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蒙古宏觀經濟發展及展望分析

An Analysis of Mongolia Macroeconomic Development  
and Prospect

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An analysis of Mongolia macroeconomic development and prospect

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## 準碩士推薦函

本校企業管理學系管理科學碩士班研究生雅玲君在本系修業3學期，已經完成本系碩士班規定之修業課程及論文研究之訓練。


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2、在論文研究方面：雅玲君在學期間已完成下列論文：

(1)碩士論文：蒙古宏觀經濟發展及展望分析

(2)學術期刊：An analysis of Mongolia macroeconomic development and prospect

本人認為雅玲君已完成南華大學企業管理學系管理科學碩士班之碩士養成教育，符合訓練水準，並具備本校碩士學位考試之申請資格，特向碩士資格審查小組推薦其初稿，名稱：蒙古宏觀經濟發展及展望分析，以參加碩士論文口試。

  
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論文題目：蒙古宏觀經濟發展及展望分析

研究生：雅鈴

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論文摘要內容：

近年亞洲重要國家傾向將蒙古國的宏觀經濟發展與展望納入跨國的經濟發展政策中。然而卻少有研究將該議題做為研究主題。本文目的在藉由多方資料的分析，對蒙古國的經濟發展進行深度的分析。由統計數據及各方經濟的報告探究出目前學術及實務上對蒙古國經濟發展的看法及展望。為了能夠探求蒙古國在經濟發展的潛能，本文的主要目的在檢討隱藏在高經濟發展下的問題與威脅，並給予相關單位適切的建議。

關鑑字：蒙古國、宏觀經濟、經濟展望

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## **ABSTRACT**

Mongolia Macroeconomic developmental prospects have been applied to many governmental projects across the country. However, little research has been done to explore what the development and prospects of the economy in their specific contexts. This paper derives from an in-depth study of Mongolia cognition in macroeconomic development and prospects by using multi-methods of data collection. It will present and discuss findings from one of the methods used to elicit Mongolia's economic knowledge and attitudes. In the quest to explore potential for Mongolian's economics, this study aims to explore the economic problem hidden in the macroeconomic statistics. And furthermore, it is trying to give suggestion on Mongolia's economics prospection.

**Keyword: Mongolia, Macroeconomic Development, Economics  
Prospection**

# TABLES OF CONTENTS

LETTER OF RECOMMENDATION FOR ABT MASTERS .....	I
ACKNOWLEDGEMENT .....	II
中文摘要 .....	III
ABSTRACT.....	IV
TABLES OF CONTENTS .....	V
LIST OF FIGURES .....	VII
LIST OF TABLES.....	VIII
CHAPTER ONE INTRODUCTION.....	1
1.1 Background.....	1
1.2 Motivation and purpose .....	5
1.3 The study flow.....	7
CHAPTER TWO THE PERFORMANCE IN MACROECONOMICS FOR MONGOLIA.....	8
2.1 The output in macroeconomic s for Mongolia .....	8
2.2 The development of internal and external economics .....	13
2.2.1 Internal economics .....	13
2.2.2 External economics.....	18
2.3 Capital market development in Mongolia .....	21
2.3.1 The structure of finance market.....	21
2.3.2 The legislative and administrative environment of the capital market.....	22
2.3.3 Market participants .....	24
2.3.4 Market performance.....	26
2.4 Competiveness index .....	29
CHAPTER THREE LITERATURE REVIEW.....	30

3.1 Positive.....	30
3.2 Negative .....	33
CHAPTER FOUR_METHODLOGY .....	41
4.1 Method of this study .....	41
4.2 SWOT analysis .....	43
4.3 SWOT summary .....	55
CHAPTER FIVE_CONCLUSION .....	57
5.1. Conclusion .....	57
5.2. Limitation.....	60
5.3. Suggestion.....	61
REFERENCES .....	62





