

# Social impacts of PTAs in Mongolia: case studies and discussion

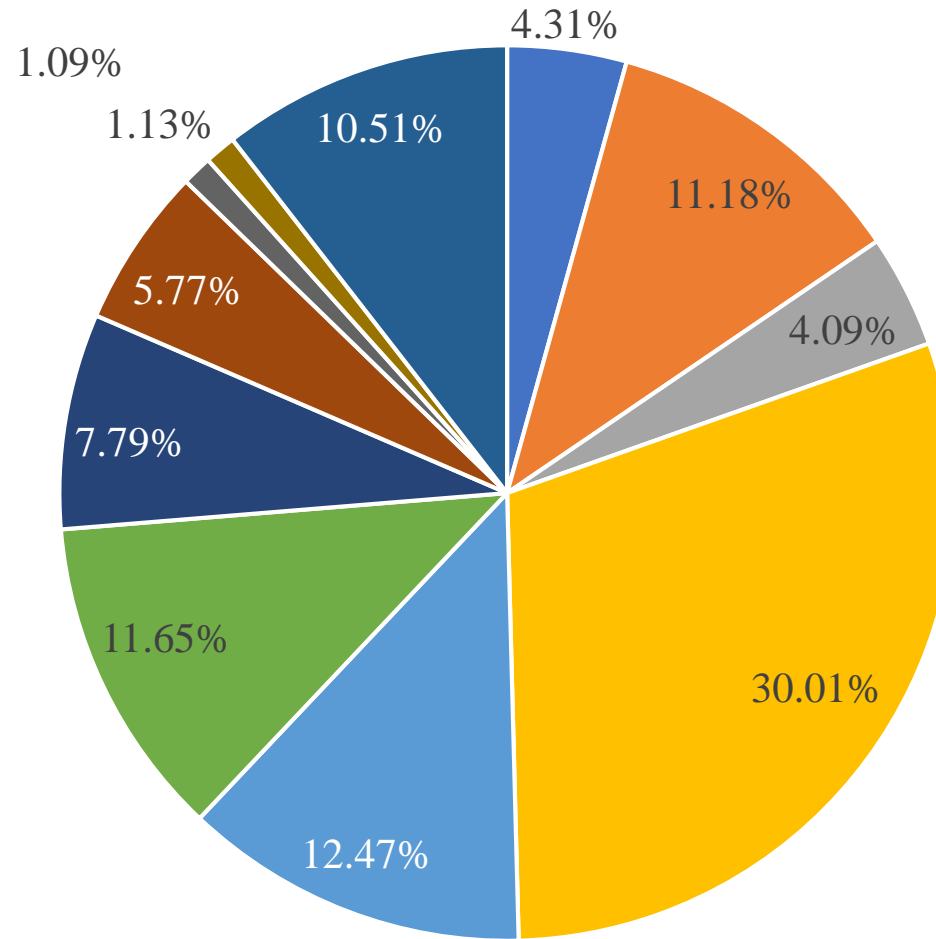
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# Content

- Trade and economic situation in Mongolia
- Economic growth, trade, poverty and employment nexus
- Trade preferences & Mongolia

# Trade and economic situation in Mongolia

# Economic structure of Mongolia early 1990s

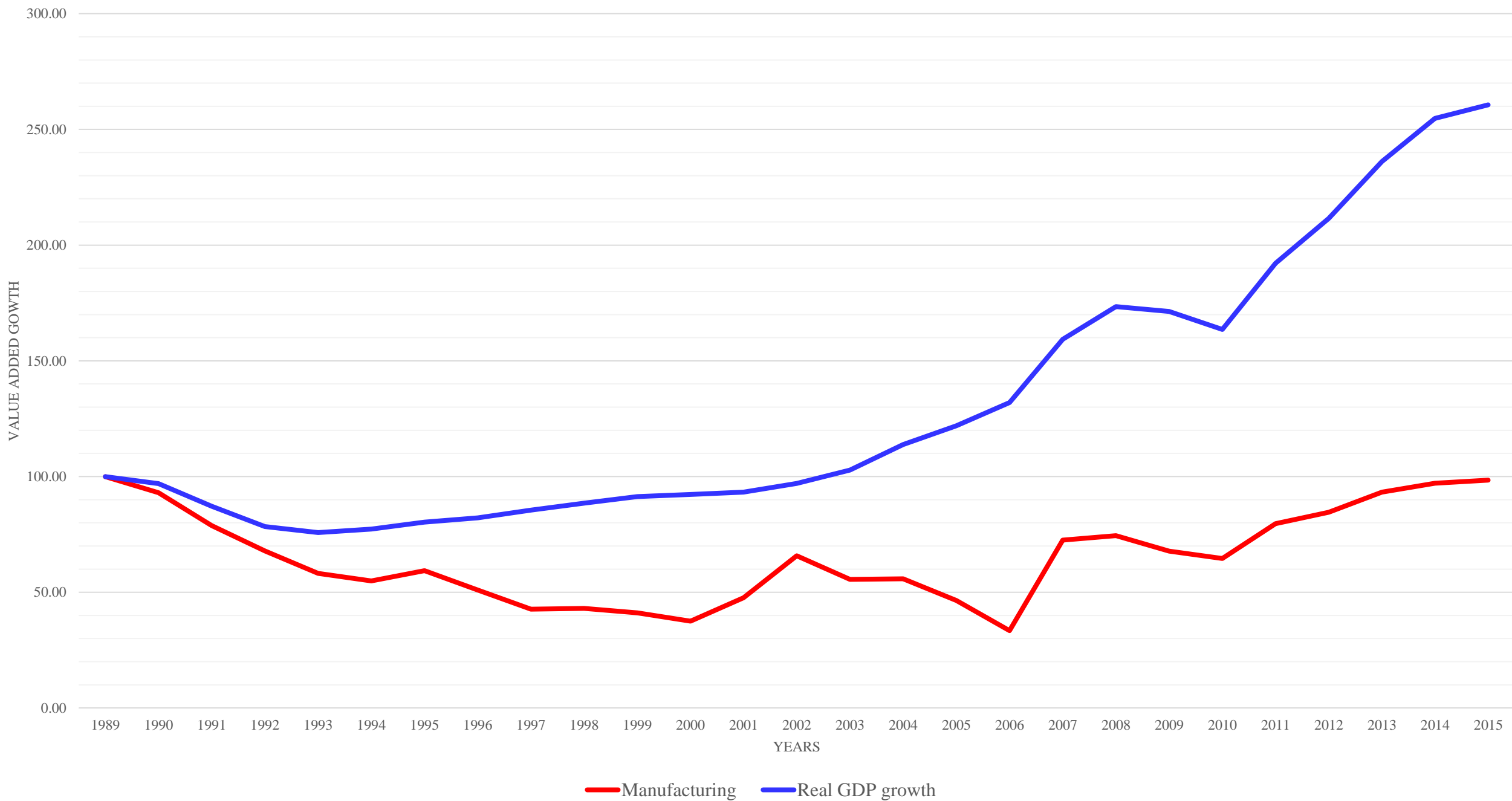


■ Coal mining  
■ Food & beverages  
■ Leather  
■ Chemicals

■ Mining of metal ores  
■ Textile  
■ Wood & wooden products  
■ Non-metallic mineral products

