

## MULTILATERAL ECONOMIC TIES OF MONGOLIA WITH ITS ASIAN TRADING PARTNERS IN THE PERIOD OF 2011–2021

**ABSTRACT:** This article gives an insight into the main aspects of Mongolian's economy related to its Asian Trading Partners namely China, India, South Korea, and Japan in the period of 2011–2021. To give more clarity about the main trading partners of Mongolia there are two countries: China and Russia, but the author focuses only on the Asian trading partners to try to evaluate if the policy of “the third neighbour” works. The main goal is to popularise the still not well-known economy of Mongolia and to see how it was developed in the analysed period of 2011–2022. As the methodology of the research, the author used empirical analysis based mainly on Macrobond data which also has access to Mongolian Statistics Office data and also to available world reports such as OECD, and UNCTAD. Besides that, the article was consulted with the Mongolian Ambassador in Poland and it was enriched this way with his best knowledge regarding the economy and Mongolia's international trade and investment policy. The interesting aspect which was raised by the author in this article was the future state of the economy of Mongolia after the pandemic SARS-CoV-2 and the impact of the restrictions imposed on Russia due to the war on Ukraine.

**KEYWORDS:** Mongolia trade, CMREC, BRI, Eurasian Economic Union (EAEU), the third neighbour policy, APTA, CAREC

### INTRODUCTION

Mongolia a parliamentary republic is a country that borders only China and Russia and is the object of close attention not only from its geographic neighbours but also from non-regional states referred to as “the third neighbour” according to the policy known as Mongolia's National Security Concept adopted by Mongolia's parliament on June 30, 1994. The main goal of this concept was to stabilize and protect Mongolia from too much economic dependency on its two neighbours: Russia and China (Densmaa et al.). These geographical and geoeconomic aspects determine Mongolia's economy, investment, and trading. In June 2016 Mongolia together with China and Russia established The China-Mongolia-Russia Economic Corridor (CMREC) as the part of Chinese Belt and Road Initiative (BRI) intending to improve its economic development in the Eurasian region. Almost half of the population of Mongolia lives in the capital Ulaanbaatar which also affects the economic development regarding access to human capital which is mainly concentrated there. Besides China and Russia Mongolia has trade and investment relations with other countries like India, South Korea, and Japan. The comparison of basic data for Mongolia and its Asian Trading Partners were presented in Table 1 below.

**Table 1. Mongolia and Trading Partners – selected indicators 2019, 2020, and 2021**

	<b>Mongolia</b>	<b>India</b>	<b>China</b>	<b>South Korea</b>	<b>Japan</b>
Population in millions and trend	3.3	1 335	1 412	51.8	125.6
Real GDP growth in %	-5.3	-8.0	2.3	-1.0	-4.5
GDP per capita in USD	4060	1927	10434	31631	40193
CPI inflation change in %	3.7	4.6	0.6	1.3	0.8
Public debt per capita in USD	3029	1731	5809	13454	32300
The unemployment rate in % (U)	4.33	7.1	4.2	3.9	2.9
Government budget to GDP ratio in % (G)	15.8	12.4	16.7	18.0	21.0
Current account to GDP ratio in % (CA)	-5.0	1.2	1.8	3.5	2.9
Average monthly wage in USD	440	437	1225	3496	5785
Nuclear energy share of total energy production in %	0	3.1	13.5	6	1.7
Global Competitiveness Index (GCI) 4.0 – position in ranking (2019) for 139 countries	102	68	28	13	6
Digital Transformation Index score (DTI) by Dell (2021) (0-100)	N/A	64	58	N/A	38
World Digital Competitiveness score (0–100) in 2021	40.69	55.13	84.43	89.72	73.01
SDG Index Rank 2021 (165 countries)	106	120	57	28	18

Source: Macrobond database 2022, <https://www.worlddata.info/asia/mongolia/energy-consumption.php>, <https://economictimes.indiatimes.com/industry/energy/power/indias-nuclear-power-capacity-of-6780-mw-planned-to-be-hiked-to-22480-mw-by-2031-govt/articleshow/88322043.cms?from=mdr>, <https://www.visualcapitalist.com/ranked-nuclear-power-production-by-country/>, [https://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2020.pdf](https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2020.pdf), [govdata360.worldbank.org](http://govdata360.worldbank.org), <https://www.statista.com/statistics/1042743/worldwide-digital-competitiveness-rankings-by-country/>, <https://www.dell.com/en-us/dt/perspectives/digital-transformation-index.htm#scroll=off&pdf-overlay=//www.delltechnologies.com/asset/en-us/solutions/business-solutions/briefs-summaries/dt-index-2020-full-findings-report.pdf>, <https://dashboards.sdgindex.org/rankings>, N/A = not available.