## LIST OF FIGURES

Figure 1.1 Mongolia Corruption Index.....	6
Figure 1.2 Study Frameworks.....	7
Figure 2.1 The GDP and GDP growth rate for Mongolia .....	8
Figure 2.2 The general CPI index for Mongolia .....	10
Figure 2.3 The Unemployment Rate for Mongolia .....	10
Figure 2.4 The Foreign Exchange Reserve .....	11
Figure 2.5 The Government Deficit to GDP .....	12
Figure 2.6 The Percentage of Manufacturing Production to GDP for Mongolia .....	15
Figure 2.7 The GDP from Mining for Mongolia.....	15
Figure 2.8 The Export Condition to Mongolia.....	18
Figure 2.9 The Import Condition to Mongolia.....	19
Figure 2.10 Investor Participation in Stock Market Trading.....	26
Figure 2.11 The Competitiveness Index for Mongolia .....	29
Figure 4.1 Mongolia Age Structure .....	44
Figure 4.2 Mongolia Unemployment Rate .....	51
Figure 4.3 The Manufacturing Production for Mongolia.....	52
Figure 4.4 Competitiveness of the Manufacturing Sector.....	53
Figure 4.5 The Number of Mongolia People in abroad.....	54

## LIST OF TABLES

Table 2.1 Structure of the Mongolian Financial Sector .....	21
Table 2.2 Statistics for Outstanding Loans to the Private Sector .....	22
Table 2.3 Mongolian Capital Market Indicators .....	27
Table 3.1 Summary of Past Study .....	38
Table 4.1 Mongolia's overall economic indicators over the past decade .....	42
Table 4.2 SWOT table .....	56



# CHAPTER ONE

## INTRODUCTION

This study aims to study the economic condition for Mongolia and it further makes an expectation for Mongolia economics development. After collecting the macroeconomics data and referring the related study, it tries to analysis the economics condition using the SWOT method for Mongolia for the purpose of providing the valuable suggestion to the Mongolia economics development.

### **1.1 Background**

Mongolia (with area of 1,564,116 square kilometers), which is located in the center of Asia, between Russia and China. Mongolia is the second largest landlocked country with a total population of 3.2 million by 2018. In which, China, officially the People's Republic of China (PRC), is a unitary sovereign state in East Asia and the world's most populous country, with a population of around 1.404 billion. Covering approximately 9,600,000 square kilometers (3,700,000 sq. mi), it is the third- or fourth-largest country by total area and Russia, also officially known as the Russian Federation, is a sovereign country in Eurasia. At 17,125,200 square kilometers (6,612,100 sq. mi), Russia is the largest country in the world by area, covering more than one-eighth of the Earth's inhabited land area, and the ninth most populous, with over 144 million people at the end of December 2017. Mongolia stands in the middle of two major countries; its economic development is very worth to study for providing the valuable suggestion to the development in the area. Though Mongolia's

area is big also, however, its population is quite lower than its neighbors, China and Russian. According the report, Mongolia is one of the world's lowest population density 1.6 persons per square kilometer and most of the population is concentrated in its capital, Ulaanbaatar, with population of 1.5 million. It implies that the capital's population density is quite different from other cities in Mongolia. The predominant religion is Buddhism and its official language is Mongolian language. The official currency unit is the Tugrik (MNT), the exchange rate of which is 2,393 MNT against US Dollar for March 2018. For the new emerging country, the turning point for Mongolia is it transitioned from a single-party Communist system with strong ties to the Soviet Union to a multiparty democracy in 1990. This historical feature adds its own style to the relations between our two powerful neighbors of China and Russia and has a significant influence on the national view as well. This feature of the communication is also reflected in the country's economy. According to the statistics, it shows that Mongolia exports 89 percent of its exports to China, while most imports are also imported from both China and Russia. It evidences that Mongolia economics relies on these country very much.

Though Mongolia is the second largest landlocked country with a total population of 3.1 million by the reports of 2018. In the ages of Soviet era, Mongolian is only one of the affiliated countries of Russia. However, after the anti-communist revolutions of 1989, Mongolia has the autonomy to govern itself policy as well as its economics, and the development in policy conducted its own peaceful democratic revolution in early 1990. Most of that Mongolia adopts the free market mechanism since that, and become to be an economic developing country. Particularly, Mongolia are developing very fast in

economic from post-Soviet era, therefore most of the study concludes that the dramatic growth might be contributed by the free market mechanism.