■ Other mining & quarrying  
■ Wearings & dyeing of fur  
■ Publishing, printing

# Mongolia's GDP and manufacturing sector's growth between 1990 and 2015



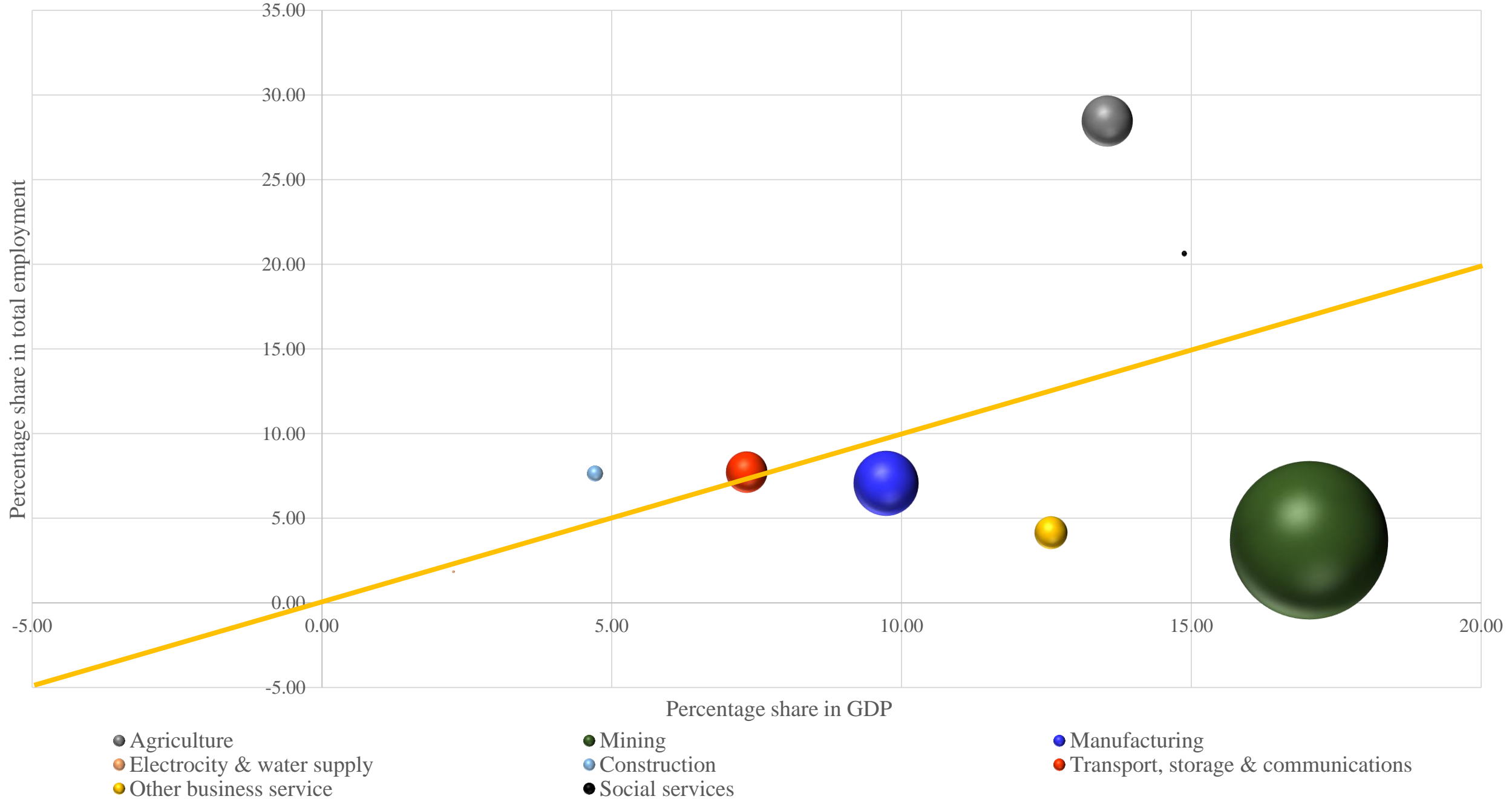
# Trade liberalization & de-industrialization

- Disappearance of export markets
- Disruption from technological supply, and raw material from CMEA countries
- Trade liberalization and open economic policy
- Collapse of domestic industry
- Collapse of supply channel
  - Privatization of suppliers: negdels, state owned enterprises
  - Collapse of state owned whole sale system and logistical network

# Sectoral composition of Mongolian GDP

	1990	1995	2000	2005	2010	2015
Agriculture	15.2	38.0	29.1	21.9	14.3	13.6
Mining	8.1	12.0	11.5	22.1	23.6	17.0
Manufacturing	26.1	12.1	6.1	5.8	8.4	9.7
Electricity, gas & water supply	1.4	1.8	2.4	3.2	2.5	2.3
Construction	5.0	1.7	1.9	2.5	1.7	4.7
Whole sale, retailing & hospitality	19.4	17.7	25.3	15.7	16.2	18.0
Transport, storage & communications	9.3	6.4	11.0	12.3	7.8	7.3
Other business services	2.7	1.8	3.5	8.6	12.9	11.8
Social services	12.8	8.5	9.2	7.9	12.6	15.7

# Percentage share of commodity & service export by economic sector /in 2015







# Main problems

- Small and open economy:
  - Domestic market size and economies of scale
  - Small, open economy and production specialization
  - Small economy and investment opportunity
- Economic structure and export transportation cost of Mongolia
  - Land-locked-ness and geographical location
  - Poorly developed transport infrastructure
  - Export of minerals and raw materials
- Current transport infrastructure and inefficiency of economic cooperation
  - Economic slowdown of China
  - Price trend of minerals in global market
  - Reduction of coal import of China
- Economic vulnerability problems
  - External balance
  - Budgetary deficit
- Social problems
  - Poverty
  - Unemployment
  - Rural and urban disparity
- Environmental problems
  - Environmental pollution
  - Degradation of non-renewable natural resources

# Reasons of inefficiency

High transport cost of Mongolia  
(US\$ per TEU equivalent container in 2014)

	In USD
<b>Mongolia</b>	<b>2745</b>
China	823
South Korea	670
Japan	829
Russia	2401

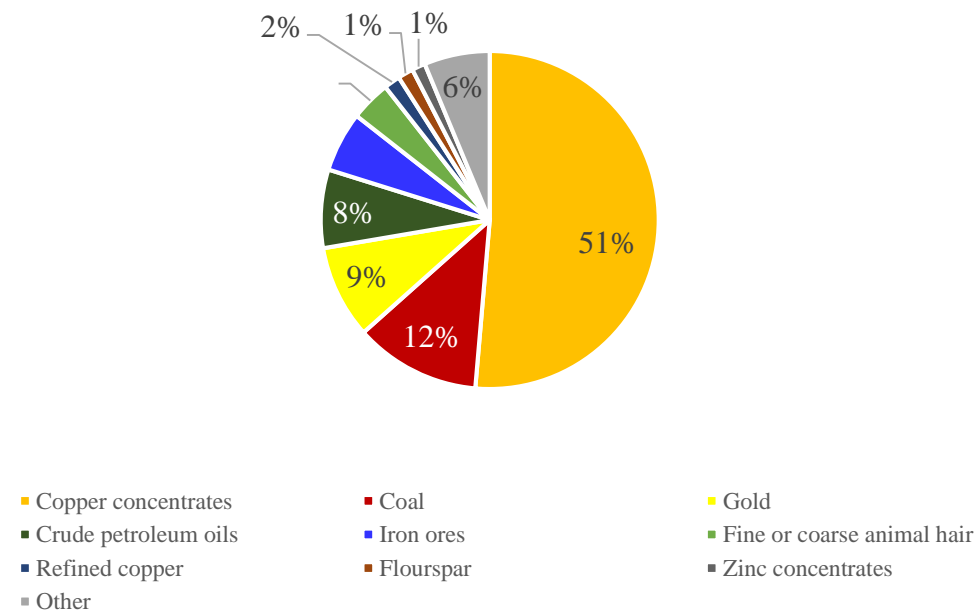
Source: World bank 2015

Low export price of Mongolia in Chinese market

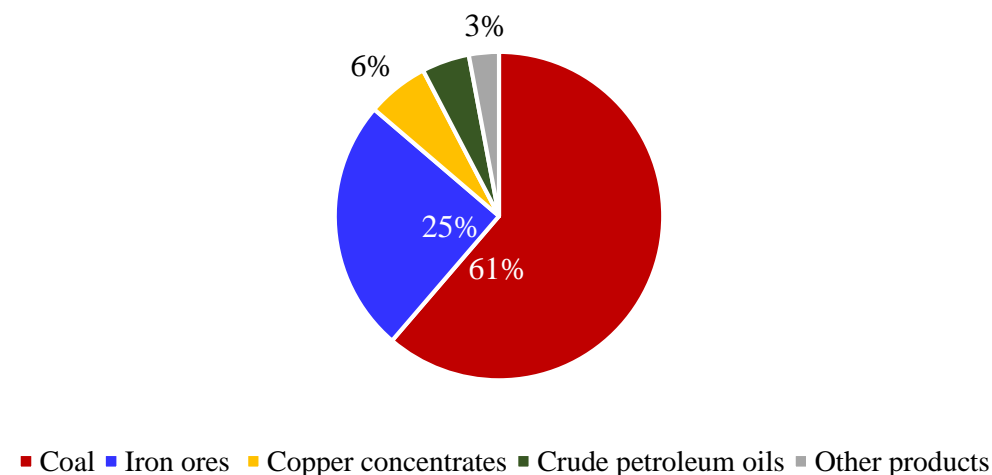
	Chinese average import price	Chinese import prices from Mongolia
Coal	65	<b>37</b>
Iron	61	<b>44</b>
Crude oil	400	<b>306</b>