Analysing data from Table 1 it can be concluded that Mongolia as a small Asian country has a lot of areas in economic development to catch up compared to its Asian Trading Partners. Mongolia has strong points one of them is access to the mineral resources such as coal, copper, natural gas, iron, aluminum, and gold. Mongolia was also quite successful in fighting with COVID-19 pandemic implementing the tests and health measures recommended by The World Health Organization (WHO) (Krusekopf and Jargalsaikhan). Mongolia even though that is a landlocked country by Russia and China plays a vital role in the transit between those two big economies although the freight transport infrastructure of Mongolia is underdeveloped and the transit charges

in Russia and China are unreasonably very high (Boldbaatar and Yoon). Mongolia has problems that need to be solved urgently. One of the big weaknesses of the Mongolian economy has been increasing government debt since 2011 presented below in Figure 1a reaching 7.5 billion USD in 2021 while total debt exceeded 33 billion USD presented in Figure 1b.

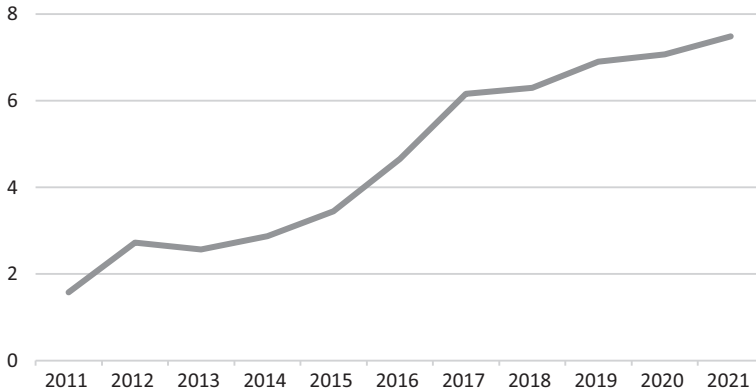


Figure 1a. Mongolia's government debt, 2011–2021 (Billion USD)

Source: Macrobond data 2022.

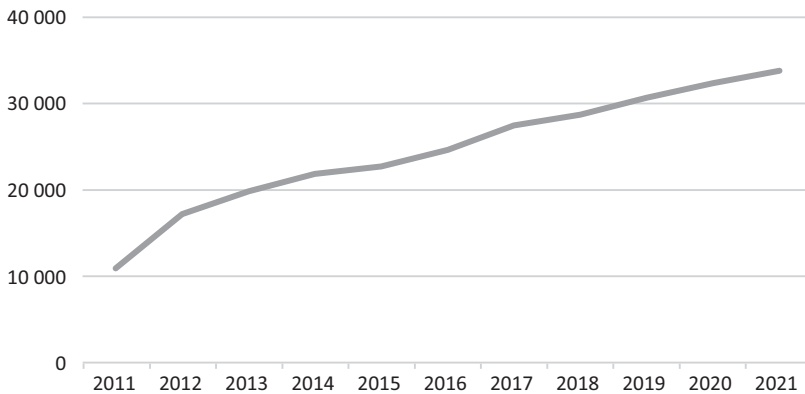


Figure 1b. Mongolia's total debt, 2011–2021 (Billion USD)

Source: Central Bank of Mongolia, 2022, <https://stat.mongolbank.mn/>

Taking into consideration the relatively low population of Mongolia (3.3 million people) it brings a real problem to the Mongolian economy to be solved. In that sense, the cost of debt increases and Mongolia's government goes into a spiral of debt to pay the interest rate. As the remedy Mongolian government established a special 5.5 billion USD financial bailout agreement with IMF, World Bank, and its trading partners namely South Korea, Japan, and China to reduce the debt. The reason for the growing debt from 2011 was due to the model of fossil economy and too much optimism of Mongolia's government related to the received potential revenues from the mineral sector, especially from the coal mining industry. Figure 2 below shows the coal production of Mongolia in the period 2011–2020.

