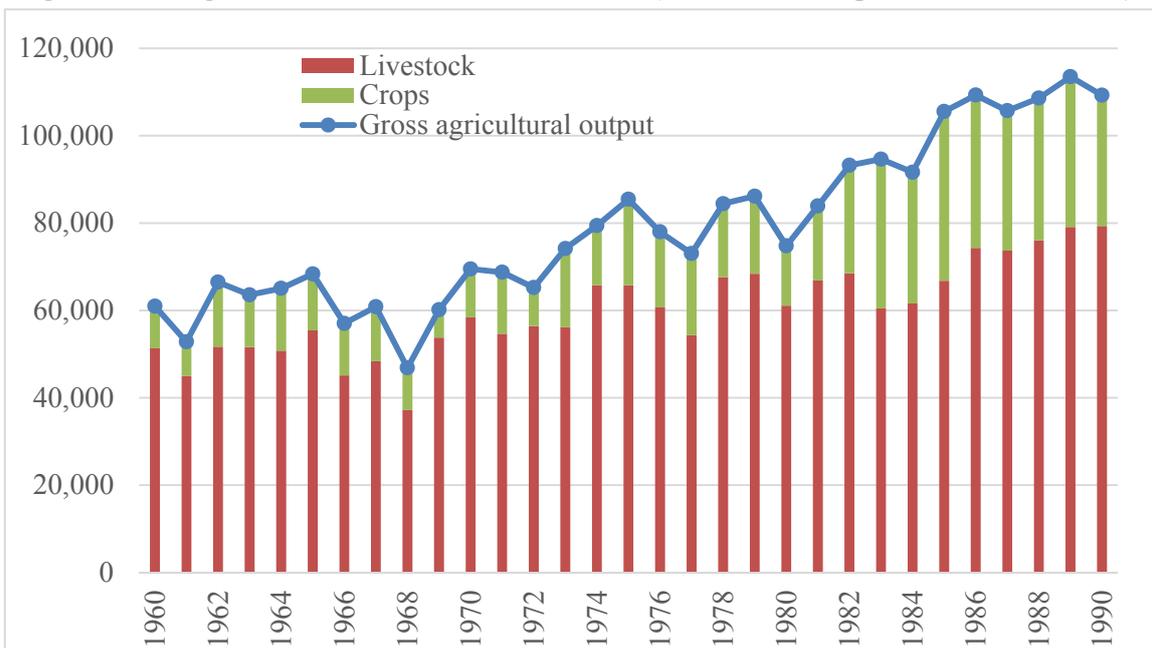
Between the 13th and 14th centuries, herder-settlements – groups of herder households forming small nomadic settlements – became the first major labor division of herders. However, after nationwide campaigns calling for the establishment of cooperatives began

in 1950, the herder-settlement system of labor division that had been practiced for more than 700 years in Mongolia was abandoned in favor of cooperatives. According to the NSO (1991), in 1960 there were 354 agricultural cooperatives throughout the country in addition to 25 state farms engaged in conventional agriculture, i.e. crop and vegetables planting, dairy and meat farming, and 17 inter-farm enterprises. Numbers of agricultural cooperatives fell to 255 in 1990, while the figure for state farms increased to 53. Also, farms specializing in fodder supply were established in the 1960s, and there were 20 such farms in 1990. But with the beginning of the transition from a centrally-planned command economy to a market-oriented one in 1991, a massive privatization process got underway and livestock ownership was transferred back to the people free of charge, mainly to the cooperatives' own members; all the cooperatives were thus dissolved (Enkhbayar, Sh., 2002).

As above, the livestock sector accounted for most agricultural production in Mongolia. Gross agricultural production increased by 2.6% per annum in real terms during the period 1960-1990, whereas livestock output accounted for almost 80% of total agricultural output until the early 1980s. Livestock output share then dropped to about 70% during the 1980s as crop production surged. In fact, crop output doubled in the decade prior to 1989 (Figures 2.6.1).

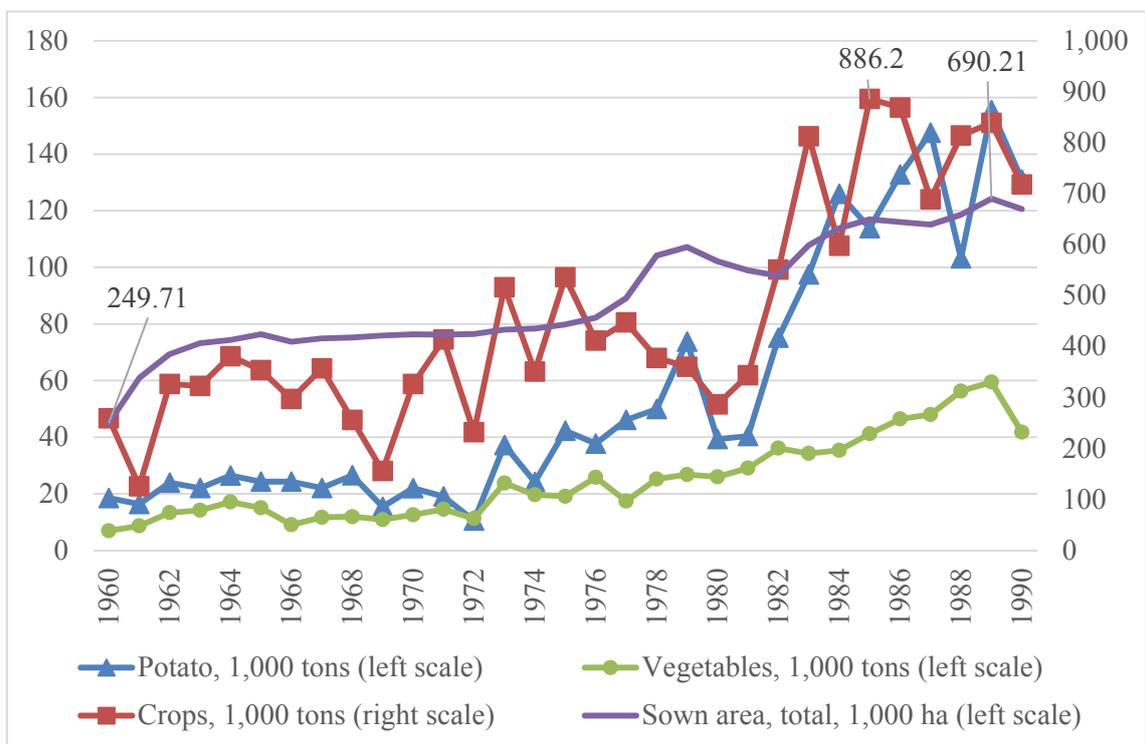
Largescale land cultivation in Mongolia began in 1959, and two crop missions were implemented before 1980. Their aim was to increase land areas for cultivation and improve crop productivity by introducing technological and technical advancements along with human resource development in the agriculture sector. As a result, the sown area increased to 690,210 ha in 1989 from only 249,710 ha in 1960. Wheat is the main crop in Mongolia, and its cultivation accounted for almost 80% of the total. Peak crop production was achieved in 1985, when 886,171 tons of cereals were harvested, 688,462 tons of which were wheat. Production of potato and vegetables grew during the period 1960-1989 as well, with and 155,500 tons of potato and 59,500 tons of vegetables harvested in 1989 (Figure 2.6.2).

Figure 2.6.1 Agricultural Production; 1960-1990 (Constant 1993 prices, MNT Million)



Source: Compiled from NSO, 1996.

Figure 2.6.2 Production of Major Agricultural Products (Cereals); 1960-1990



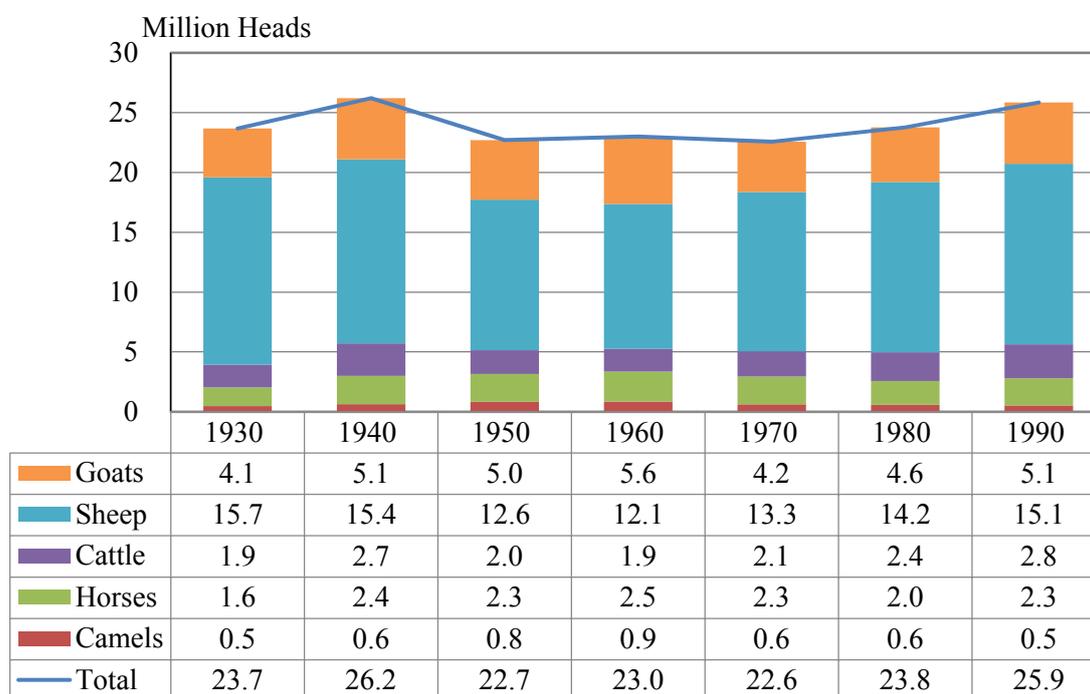
Source: Compiled from NSO, 2020.

The number of livestock ranged between 22.7 million and 26.2 million during the period 1930-1990. Sheep accounted for almost 60% of the total, followed by goats at around 20%, while cattle and horses each made up about 10% of all livestock. The number of camels ranged between 0.5 million and 0.9 million during this period (Figure 2.6.3).

The livestock sector provides a stable food supply for the country's population and the main inputs for livestock-origin raw materials processing industries. Manufacturing industries based on these raw materials developed significant capacity in Mongolia since the mid-1930s and as of the late 1970s and early 1980s, almost all of the livestock-origin raw materials, such as meat, milk, wool, cashmere, hair, hides and skin, were processed domestically, supplying various food and other finished products to domestic and foreign markets.

