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Mongolia adjusting to lower economic growth

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***Mongolia’s economic prospects are brightening despite the difficult conditions in global markets.***



Mongolia’s economic growth prospects are brightening by the recent Oyu Tolgoi $5.3 billion underground copper mine investment and from more diversification to the agriculture sector. Despite the grim macroeconomic environment, numerous infrastructure projects in transportation and cross-border trade logistics will spur future investments. These projects include a new international airport, a northern rail connecting China to Europe and a cross-border economic zone with China.  
In 2011, Mongolia was on top of the world benefiting from its abundant natural resources. Higher prices of copper, gold and iron ore along with bond investor enthusiasm helped boost its gross domestic product (GDP) to 17%. Since the drop in commodity prices worldwide and slower China demand, Mongolia is paying for the debt incurred during the boom years by a severe drop in foreign exchange reserves and a depreciating Mongolian Tugrik by 17% to 2,452 to the United States dollar. There is also investor abandonment of this once high flying frontier economy. As a result, government leaders are inviting the International Monetary Fund (IMF) for debt relief plans and to repay over $1 billion by January 2018 and securing currency swap programs from its southern border neighbor, the Peoples Republic of China (PRC). According to reports, Mongolia’s debt is 78% of GDP and total debt owed to foreign creditors at $22.6 billion is nearly twice the size of the economy itself ($11.8 billion).

Even though Mongolia trades with 155 countries, this massive, fiercely independent central Asian country with a sparse population of 3 million depends on China and to a lesser extent Russia on the northern border for a vast majority of its trade and investment. Through September 2016, Mongolia’s total trade turnover was $5.78 billion which shows a drop of 9.6% or $616.9 million overall, or a 5.9% drop in exports by $208 million of which copper concentrates are a large factor and a drop in imports by 14.3% by $408.8 million from 2015, according to Mongolia news reports. “Economic fundamentals remain weak and unlikely to improve this year. I am not expecting any real upturn until 2017,” commented S.J. Potter, Managing Director, Wagner Asia Equipment LLC, a Caterpillar (CAT) mining equipment distributor in Ulaanbaatar, Mongolia in a recent e-mail to this reporter.

**Mining Other Opportunities**

A major support to the landlocked economy is an underground mine located in the South Gobi desert near the China border named Oyu Tolgoi with copper, gold and silver deposits forecasted to produce by 2020 and reach 500,000 metric tons of copper a year by 2027. In May, Rio Tinto PLC, a major mining company, approved a $5.3 million expansion in a phase two of an underground copper mine. Phase one, the above ground mine, began producing in Oyu Tolgoi in 2013 and now output is 175,000 to 200,000 tons a year.

To offset the reliance on mining, the Ministry of Food and Agriculture is making policies to diversify away from mining of which copper was almost half of Mongolia’s exports in 2015. At present, mining is 17.6% of GDP dropping from 21.8% in 2011 whereas agriculture grew from 2011-2015 from 10.2% to 13.3% of GDP. Target areas are approvals by China in 2015 for Mongolia meat exports and for Mongolia exports of meat to global markets as well as global exports of wool and cashmere from the nearly 60 million livestock or 18.6 head per each Mongolian. Parliament Resolution 75 was issued to create the “Khalkh Gol” Free Trade Zone (FTZ) in eastern Mongolia Dornod province. The FTZ covers 500,000 hectares (1.235 million acres) for 2,200 jobs in addition to farming, agriculture, logistical and tourist activities to yield about 141 billion Mongolian Tugrik ($58,045,470) per year for organic plant-and meat-based food production, according to the Ministry of Foreign Affairs, Mongolica in the Summer of 2016.

In order to reach globally, a countdown is beginning of days remaining for the grand opening of the new international passenger and cargo airport 52 km south of capital city Ulaanbaatar. The Khoshig Valley Airport scheduled to open this year will be an airline hub connecting Europe, East Asia, North America and Southeast Asia through the Polar Route. The $385 million project is a 40-year soft loan from Japan Bank for International Cooperation that started construction in April 2012 by a Mitsubishi-Choyoda joint venture. Major features are two runways, road and rail terminals, three million passengers per year capacity and tenfold increase in cargo capacity over the old Chingis Khan international airport.

**Aspiring Rail Links**

North of Ulaanbaatar, bulk, agriculture and general container traffic will be well served by a rail project proposed by Northern Railways LLC, a subsidiary of Aspire Mining Ltd. Mongolia will become a vital rail link for China-Europe trade and Russia-China trade as part of the China One Belt One Road and Silk Road policies. This three-phased rail project begins with a 547 kilometers (32.3 miles) line from Erdenet to Ovoot serving many area mines. The efficiencies in time and cost savings are well documented for this transcontinental rail corridor.