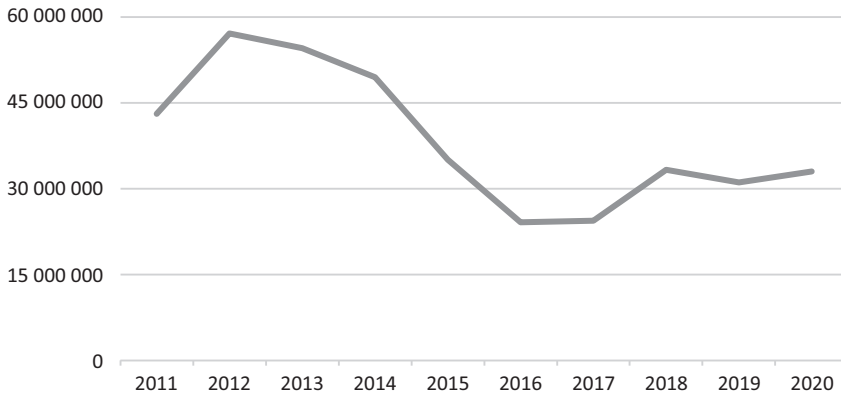


Figure 2. Mongolia coal production, 2011–2020 (Tonnes)

Source: Macrobond data 2022, BP Statistical Review of World Energy.

Since 2019 as can be seen in Figure 2 coal production has had a decreasing trend. Mongolia's debt interest rates are one of the highest which is paid by any government in the world and by the value, it exceeds Mongolia's healthcare and education systems budgets (Bauer et al.). Another cause of the decreasing trend of coal production in Mongolia can be the global economy's target to build a carbon-free economy. It is still rather a concept than a real option as the war in Ukraine in 2022 showed a lot of dependency on the Russian oil and gas of such countries as Germany and France. In the opinion of some authors, Mongolia can be the major exporter of coal in the future (Sokolov et al.). Even though Mongolia has 29 national parks it is one of the most polluted countries in the world due to the burning of coal and other biomass, such as wood or crop residue, in stoves. According to Macrobond data CO<sub>2</sub> emission per capita in Mongolia in 2020 was higher than in China, India, and Japan. South Korea in 2020 had almost the same level of CO<sub>2</sub> emissions as Mongolia (12 Metric Tones of CO<sub>2</sub> per capita), while India had six times less (2 Metric Tones of CO<sub>2</sub> per capita). Besides this Mongolia's economic development is still very much dependent on China. One of the aims of international trade policy of Mongolia is to be less dependent on China. Mongolia's total foreign trade volume in 2021 reached 13.2 billion USD. According to the Indian Council of Foreign Affairs, the total Mongolian export share in 2021 was 85% and the total import share from China was 32% (Kumar). Mongolia also lags in reaching the Sustainable Development Goals (SDG) of Agenda 2030 and digital transformation. Despite the debt problems, Mongolia is a country of growing interest among Asian Trading Partners and at the same time Mongolia wants to be more open to other partners from the region of Eurasia. Mongolia's GDP growth since 2020 has an increasing trend and it is between 4.0–4.5% (see Figure 3 below) which is also an incentive for potential foreign investors.

This research analyses Mongolia's multilateral economic ties and perspectives with China, India, South Korea, and Japan during 2011–2020 including the impact of the pandemic COVID-19 demanding time. The paper is structured into several parts including an introduction, literature review, research method overview, discussion, and conclusion. The paper can be a starting point for further research regarding the evaluation of Mongolia's economic position in the region of Eurasia.

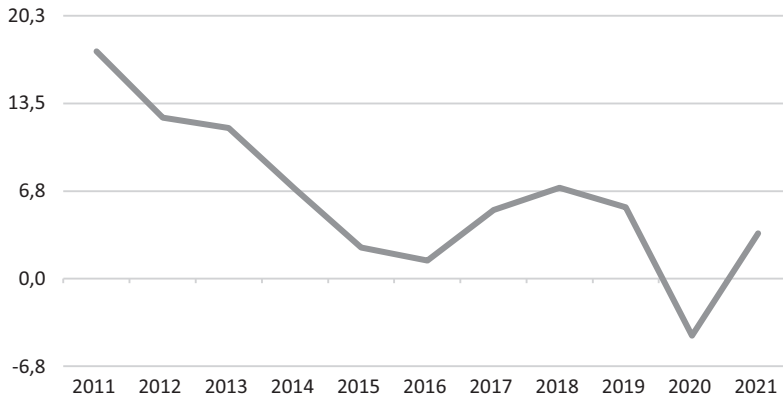


Figure 3. Mongolia's GDP growth change Y/Y, 2011–2021

Source: Macrobond data 2022, World Bank data.