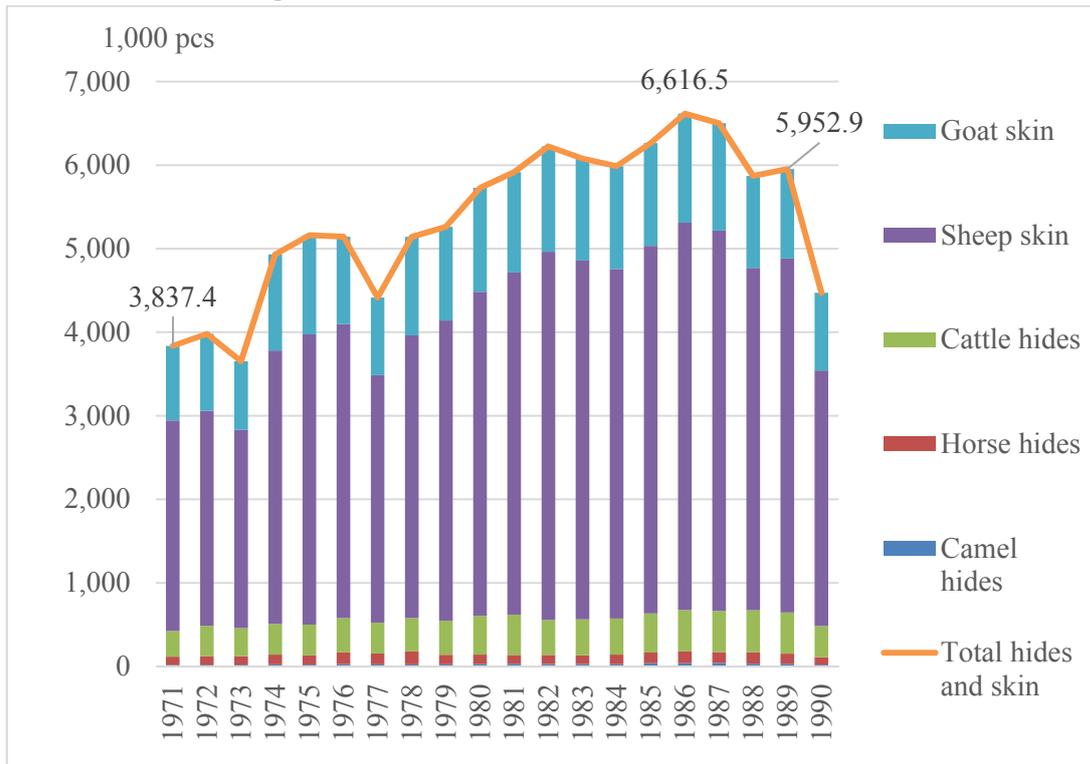
The annual amount of raw materials supplied by the livestock sector increased to 6 million pieces during the 1980s from 4 million in the 1970s. A peak quantity of 6.6 million hides and skin procurement was achieved in 1986. Sheepskin accounted for 70% of the total, followed by goat skin, which was equal to 20%. The remainder consisted of cattle, horse and camel hides (Figure 2.6.4).

Figure 2.6.3 Number of Livestock (1930-1990)



Source: Compiled from Mongolian Statistical Yearbook, various issues.

Figure 2.6.4 Hides and Skin Production; 1971-1990

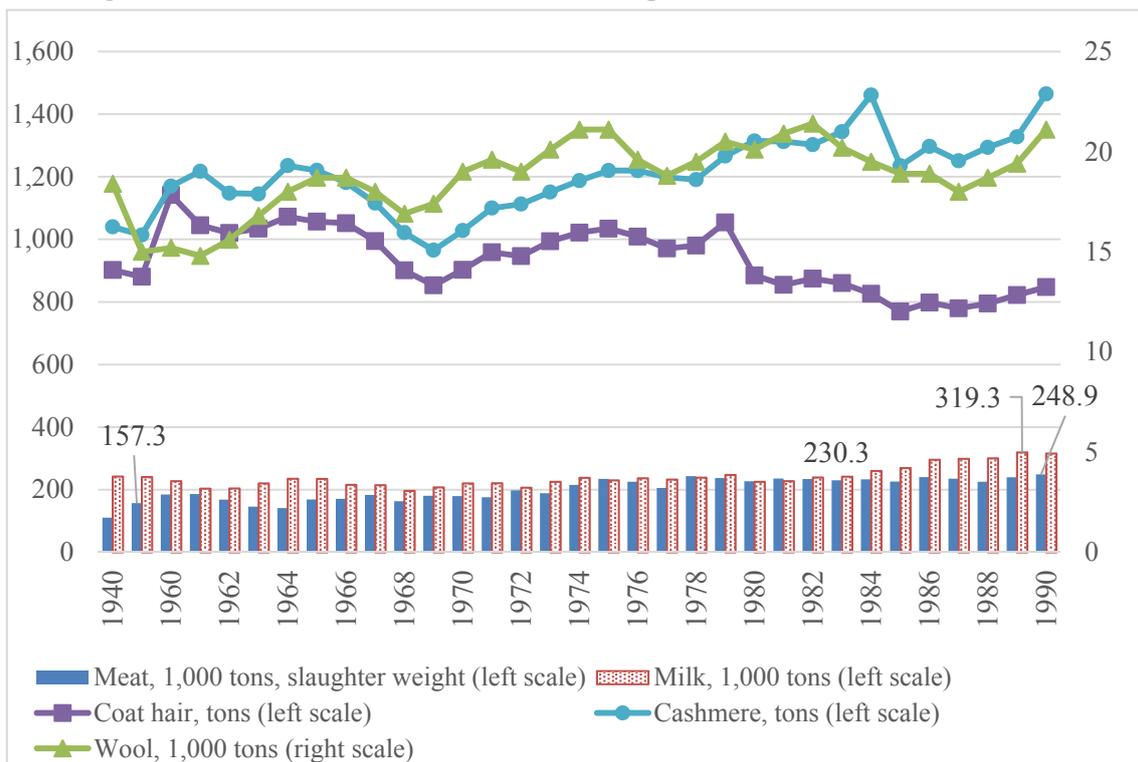


Source: Compiled from NSO, 1996.

The livestock sector also supplies main daily food ingredients, such as meat and milk, to the population. According to the NSO (1996), meat production per capita equaled 205.5kg in 1950, while those of milk and butter were 314.6 kg and 5.1 kg respectively. These values, however, reduced by almost half during the 1980s as the share of other food ingredients including eggs, wheat flour, potatoes and vegetables increased. Total meat production was 157,300 tons (in slaughter weights) in 1950 and increased to 248,900 tons in 1990, while milk production peaked at 319,300 tons in 1989 (Figures 2.6.2; 2.6.5).

Other key products supplied by the livestock sector were wool and cashmere. Given the relatively stable numbers of sheep and goat, wool production ranged at about 20,000 tons per annum, while goat hair and cashmere accounted for around 1,000 tons and 1,300 tons per annum respectively (Figure 2.6.5).

Figure 2.6.5 Production of Meat, Milk, Sheep Wool, Goat Hair and Cashmere



Source: Compiled from NSO, 1996.

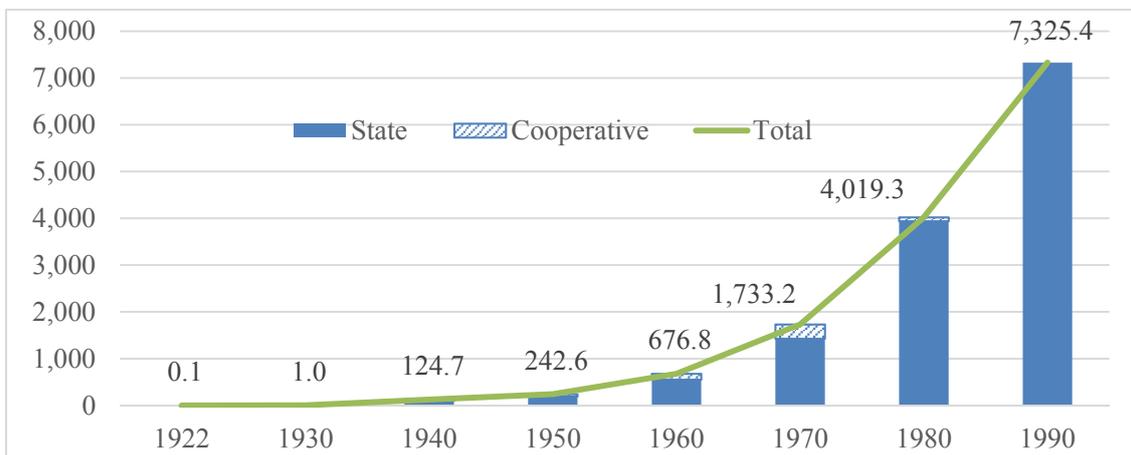
2.7 Industrial Output

Early development of industry in Mongolia dates back to 1922 and though Mongolia's gross industrial output grew as much as 10-fold by 1930, its modest overall scale totaled only MNT 1.0 million when evaluated at constant 1967 prices. However, since the adoption of a planned economic system in 1941, Mongolia rigorously expanded its manufacturing industry capacity by utilizing the abundant raw materials of its livestock sector. This process was guided by mapped out five-year development plans and domestic production capacity could process almost all domestic livestock-origin raw materials and supply finished products to domestic and foreign markets (Enkhbayar, Sh., 2002).

Gross industrial output accounted for MNT 124.7 million in 1940, evaluated at constant 1967 prices and it had almost doubled by 1950. The next three decades witnessed more accelerated industrial development, with gross output increasing a further 17-fold at almost 10% per annum to MNT 4.0 billion by 1980. Although, the growth rate slowed down to 6.2% per annum thereafter, the gross industrial output had almost doubled once more to MNT 7.3 billion by 1990, evaluated at constant 1967 prices. All industry was owned by the state until the 1930s, but cooperative ownership emerged during the 1940s. 21.6% of gross industrial output was produced by industries owned by cooperatives in 1950, but this share was just 2% in 1980 (Figure 2.7.1).