Source: WTO/UNCTAD International trade statistics 2015

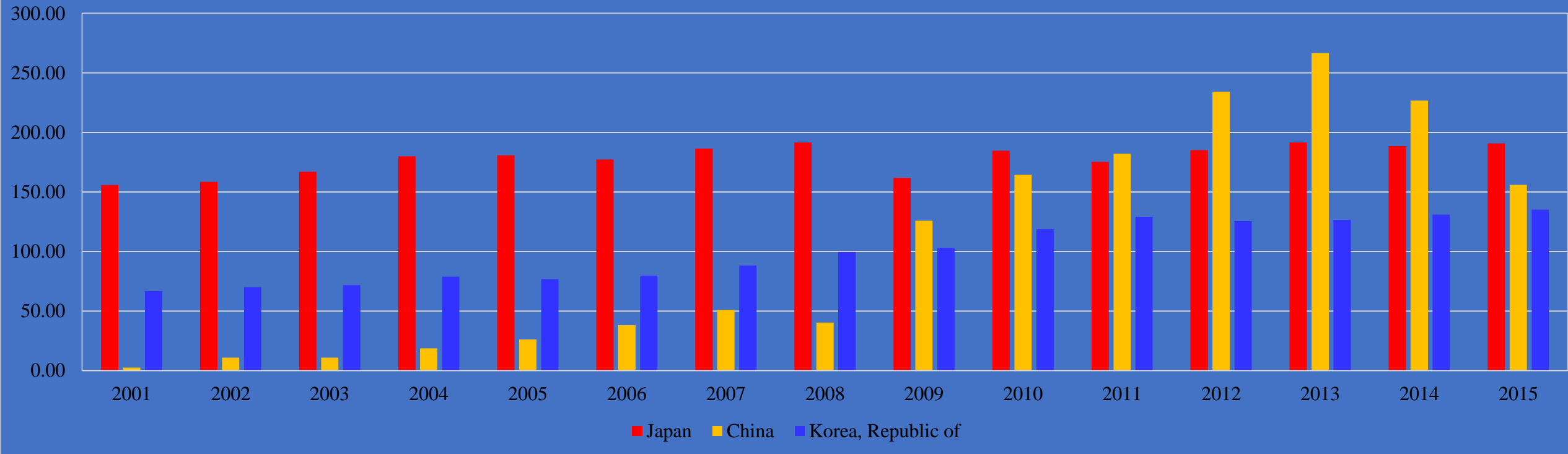
Percentage share of main export commodities in total export of Mongolia / as for 2015



Percentage share of main export commodities in export transportation / as for 2015



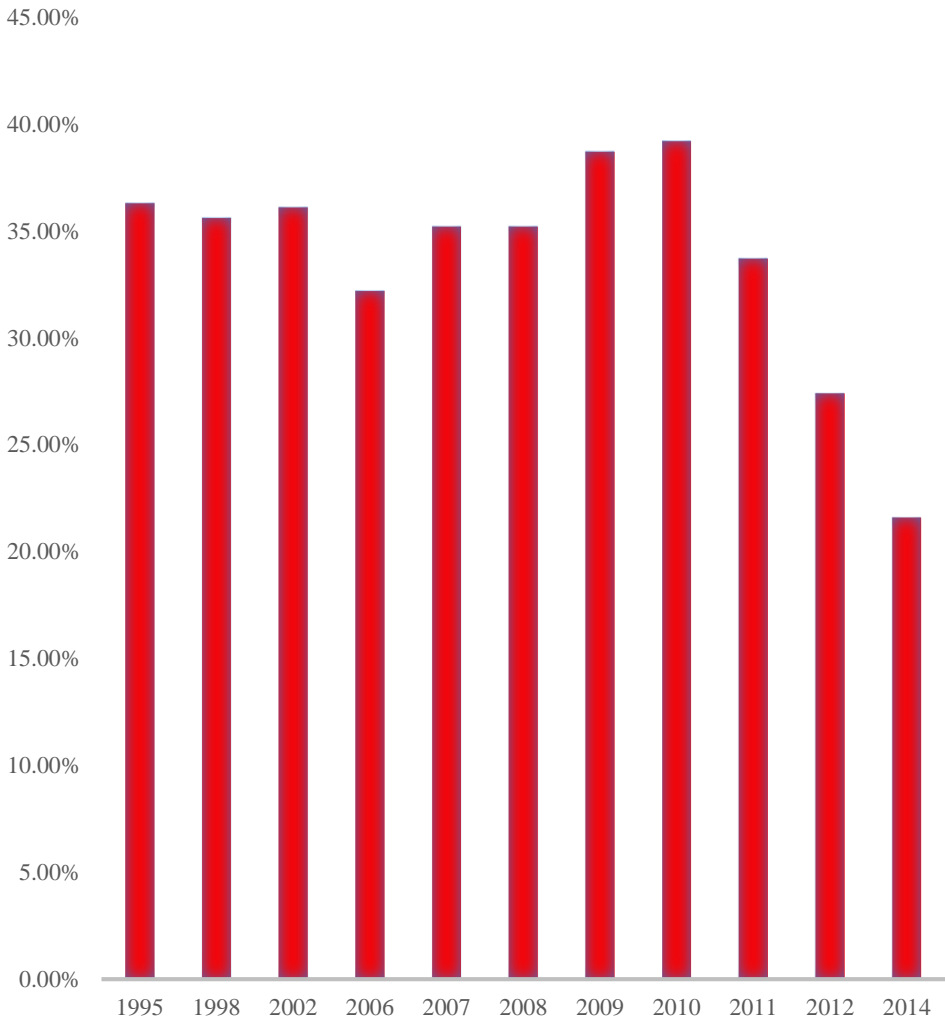
## Coal import of North East Asian countries



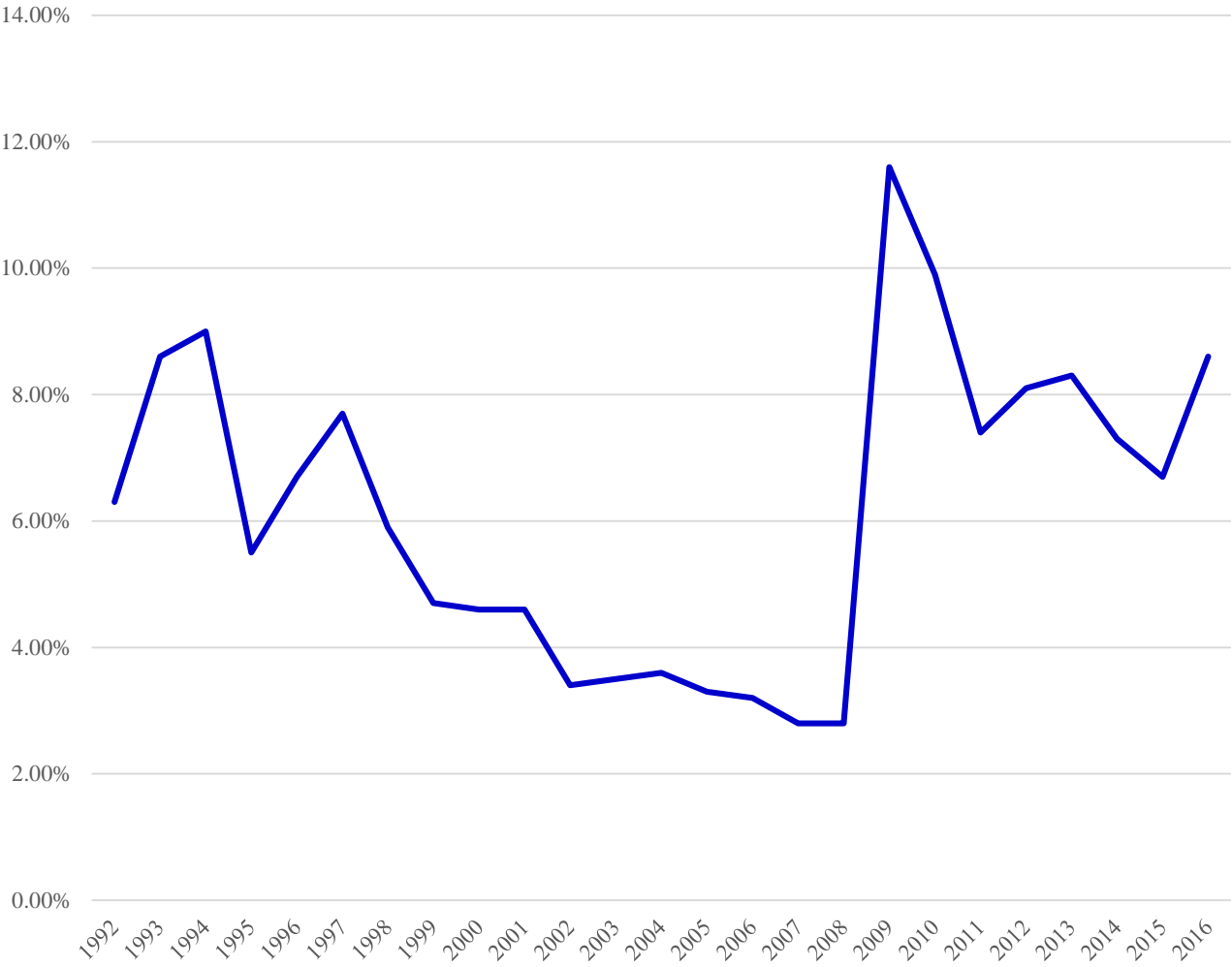
## Metal and coal import of China, Japan & South Korea / tons in 2015