## RESEARCH METHOD

The Mendeley research tool was used to analyse the existing literature on the subject. The author searched for the items using the keyword *Mongolia trade* and as the result, 671 positions were classified as “the most relevant.” The author has chosen from the list of 671 books and articles only those which corresponded very closely to the analysed subject and period of this article. Due to the war in Ukraine, it was not possible to access the articles stored on the Russian database servers of *elibrary.ru*. That is why only accessible literature items from other countries were taken into the analysis.

In this article, Macrobond data was used regarding the subject of study. The most important is the input of a review of existing literature on the subject presented further in this article. Besides that, the author uses existing research and also input from Mongolia's Ambassador in Poland to build his conclusions upon the economic ties of Mongolia with its Asian Trading Partners. Most of the research studies conducted to date have evaluated the bilateral economic ties of Mongolia with its Asian Trading Partners in the period of 2011–2021. Very few specific studies have been conducted to understand the bilateral economic ties of Mongolia with its Asian Trading Partners such as China, India, South Korea, and Japan in the period of 2011–2021. Hence, there is scope for research to understand these relations and their further development. Macrobond's data and international reports are the main recent data that helped to build up the conclusions and projections for this subject. There is no specific econometric or statistical model (e.g. multidimensional panel data analysis) which will show in the big picture the current situation of bilateral economic ties of Mongolia with its Asian Trading Partners in the period of 2011–2020.

## LITERATURE REVIEW ON MONGOLIA'S ECONOMIC RELATIONS WITH ITS ASIAN TRADING PARTNERS

The interest in Mongolia's economy is raising as more articles and research studies were done from 2011 through 2021. The majority of researchers who were devoted to Mongolia's economy came from Mongolia, China, Russia, South Korea, and India and

as well. The natural interest among Chinese authors still is a bilateral trade between China and Mongolia. Some of them were very interested in trade tariffs and how they impact bilateral trade overall. One of the findings was that if China imposed 1% tariffs on Mongolian export it would decrease the Mongolian export by 24% (Qinghui et al.), and other was that China-Mongolia trade turnover increased 250 times in 28 years and China-Mongolia agricultural trade growth was faster than the overall development of China's agricultural product trade (Zagdaakhuu et al.). Besides that, also multilateral trade relations and openness policy among Mongolia and other countries were analysed by the authors more naturally with Russia and China and they proved that neighbouring countries had a significant and positive impact on Mongolia's trade and economic growth (Qiang et al.). Moreover, Mongolia developed its trade relations with China since ancient times which shows very strong ties between those two countries (Baasandulam 2020). Some authors indicated using the Kehoe and Ruhl New Goods Margin methodology that since China joined The World Trade Organization (WTO) Mongolia opened more for trade with other countries including European Union (Amarsanaa and Kurokawa). Some authors point out one of the prospects for Mongolia's trade strategy on the Eurasian Economic Union (EAEU) as the recommended way for regional integration. It is also supported by the trade theory where Free Trade Agreements (FTAs) are effective when they are signed by countries that have a similar level of economic development (Altanchulun). It is worth mentioning that for Mongolia's ties with EAEU there was a Computable General Equilibrium model (CGE) developed where the effects of free trade agreements on Mongolia and EAEU members were analysed. The main focus of the researchers in this CGE model was to analyse multilateral economic ties of Mongolia with EAEU members (Russia, Kazakhstan, Belarus, Armenia, Kyrgyzstan) from regional and sectoral perspectives. The GTAP database was used from 2011 and there was also the assumption that non-tariff barriers of trade did not exist. The results of that research were quite surprising. The impact of FTAs on Mongolia's and EAEU members' real GDP growth was not significant, with less than a 1% change in case there was free trade between Mongolia and EAEU. Besides that Mongolia's export volume under full liberalization decreased while import volume increased. There was a recommendation that Mongolia should accelerate its value-added exports to the EAEU and neutralize the negative effect of export volumes (Ulzii-Ochir and Voroshilov).