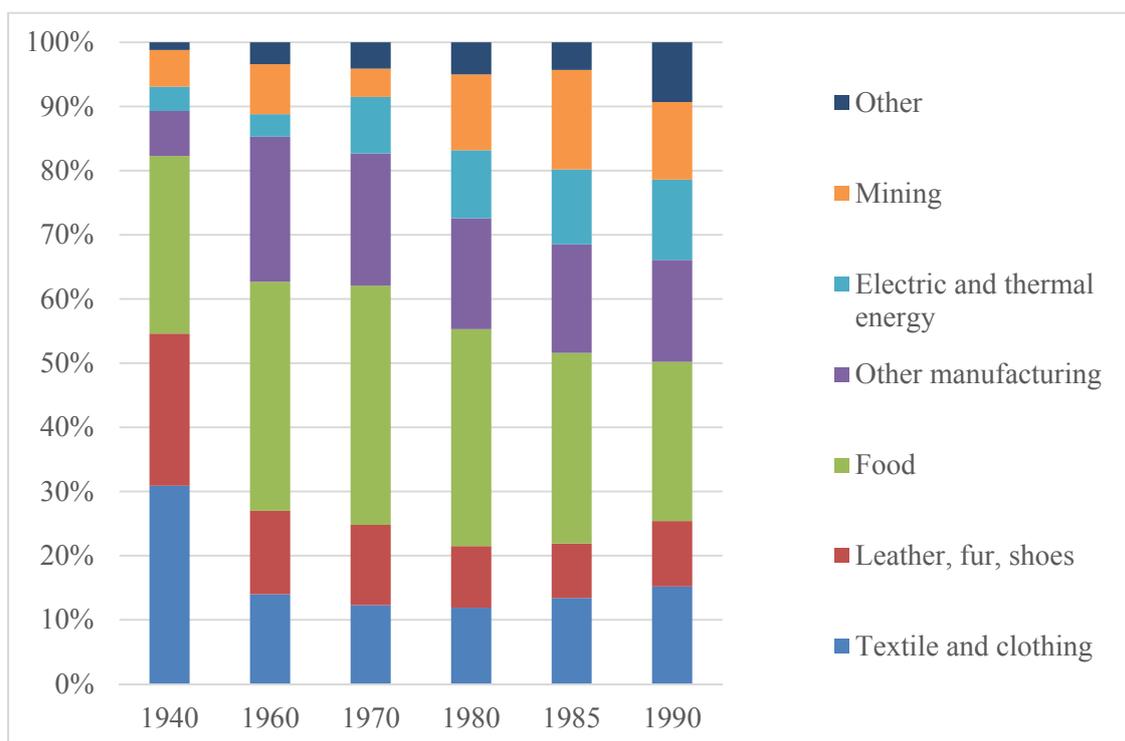
Industry was the only sector that sustained growth during the period 1960-1989, achieving an annual average output growth of 9.8%. The food industry was the largest manufacturing sector in Mongolia prior to 1990 followed by leather, fur, shoes and textiles, and clothing. In 1940, their combined output accounted for more than 80% of total industrial output. This share fell after the 1960s due to the development of other manufacturing, mining and energy industries, but in 1990 they still made up 50% of total industrial output. Other manufacturing sectors, including wood processing, machinery and equipment maintenance and metal works, printing, glass and porcelain manufacturing, accounted for around 20% of total industrial output. Considerable increases in major industrial products were achieved during this period, especially in the three decades prior to 1989. For example, carpet manufacturing increased to 2.1 million square meters in 1989 from 1,100 square meters in 1960. Also, owing to Mongolia's abundant mineral wealth, the mining sector was another important industrial activity and its share increased from 5.7% of total industrial output in 1970 to 15.5% in 1985. Major mining commodities were coal, copper concentrate, fluorspar, cement and lime. The largest copper and molybdenum ore mine in Asia, Erdenet Copper Mine, began operation in 1978 and 352,900 tons of 35% copper concentrate and 3,361 tons of 47% molybdenum concentrate were produced in 1989 (Figure 2.7.2; Table 2.7.1).

Figure 2.7.1 Gross Industrial Output, Selected Years
(by Ownership, at constant 1967 prices, Million MNT)



Source: Compiled from NSO, 2011 and personnel communication.

Figure 2.7.2 Structure of Industry, Selected Years, %



Source: Compiled from NSO, 2011.

Table 2.7.1 Production of Major Industrial Products

Products	1940	1950	1960	1970	1980	1989	Change 89/60
1	2	3	4	5	6	7	8
Coal, 1,000 tons	174.1	269.9	618.8	1,999.3	4,376.1	8,044.5	13.0
Fluorspar, 1,000 tons	-	-	40.3	76.9	603.5	578.2	14.3
35% copper concentrate, 1,000 tons	-	-	-	-	-	352.9	-
47% molybdenum concentrate, tons	-	-	-	-	-	3,361	-
Sawn wood, 1,000 cub. m	-	12.8	151.7	421.1	559.4	553.1	3.6
Cement, 1,000 tons	-	-	-	96.2	177.9	512.6	5.3
Lime, 1,000 tons	1.7	4.9	17.3	30.0	63.8	95.0	5.5
Clay bricks, million pcs	2.1	9.7	77.5	64.4	110.1	172.8	2.2
Scoured wool, 1,000 tons	1.7	4.5	5.6	9.8	11.8	10.1	1.8
Carpet, 1,000 sq. m	-	-	1.1	6.6	464.4	2,128.1	1,935
Felt, 1,000 m	135.9	266.4	295.6	550.2	614.6	649.7	2.2
Felt boots, 1,000 pairs	84.1	140.5	76.7	394.2	465.8	592.3	7.7
Woolen fabric, 1,000 run. m	46.7	66.5	331.0	623.7	963.5	1,978.2	6.0

(Continued on next page)

Table 2.7.1 Production of Major Industrial Products (continued)

1	2	3	4	5	6	7	8
Leather footwear, 1,000 pairs	163.3	207.7	904.3	1,621.5	2,104.9	4,140.0	4.6
Leather garments, 1,000 pcs	-	1.0	11.0	47.9	53.3	254.4	23.1
Textile suits, 1,000 sets	-	-	32.0	47.5	179.2	-	-
Milk and dairy products, million liters	-	-	7.7	10.8	24.8	62.0	8.1
Meat, 1,000 ton	4.8	4.0	12.8	34.9	56.8	61.7	4.8
Sausages, ton	388.0	285.5	659.0	683.5	2,966.1	5,824.3	8.8
Spirit, 1,000 tons	-	256.4	467.8	439.8	2,600.0	3,423.5	7.3
Vodka, wine, 1,000 liters	789.4	536.1	909.3	2,723.3	5,971.5	4,914.8	5.4
Beer, 1,000 liters	703.2	991.8	1,129.4	1,801.0	-	-	-
Flour, 1,000 tons	-	1.5	26.3	83.2	83.4	199.7	7.6
Bread, 1,000 tons	2.7	7.1	9.9	28.0	47.2	66.7	6.7
Bakery Products, 1,000 tons	0.5	2.1	4.0	9.3	22.9	35.8	9.0
Book, Million print pages	19.2	40.6	115.2	253.0	299.2	19.4	0.2
Electricity, GWh	11.5	21.0	106.4	548.3	1,566.3	3,568.3	33.5

Source: Compiled from NSO, 2011.

2.8 Investment and Foreign Aid

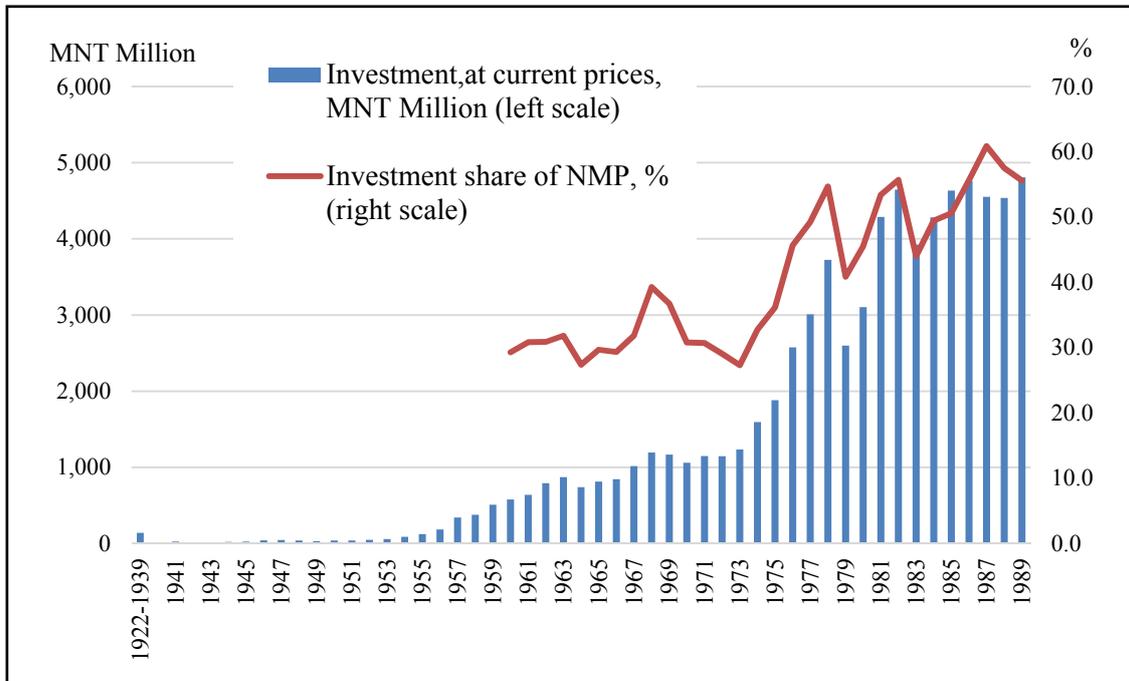
Until 1950, the overall investment scale in Mongolia was modest. The total value of investment equaled MNT 638.8 million and MNT 879.3 million at current prices in 1940 and 1950 respectively, accounting for only 2.7% and 4.7% of total NMP for those years. Since the 1950s, investment was substantially intensified and its share of NMP climbed to 29.3% in 1960, 45.5% in 1980 and further to 60.9% in 1987 – a record high level prior to 1990 (Figure 2.8.1).

In line with the country's policy to expand domestic industrial capacity, the largest share of investments was allocated to industry during the period 1940-1987, except in 1947-1951. As mentioned earlier, Mongolia adopted its first 5-year development plan in 1947, and more than half of the limited investments were directed into education, culture, science, health, sports and other social sectors, such as dwellings and social welfare, while less than 20% was made available for industry. In other periods, investments into industry ranged between 30% and 40% of total allocations. Agriculture and other social sectors were the next largest investment recipients, followed by transport, communication and construction (Figure 2.8.2).

At the same time, Mongolia was one of the ODA (Official Development Assistance) recipient countries and the total amount of ODA annual inflow at current prices ranged

between \$2 million and \$6 million during 1976-1984. However, it had a declining trend in real terms and total ODA inflow into Mongolia dropped from \$12.58 million in 1976 to \$5.7 million in 1984, evaluated at constant prices of 2014 (Figure 2.8.3).

