

Mongolian Perspective: Shifting from a Chinese supplier to a Regional supplier

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“China's Economic Rise and Northeast Asian Economic Cooperation

— In the Context of US-China Conflict and COVID-19”

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INTRODUCTION

We are looking for development of two most important events in the world, the first is that how China's government and the new Biden administration begin to interact with each other, the second is that how countries around the world work to contain the spread and impact of COVID-19.

My presentation will focus on following vital issues:

- *Policies and actions to be taken to fully utilize the advantages of the Chinese market;*
- *Mitigation of negative influence of China on Mongolia's politics and security*
- *Feasibility of lessening dependency on a single market and increasing debt;*
- *Feasibility of entering into Northeast Asian markets;*

China's rise and Mongolia

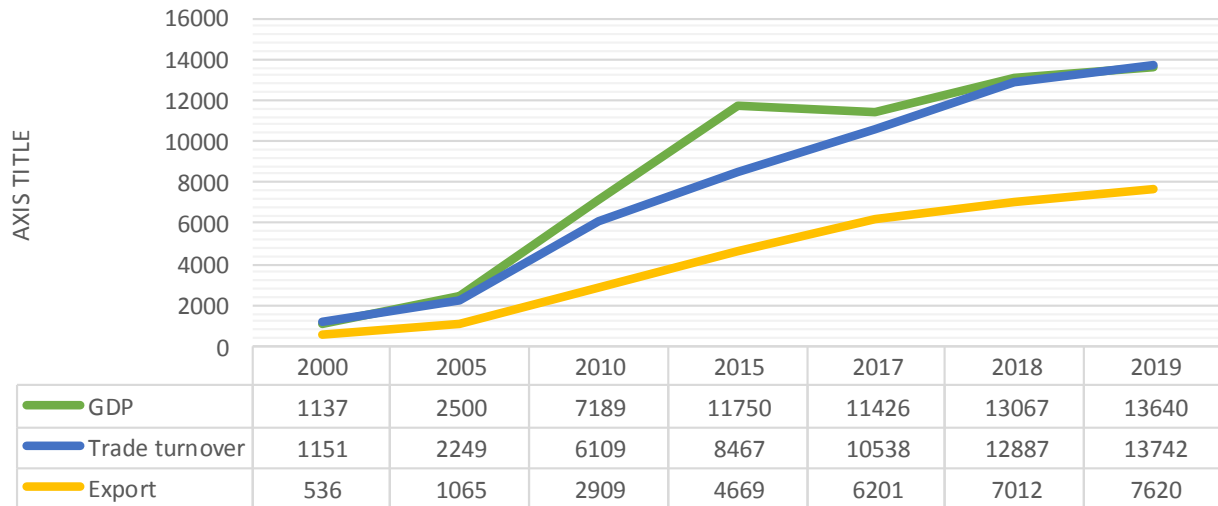
The Chinese market has played an important role in the significant increase in economic volume and foreign trade turnover since 1990 when Mongolia transitioned to a market and mineral-oriented economic system.

Foreign trade is a key driver of growth of Mongolian economy, which is evident from the fact that Mongolia's trade as a percentage of GDP has been consistently close to 100% over last 20 years. Moreover, both Mongolia's economy and its trade turnover has increased 12-fold. (Fig.1)

The total trade turnover were USD 1.2 billion in 2000, where exports was USD 535.8 million and imports was USD 614.5 million. In 2019, total trade turnover reached USD 13.7 billion, where exports were USD 7.6 billion and imports were USD 6.1 billion. Exports increased by USD 7.1 billion (14.1 times) and imports increased by USD 5.5 billion (10 times) from 2000.