TransCare GmbH, a global rail logistics consultant, did a study to prove the competitiveness of the rail link through Mongolia between Northeast China and Europe. The TransCare study indicated 1,881 cargo trains annually in service between China and Europe for bilateral trade worth $17 billion in the context of total trade of $3.5 trillion. This volume will rise to 5,000 cargo trains by 2020, according to the report in the ASIA Miner News. The TransCare study used entry point at Tianjin, south of Beijing and exit point at Slawkow, Poland. The Northern Rail Corridor with the Mongolian Erdenet-Ovoot link will be shorter than existing routes and better costs with fewer bottlenecks along the Trans-Siberian Railway directly north of Mongolia.

Although rail is no substitute for sea freight, this rail link will move China’s current rail freight to Europe from 1 percent to 5-7% by 2020, according to a recent Aspire Mining Ltd presentation document. This rail corridor is the shortest distance for Chinese goods to reach Europe markets from northeast China. The other rail land routes are: China-Kazakhstan-Europe and China-Russia-Europe (via Manzhouli crossing in Inner Mongolia).

The Mongolian Cabinet approved a concession to Northern Railways in August 2015 supported by a consortium consisting of Aspire, China Railways 20 Bureau Group and China Railways First Design Survey and Design Institute. The $1.2 billion capital expenditures will move 30 million metric tons per year of freight. Aspire expects most funding to come from China as conveyed to this reporter by e-mail from their Managing Director on his recent visit to the United States seeking investors. Aspire documents indicate that financing can be drawn from the $40 billion Silk Road Fund, the $100 billion Asia Infrastructure Bank with mandates to facilitate international trade as well as from a $110 billion Japanese Infrastructure Fund, the European Bank for Reconstruction and Development (EBRD) and from the Asian Development Bank (ADB).

The second and third phases of the rail line are Ovoot to Arts Suuri at the Russian border of 230-250 km (143-155 miles) for $450-550 million and Arts Suuri to Kyzyl, Russia of 300-330 km (186-205 miles) for $675-$775 million. Northern Railways completed the scoping study on these two sections. There will be a five-year construction period and a 30-year operational concession before vested to Mongolia at the end of the 30 years.

**Mongolia FEZ**

After years of discussions and planning, Mongolia completed construction of a Free Economic Zone (FEZ) in the southern border town of Zamyn Uud with light industry producing and exporting. The FEZ is expected to integrate with the Chinese border town of Erlian, Inner Mongolia for a fully functional cross-border economic and cooperation zone. All the infrastructure is completed and a 100 percent Mongolian invested business is producing from iron metal raw materials imported into the Zone from China and transforming the metal into building materials sold to Mongolian construction companies with potential export markets.

In September 2016, the Chinese began construction across from Zamyn Uud in Erlian, Inner Mongolia Autonomous Region that will connect the two border towns across 18 square kilometer (7 square mile) zone. This Zone will integrate international trade processing of import and export commodities, facilitate e-commerce, entertainment and financing. The cost will be $135 million for 33 kilometers (20.5 miles) of roads, drains, heating and telecommunication and expected to be completed in 2018 according to Xinhua reports. This cross border connectivity with China could help to improve corridor performance from the seaport in Tianjin, PRC where Mongolian shipping containers have difficulties.

Mongolia’s logistics costs as a percentage of GDP are still quite high at 28% and ranked an improving score of 108 out of 160 countries in 2016 by the World Bank’s Logistics Performance Index. The Index measures customs clearance, quality of infrastructure, track and trace, and timeliness by on time deliveries. By comparison, China ranked 27 and Russia was 99.

Another project is the implementation of the National Electronic Single Window. The Asian Development Bank (ADB) and the government of Mongolia agreed to a $29 million loan project this year: Regional Improvement of Border Services. This project will improve facilities and equipment at the border towns of the following: Altanbulag (near Russia), Bichigt, and Zamyn Uud (near China); improve the Customs information systems to become single window ready and begin preparations for the single window to include all trade related agencies and private sector entities involved in the supply chain for imports and exports. ADB also began constructing a new logistics center in Zamyn Uud to further modernize and improve the road and rail transshipments at the border crossing, especially for rail where the Mongolians and Russians have different rail gauge than the Chinese, which causes delays.

**Opening the Logistics Window**

The Single Window project will have immediate impact on Mongolia international trade for companies such as Wagner Asia global imports of heavy equipment, vehicles and emergency parts for remote mining sites. The country of origin (CoO) document is required to clear goods into the country. The CoO process for emergency parts is cumbersome without the electronic single window and can cause millions of dollars in lost production at the mines. “For example, when an Oyu Tolgoi shovel costing $25 million and is supported by 7 to 8 moving trucks at $5 million each has an emergency part malfunction. The CoO document is processed by the CAT supplier in 3-5 days, electronically. The emergency case will require delivery in 48 hours,” said Potter in a recent interview in Ulaanbaatar. The Single Window would expedite this process to meet the emergency at the mining site.

Mongolia’s economy is making progress on numerous transportation and trade logistics infrastructure projects and operational improvements that began planning many years ago. The new airport, the northern rail link, and the Single Electronic Window and the cross border zone with China will bring new market opportunities across many industries. These adjustments together with implementation of agriculture policies will diversify from mining to sustainable long-term economic growth.

Robert L. Wallack

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