

National Consultation Environmental Performance Review and the Sustainability Outlook of Mongolia



**OVERVIEW OF MACROECONOMIC PERSPECTIVES
AND RECENT ECONOMIC AND SOCIAL
DEVELOPMENT OF MONGOLIA**

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Structure of the presentation



- I. Recent socio-economic performance
- II. Stabilizing and revitalizing growth and development
 - IIA. Structural reforms
 - IIB. Dominant role of minerals in the growth process
 - IIC. Economic corridor
- III. Resource efficient growth strategies and policies
- IV. Going forward

I. Recent socio-economic performance



- Big country, small population and limited domestic market: 3 million pop., GDP \$11.76 billion, GDP PC \$3973
- Acute dependency on selected minerals: coal, copper, oil
- Drastic fall in the share of industry in GDP
- Limited economic diversification
- Limited number of exports and export markets
- Income poverty has declined sharply: NP 21.6% (2014), 2% (PPP \$1.90 2011)
- Environment under severe stress: burning of soft coal, factories in and around Ulaanbaatar, sharp increase in motorization, deforestation, overgrazing, soil erosion
- Urgent need for resource efficient growth strategies and diversification

I. Recent socio-economic performance



- Economic growth slowed down to 1.2 percent in 2016 from 2.3 percent in 2015
- Average growth of 12.3% in 2011-2014
- Drastic fall in global commodity prices: prices of minerals plunged
- Also weaker demand in China in 2016
- Unemployment went up to almost 9% by end 2016
- Drastic fall in FDI in the mining sector
- Declining mining revenues led to government debt rising to nearly 90% of GDP

II. Stabilizing and revitalizing the economy



- Government of Mongolia and its development partners have moved quickly to stabilize the economy
- Key features include fiscal stability and social protection
- Re-energize the minerals sector
- Economic diversification
- Moving up the value chain
- Agriculture, tourism, animal husbandry other focus areas
- Human resources development
- Institutional capacity development

IIA. Structural Reforms: Salient features



- Mongolia faced a financial crisis towards the last quarter of 2016 in the wake of commodity price collapse
- Annual interest rates went up to 18 percent
- The currency depreciated sharply
- Mongolia tried to stem the crisis by following expansionary policies
- But public debt became unsustainable: 90% of GDP
- International reserves began to dwindle
- Growth faltered

IIA. Structural Reforms: Salient features



- A financing package totaling \$5.5 billion was arranged, supported by IMF, ADB, WB, Japan, Korea and China
- Together with the financing arrangement, the economy began to stabilize as key export prices of copper, coal, gold rallied in international markets
- Some of the critical pillars of the programme: fiscal consolidation, reduce pressure on domestic financial markets, stabilize the external position, and restore debt sustainability
- A strong social protection component for the most vulnerable groups

IIB. Dominant Role of Minerals in the Growth Process



- Minerals resource wealth estimated at US\$1 to US\$3 trillion
- Gold, copper, coal principal reserves
- Mongolia has 10% of world's known coal reserves, some of it best quality: Tavan Tolgoi (TT) coal mine of the biggest in the world
- Development of Oyu Tolgoi copper and gold deposit biggest FDI project: \$6 billion in the first Phase
- Share of mining industry in GDP rose from 10.8% in 2000 to 28.4% in 2006-7, then falling to 17.1% in 2015

IIB. Dominant Role of Minerals in the Growth Process



- Share in Government budget hovered around 25.6% in 2015
- Due to dominant role of minerals in GDP and exports, GDP per capita rose sharply
- Account for 90% of exports
- 90% go to China (2015), the single most important trading partner
- Share of industrial goods declining in total exports
- Its narrow economic base left Mongolia vulnerable to economic shocks

IIC. Economic Corridor: 7 Focus Areas



- Development of transportation infrastructure
- Development of border points, improve customs and quarantine control
- Strengthen cooperation in industrial and investment sectors
- Deepen cooperation in trade and economy
- Enlarge humanitarian cooperation and exchange
- Strengthen cooperation in environmental protection and ecology sector
- Regional and border zone cooperation

Cooperation in transport infrastructure



- Central railway corridor: Ulaanbaatar-Beijing
- North railway corridor: Kuragino-Tiang Jiangg Jingng
- West railway corridor: Kuragino-Urumchi
- East railway corridor: Borzya-Panjin