China's rise and Mongolia

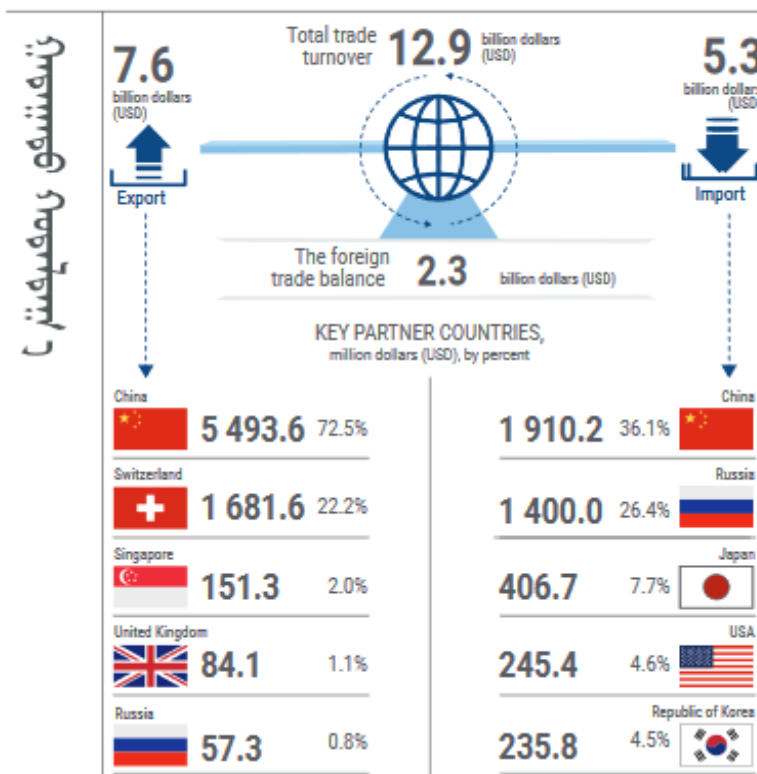
Figure 1. The ratio of Mongolia's GDP and trade /2000-2019, million USD/



Source : National Statistical office of Mongolia and World Bank



FOREIGN TRADE, at the end of 2020



Source : National Statistical office of Mongolia

China's rise and Mongolia

❖ China's impact on Mongolia's economic development

Positive:

- Huge market for Mongolia's mining-origin export commodities;

Trade with China reached USD 7.4 billion in 2020, which is 57.5% of the total trade turnover. Bituminous coal and copper concentrates accounted for 36.6% and 32.4% of total exports to China.

- Main supplier of industrial and IT, consumer goods to Mongolia
/new paradigms high-quality development, green growth, dual circulation-dual opening/

China's rise and Mongolia

❖ China's impact on Mongolia's economic development

Positive:

- One of the largest investor (FDI) and development partner (infrastructure projects):

/China is second largest investor with FDI \$5.1 bln since 1991 and one of biggest donor-country which has provided Mongolia \$1.8 bln soft loan since 2005 and RMB 3.2 bln non-refundable aid since 1991, source: BoM and MF/

- China as driving force of regional economic integration and transcontinental connectivity

/RCEP, APTA, CPTPP, BRI, BIT /

The import and export goods volume via Erenhot, the largest land port on the China-Mongolia border, rose 13.5 % from the previous year to more than 17 m.t in 2020, according to the port's customs. Erenhot Port, an important channel for international cargo in north China's IMAR, has 43 China-Europe freight train routes passing through it.

According to UBTZ, 539 transit trains passed through Mongolia in 2017, 855 in 2018, 1454 in 2019 and 2300 in 2020.

China's rise and Mongolia

❖ China's impact on Mongolia's economic development

Negative:

▪ Overdependence on a single market of Mongolia's foreign trade;

/Relatedly, the mining sector alone accounts for 25% Mongolia's GDP, 72% of industrial output, 90% of export, 90% of which goes only to China. Source Mongolian Mining Journal/

▪ Increased vulnerability to changes of China's market (demand and supply changes) and policy;

/For example, China's coal share in electricity generation is targeted to decline from 64 to 30 percent and non-electricity generating coal consumption to decline by 19 percent from 2018 to 2050 . A simulation using a CGE model suggests that a steady decline in China's coal demand would reduce Mongolia's exports by 1.1 percent and economic growth by 0.7 percentage points on average each year. Source: WB/

Economic challenges and opportunities

Through its own arduous efforts Mongolia had been overcome the challenges industrialization, urbanization, and infrastructure modernization, and has enjoyed a favorable external environment and a period of transition and liberalization. Today we also face many new hard challenges such as Covid-19 challenges, geospatial challenges, geopolitical challenges, and ecological challenges which are also representing a valuable opportunity to lay the foundations for a wealthier, fairer and greener future.

1/Covid-19 challenge. Mongolia has to maintain good relations with Beijing to keep its economy afloat, while preventing the pandemic from spreading within its territory. During his five-hour visit in late February, the President Kh.Battulga was warmly welcomed by his Chinese counterpart Xi Jinping as the first foreign head of state to visit China since the outbreak of COVID-19. The Chinese public expressed particular gratitude for his donation of 30,000 sheep as a neighbourly gift from a strategic partner. Moreover, it has greatly helped to solidify the strategic partnership between the two countries, to improve political and economic relations and to deepen mutual understanding between the Chinese and Mongolian people.