Figure 2.8.1 Investment Dynamic; 1922-1989

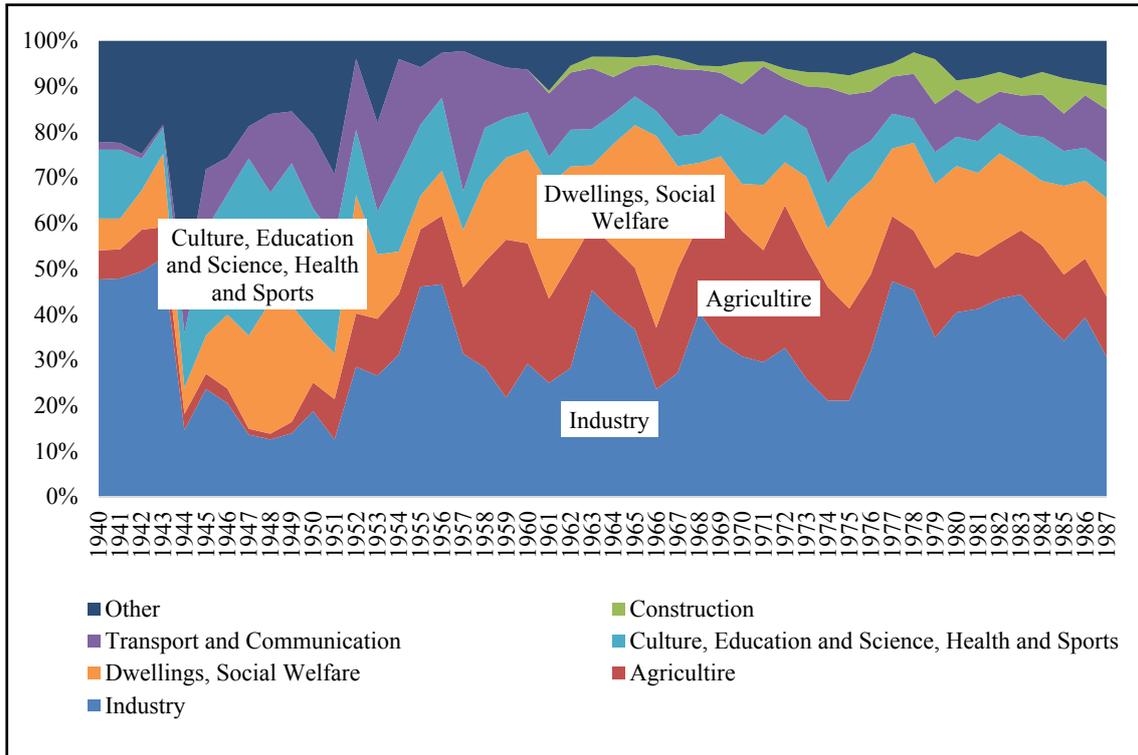


Source: Compiled from NSO, 2011b.

The former Soviet Union (FSU) was the major donor and technological development partner of Mongolia. Between 1949 and 1991, the cumulative amount of concessional and technical assistance loans, in addition to grant aids, from the FSU was equal to 11,553.7 million transferable rubles, where 85% of the total was concessional loans and 15% was technical assistance loans. The size of both the concessional and technical assistance loans increased substantially after the mid-1970s. 98% of Mongolia’s outstanding debt to the FSU of 11.4 million transferable rubles was nullified in 2003 by an agreement between the governments of Russia and Mongolia upon paying the 2% balance of \$250 million⁷ (Figure 2.8.4).

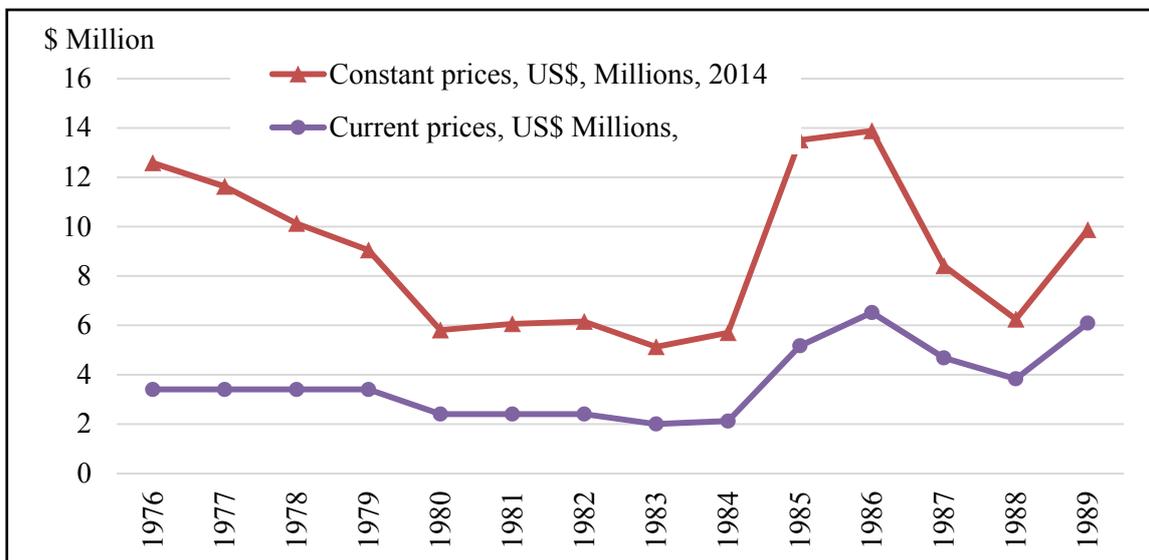
⁷ The outstanding debt was calculated at \$1.00=1.00 transferable ruble after 1991. The final settlement of 3.8 million was transferred to Russia on 29th February 2016; thus, finalizing all the outstanding mutual debt and repayment matters.

Figure 2.8.2 Investment Composition by Sectors (1940-1987)



Source: Compiled from NSO, 2011b.

Figure 2.8.3 Total ODA⁸ Flows to Mongolia, 1976-1989



Source: Compiled from OECD, 2017.

⁸ Official Development Financing (ODF), measured for recipient countries only, is defined as the sum of their receipts of bilateral ODA, concessional and non-concessional resources from multilateral sources, and bilateral other official flows made available for reasons unrelated to trade, in particular loans to refinance debt.

Funding of “turn-key” construction projects to build residential districts and urban infrastructure occupied 59.3% (or 5.85 billion) of total concessional loans, while another one-third of trade loans supported Mongolia’s current account balances and finance imports of various consumer and industrial goods and products from the FSU. Some housing loans were interest free. The majority of these “turn-key” construction projects (or 71.6%) assisted the production and infrastructure sectors, while the remaining 28.4% benefitted the social and service sectors. Another 8.3% of total concessional loans were invested into Mongolia-Soviet joint ventures. The first concessional loan was provided in 1949 for construction of the 1,100 km trans-Mongolian railway, which is jointly owned by the two countries’ governments. Construction was begun in 1947 and completed in 1956 (MAS, 1990, p.213). Further loans to establish joint ventures in the mining sector were provided in 1970 and 1973 for Mongolsovtvetmet (exploration and exploitation of non-ferrous metals) and the Erdenet Copper Mine and Refinery⁹ respectively. The remaining 0.1% of the total was classified as special loans (Figure 2.8.5).

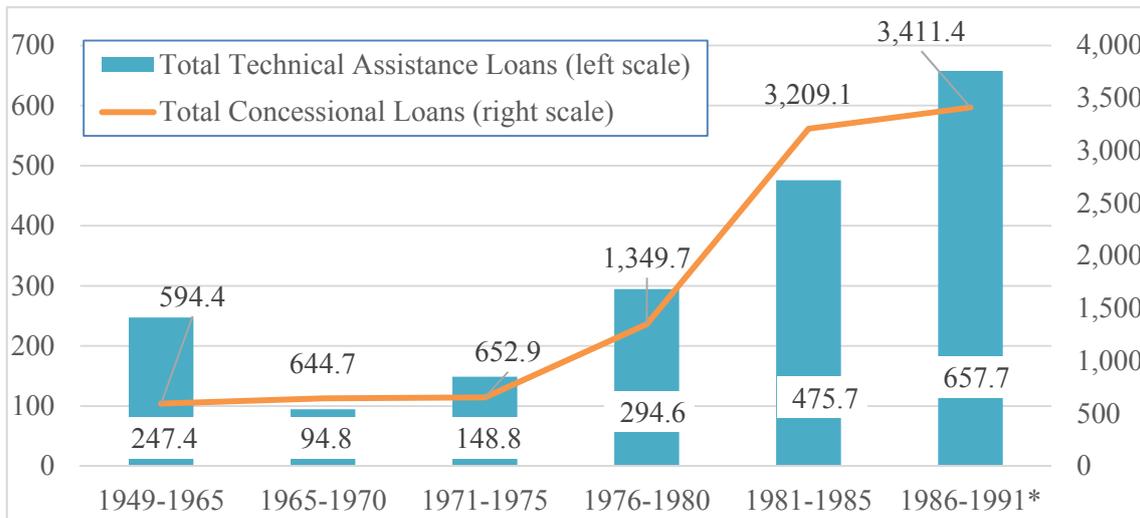
Technical assistance loans from the FSU were transferred to Mongolia’s state budget, whose amount increased almost 7-fold to 657.7 million transferable rubles during 1986-1991 from 94.8 million transferable rubles during 1965-1970. Such loans were mostly (or 88.1%) designated for funding of machinery, equipment, spare parts and other various industrial products supplied from the FSU. Vocational and technical training activities were an integral part of technical assistance loans, with 2.6% of the total spent on them. Another 4.2% and 5.1% of the total were spent on design and drawings and experts’ expenses respectively. According to Mikhalev, A.V. (2014), three quarters of all Soviet specialists working abroad served in Mongolia during 1966-1989 (Table 2.8.1).

Since the early 1960s, fellow CMEA members and other countries began to provide concessional loans and grant aids to Mongolia in support of the economic development activities stipulated in its 5-year plans, especially those aimed at establishing and expanding the country’s industrial and agricultural production capabilities. Concessional loans had 1.5% annual interest rates on average and a grace period of 5 years or more. A list of selected loans, including those provided by the FSU, is illustrated in Table 2.8.2. The total amount of these loans, excluding those of the FSU, was equivalent to \$245.5 million, while grant aids equaled \$88.4 million¹⁰.