	China	Japan	Republic of Korea
Copper concentrate	13'305'884	4'828'335	1'769'728
Refined copper	3'717'422	42'395	387'972
Iron ore	953'204'929	131'009'839	73'280'793
Pig iron	47'614	34'386	126'555
Coal	155'924'859	190'727'996	135'144'479
Coking coal and coke	3'766	2'881'686	391'179

NATIONAL POVERTY LINE



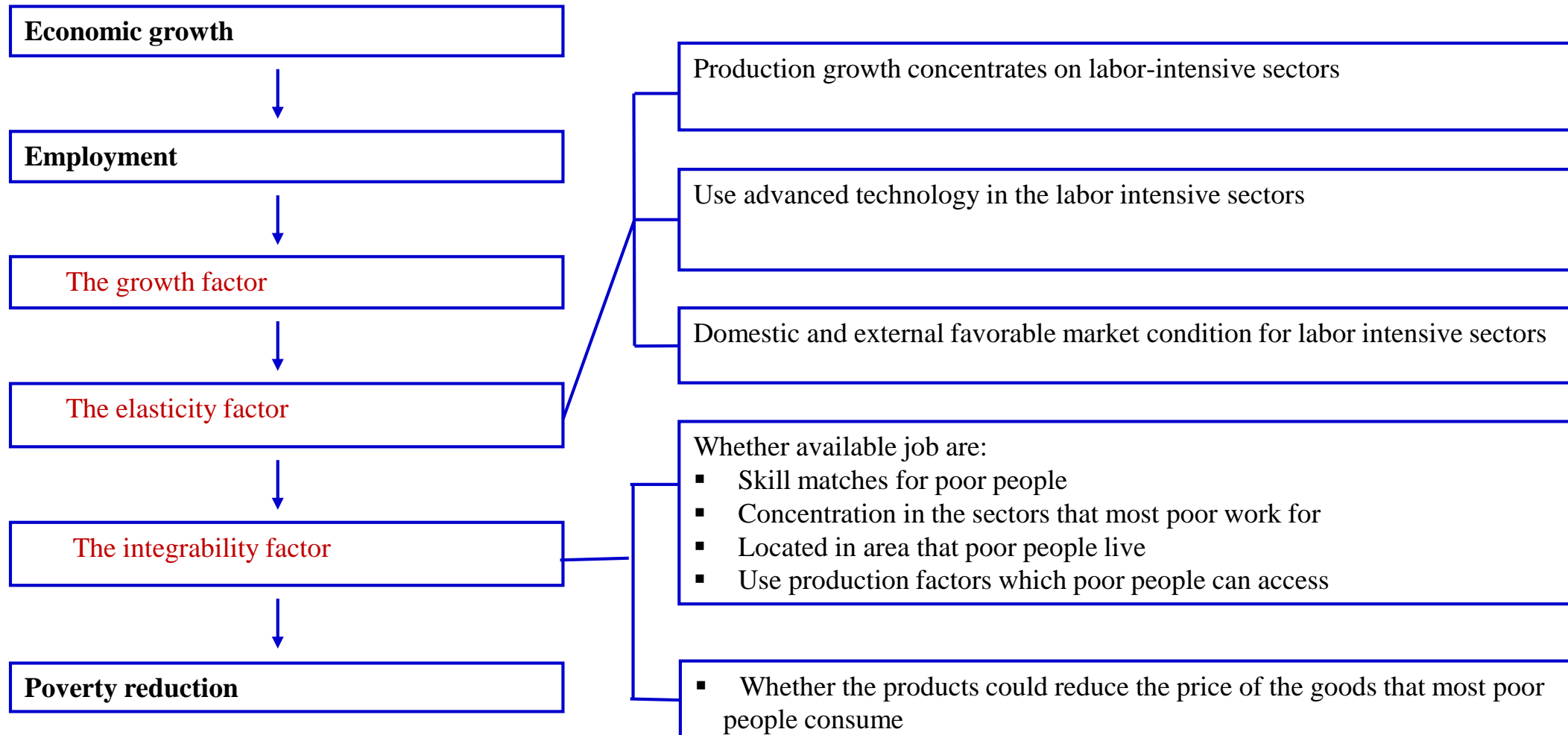
Unemployment rate



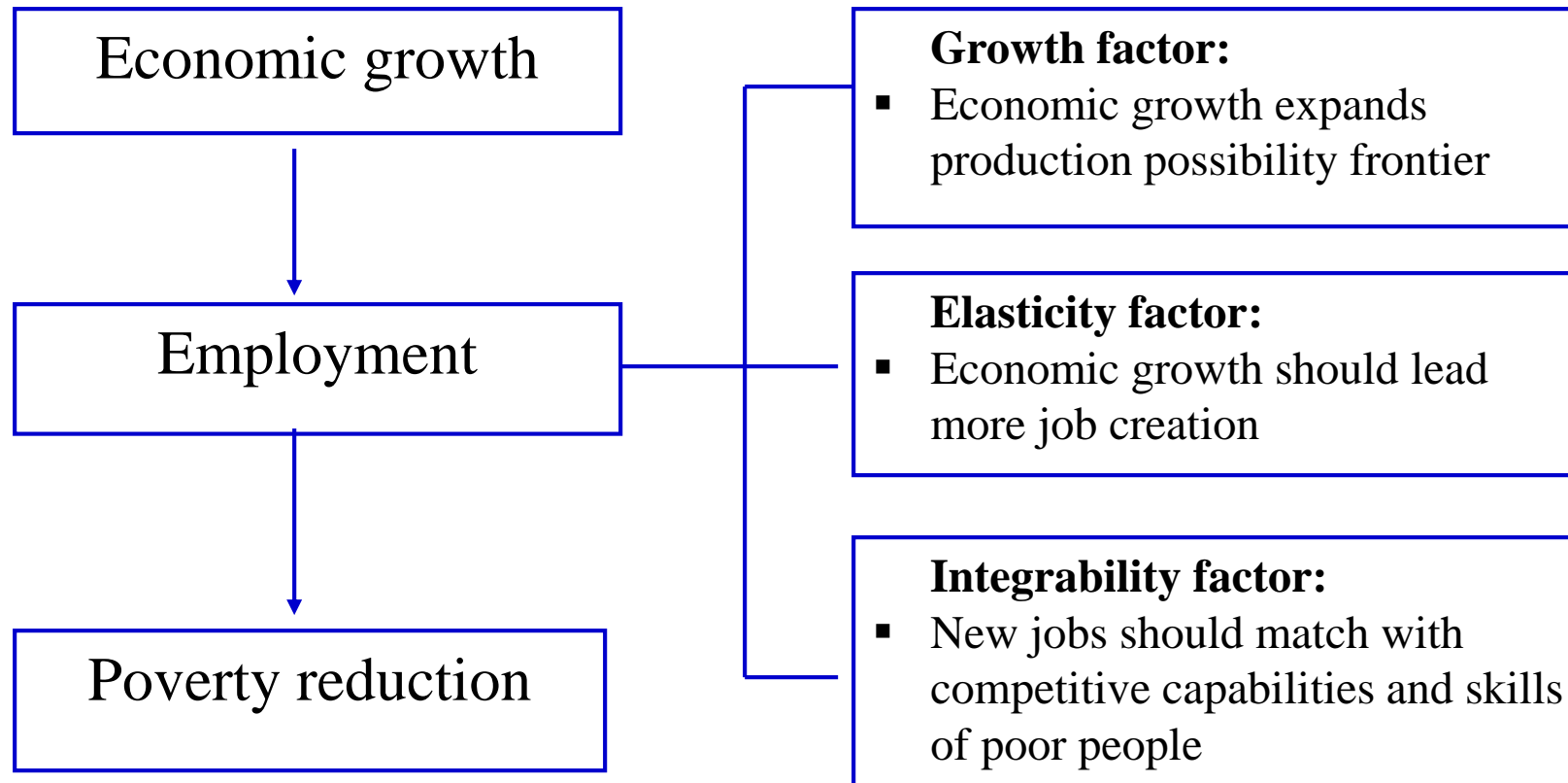
# Economic growth, trade, poverty and employment nexus