As the coronavirus pandemic sparks calls for more state intervention, emerging economies face tough choices to determine whether an increased role for government will have positive or negative long-term consequences. The latest Transition Report from the EBRD says 45 % of people in the post-communist economies now favour higher levels of state ownership.

Economic challenges and opportunities

2/ Geospatial challenge - Infrastructure for Connectivity and Economic Diversification

Mongolia's vast territorial expanse and low population density create unique challenges for economic development in general and infrastructure investments in particular. These unique challenges are compounded by huge mineral resources, which have driven economic growth over the past 15 years but left the economy highly dependent on the mining sector. Investments in commercially developing only a small part of Mongolia's abundant mineral resources resulted in a doubling of the country's GDP in 10 years, shifting the country's traditional agricultural economy to one dominated by mining.

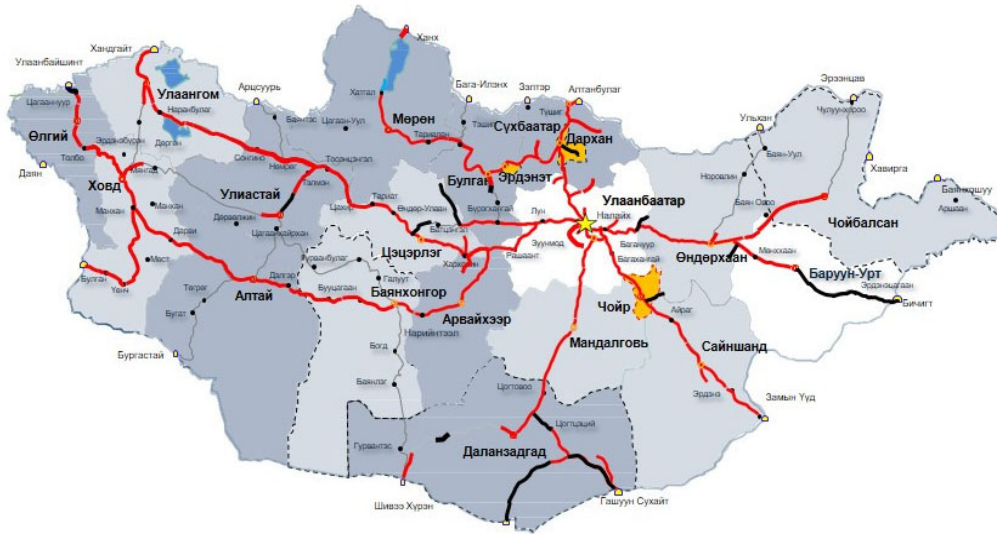
According to WB 2020 the InfraSAP report, Mongolia should look at key economic value chains/mineral, livestock, tourism, energy, transport and service/ and target infrastructure constraints specific to these value chains and associated corridors.

Development in key projects

Over the past two years, a significant progress has been made in projects of strategic importance. In particular, sales and net profit of SOE Erdenes Tavantolgoi has dramatically increased which resulted growth in investments of rail, road and coal enrichment projects, new Ulaanbaatar International Airport is ready for operation, the oil refinery infrastructure has been completed, the first transnational power transmission line is commissioned and the reconstruction projects of major border crossing ports have commenced.

The increased effort and involvement of Mongolia has played an important role in achieving such results. Further, opportunities for implementing and realizing bipartisan and multilateral mega projects, including renovation project of the Trans Mongolian road and rail network, construction project of gas pipelines Power of Siberia-II via Mongolia, large sources of thermal and renewable energy along with transcontinental power transmission lines, are increasing as well.

NATIONAL ROAD NETWORK OF MONGOLIA, 2020



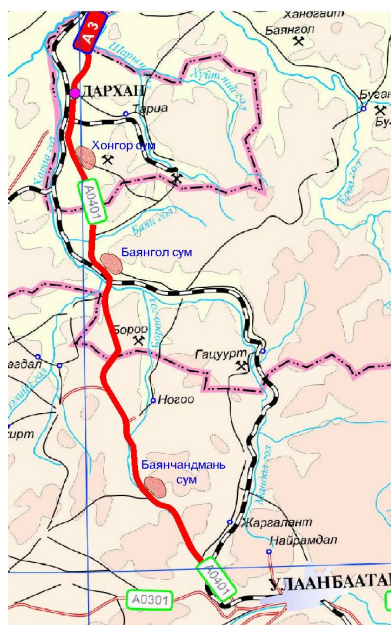
Totally 7412.5km /49.6 percent/ of the State Road Networks is paved and almost all aimag-centres are connected with capital Ulaanbaatar by paved road.