It brings the higher economic growth while Mongolia become one of democratic country after 1989, however, the economics still is suffering for the higher variance in economic growth in past 30 years since its transition to a democracy and free-market economy in 1990. Particularly, Mongolia experienced a sharp decline in living standards and a decline in gross domestic product (GDP) by 1994 for an average of -4.4%. After the serious decline, the economy has gradually recovered in year 1995 and has been slowly but steadily growing. Till year 2003, the per capita GDP has returned to the 1990 level. Mongolia's economy grew by an average of 6 percent per annum in 2000-2009. In 2010-2014, the country's economy grew at an average annual rate of 11 percent, up by 17.5 percent in 2011, and was the world's fastest-growing economy. At that time, Mongolia's GDP reached \$ 12 billion, and National GDP per capita was \$ 4,320 in 2014, becoming the World Bank's high-middle income country. However, Mongolia's economic growth slowed down in 2012 due to the following reasons, one is China's economic growth slowed, and the second reason is the sharp decline in global commodity prices. It implied that there are 2 main threatens to Mongolia, it relies on the trade to China thought Mongolia is also pursuing a policy of "Third Neighbor", and it has developed a relationship with Japan, South Korea and the United States., therefore it would be impacted by the China's economic development seriously. And moreover, it relies on the mineral industry too much, therefore the commodities price fluctuate this country economics.

Therefore, there are many factors result in the blooming in Mongolia economics, however, it still have some weakness to induce the variance of economics. Therefore, this study aims to make a conclusion for the Mongolia economics development by analyzing the related data, report, and literatures.

Plenty nature resources is one of the key factors to benefit Mongolia economics. Most of study and report agree that the blooming in economics are induced by the plenty nature resources in major mineral deposits owned by Mongolia. Recently year, Mongolia economics rely on the exploiting a number of major mineral deposits. One of the huge copper and gold mine company, the Oyu Tolgoi construction, which started in 2010, with the start of the boom period, it claims that is possible to create a third of Mongolia's GDP by 2020 according to the related researchers. Furthermore, Mongolia's total export volume has doubled between 2000 and 2012, while the share of mineral exports increased from 10 percent to 89 percent, increasing dependence on the three mining economies. It implied that the mineral industry play the important pillar for Mongolia economics.

In contrast to the potential benefit, threatens to Mongolia economics include the higher inflation rate and unemployment rate. For referring to other performance in economics grow of Mongolia, 32 percent of respondents said that unemployment was the biggest obstacle to Mongolia Development, the while Living Standards and inflation were the followed by 17.8 and 15.3 percent respectively. Inflation Rate in Mongolia averaged 10.32 percent from 2007 until 2018, reaching an all-time high of 34.20 percent in August of 2008 and a record low of -0.20 percent in August of 2016 and in March of 2018, is

6.9 percent. It brings the potential problem to Mongolia due to its higher unemployment rate and higher inflation rate.

Therefore, after referring the macroeconomics statistics, it shows that there is the strength can brings the blooming to Mongolia economics, it still have face some threaten and weakness which might damage this country economics. The following section aims to discuss the relative study which analysis the Mongolia economics development. And then, using the conclusion of past study for providing the evidence to this study analysis.

## **1.2 Motivation and purpose**

Though the Mongolia perform well in economics growth rate, however it emerges the economic crisis due to its higher corruption ratio, higher unemployment rate and price level. Such as its corruption ratio is over 30%, as shown as the following figure 4. And its average unemployed rate for the past ten years is over 5% and reaches to 7.3% in 2018, particular for the youth employees; their unemployment rate is near 15% for past 10 years and reaches 14.2% in 2017. Why the potential economic crisis is observed even its GDP growth rate is higher than other country? And in the condition of its main trade partner, China, grow dramatically fast; what is the prospect for Mongolia economics? This study aims to explore the economic problem hidden in the macroeconomic statistics. And furthermore, it is trying to give suggestion on Mongolia's economics prospection.