- Employment is a bridge between economic growth and poverty reduction. Thus, Poverty Reduction Strategies should be focused on the employment both in job creation and quality of job (decent work)

# Nexus between economic growth, poverty reduction and employment

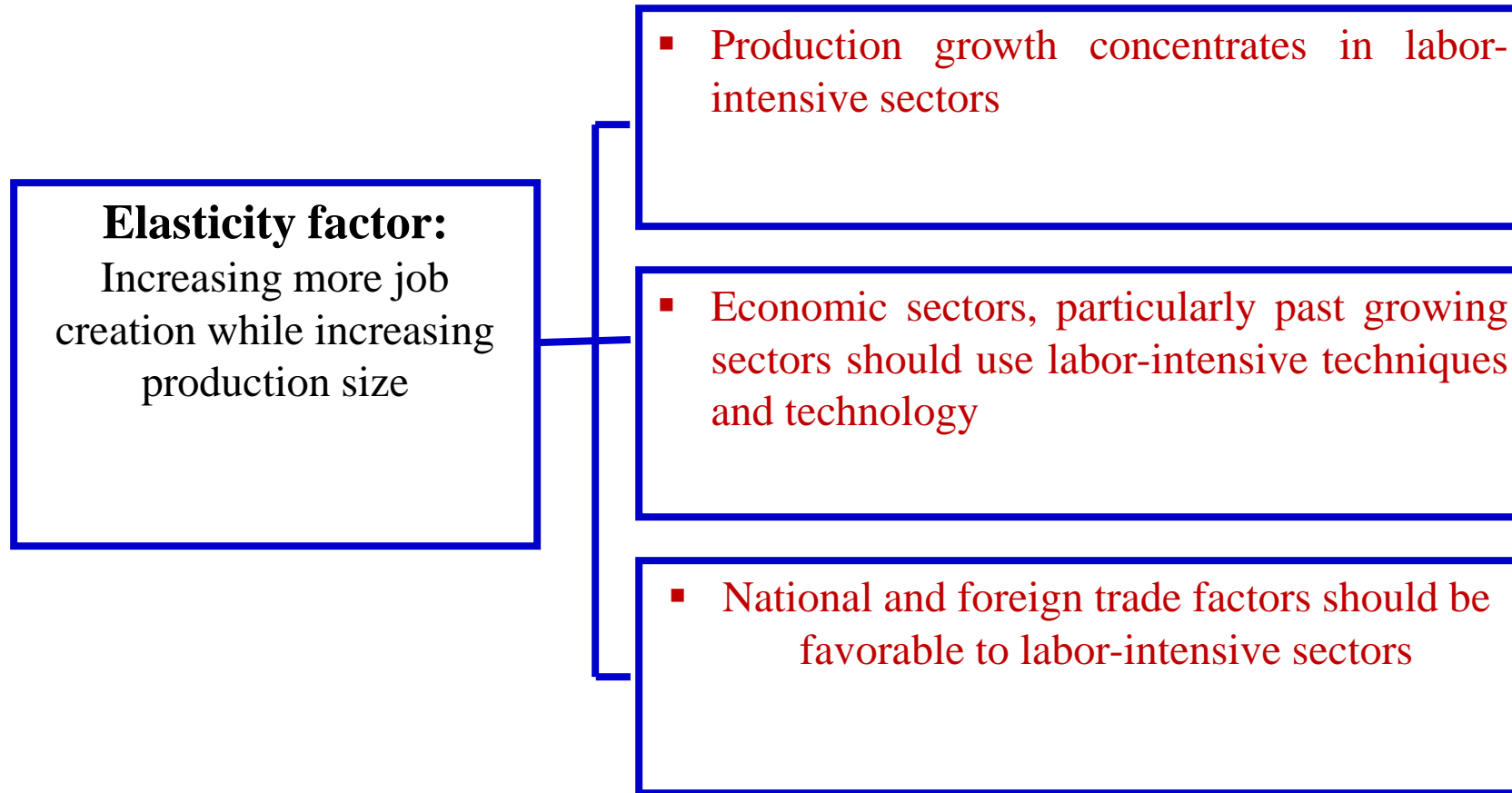


# Impact Factors to Employment





# Elasticity factor



# Integrability factor

## **Integrability factor:**

Economic growth should generate jobs that matches with the ability of poor people and should give them an opportunity to integrate into the economic expansion

Whether available job are:

- Skill matches for poor people
- Created in the sectors that most poor work for
- Located in area that poor people live
- Use production factors which poor people can access

- Whether the products could reduce the price of the goods that most poor people consume

# Trade opportunity and RCA



## Revealed comparative advantage index

$$RCA_{i,j} = RXA_{i,j} = (x_{i,j}/X_{i,t})/(x_{w,t}/X_{w,t})$$

# Competitive advantage of main export commodities – log (RCA)

Export commodities	Log RCA		Export commodities	Log RCA
Fine or coarse animal hair, neither carded nor combed	3.37		Semi-manufactured gold	0.69
Fluorite ore	2.64		Tanned or crust hides and skins of bovine	0.68
Tungsten ore	2.36		Woven fabrics of carded wool or carded fine animal hair	0.63
Copper ore	2.23		Copper refined	0.63
Tanned or crust skins of sheep or lambs	1.96		Other nuts	0.48
Tanned or crust hides and skins of goats or kids	1.87		Woven fabrics of combed wool or of combed fine animal hair	0.31
Cashmere carded and combed	1.87		Crude oil	0.24
Zink ore	1.65		Raw hides and skins of bovine	0.06
Molybdenum ore	1.62		Live animals	-0.24
Coal	1.40		Carpets and other textile floor coverings	-0.32
Horse mane and tail hair	1.40		Clothing	-0.40
Silver ore	1.18		Textile	-0.51
Wool, neither carded nor combed	1.10		Other made-up textile articles	-1.16
Iron ore	1.07		Meat and edible meat offal	-2.04
Guts, bladders and stomachs of animals	0.86			

# Comparative advantages of Mongolian economy

- Mining
  - Budget revenue and foreign exchange earnings generation
  - Forward and backward linkage
- Agriculture
  - Social importance (employment, poverty)
  - Fast growing demand for agricultural goods

# Nexuses

- According to unemployment and poverty statistics poverty is a much more widespread phenomenon than unemployment. Unemployed are far likelier to be poor than the employed, but they still make up only a very small share of the poor.
- According to statistics, most of the poor in Mongolia are ‘working poor’ instead of being unemployed need attention to quality of employment.
- Employment is a bridge between economic growth and poverty reduction.
- Growth concentration in labor-intensive sector creates more jobs, and capital intensive sectors are generating more income. From the pro-poor policy of view, income generated in capital intensive sector should support the development of labor intensive sector
- Trade policy is powerful instrument of industrial protection and industrial development. From the pro-poor policy of view, trade policy should be aimed to establish more favorable condition to country economic development, specially for labor intensive sectors

