National Development and Innovation Committee
Government agency of Mongolia

Economic Diversification of Mongolia: drafting a strategy

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Diversification for Mongolia: main issues

- Current state of economy and its problems
- Need for diversification: economic vulnerability issues
- Existing policy guidelines for diversification
- What are main options: priority development of industries other than mining
- Current plans
Current structure of economy: growing dependence on mining

![Graph showing the percentage of the economy contributed by different sectors over time.]
This trend will accelerate with intensive development of new natural resources.

Copper production /Thousand tons/

- Explanation:
  The mining sector forecasts and data are from former Agency of Mineral Resources. The project Oyu Tolgoi is estimated to start its active production activity since 2010 and in the years 2013-2017 the production volume will be relatively high because of the parallel exploitation of the South and North Hugo deposits.
 Estimates of coal output

Volume of the coal production /Million tons/

- Tavan Tolgoi coal mine
- Togrog Nur and Takhilt coal mine
- Ovoot Tolgoi coal mine
- Narin Sukhait coal mine
- By capacity until 2007
Explanation: The project Oyu Tolgoi is estimated to start its active production activity since 2010 and in the years 2013-2017 the production volume will be relatively high because of the parallel exploitation of the South and North Hugo deposits.
This structure results in urgent need for diversification: economic vulnerability issues

- Diversification as a means to reduce vulnerability
- Ensure better structure of economy,
- Stable tax and export revenue structure
- Development of new industries
- Building foundations of knowledge-based economy
- MDG-based long term development vision of the country
Policy regarding diversification: reducing economic vulnerability

- the Guideline on National Security (Attachment to the Resolution No 56, 1994 of the Great State Hural (Parliament) of Mongolia)
- Economic national security in the Section V as “an essential foundation for the independence and sovereignty of Mongolia”
- National economic security as “a structure, enabling reproduction of economy based on its internal resources, with sufficient economic potential to strengthen the country’s independence and able to support national needs for a definite period of time if such necessity arises”. [1]

The Guidelines 1994

- defines following *external* factors, which may negatively affect economic security of the country as:
  - Obstacles to foreign trade and international cooperation
  - A transformation of the country into a raw material supplier for other countries
  - A loss of markets for or a sharp fall in prices of strategic export goods
  - Direct dependence on a foreign country in a strategically important industry
Economic vulnerability and its reasons

UNDESA mission 2002:
- its reliance on production of few main products
- its export via transit countries
- linkage of output increase with the increasing demand for energy
- with an accompanying pressure on ecological environment.
The evaluation of the Composite Vulnerability Index (CVI) of Mongolia is based on "Small States: A Composite Vulnerability Index" (Joint Commonwealth Secretariat/World Bank Task Force on Small States). Composite Vulnerability Index of Mongolia is estimated to be equal 7.446. With this CVI, Mongolia ranks 20th place among 112 developing countries in terms of economic vulnerability (2005).
Among the developing countries, Mongolia’s rank by export dependence is 11 and rank by vulnerability to natural disasters is 34.

With the UNCTAD’s diversification index Mongolia is on the 40th place.

Therefore, Mongolia is highly vulnerable because of its export dependence variable.

If we count for the fact that the major export good is copper (average share in export is 27 percent) and its price fluctuates very much, then vulnerability of Mongolia will increase further and is projected to worsen unless diversification proceeds.
**Plans regarding the diversification**

**Financing options: revenue from mining sector**  
**Public Investment to grow at least 8-22 times**  
**to reach 3-8 billion US dollars of annual budget investment by 2020**

<table>
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<tr>
<th>Year</th>
<th>Investment (trillions of MNT)</th>
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<tbody>
<tr>
<td></td>
<td>Base scenario</td>
</tr>
<tr>
<td>2008</td>
<td>0.463</td>
</tr>
<tr>
<td>2012</td>
<td>0.732</td>
</tr>
<tr>
<td>2016</td>
<td>1.313</td>
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<tr>
<td>2020</td>
<td>2.569</td>
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2007, NUM SES estimates
Selection of priority industries for development and diversification

Criteria for priority industries
1. Current and projected share in GDP
2. Current and projected share in exports
3. Improvement of competitiveness
4. Improvement of technology level
5. Improvement of productivity (sectoral and overall)
6. Positive externalities for other sectors
7. Projection of employment increase
8. Technology transfer/innovation/domestic R&D support possibilities
### Priority industries for diversification – possible candidates and creation of supporting clusters (some preliminary thoughts)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Criteria</th>
<th>Supporting R&amp;D, technology transfer needs</th>
<th>Policy actions to support</th>
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| **Agriculture**                | ■ large share in GDP 15.8%  
■ Employment 37.6%  
■ crucial supplier of food, supplier of export products/raw materials for industry  
■ Low labor productivity: 60% of national average | ■ biotechnology, nanotechnology research cluster need  
■ technology for livestock products processing, storage and transportation, introduction of international standards in livestock farming | ■ National science/innovation program  
■ Industrialization program  
■ Agriculture (farming) support program  
■ Needs introduction of technology |
| **Mining**                     | main export industry 70%, large share in GDP 30%                                                                                                                                                        | Strong need to upgrade technology                                                                       | Regional planning                                                                         |
| **Transport /transit/, Communications** | Crucial for trade, regional development, mining, tourism                                                                                                                                                     | Need for unified standards in communications  
Further cost reduction  
Improvement of services | Need to negotiate and solve transit issues                                                                         |
| **Tourism**                    | 10% GDP                                                                                                                                                                                                | Ecologically friendly | Development of local transportation network |
| **Energy**                     | Basis for development  
Low productivity: 64% of national average                                                                                                                                                           | More research into alternative energy production ways  
Nuclear energy as an option | Reform of energy sector, further investments, PPP |

National Development and Innovation Committee

- Midterm and long term development strategy (MDS), macroeconomy, midterm budget framework
  - Annual socioeconomic development guidelines
  - National investment strategy (priority sectors, effectiveness, support of MDS)
  - Macroeconomic framework
- Coordinating innovation and technology adoption, education and science for development needs
  - Raising overall competitiveness and productivity,
  - Improvement of business environment,
  - Support of private sector PPP
  - Monitoring of development and MDG-based programs
- Regional planning and coordination (urbanization, free trade zones, regional development)
- Thank you for attention!