⁹ The first phase was put into operation in December 1978 and was completed on 10 June 1981 (MAS, 1990, p.137).

¹⁰ Exchange rates used: \$1.00=1.00 transferable rubles; \$DM=DM 1.50

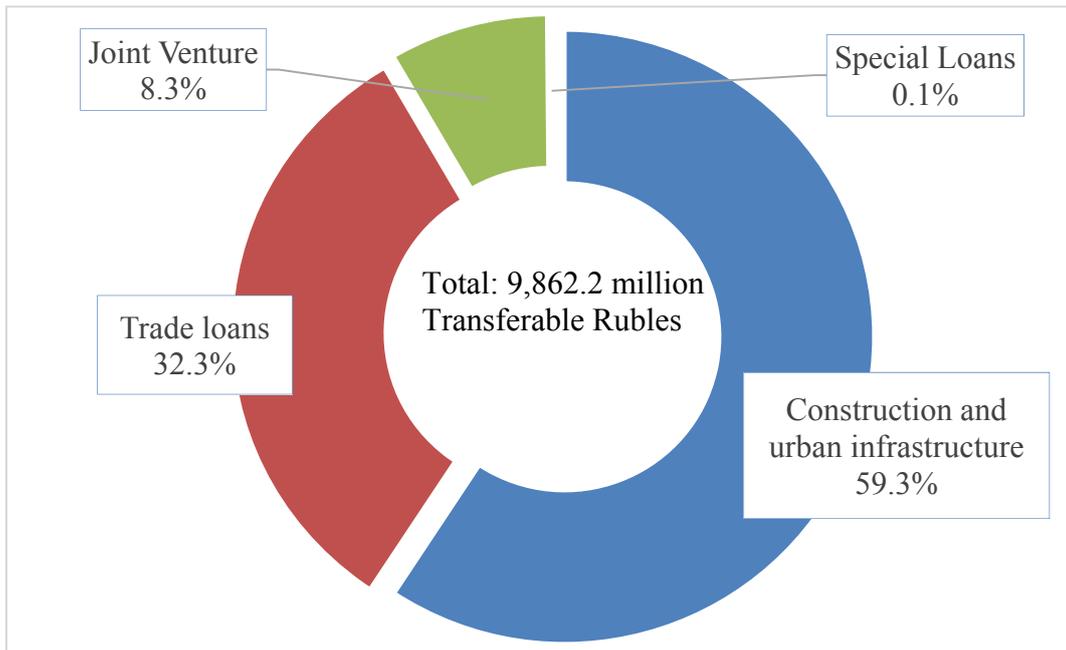
Figure 2.8.4 FSU Concessional and Technical Assistance Loans to Mongolia; (1949-1991; Million Transferable Rubles)



Note: The period for concessional loans is 1986-1990.

Source: Compiled from Ch. Darisuren¹¹, personal memo.

Figure 2.8.5 Structure of FSU Concessional Loans to Mongolia (1949-1990), %



Source: Compiled from Ch. Darisuren, personal memo.

¹¹ Economist in Charge (Periods-in-charge: 1965/8/1-1990/12/31 at the State Bank of Mongolia and 1991/1/1-1992/10 at the TDBM).

Table 2.8.1 Structure of FSU Technical Assistance Loans to Mongolia, (1965-1991), %

Items	1965-1970	1971-1975	1976-1980	1981-1985	1986-1991	Total 1965-1991
Design and drawings	0.9	3.4	4.8	3.3	5.1	4.2
Machinery, equipment, spare parts and other supplies	86.4	81.9	85.4	89.8	89.7	88.1
Experts' expenses	9.0	9.1	6.4	5.0	3.2	5.1
Vocational and technical training in the FSU	3.7	5.7	3.4	1.9	1.9	2.6

Source: Compiled from Ch. Darisuren, personal memo.

Table 2.8.2. Selected Concessional Loan¹² and Grant Aids to Mongolia up to 1990

Donors	Year	Loan (Grant*), Mil. Rub.	Purpose
1	2	3	4
China, PR	1956	(41.0*)	Construction of factories, agricultural farms, roads, cultural facilities and housing for employees of these facilities;
	1958	22.5	Construction of residential buildings, power plants, bridges, chicken farm, starch and confectionary factory, and expansion of metalworking capacities in 1959-1961;
FSU**	1964	12.4	Construction of residential buildings (including construction machinery and equipment, 5,500 construction workers and 130 engineering and technical staffs), TV Broadcasting Center, and other industrial machinery and equipment;
	1965	270.0 (25*)	Support industry and agriculture development projects stipulated in 1966-1970 plan, training of Mongolian workers in the FSU, dispatch of specialists from the FSU;
	1969	6.9	Construction of 14,200 livestock fences, equipment, vehicles, construction materials;
	1970	370.0 (25.0*)	Support projects stipulated in 1971-1975 plan, such as development of agriculture, industry, construction, geological exploration, transport, communication etc.
	1975	(14.3*)	Construction of public facilities;
	1976	1,070.0	Construction of industrial, agricultural, residential housing projects stipulated in 1975-1980 plan;
	1980	2,070 (50.0*)	Industry, agriculture, construction, transport, communication and communal service projects stipulated in 1981-1986 plan;
1986	2,360 (10.0*)	Support projects stipulated in 1986-1990 plan;	

¹² Excludes trade and joint venture loans.

Table 2.8.2. Selected Concessional Loan¹³ and Grant Aids to Mongolia up to 1990
(continued)

1	2	3	4
Former Czechoslovakia	1961	7.2	Construction of cement plant, 200-beds hospital, sheepskin tannery, pencils & timber products plant;
	1963	1.75	Expansion of geological exploration capacity;
	1965	14.1	Construction of cement plant, hides tannery, sheepskin factory, shoes factory, maintenance workshop, 240-bed hospital;
	1971	5.5 (2.0*)	Support measures stipulated in 1971-1975 plan, construction of power plant in <i>Bayan-Ulgii aimag</i> ;
	1975	11.0 (2.1*)	Support measures stipulated in 1976-1980 plan;
	1979	10.0	Support measures stipulated in 1981-1986 plan;
	1981	21.0 (6.0*)	International geological exploration expedition, machinery and equipment for bus body repair station, training of Mongolian workers in Czechoslovakia, dispatch of specialists from Czechoslovakia;
Bulgaria (former PRB)	1965	5.0	Geological exploration works, industrial and agricultural machinery and equipment supply stipulated in 1966-1970 plan, training of Mongolians in PRB;
	1968	3.2	Construction, machinery and equipment of sheepskin goods factory in <i>Darkhan</i> city, completion of meat factory in Choibalsan city, street facilities in <i>Darkhan</i> city, training of Mongolians in PRB;
	1974	6.0	Before 1980, utilized for construction of agricultural facilities in Orkhan, Shariingol, 3ha expansion of a greenhouse in Ulaanbaatar, expansion of hog fattening station in Ulaanbaatar, improvement of meat factory technology in Choibalsan city;
	1976	4.0	Construction of brick manufacturing plant during 1976-1980;
	1980	10.0	Renovation and expansion of sheepskin goods factory in Darkhan city, construction of a new brick manufacturing plant;
	1981-1985	(N/A*)	Construction of Ongiin gol fodder farm with irrigated crop land for securing fodder reserves in northern Gobi area;

¹³ Excludes trade and joint venture loans.

Table 2.8.2. Selected Concessional Loan¹⁴ and Grant Aids to Mongolia up to 1990
(continued)

1	2	3	4
East Germany (former GDR)	1965	16.8	Support geological exploration activities, construction of slaughter and meat factory in Ulaanbaatar,
	1966	1.1	Agricultural machinery and equipment supply stipulated in 1966-1970 plan;
	1969	8.2	Construction of carpet factory in Ulaanbaatar, sausage and canned meat lines at Ulaanbaatar meat factory during 1969-1972;
	1971	1.0	Expansion of tungsten concentrate capacity at <i>Burentsogt</i> mine;
	1972	1.6	Measures against livestock ectoparasites;
	1974	3.0	Measures against livestock ectoparasites during 1976-1980;
	1976	4.0	Technical assistance to <i>Bornuur</i> agricultural farm during 1976-1980;
	1980	7.6 (DM 25.0 mil.*)	Renovation and capacity expansion of packaging, bone separation and canned meat production line at Ulaanbaatar meat factory, renovation of coin and jewelry factory, agriculture development projects in 1981-1986;
	1986	2.2 (DM***20 mil.*)	Expansion of carpet factory in 1986-1990, construction of potato storage and other agriculture development projects;
Hungary (former PRH)	1964	9.3	Construction of bio-factory (biokombinat) in Ulaanbaatar for producing veterinary medicine and vaccines, 300 pasture wells, specialists dispatch to Mongolia;
	1970	6.0 (2.0*)	Completion of sewing factory, meat factory, biokombinat;
	1972	4.6	Biokombinat in Ulaanbaatar, meat factory in Darkhan city;
	1978	9.0	Renovation and capacity expansion of factories built with assistance of the PRH and to be used during 1979-1985;
	1979	1.0	Exploitation of <i>Salaa</i> tungsten ore;
	1980	4.0	Renovation of Khar Khorin flour mill, machinery, equipment, renovation of sewing factory in Ulaanbaatar;
	1986	6.0 (5.6*)	Expansion of sewing factory in Ulaanbaatar, biokombinat, tannery of non-standard hides and skin;
Poland (former PPR)	1961	9.0	Support constructing industrial facilities stipulated in 1961-1965 plan, road construction machinery, equipment, geological exploration;
	1966	10.0	Support industry and agriculture development measures stipulated in 1966-1970 plan, dispatch of livestock infectious diseases control team and other professionals;

¹⁴ Excludes trade and joint venture loans.

Table 2.8.2. Selected Concessional Loan¹⁵ and Grant Aids to Mongolia up to 1990
(continued)

1	2	3	4
Romania (former SRR)	1968	3.0	Construction of circus building in 1968-1971;
	1976	6.8	Construction of furniture manufacturing factory in 1976-1980;
	1988	2.5	Machinery and equipment for expansion of plastic products manufacturing;
Former FR of Yugoslavia	1986	\$7.5 mil ¹⁶ .	Technology, machinery and equipment for new leather garment factory “Uyan” in Ulaanbaatar;

Notes: 1. (*) Amount of grant aid, if available, is additional to the loan amount and might be incomplete; 2. **Details were excluded due to numerous industrial, agricultural, infrastructure and social facilities construction projects implemented in Mongolia. A more detailed list is available in Amartuvshin, T., 2017; 3. ***Deutsche Mark; 4. N/A-not available;

Source: Compiled from Ch. Darisurem, personal memo.