# Trade preferences & Mongolia

# Trade preferences & Mongolia

- Impact of WTO GSP on Mongolia
- Impact of EU's GSP plus
- Possible impact of Mongolia-Japan EPA



# Trade policy of Mongolia



The trade policy instruments

Towards a new preferences through establishment of FTAs

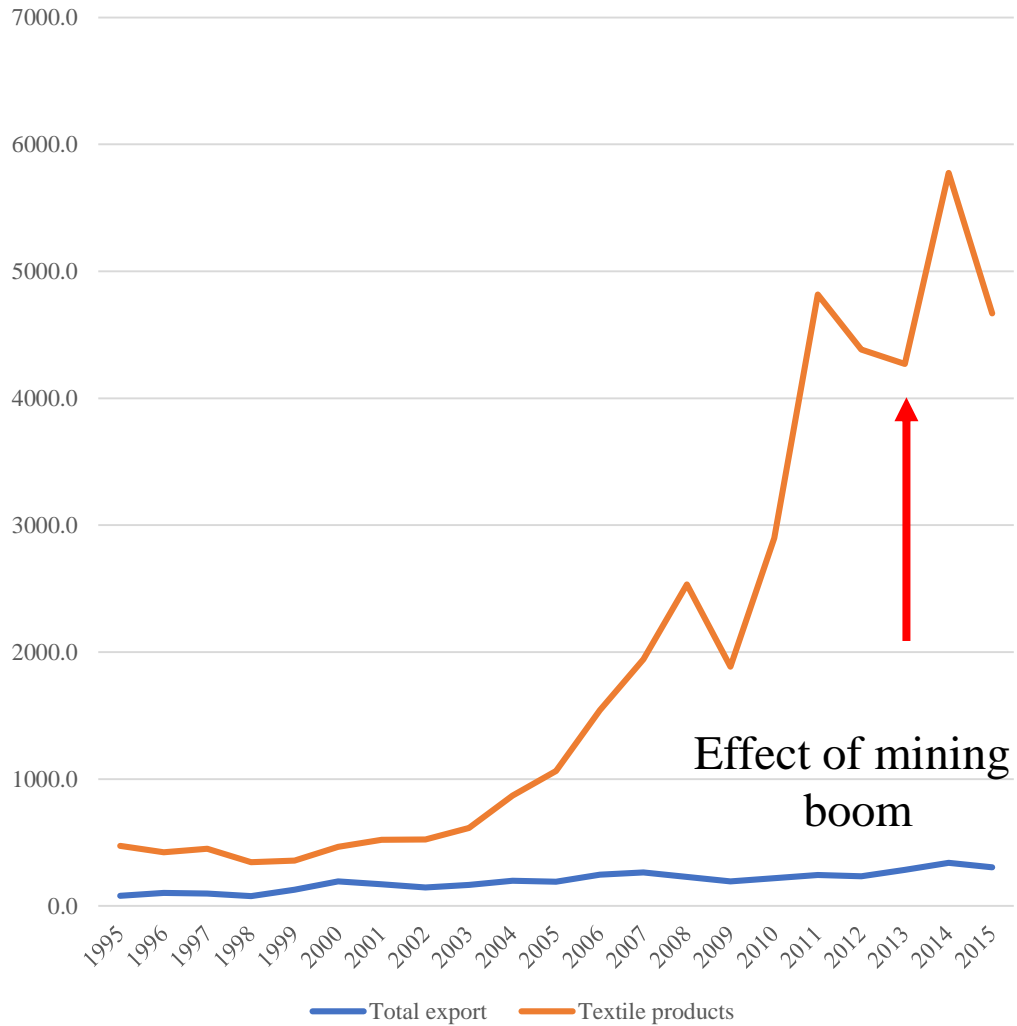
- Opening markets for trade in goods
- + investments, services,
- + non tariff measures

# Impact of GSP for Mongolia

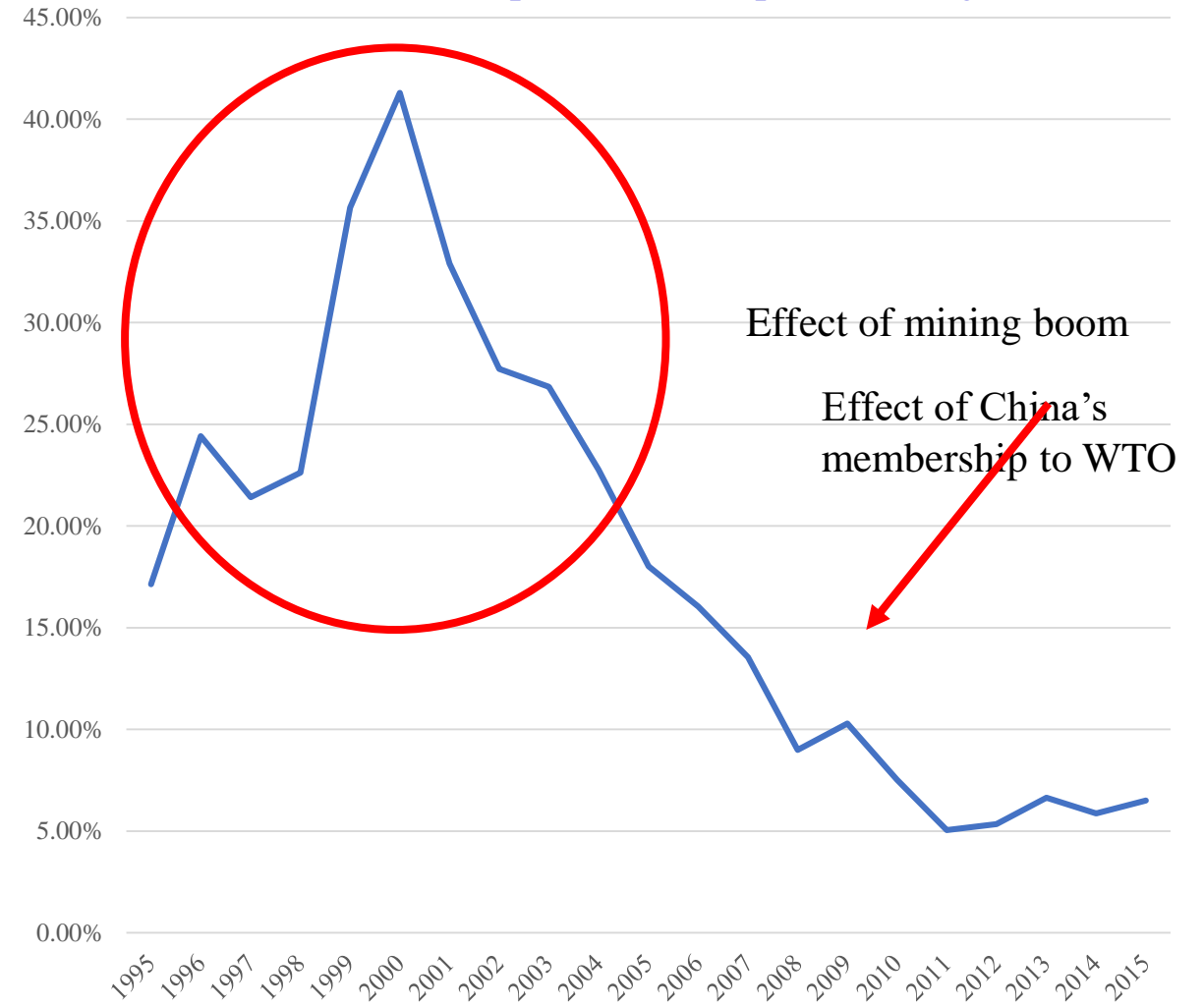
- Mongolia's membership to WTO
  - Economic development of Mongolia/per capita GDP
  - Preferential market access conditions to US and EU markets
- Development of textile industry
  - FDI promotion policy
  - China's membership to WTO

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Mongolian export between 1995-2015  
/mln USD