Other researchers focused on India-Mongolia bilateral trade relations which were mainly based on the mineral trade (Shah and Rashid; Shahnawaz) and the link of Mongolia to India's Connect Central Asia Policy (Kumar and Chatterjee) or Mongolia's trade with South Korea as of both countries agreed to sign Economic Partnership Agreement in the future (Yoon; Pea and Pak; Sup). Due to the attempt of Mongolia's policy of open trade, there is a chance to establish trade relations with other countries in Asia such as Japan, South Korea, and India. Also, Mongolia's connections to Central Asia are attracting other countries like India to develop its international trade (Stobdan). Some authors analysed Mongolia's ties with Japan as the result of the "third neighbour" policy of Mongolia and there was a positive result of cooperation for both countries (Ignatov). There are also researches that try to evaluate the impact of foreign direct investment inflow on Mongolia's economic development. M. Baasandulam (2021) using the linear regression model proved that FDI and domestic capital investment have a positive effect on Mongolia's economic growth, and the expansion and diversification of a country's

trade and potential markets create more economic competitiveness. Other research proved that 21 provinces of Mongolia have different types of FDI but only some of them have favourable conditions for investment (김보라 Bora Kim). In general, the literature admits the strong link between FDI and economic growth but it is unidirectional (Muthusamy and Negi).

#### TRENDS IN BILATERAL TRADE BETWEEN MONGOLIA AND ITS ASIAN TRADING PARTNERS

Even though Mongolia is landlocked by the China and Russia the need for an international trade increase is strong. Table 2–7 below shows the foreign trade of Mongolia in the period 2011–2021 also giving a structure of main imported and exported products. The overall trade balance of Mongolia is negative (see Table 3) while dynamics of the trade with Asian Trading Partners increased in the analysed period. As the economy of Mongolia is fossil-based the main commodities exported are natural resources and minerals (see Table 4 and Table 5). Products such as cars and machines are imported mainly from South Korea and Japan (see Table 6).

**Table 2. Trade between Mongolia and its Asian Trading Partners, 2011–2021 (EUR millions)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Import	2088	2259	2115	1883	1749	1456	1715	2437	2637	2264	2820
Dynamics (%) 2011=100	100	8.2	1.3	-9.8	-16.2	-30.3	-17.8	16.7	26.3	8.5	35.1
Export	3221	3172	2801	3837	3539	3537	4686	5563	6092	4840	6681
Dynamics (%) 2011=100	100	-1,5	-13	19.1	11.4	9.8	45.5	72.7	89.1	50.3	107.4
Balance	1133	913	686	1954	1790	2081	2971	3126	3455	2576	3861

Source: based on the data from CEIC database 2022, <https://insights.ceicdata.com/>

Mongolia's export share in 2011–2022 with China is on average 85% in total export and import 32% on average. The increase in imports of Mongolia with its trading partners is 35% while export 107% in the last decade of 2011–2021. The overall value of imports of Mongolia increased by 22% while overall export increased by 125% (calculation based on the data in Tables 2 and 3).

**Table 3. Foreign Trade of Mongolia in 2011–2021 (EUR millions)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Import	4746	5245	4789	3984	3424	3037	3848	4979	5474	4648	5793
Export	3465	3413	3216	4354	4210	4446	5501	5943	6807	6646	7821
Balance	-1281	-1832	-1573	405	786	1409	1653	963	1333	1998	2029

Source: Macrobond database 2022, Mongolia National Statistical Office data.

**Table 4. The main commodities exported by Mongolia in the period 2011–2021**

	<b>Coal Tons (Metric)</b>	<b>Copper Concentrate Tons (Metric)</b>	<b>Crude Petroleum Oils, Barrels</b>	<b>Gold, Unwrought or in Semi- Manufactured Forms Tons (Metric)</b>	<b>Iron Ores Tons (Metric)</b>	<b>Zinc Concentrate Tons (Metric)</b>
2021	16137640	1282520	4348920	17250	7106210	112620
2020	28677100	1395100	4070500	30500	8202300	134100
2019	36604100	1403600	6545200	9100	8448800	134800
2018	36264800	1436700	6189800	3400	7449000	123900
2017	33400100	1447200	7514200	14600	6257800	118200
2016	25809300	1562000	8015900	19200	6084800	126000
2015	14472700	1477800	8135200	11300	5065100	84100
2014	19499000	1379000	6885100	10000	6324700	99400
2013	18367500	649800	5243800	7600	6724500	130900
2012	20915470	574300	3567960	2800	6415940	140890
2011	21296000	575900	2553700	2600	5802000	121200

Source: Macrobond database, Mongolia National Statistical Office 2022.