Source: Ministry of Road and Transport Development of Mongolia

ONGOING PROJECT ON THE ASIAN HIGHWAY AH3



Current situation



View after expansion and modification

Existing 200 km road with 2 lanes from Ulaanbaatar to Darhan will be expanded to 4 lanes of I grade arterial road.

Development in key projects

414 km Tavantolgoi-Zuunbayan railway project



Total cost: MNT 814 bln
 Capacity :15 million tonnes
 ETT owns 66%,
 Mongolian Railway 34%

Thanks to the railway, Tavantolgoi's coking coal's sole market dependency will end and around 40 deposits along the railway line, that are not under exploitation yet, will be utilized and their products will be supplied to international buyers at international market price.

Construction of the railroad is now expected to finish only in March 2023, and not in 2022 as earlier scheduled.

Armed Forces personnel and workers from more than 80 domestic companies provide labour at lower costs.

Development in key projects

267 km Tavantolgoi-Gashuunsukhait railway project



An operation of 267km-long Tavantolgoi-Gashuunsukhait railway will create a possibility to export up to 30 million tons of coal annually. It will also reduce the railway transportation cost of 'Erdenes Tavan Tolgoi' JSC by roughly USD8 per ton, ensuring 4-fold cheaper transportation to neighbors and third market, as compared with auto road transportation. It is believed that the railway construction will increase workplaces and reduce environment deterioration such as soil and air pollution.

Development in key projects

- Likewise, Mongolia's exports face challenges in terms of poor mine to border connectivity. Only three border crossing points (BCPs) have rail connectivity, and the road connectivity at the remaining BCPs is also inadequate. Infrastructure is considerably inadequate at BCPs across Mongolia.
- On October 21, 2020 the Asian Development Bank (ADB) has approved up to \$420 million for a multitranche financing facility (MFF) to improve economic opportunities and living conditions among communities along the border between the Inner Mongolia Autonomous Region (IMAR) in the People's Republic of China (PRC) and Mongolia.
- "The IMAR-Mongolia border is one of the world's longest and the setting for a remote and often hostile environment for the communities at border crossings," said ADB Senior Financial Sector Specialist Seung Min Lee. "The ADB program will upgrade and modernize facilities at five border communities to ensure that the benefits of growing bilateral and regional trade can be shared by both sides of the border. The program's technical design, environmental improvements, and robust economic and financial returns will ensure its long-term sustainability and benefits."

Development in key projects

The Gashuunsukhait BCP modernization project



The port handles 51.4 percent of coal exports and 55 percent of copper concentrate exports.

As a result of the Gashuunsukhait BCP modernization, the coal export capacity will be tripled, the passenger and freight capacity will be doubled, vehicles will be able to enter the border quickly, passengers will be able to travel comfortably, the quality and quantity of exported natural resources will be precisely determined and taxes will be fully collected.

Conclusion

Mongolia considers that the shortest and the most feasible way to lessen its dependency on a single large market, to avoid the mineral curse, and to diversify its economy and export market, is to export its minerals to large markets in Northeast Asia and to join into the regional integration.

Development of the transport corridors and integrated multimodal logistics facilities helped Mongolia integrate its road and railway systems with the Asian networks and contributed to the country's and the region's economic growth and poverty reduction. Improved transport conditions substantially increased traffic speed, boosting economic activity and people's mobility, and helping the government eliminate transport bottlenecks that constrained economic growth.

- Over the past two years, a significant progress has been made in projects of strategic importance. In particular, sales and net profit of Erdenes Tavan Tolgoi LLC has dramatically increased which resulted growth in investments of rail, road and coal enrichment projects, Ulaanbaatar International Airport is ready for operation, the oil refinery infrastructure has been completed, the first transnational power transmission line is commissioned and the reconstruction projects of border ports have commenced. The increased effort and involvement of Mongolia has played an important role in achieving such results.

**THANK YOU VERY MUCH
FOR YOUR ATTENTION .**