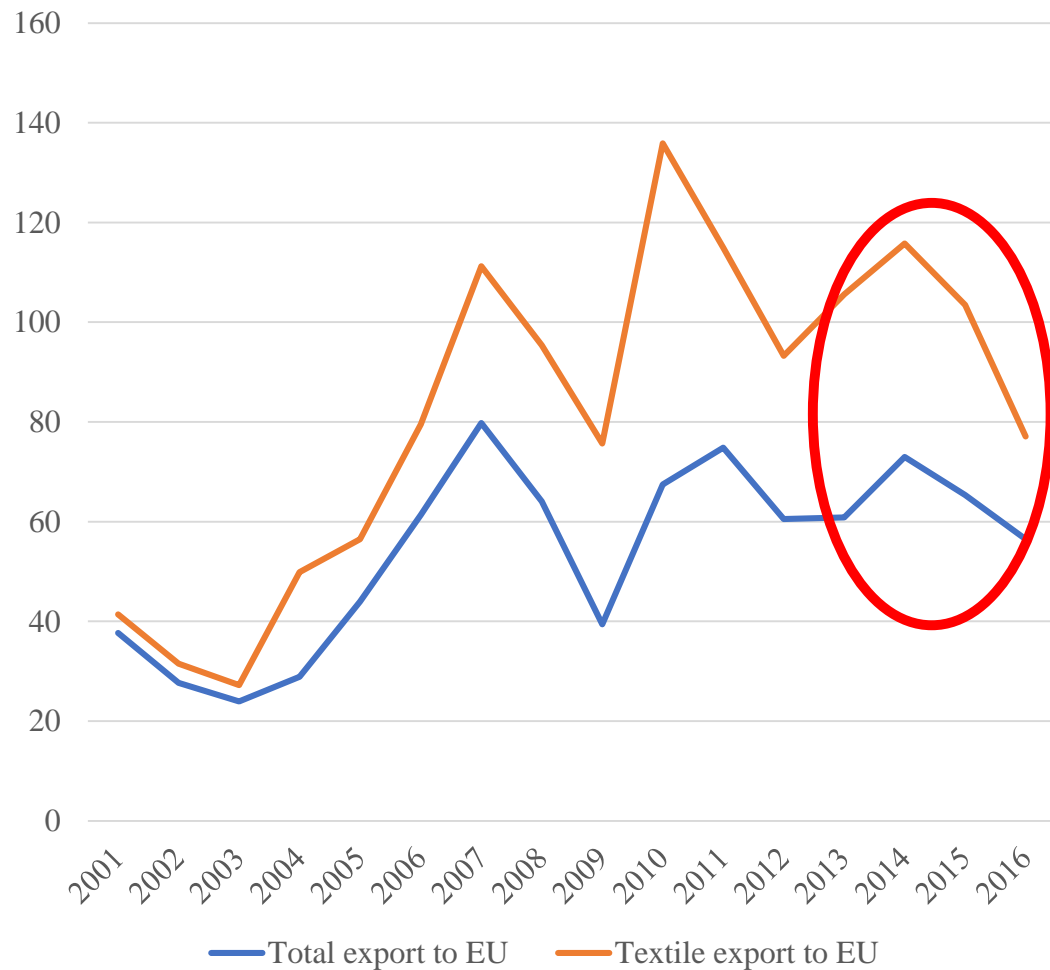


Share of textile export in total export of Mongolia

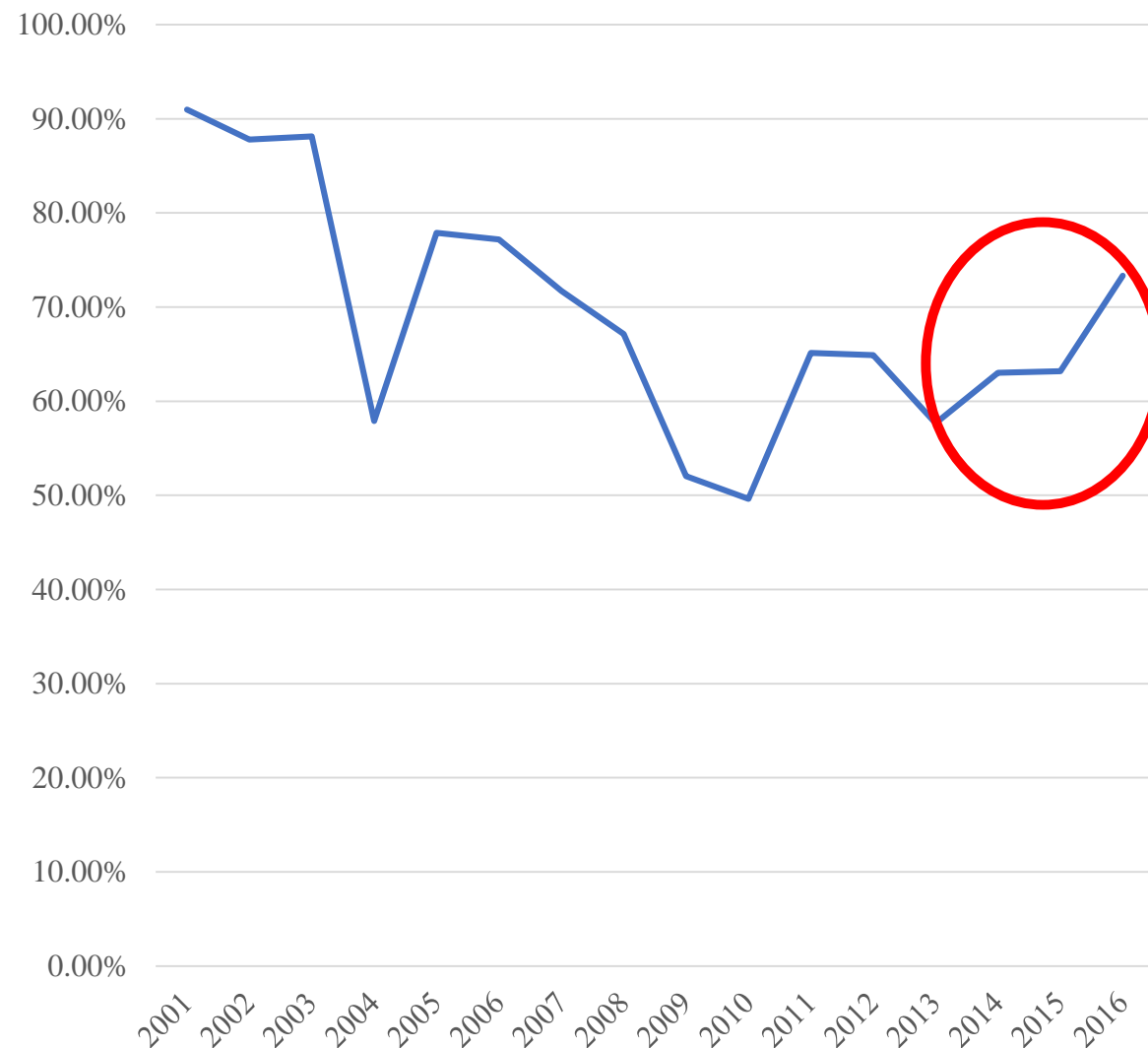


# Effect of GSP plus of the European Union

Mongolian export to EU  
/mln USD



Share of textile in Mongolian export to EU



# EU's GSP Plus

- Focus the preferences on those most in need—Least Developed Countries and other poor economies with no other preferential channels to access the EU market. Reflection of different trade, financial and development needs of countries.
- Enhance GSP+ as a tool to support partners which are serious about implementing international conventions.
- Make the system more transparent and predictable for economic operators.
  
- **Standard GSP: just under 66% of tariff lines covered (either tariff reduction or zero tariffs)**
  - Products split between 'sensitive' and 'non-sensitive'
    - Sensitive: tariff reductions
    - Non-sensitive: duty-free
- **GSP+: just over 66% of tariff lines covered (zero tariffs)**
  - Both sensitive and non-sensitive products duty-free
- **Everything But Arms: 99.8% of tariff lines covered (zero tariffs)**
  - All products duty-free (except arms)

To note: 25% of tariff lines are subject to 0% duty. When added to the 66% tariff lines covered by GSP or GSP+, this implies that only 9% of lines carry normal duty for GSP and GSP+ beneficiaries—underlining generosity of the scheme.