**Table 5. Other commodities exported by Mongolia in the period 2011–2021, million EUR**

	<b>Mineral Products</b>	<b>Raw &amp; Processed Hides, Skins, Fur</b>	<b>Textiles &amp; Textile Articles</b>
2021	6634	6	327
2020	4294	6	228
2019	5712	13	389
2018	5322	15	359
2017	4148	20	282
2016	3332	29	288
2015	3370	31	277
2014	3937	29	278
2013	2537	26	205
2012	2957	23	177
2011	3312	39	186

Source: Macrobond database, Mongolia National Statistical Office 2022.



**Table 6. The main commodities imported by Mongolia in the period 2011–2021**

	<b>Cars (number)</b>	<b>Energy (Tons Metric)</b>	<b>Petrol (Tons Metric)</b>
2021	55237	1823080	572750
2020	53087	1684900	586100
2019	69472	1722700	541500
2018	64039	1665700	435500
2017	48871	1574300	410900
2016	37738	1420200	385300
2015	37088	1384800	433500
2014	41246	1349200	416000
2013	44679	1195500	380100
2012	46403	366020	389120
2011	57580	275510	325420

Source: Macrobond database, Mongolia National Statistical Office 2022.

**Table 7. Other commodities imported by Mongolia in the period 2011–2021 in millions of EUR**

	<b>Food Products</b>	<b>Mineral Products</b>	<b>Base Metals &amp; Articles Thereof</b>	<b>Auto, Air &amp; Water Transport Vehicles &amp; Their Spare Parts</b>
2021	536	1181	501	1084
2020	355	823	438	694
2019	398	1229	485	1042
2018	383	1162	474	786
2017	318	830	281	523
2016	315	693	202	417
2015	302	858	341	337
2014	314	1203	443	506
2013	299	1262	400	726
2012	301	1196	445	962
2011	256	982	458	1165

Source: Macrobond database, Mongolia National Statistical Office 2022.

## DISCUSSION ON THE PROJECTION OF FURTHER ECONOMIC TIES OF MONGOLIA WITH ITS ASIAN TRADING PARTNERS

In June 2021 there were presidential elections in Mongolia won by Ukhnaagiin Khürelsükh. It was a very important event as the president is responsible for shaping the foreign policy of the country. The former president Khaltmaagiin Battulga was not successful in opening Mongolia for international trade and investment (Rodionov and Ayushieva).

Mongolia is one of the few countries, which is not participating widely in regional integration and is deeply dependent on foreign markets and imports. Mongolia managed to sign the Economic Partnership Agreement (EPA) with Japan in 2016 and The Asia Pacific Trade Agreement (APTA) in 2021. Mongolia also was actively involved in the Asia-Europe Meeting platform (ASEM) from 2008–2016 and the agreement with The Council of European Union was signed in Ulaanbaatar by Mongolia's government and came into force in 2017. This agreement between the EU and Mongolia concerned trade, economic and development assistance, agriculture, local development, energy, transport, environment and climate change. As the consequence in 2017, more than 800 EU companies invested 3.8 billion EUR in Mongolia's market (13% of FDI inflow to Mongolia), and the trade value in 2018 was 500 million EUR (8% of Mongolia's international trade) (Tsend and Baatar).

After the pandemic COVID-19 Mongolia focused more on regional cooperation with China, India, Japan and South Korea. Due to the war in Ukraine and the restrictions put on Russia the investment and trade relations between Mongolia and Russia are getting weaker which may harm Mongolia's economy if there is no further integration of Mongolia with Asian Trading Partners and such organizations like APEC or ASEAN to offset the outcome of sanctions on Russia Mongolia is not ready yet to join APEC due to the internal problems to fulfil the APEC's standards and requirements of structural reform, good governance, improve effectiveness (Tsend and Baatar). Mongolia should increase its involvement in Central Asia Regional Economic Cooperation Program (CAREC) financed by Asian Development Bank (ADB) especially in transport and trade infrastructure to be better connected with its Asian Trading Partners (China, India, South Korea and Japan). Some other multilateral organizations such as Eurasian Economic Union (EEU) formed by Russia, Belarus and Kazakhstan due to the war in Ukraine and economic sanctions on Russia will not be beneficial to the further development of Mongolia. That is why Mongolia needs to find the best way of cooperating with its neighbours countries and Asian Trading Partners.