Figure 1.1 Mongolia Corruption Index<sup>1</sup>

Data source: Tradingeconomics.com

The purpose of this study is to analyze the trend of economic development for Mongolia in the last decade and its prospect in the next decade using the SWOT method. Since Mongolia play an important role connecting the 2 economics big powers, China and Soviet Russia, moreover it is rich in mineral resources, therefore, it will provide valuable information to study the economic trend for Mongolia.

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<sup>1</sup> Why the period is inconsistent because we collected the data from different databank so the period is inconsistent.



### 1.3 The study flow

This study based on the Macro-economic data and it combined Statistic data and related study, and then made SWOT analysis.

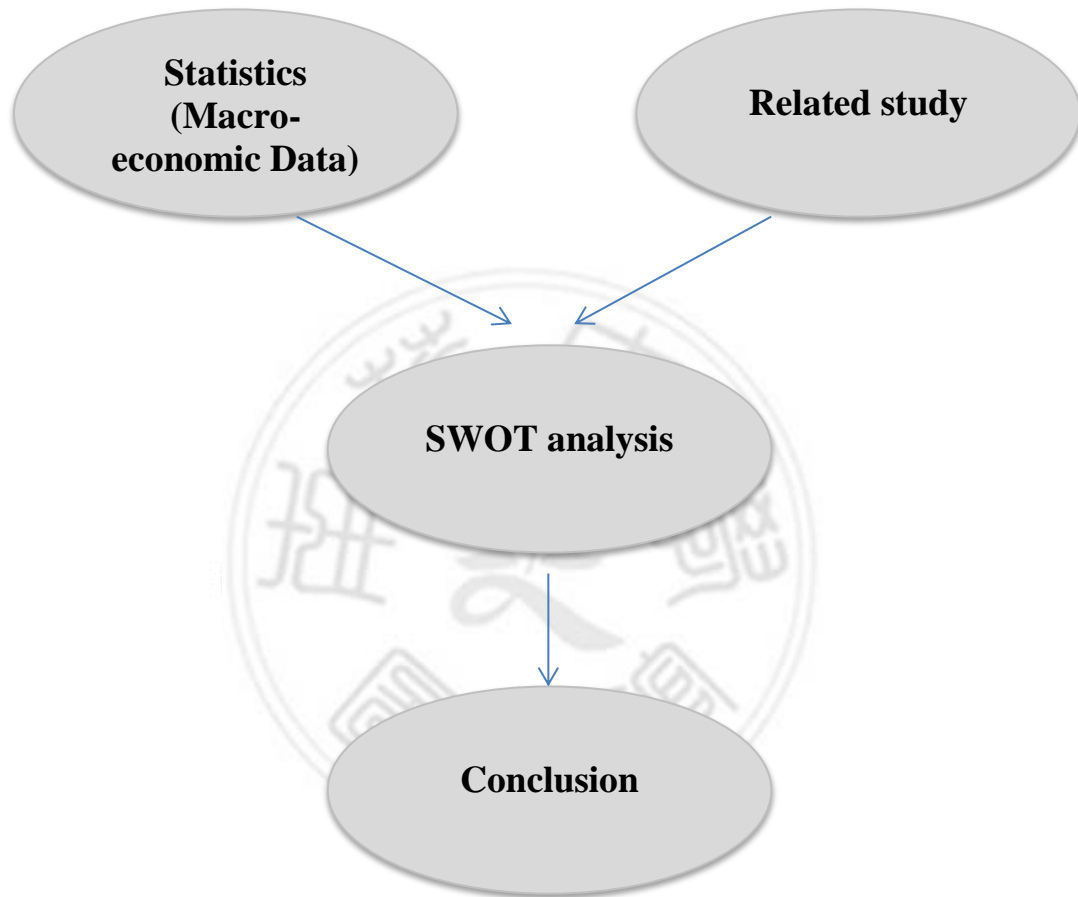


Figure 1.2 Study Frameworks

Data source: Original Study

# CHAPTER TWO

## THE PERFORMANCE IN MACROECONOMICS FOR MONGOLIA

### 2.1 The output in macroeconomic s for Mongolia

#### 1. Gross domestic product

According to the report of [tradeeconomic.com](http://tradeeconomic.com), it illustrates the GDP for Mongolia in 2016 is 11.16 billion US dollars with the economic growth rate of 5.1%. Its GDP growth rate reaches to the highest level of 17.5% in 2011 and the lowest level of -9.3% in 1992. In general, the GDP growth rate is usually around 5% in the last 5 year as the figure 2.1 shown.