# GSP plus beneficiaries

- 89 countries from the original 176 beneficiary countries will remain:
- Under the Everything But Arms scheme (49):
- 33 in Africa (Angola, Burkina Faso, Burundi, Benin, Chad, Congo (Democratic Republic of), Central African (Republic), Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Equatorial Guinea, Guinea-Bissau, Comoros Islands, Liberia, Lesotho, Madagascar, Mali, Mauritania, Malawi, Mozambique, Niger, Rwanda, Sudan, Sierra Leone, Senegal, Somalia, Sao Tome and Principe, Togo, Tanzania, Uganda, Zambia); 10 in Asia (Afghanistan, Bangladesh, Bhutan, Cambodia, Lao; People's Democratic Republic, Maldives until end of 2013 as they have exited the UN Least Developed Country list, Myanmar/Burma; preferences currently withdrawn, Nepal, Timor-Leste, Yemen); 5 in Australia and Pacific (Kiribati, Samoa, Solomon Islands, Tuvalu, Vanuatu), 1 in the Caribbean (Haiti)
- Low and lower middle income partners (40):
- Armenia, Azerbaijan, Bolivia, China, Cape Verde, Colombia, Cook Islands, Costa Rica, Ecuador, Georgia, Guatemala, Honduras, India, Indonesia, Iran (Islamic Republic of), Iraq, Kirghizia, Marshall (islands), Micronesia (federate States of), Mongolia, Nauru, Nicaragua, Nigeria, Niue, Pakistan, Panama, Paraguay, Peru, the Philippines, El Salvador, Sri Lanka, Syrian (Arab Republic), Tajikistan, Thailand, Congo (Republic of), Tonga, Turkmenistan, the Ukraine, Uzbekistan, Vietnam

# EU GSP+

## beneficiaries

- Armenia,
- Bolivia,
- Cape Verde,
- Kyrgyzstan,
- Mongolia,
- Pakistan,
- Paraguay
- Philippines.

- General scheme: increase of product coverage from 6900 to 7200 (mainly agriculture and fishery sector of interest for developing countries).
- Special scheme for Least Developed Countries: Everything But Arms.
- New special GSP+ for vulnerable countries = duty free on 7200 products if the country meets criteria :

El Salvador,  
Guatemala,  
Panama,  
Philippines,  
Kyrgyz,

# Mongolia-Japan FTA

- Mongolia and Japan signed a Joint Statement on affirming the final roadmap toward instituting an Economic Partnership Agreement (EPA) in Tokyo on July 22, 2014. Agreement came into force on June 7, 2016.
- Aimed at promoting mutual trade and investment, the agreement was ratified by the parliaments of both nations in the first quarter of 2015.
- The EPA would be the first such agreement for Mongolia and the 15th for Japan.
- 96 percent of Japanese exports to Mongolia will be exempt from tariffs in the coming decade.
- According to this agreement, the customs tariff has reduced for 5,700 kinds of products made in Mongolia as well as about 9,300 goods made in Japan.
- Moreover, the customs tariff for 3,423 kinds of products imported from Japan and the customs tax for 8,004 kinds of products supplied to Japan were reduced to zero.
- An annual turnover of Mongolia-Japan trade reaches approximately USD 300-500 million which accounts for 3-4% of the total external trade of Mongolia. It is projected that the EPA will boost the bilateral trade by 50-60 per cent in the next two years.
- As of today, Mongolia is exporting to Japan certain types of products such as sea buckthorn, processed leathers, cashmere, woolen and knitted products.



# Mongolia-Japan EPA: Trade in Goods and Services

- To facilitate trade in goods between the two countries, the EPA removes or gradually decreases customs duties and taxes for certain goods and commodities. Specifically, Mongolia's tariff-related obligations under the EPA concerning the main import products from Japan are as follows:
  - agricultural machinery – customs duty on all types of agricultural machinery has generally been eliminated as of the date of the EPA;
  - mining machinery – customs duty on all types of mining machinery has generally been eliminated as of the date of the EPA or will be eliminated over a period of six to eleven years (in equal instalments from the base rate);
  - textile machinery – customs duty on all types of textile machinery has generally been eliminated as of the date of the EPA; and
  - vehicles – customs duty on new or nearly-new cars (0-3 years old) has been eliminated as of the date of the EPA. Customs duties on older cars (4-6 years old) will be eliminated over a period of 11 years (in 11 equal instalments from the base rate). Customs duty on old cars (7-9 years old) will be eliminated from the eleventh year after the date of the EPA.
- Further, Japan has the following obligations in relation to customs duty on Mongolia's main export products:
  - Meat products
  - Animal skin/furskins – customs duty on raw animal skins/hides, as well as duties on the raw furskins of lamb, fox and other animals (except mink) have generally been eliminated as of the date of the EPA;
  - Metals – customs duty on various unrefined or refined metals have generally been eliminated as of the date of the EPA or over a period of 4 to 11 years;
  - Petroleum oils – customs duty on various petroleum oils have generally been eliminated as of the date of the EPA; and
  - Vodka and other alcoholic beverages – customs duties on vodka, gin, liquors, cordials, rums and whiskies have been eliminated as of the date of the EPA.
- In relation to trade in goods and services, the contracting parties undertook to provide equal (national) treatment to the goods and services or service providers of the other party. To benefit from the reduced or "0" tariff rates, a certificate of origin must be supplied.
- The EPA has detailed regulations on rules of origin, customs tariffs and procedures, sanitary and phytosanitary measures and technical regulations and conformity assessment procedures.

# Mongolia-Japan EPA

- Investment Protection
  - Investor protection
  - Investor-State dispute settlement
- Protection of Intellectual Property Rights
  - The scope of protection extends to patents, industrial designs, trademarks, copyrights and related rights, geographical indications, unfair competition, and undisclosed information.
- Miscellaneous
  - The EPA creates a framework within which the contracting parties agreed to further cooperate to facilitate trade in goods and services between two countries, increase investment opportunities and generally improve the business environment. The contracting parties will consult through joint committees and sub-committees in charge of specific matters.
  - The contracting parties undertook not to impose tariffs on electronic commerce and not to discriminate digital products. Further, the contracting parties undertook to take measures in relation to anti-competitive behavior and ensure that their economies are market-based.

# Production clusters in Mongolia

Agriculture based clusters			Construction cluster
Industry cluster of foods	Industrial cluster of leather and fur skin	Textile cluster	Production of brick, cement and lime
Meat processing, meat preparation	Tannery factory	Cashmere and wool processing	Production of construction concrete
<i>Dairy production</i>	Leather processing	Yarn production	<i>Production of armature</i>
Flour and milling	Leather apparels and articles	Textile and woven	Construction
Preparation of cereals and flour	Fur skin apparels and articles	Carpet	Architecture
Beverage	<i>Boot production</i>		Wood and wooden products' cluster
Vegetable preparation			Logging
	<i>Transportation, storage, whole sale, retailing and exportation</i>		Wood processing
	Live stock, crops and fodder preparation		Falsework
Mining based clusters			<i>Furniture</i>
Minerals cluster	Coal cluster	Oil cluster	<i>Wooden articles, souvenirs</i>
Geological investigation and drilling	Geological investigation, drilling	Geological investigation	Health cluster
Metal mining: copper, gold, silver, zinc, molybdenum, tungsten, iron, fluorite etc.	Coal mining	Drilling wells	Medical treatment, diagnoses & emergency service
Ore processing: copper, molybdenum, silver, zinc, tungsten, fluorite	<i>Coal preparation, coal coking</i>	Oil extraction	Social health service
<i>Refinery: copper, gold, silver</i>	<i>Thermal energy production &amp; distribution</i>	<i>Petrochemical industry</i>	Production and supply of medicine
Juvelery	Steam, heat production and supply		Health equipment, service
<i>Iron and steel industry</i>			Hospitals' food service
	<i>Transportation, storage and exportation</i>		
Tourism and hospitality cluster	Financial cluster	IT cluster	Educational cluster
Infrastructure	Commercial banks	Internet providers	Universities, colleges and schools
Hotels, restaurants	Insurance	Mobile communication	Facilities and services
Museum, exhibitions	Non banking financial organization	Information and communication	Dormitory
Theatre, entertainment	Stock and commodity exchanges	TV and radio	Foods and services, book stores
Tourist camps	Real estate business	Websites	Printing and publishing
Tour operators	E-commerce	Meteorology	