2.9 Foreign Trade

Mongolian trade prior to 1990 was characterized by a state monopoly on trade¹⁷, a centrally planned pricing system and the country’s trading partners were predominantly former CMEA members, in which the former Soviet Union (FSU) occupied the dominant share. As of 1990, Mongolia traded with 33 countries, where trade agreements were concluded with 12 countries¹⁸ and agreements on mutual product supply and payment settlements were finalized with 10 countries¹⁹. Trade with the other 11 countries²⁰ was carried out in the absence of trade agreements (NSO, 1991, pp.129-130).

Until 1990, only 7 state-run foreign trade corporations could engage in foreign trade transactions under the state order system. Each of these corporations specialized in a form of foreign trade transaction and product type²¹. Foreign trade settlements, except trade with third (i.e. non-CMEA) countries, were executed in transferable ruble, which was used as the common currency unit for transactions between CMEA countries. Mongolia

¹⁵ Excludes trade and joint venture loans.

¹⁶ Additional machinery and equipment for \$3.5 million were directly purchased from capitalist countries, such as Italy, West Germany, Austria and others.

¹⁷ Law on State Monopoly on Foreign Trade adopted on 12 December 1930 (MAS, 1990, p. 136).

¹⁸ Austria, Albania, Afghanistan, Egypt, Iran, FSU (USSR), China, Finland, India, Japan, the USA and the ROK;

¹⁹ Bulgaria, Vietnam, Cuba, Laos, Poland, Romania, DPRK, Hungary, former Czechoslovakia and former Yugoslavia;

²⁰ England, Belgium, Holland, Hong Kong, Denmark, Italy, Singapore, France, Germany, Sweden and Switzerland;

²¹ Namely, Mongol Export (all exports); Technikimport (machinery and equipment imports); Materialimpex (trade in construction materials); Avtoneftimport (all imports of vehicles and petroleum products); Raznoimport (consumer goods imports); Compleximport (imports and exports of goods associated with turn-key projects from the former Soviet Union); Mongolimpex (all trade made in convertible currencies).

joined the CMEA in 1962, the International Bank for Economic Co-operation (IBEC)²² in 1965, and the International Investment Bank (IIB)²³ in 1971.

Although data was not available for the early years of the 1920s, Mongolia's foreign trade grew steadily since 1924, when it declared a non-capitalist path of development. Total foreign trade turnover increased from \$2.5 million in 1924 to \$44 million in 1934. However, the country's foreign trade turnover plunged almost overnight to \$13.3 million in 1935 and further to \$3.6 million in 1936. It stayed relatively flat until the end of World War II (WWII). Although, foreign trade turnover began to gradually recover after that, its growth was modest until 1960, when trade turnover accounted for only \$38.1 million – a lower level than in 1934. Mongolia began to incur trade deficits in the early-1930s, peaking at \$16.3 million in 1934 (Figure 2.9.1).

Thereafter, the role of foreign trade in the country's economy increased and in line with the economic growth acceleration and investment intensification, Mongolia's foreign trade recovered significantly after the early-1960s. Share of total foreign trade turnover increased to 58% of the country's NMP in 1985 from 34.2% in 1960. Although, Mongolia's foreign trade turnover was relatively flat at around \$200 million during the 1960s, it had more than tripled to \$700 million by the end of the 1970s and accelerated further during the 1980s. Trade turnover peaked in 1986 at \$1.9 billion, but fell to \$1.7 billion in 1989 when Mongolian first experienced the impact of the so-called Revolutions of 1989²⁴ - a series of civil movements that occurred in the former socialist countries of Eastern and Central Europe and the FSU, Mongolia's major trading partners. These campaigns led to the end of communist rule and the collapse of the CMEA and the FSU in 1991 (Table 2.9.1; Figure 2.9.2).

Mongolia's foreign trade experienced continuous chronic deficits since 1956. In 1985, imports accounted for 35.6% of the country's NMP, while that of exports equaled 22.4%. Trade deficits as a share of NMP increased from 4.9% in 1960, but its level was amplified due to higher growth of imports than exports during the 1980s, accounting for 13.2% in 1985. The record trade deficit of \$424 million was logged in 1986. The country's trade deficit with the FSU was its largest and accounted for 13.7% of total NMP in 1985. Mongolia received concessional trade loans from the FSU to cover trade deficits, and cumulatively, such loans equaled around \$3.2 billion or 32.3% of the total concessional loans provided by the FSU during 1949-1991 (Table 2.9.1; Figures 2.8.5; 2.9.2).

²² Operational since 1964.

²³ Operational since 1970.

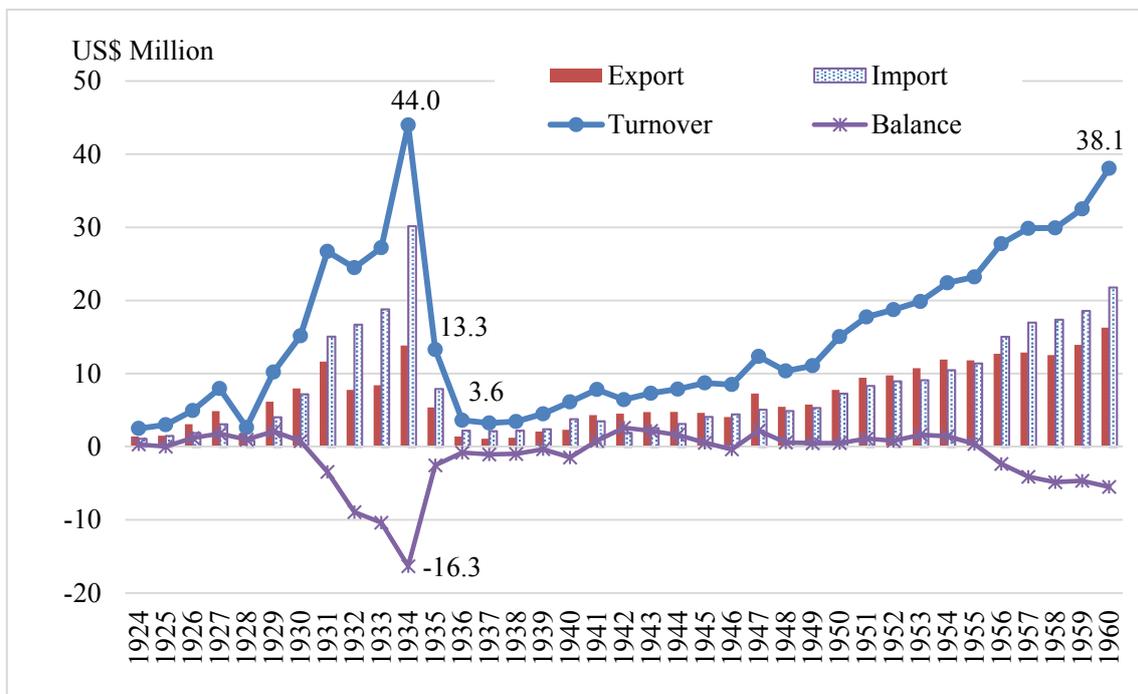
²⁴ For more info: https://en.wikipedia.org/wiki/Revolutions_of_1989

Table 2. 5.1 Role of Foreign Trade in Mongolia's Economy, selected years

	NMP, Million MNT	Share of NMP, %							
		Turnover		Export		Import		Trade balance	
		Total	FSU	Total	FSU	Total	FSU	Total	FSU
1960	1,978.4	34.2	23.0	14.6	11.1	19.6	11.9	-4.9	-0.8
1970	3,449.4	23.8	18.0	9.8	6.7	14.0	11.3	-4.2	-4.6
1980	6,817.3	41.5	34.5	17.6	14.0	23.9	20.5	-6.3	-6.6
1985	9,159.9	58.0	48.2	22.4	17.3	35.6	30.9	-13.2	-13.7
1990	8,327.5	56.7	44.1	23.6	18.5	33.0	25.6	-9.4	-7.1

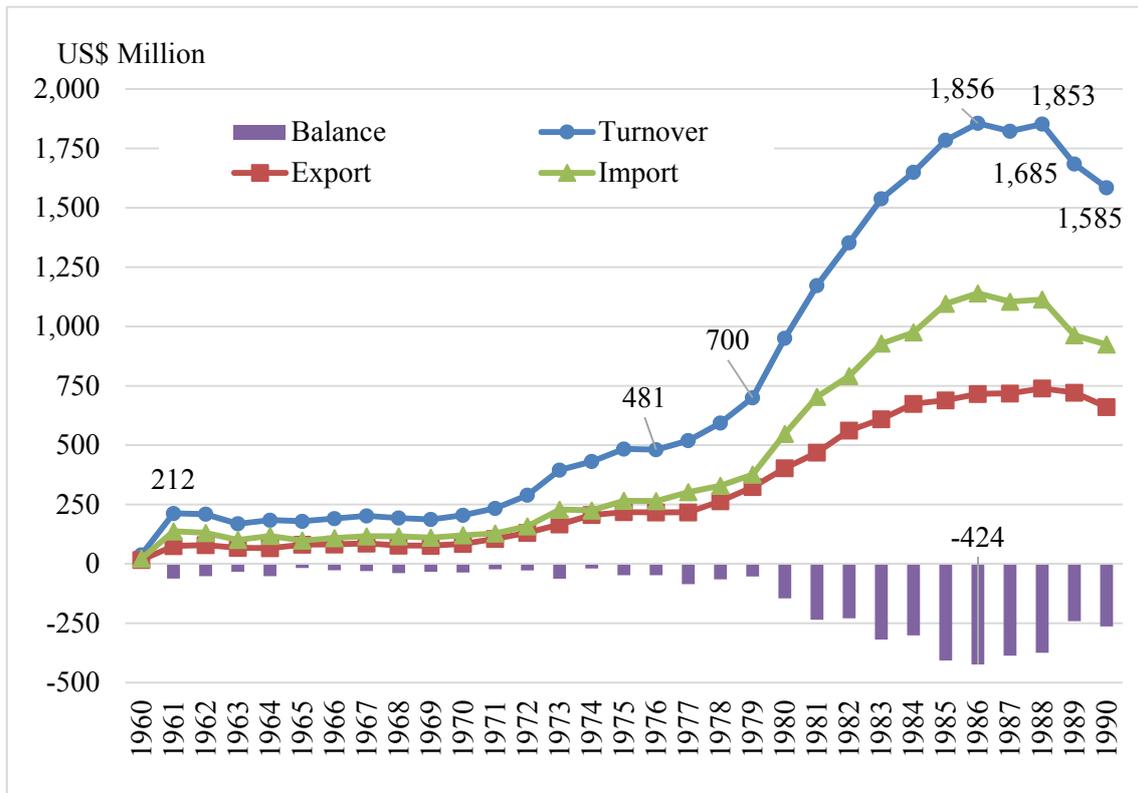
Notes: 1. NMP=Net Material Product; 2. FSU=Former Soviet Union.
Source: Estimated from NSO, 1991, 2019.