Figure 2.1 The GDP and GDP growth rate for Mongolia

Data source: [Tradingeconomics.com](http://Tradingeconomics.com)

After year 2011 as Figure 2.1 shown, economic growth has decreased steadily to 1.6 % in the first quarter of 2016. The downturn was mainly due to the downturn in world commodity exports, downturn in domestic construction, infrastructure and construction, downturns, industrial inputs and equipment imports. And real GDP growth has steadily increased since the third quarter of 2016, with 5.1 % in 2017. This is due to the increase in export revenues due to rising market prices for mining products and rising production and services sectors. It implies that Mongolia economics rely on the export which is sensitive to the world economic condition.

## 2. Price level

In December 2016, the consumer price index (CPI) increased 0.7% from the previous month and was up 1.1% from the same period of last year. Compared with the previous month, food prices growth by 2.0%; cigarette and alcohol prices fell by 0.1%; clothing prices rose by 0.4%; prices of housing, electricity, water, and fuel prices rose by 0.1%; home appliances and prices of furniture rose by 0.1%; transport prices rose 0.5%; communications prices were flat; cultural and recreational supplies prices rose 0.7%; hotel prices were flat; education prices were flat; prices of other goods and services rose 0.9%. Thought, the recent report shows the price index is relative stable, however, the inflation induced by the volatile in price is frequently observed in Mongolia as Figure 2.2 shown. Particularly, the CPI is over 150 in past a decade. Thus, it is rational to expect that the money market would be negatively impacted by the inflation.



Figure 2.2 The general CPI index for Mongolia

Data source: Tradingeconomics.com

### 3. Unemployment rate

This statistic (figure 2.3) shows the unemployment rate in Mongolia from 2014 to 2018. In 2018, the unemployment rate in Mongolia is around 7.3%. It shows the unemployment rate is over 5% for Mongolia which is claimed a factor to result the bad expectation to Mongolia economics.