Cooperation in industrial sector



- Feasibility study of express rail link from Moscow to Beijing through Mongolia
- Construction of a highway on route AH-3
- Economic feasibility study of east auto road corridor
- Study on establishing industrial cooperation clusters connecting the 3 countries
- Study on possibility of establishing model economic cooperation zone between Heilongjiang (China), Russia (unspecified), Inner Mongolia Autonomous Region (China) and Mongolia

SEZs integral part of economic corridor



3 most important SEZs in revitalizing Mongolian economy



- Zamin Uud SEZ
 - Located in Dorongovi aimag 780 km from Ulaanbaatar
 - 70 percent foreign trade conducted through Zamin Uud
 - Mongolian railways is the biggest employer: 700 employees
 - Population 10,000

SEZs vital parts of the economic corridor



- Altanbulag SEZ
- Trade and transportation hub with Russia and Europe
- 335 km from Ulaanbaatar
- Russia-Mongolia-China international railway network 24 kms away
- Locational advantage: big cities like Sukhbaatar, Darkhan and Erdenet with major economic activities near this SEZ

SEZs vital parts of the economic corridor



- Tsagaan-Nuur SEZ
 - 1700 km from Ulaanbaatar
 - 32 km from Russian border
 - 250 km from Chinese border
 - Good potential to extend to East Europe and Central Asia

Exploiting full potentials of SEZs



- Full potential of these SEZs as platforms to revitalize Mongolian economy is yet to be exploited
- More could be done to increase investor confidence in these SEZs
 - Conduct feasibility studies to demonstrate benefits and costs
 - Integrate the SEZs into overall development strategy
 - Encourage policy coherence and coordination across sectors
 - Simplify registration procedures: firms operating outside interested to invest in SEZs need new registration
 - Decentralize important offices to reduce transaction cost
 - Institute more robust labor policy including skills development programmes

III. Resource efficient growth strategies



- Identify socioeconomic drivers of emissions and environmental degradation and integrate in NDS
- Decouple economic growth from environmental degradation
- Responsible consumption and production
- GDP has its limitations in reflecting the true values of resource use: apply alternative measures of resource efficiency
- Key guiding principle: identify high impact leverage points for policy action

III. Resource efficient growth strategies



- Facilitate policy coherence
 - ✓ Align resource efficiency and development targets
 - ✓ Promote inter-ministerial coordination
- Laws & regulations to incentivize efficiency
 - ✓ Green building standards & audit systems
 - ✓ Green public procurement laws
- Macroeconomic policy framework
 - ✓ Taxation and fiscal policies to sanction and incentivize
 - ✓ Fossil fuel subsidy reforms

III. Resource efficient growth strategies



- Enabling financing framework
 - ✓ Innovative financing mechanism such as green bonds and international climate finance
 - ✓ Blended finance, de-risking & guarantees to open domestic markets
- Sustainable trade portfolios
 - ✓ Reduce import of raw materials by improving efficiency of domestic production processes
 - ✓ Address environmental impacts along global value chains

III. Resource efficient growth strategies



- Target resource-intensive sectors
 - ✓ Develop capacity for more efficient water use in agriculture
 - ✓ Create certification schemes for efficiency in manufacturing processes
- Leapfrogging and innovation
 - ✓ Build technical capacity, domestic markets and public-private partnerships
 - ✓ Transition to renewable energy technology & retrofit existing infrastructure
 - ✓ Prioritize investment in science, technology and innovation in national budgets & promote innovative business models

III. Resource efficient growth strategies



- Effective waste management
 - ✓ Regulations to promote 3Rs in production & consumption
 - ✓ Circular economy laws and approaches to recover resources & facilitate behavior change
- Data and indicators to monitor, report and verify impacts
 - ✓ Improve statistical capacity & build monitoring frameworks
 - ✓ Verify impacts & avoid rebound effects

Going Forward



- An integrated approach to implementing the 2030 Agenda: National priority setting is vital
- Sustainability, equity, peace, justice at the core of development efforts
- Focus on a well-identified set of thematic/strategic areas: sustainable and inclusive growth
- Resource efficiency should drive development efforts by decoupling growth from environmental degradation



Thank you
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