Multilateral trade among China-Mongolia-Russia is being expanded with each year. Mongolian trade and openness policy significantly impacted the exports and imports of China and Russia. China is the main partner of exports in mining, wool, and cashmere market, while Russia is the main partner in imports of petroleum and food products with Mongolia. There is a strong link between Mongolia, China and Russia through the investment corridors as the outcome of the Chinese Belt and Road Initiative (BRI) where one of the six investment corridors should pass through Mongolia (a gas transit project from Russia to China). The future of this project is unknown as there is a war in Ukraine which may put this project on hold. That is why the reasonable alternative for Mongolia can be multilateral relations with India, Japan and South Korea. Mongolia and India hold a historical legacy and have a strong social linkage. Mongolia holds a key

position in India's Act East and Connect Central Policy to counter China's expansionist policies in North-East Asia. India is likewise in talks with Mongolia to have more prominent collaboration in the hydrocarbons and steel sector. During a virtual meeting, Indian Minister Pradhan praised leadership for their speedy approvals on the pending green field Mongol Refinery Project, built under a Line of Credit from the Government of India which is expected to complete by 2022 (The Hindu Business Line). However, the achievement or failure of India's Connect Asia Policy will depend upon India's political as well as diplomatic will to transform India's interest in regional integration into reality (Kumar and Chatterjee). Mongolia's relations with South Korea have also a long tradition starting from 1990 but the trade volume between those two countries is still low. The economic treaty between Mongolia and South Korea was signed in 2016. Mongolia is in a constant trade deficit with South Korea, and the deficit amount was growing since 2018 also due to the pandemic COVID-19. South Korea had a surplus of 250 million USD in trade with Mongolia in 2021 (Yoon). Until October 2020 Mongolia imported from South Korea mainly tobacco and cigarettes (10% of the total export of South Korea), motor vehicles for the transport of goods, petroleum oil and oils obtained bituminous minerals, beauty or make-up preparations, and pharmaceuticals. South Korea imported from Mongolia mainly mineral resources and wool and will further expand its investment and mineral resource development in Mongolia. South Korea is currently promoting the New Northbound Policy, which aims at expanding the economic zone that connects to the Eurasian Continent, so it may be a potential opportunity for Mongolia to develop its economy and position in the region. It is also in line with the new policy of Mongolia to become less dependent on China and Russia trade and to have more economic relations with Asian Trading Partners such as South Korea, India, and Japan. To attract more interest in South Korean investment in the Mongolian market Mongolia's government started to fight also by corruption making Corruption Perceptions Index (CPI) lower but it is still much lower in the ranking than South Korea. Mongolia should lower its trade tariffs with South Korea based on the APTA agreement to utilise the opportunity for its economic growth. Under the deal, South Korea should have reduced tariffs by an average of 33.4 percent on 2,797 items, while Mongolia should cut tariffs by an average of 24.2 percent on 366 items.<sup>1</sup>

#### FOREIGN DIRECT INVESTMENT

Mongolia on the one side has a strict investment law securing the investment of one country should not exceed 1/3 of the total foreign direct investment. Looking at the perspective of reality it is a dead law that has no reference to China – the main investor in Mongolia (before 2009, more than 60% of total foreign investment came from China alone). China and Russia are the only two neighbour countries of Mongolia and it was also revealed that the partner countries located too far away from Mongolia pay little attention to and play a small investment role in Mongolian FDI (Mungunzul and Chang). Mongolia's FDI inflow had a downward trend in the period 2010–2018 and the FDI outflow was increasing, but the country had problems with high foreign debt, budget deficit, unemployment, and exchange rates. The main focus

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<sup>1</sup> See: Yonhap News, 30 October 2020, <https://en.yna.co.kr/view/AEN20201030003700320?section=news>.

of FDI inflow to Mongolia was the mining sector which had the highest GDP share of nearly 27% in 2018 (Baasandulam 2021). The *Oyu Tolgoi* project worth 6.2 billion USD started in 2011 was the core of mining industry investment in Mongolia made by the Netherlands and the British Virgin Islands. It is in the South Gobi region known as one of the biggest deposits of copper and gold in the world. Oyu Tolgoi is jointly owned by the government of Mongolia, which has 34% ownership, and Turquoise Hill Resources, which owns 66%. Rio Tinto owns 50.8% of Turquoise Hill Resources and manages the operation on behalf of the owners. The underground production process is going to be started in the first half of 2023. Such a strong dependence of Mongolia's economic development on just one sector (mining) can cause a problem of its instability. Besides unitary Mongolia's economic structure, the main dominant contributor (investor) is China. Table 8 shows the Foreign Direct Investment inflows from chosen Asian Trading Partners (India, China, Japan, and South Korea) to Mongolia between 2011 and 2020, where China had a share of 83% of the FDI inflow considering FDI Trading Partners' inflow to Mongolia.