Figure 2.9.1 Mongolia's Foreign Trade Dynamic (current US\$); 1924-1960



Source: Compiled from NSO, 2019.

Figure 2.9.2 Mongolia's Foreign Trade Dynamic (current US\$); 1960-1990



Source: Compiled from NSO, 2019.

Due to Mongolia's land-locked location and lack of adequate transport infrastructure, geographical proximity did and continues to shape its foreign trade activity. Therefore, Mongolia's largest trading partners were and still are her only two neighbors, Russia and China. Until 1951, Russia was Mongolia's sole trading partner, and notwithstanding the emergence of new trading partners such as former CMEA members and several capitalist countries, from the late-1950s, trade with the FSU was prevalent.

The FSU share of trade turnover accounted for 67.3% of the total in 1960 and then reached 83.1% in 1985, as the country was both the largest destination of exports and largest source of imports for Mongolia. Although both the FSU export and import shares dropped from over 95% of the total in the early-1950s to around 70% and 60% of their respective totals in the early 1960s, they did account for 82% of total cumulative exports or \$7 billion and 85% of total cumulative imports or \$11 billion during the period 1951-1989. Former CMEA members were the other main trading partners of Mongolia during this period, with the former Czechoslovakia, East Germany (GDR), Poland (PPR), Bulgaria (PRB) and Hungary (PRH) being the next top-5 partners (Figures 2.9.10; 2.9.11).

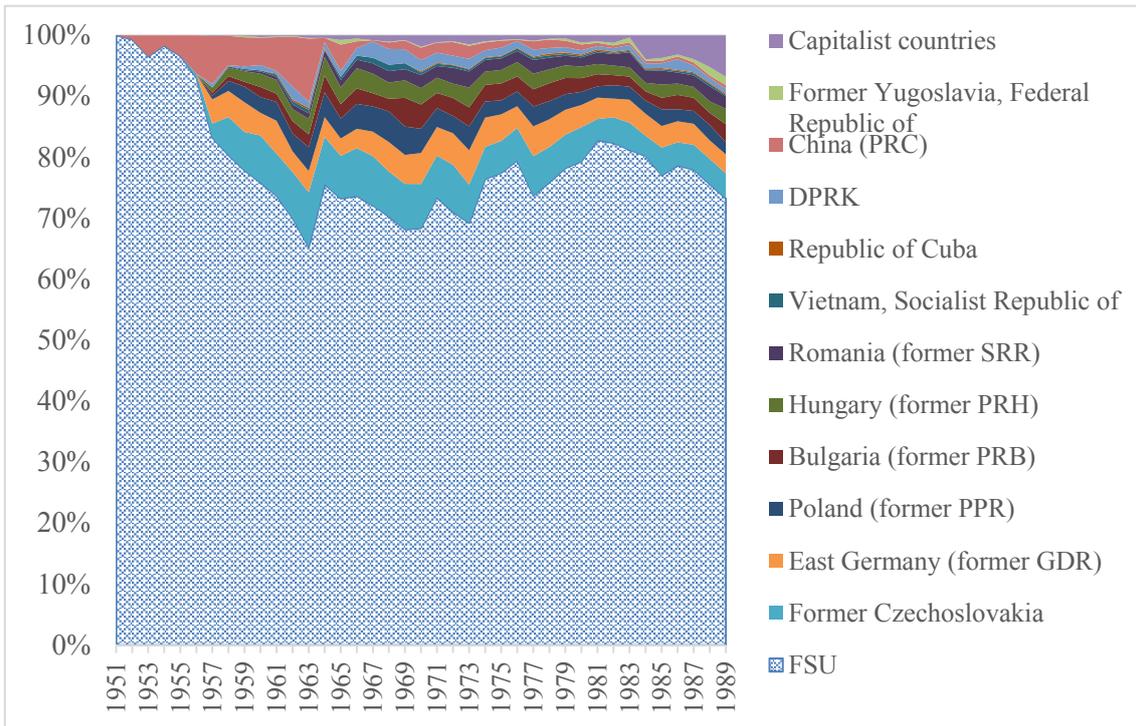
Mongolia first traded with China (PRC) in 1952, but its volume was limited before 1990 as cumulative exports and imports respectively constituted 1% and 1.3% of the total

during 1951-1989. The peak values were 10.4% of total exports in 1963 and 24.1% of total imports in 1959. Also, Mongolia began to trade with other capitalist countries in the late-1950s and exports to and imports from these nations increased to 6.8% and 3.8% of these totals in 1989, respectively. The cumulative exports and imports values with these countries equaled \$229.6 million and \$148.1 million respectively during 1951-1959. Japan was the top destination of exports among these countries, followed by Switzerland, Netherlands and the UK. Austria was the top origin of imports among these countries followed by Japan, Switzerland, the UK and Italy (Figures 2.9.10; 2.9.11).

In line with Mongolia's industrial structure before 1990, livestock, light, food and mining industries were the major suppliers of the country's export commodities. The combined share of these sectors' exports accounted for about 90% of the total during 1970-1980. Industrial products occupied the largest share of exports during this period followed by live animals, meat products, wool, hair, cashmere, and mineral products. Exports of industrial products accounted for more than a quarter of total exports during the same period, while those of live animals and meat products equaled 21.8% and 19.5% of total cumulative exports respectively. Most of its industrial products' exports were semi-processed or finished goods derived from livestock-origin raw materials (Figures 2.9.12; 2.9.13).

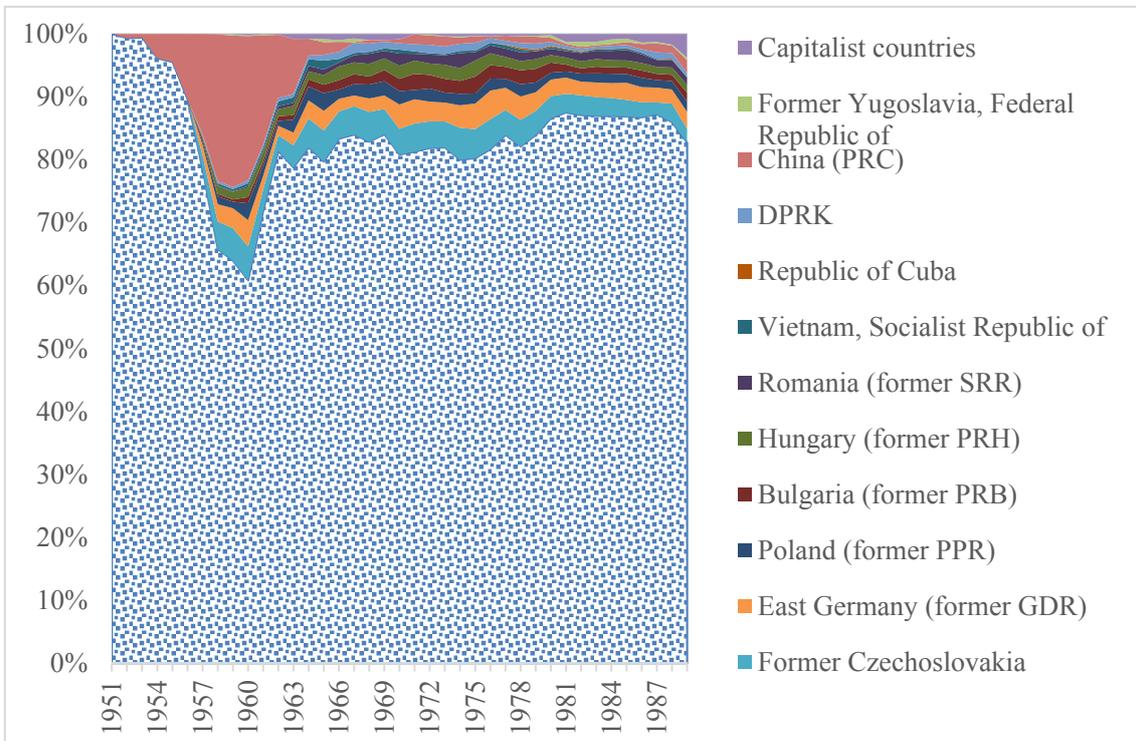
Machinery, equipment and transport means were the largest import components of Mongolia, which accounted for almost one-third of imports. Fuel, raw materials, metals and manufactured consumer goods were the next largest import components. In 1980, imports of fuel, raw materials and metals equaled 24.1% of the total, while that of manufactured consumer goods was 21%. In line with the development of its domestic food and manufacturing industries, imports of these products decreased over the years. The import share of manufactured consumer goods sat at 31.6% of the total in 1970 but dropped to 17.2% in 1985. Similarly, the share of food product imports declined to 6.3% of the total in 1985 from 12.7% in 1970. Imports of chemical products, fertilizers and rubber was the next largest component, and its share accounted for about 6% of total imports per annum. A sudden and abrupt drop in fuel, raw materials and metals imports occurred in 1990, most of which was associated with construction materials and metals. Many construction projects, most of which were supported by the FSU, were scaled down or terminated in 1990 due to the halt of traditional financial inflows and no new sources of foreign funding (Figure 2.9.14).