**Table 8. Foreign direct investment inflows from chosen Asian Trading Partners (India, China, Japan, South Korea) to Mongolia between 2011 and 2020 (EUR billions)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
FDI inflow stock, Mongolia–Trading Partners	10.36	13.38	14.50	16.17	21.45	23.18	23.55	24.01	26.12	27.13
FDI – position*	-8.92	-12.70	-13.96	-16.29	-18.56	-15.13	-14.73	-17.26	-19.43	-19.22

\* Equity and reinvested earnings and other capital (Net).

Source: Macrobond database, Mongolian National Statistical Office 2022.

Empirical results suggest that higher world income, higher prices for Mongolian exports and increased FDI inflows have led to improved export performance in Mongolia. There is no statistical evidence to suggest that trade liberalisation and improved provision of basic infrastructure have had any impact on Mongolia's export expansion (Davaakhuu et al.). Besides the mining sector, the next FDI focus of Asian Trading Partners was the banking (mainly with Japan and China) and tourism sectors (mainly with South Korea). The FDI inflow impacted also the local development of the business in Mongolia. Table 9 shows the number of registered and active companies in Mongolia in the period 2014–2021.

The results regarding the active companies operating in Mongolia could be much worse if FDI inflow would be stopped. It is still a good result for such a small country to have 96336 businesses active in 2021, but the innovation level is still low measured by the number of submitted patents to the Filing Office in the period of 2013–2020 (please see Figure 4).

**Table 9. Number of registered companies and active ones in Mongolia in the period of 2014–2021**

	<b>Registered</b>	<b>Active</b>	<b>Active%</b>
2021	228411	96336	42%
2020	200451	95950	48%
2019	187783	94425	50%
2018	170178	85761	50%
2017	155077	78597	51%
2016	141514	72194	51%
2015	126568	64309	51%
2014	113610	59851	53%

Source: Macrobond database, Mongolia National Statistical Office 2022.

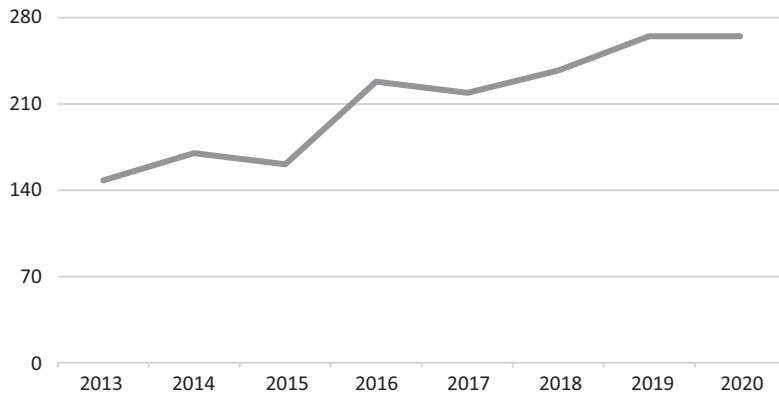


Figure 4. Patent applications by Filing out Office

Source: based on Macrobond data 2022, World Intellectual Property Organization.

## CONCLUSION

The main conclusion is that Mongolia has a chance to be an important economy player in the world if implements the policies and reforms suggested by the APTA and other international trade organizations to solve the problem of the increased debt and pollution. Mongolia can be a leading exporter of mineral resources and gold in the region. As the war on Ukraine continues it does not help Mongolia due to its economic dependence on Russia and China. “The Third Neighbour” policy is critical to be implemented and develop trade relations with Mongolia’s Asian Trading Partners (India, Japan, and South Korea). Mongolia due to the war in Ukraine and imposed economic and political sanctions has the opportunity to focus on “the third neighbour” policy implementation. It can be

done with more tightness on the economy and diplomatic levels with counterpart countries to China and Russia such as Japan, South Korea and India. Mongolia should pay more attention to the multilateral agreements with Russia and China in the area of full symmetry of the trade terms and conditions regarding the investment corridor and fuel transit between China Russia and Mongolia (CMREC). The financial gain on transit could be directed to the repayment of the public government and foreign debt which is the main challenge for Mongolia today.

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