Figure 2.9.10 Mongolia's Export Destinations (1951-1989), % of Total



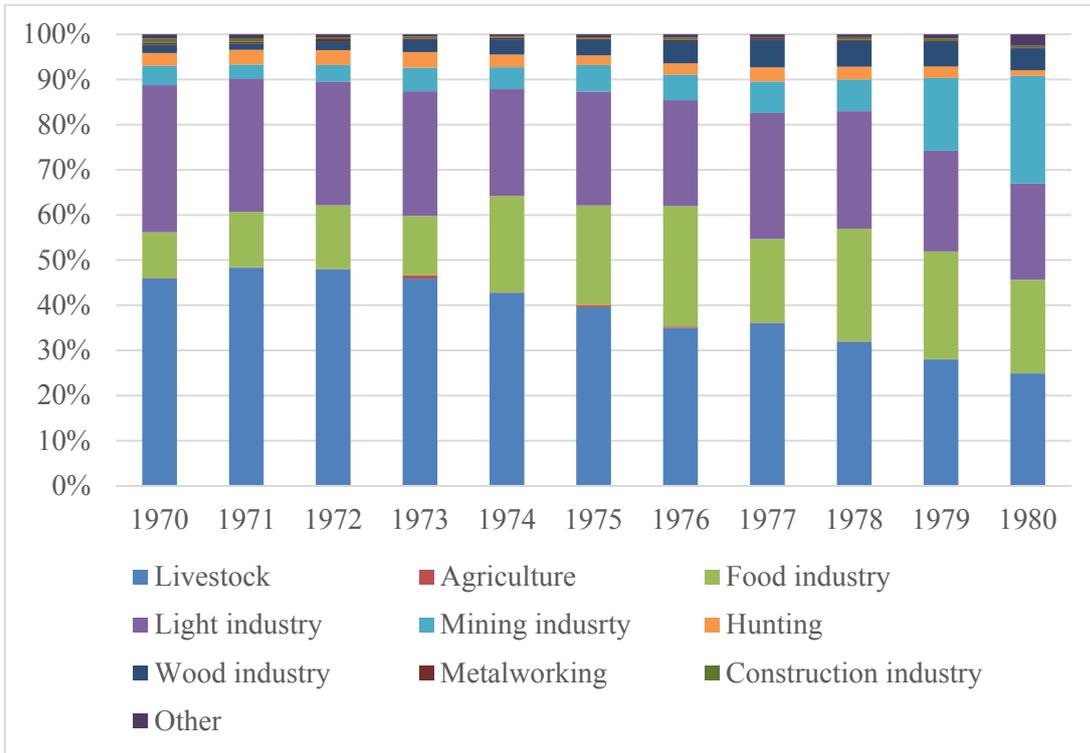
Source: Compiled from NSO, 2019.

Figure 2.9.11 Origins of Mongolia's Imports; 1951-1989 (% of total)



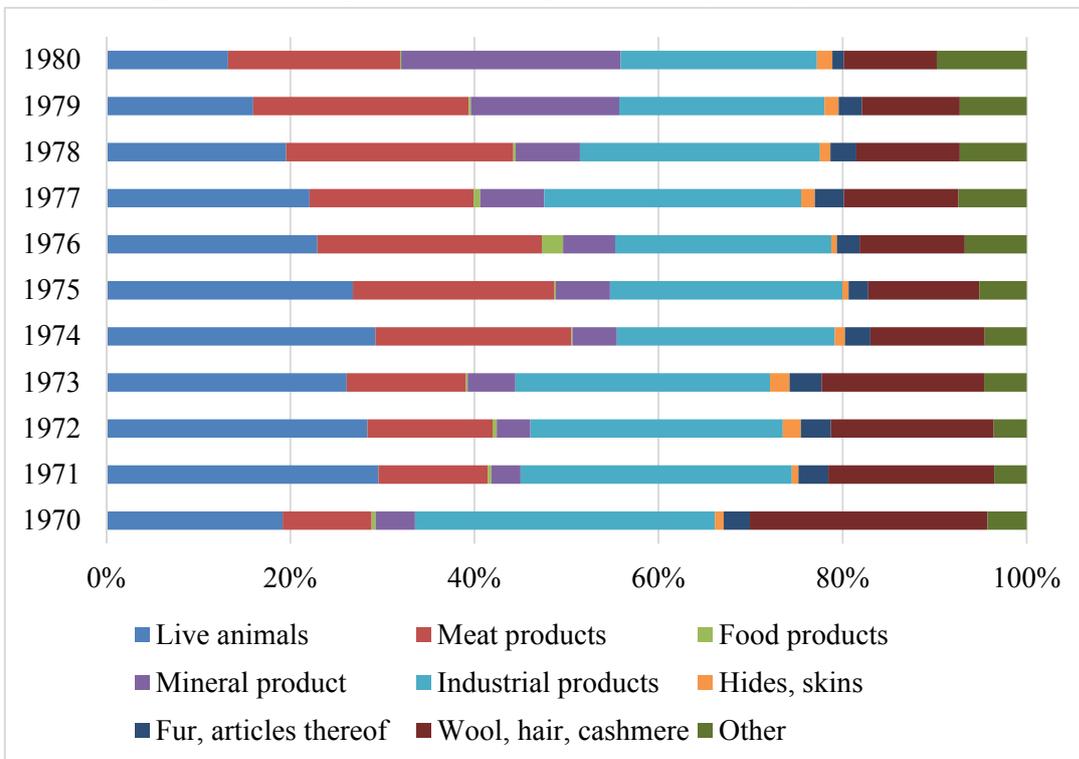
Source: Compiled from NSO, 2019.

Figure 2.9.12 Export Structure by Sector, 1970-1980, %



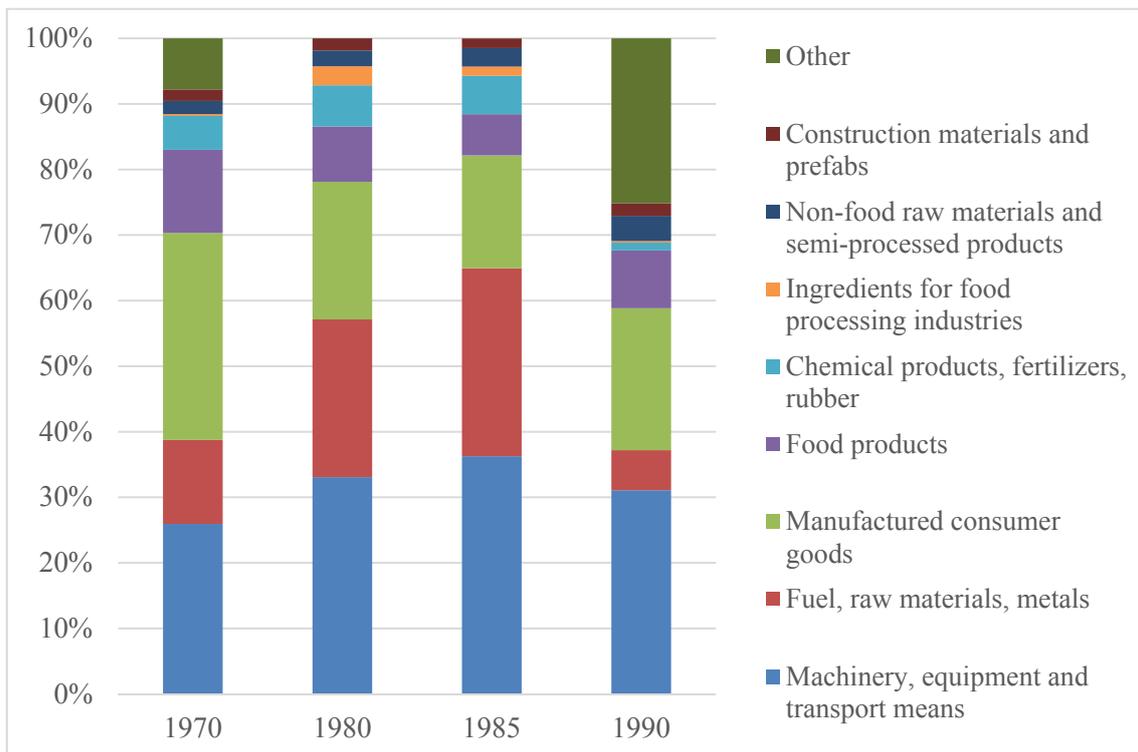
Source: Compiled from NSO, 2019.

Figure 2.9.13 Export Structure by Commodity Groups, 1970-1980, %



Source: Compiled from NSO, 2019.

Figure 2.9.14 Structure of Imports (Selected Years)



Source: Compiled from NSO, 1991.

3. Conclusion

Mongolia, which became the world's second socialist country following the people's revolution of 1921, pursued non-capitalist and socialist paths of development and practiced a centrally planned economic system under the rule of one political party up to 1990. In the course of transforming its economy from a pastoral livestock-based feudal system into an industry and agriculture-based socialist system, Mongolia could achieve relatively high and sustained economic growth driven by its manufacturing industry. The share of industry within Mongolia's economy increased over time. Owing to the country's abundant and renewable raw materials of livestock, food and light industries were developed as the major manufacturing industries and these supplied meat, dairy, leather, wool and cashmere products to domestic and foreign markets. Also, thanks to the country's abundant mineral resources, mining was another primary export-oriented industrial sector, but its share did not exceed 20% of total industrial output.

Industry was the largest source of revenues and export earnings. A substantial part of investment and foreign loans were directed into industry, and the high labor productivity growth of industry exceeded the national level. Agriculture, dominated by animal

husbandry, was the next largest source of revenues and export earnings and the largest employment provider in the country. The number of livestock remained relatively stable, and the livestock sector could supply essential raw materials to domestic food and light industries. However, the pastoral nature of animal husbandry made it particularly vulnerable to extreme climatic events such as *dzud*.

Associated with the growth in industry, Mongolia experienced increases in agriculture, infrastructure and other sectors, demand for machinery, equipment and other industrial supplies such as chemical products. But with a lack of development in domestic heavy and chemical industries, almost all machinery, equipment and chemical industry products had to be imported, thus accounting for a substantial share of total imports. Import share of total supply increased along with growing shares of intermediate uses in production. Although Mongolia's exports, dominated by agricultural, food and light industry products, increased in terms of volume, variety and destinations, the export earnings derived could not meet the country's growing import demands, resulting in chronic foreign trade deficits. Trade imbalances worsened considerably during the 1980s when investments surged. Investment growth was a key indicator in evaluating achievements during the planned economy period. This may have led to commonly perceived inefficiencies in socialist production.

The above situation led to balance of payment deficits, and Mongolia's reliance on foreign sources for its primary revenues grew. Former CMEA members were its donors and development partners, where the FSU played a dominant role. The FSU was Mongolia's major donor and investor and its leading trading partner, export destination and import origin. Chronic trade deficits and balance of payment difficulties prevented the timely repayment of Mongolia's foreign debts, leading to considerable debt accumulation, though it was nullified later.

Rapidly expanding manufacturing industries and economy-wide increases in productivity during the 1970s and 80s drove overall improvements in the country's living standards. Social sectors, such health, social security, education, culture and sports, maintained a stable share of total budget expenditure. There was no unemployment or income inequality during this period. However, per capita real growth was lower than that of the overall economy due to the increasing population. Despite population growth, Mongolia's income as a share of final expenditure decreased, suggesting that financial incentives to encourage individual initiative were poor. Household consumption share as part of total use also diminished. At the same time, administration expenditures as a share of total economy increased. Therefore, this situation might have triggered dissatisfaction among the population and led to demands for change, and eventually put an end to the planned economy and socialist system practiced in Mongolia for almost 70 years.

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