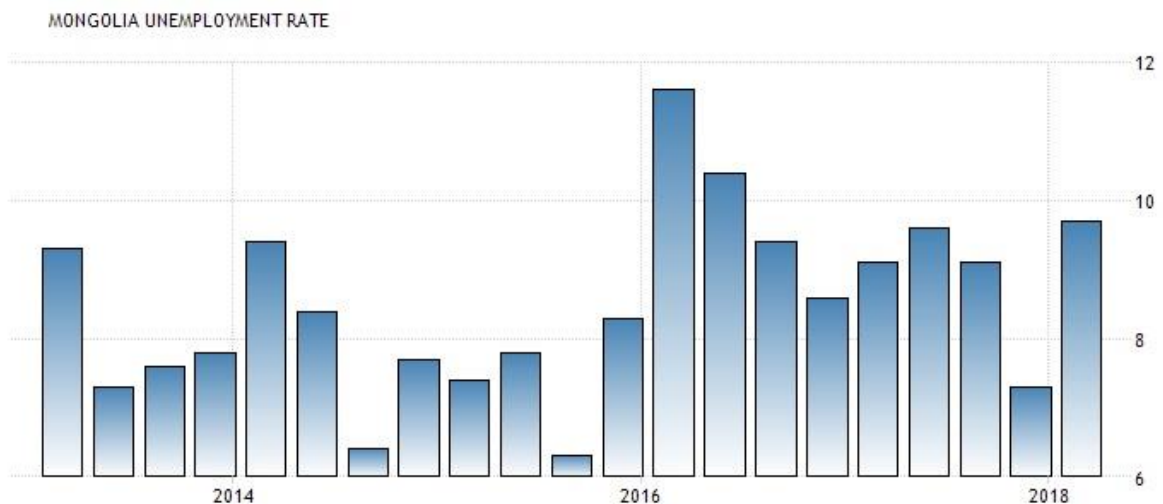


Figure 2.3 The Unemployment Rate for Mongolia

Data source: Tradingeconomics.com

#### 4. Foreign exchange reserve

Due to the economics of Mongolia rely on the international economics seriously and the expert to China play an important role to Mongolia economics, therefore, Mongolia economic change dramatically, the volatile of Foreign exchange reserve can be used to support that.

The end of November 2016, Mongolia's foreign exchange reserves amounted to 1.304 billion U.S. dollars, an increase of 25.54% from the previous month and a decrease of 10.61% from the same period of last year.

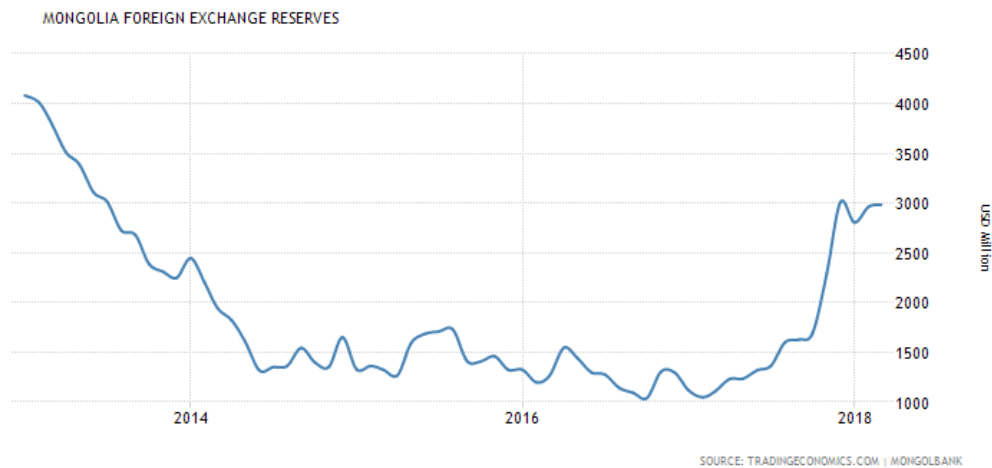


Figure 2.4 The Foreign Exchange Reserve

Data source: Tradingeconomics.com/ Mongol bank

#### 5. Currency and loan scale

As of the end of December 2016, Mongolia's broad money supply (M2) balance was 11.98 trillion, an increase of 3.1% from the previous month and an increase of 19.2% from the end of 2015. As of the end of December 2016, the balance of domestic bank loans in Mongolia was 12.4 trillion, a decrease of 2.3% from the previous month and an increase of 6.1% from the same period

of last year. Among them, overdue loans amounted to 912.8 billion (Yuan) , a decrease of 5.1% from the previous month and an increase of 6.9% from the same period of last year; non-performing loans amounted to 1.0828 trillion, a decrease of 7.2% from the previous month and an increase of 24.5% from the same period of last year.

## 6. Government Budget

Mongolia's budget revenue (including foreign aid), in 2016, totaled 5.8521 trillion, down 2.2% year-on-year; fiscal expenditure (including debt service) totaled 9.5199 trillion, an increase of 33.4% year-on-year; The fiscal deficit is 3.6678 trillion, which is 3.2 times that of 2015. As for the Government debt, according to the following figure, it shows the government debt is over 50% to GDP, it is quite higher. Therefore, it implied that the Government budget debt is a serious problem to Mongolia and it also is another factor which brings the negative effect on the Mongolia economics.



Figure 2.5 The Government Deficit to GDP<sup>2</sup>

Data source: Tradingeconomics.com

<sup>2</sup> We cannot collect the data from the same databank; we have to collect data from different databank so that is the reason why period is inconsistent.

## **2.2 The development of internal and external economics**

The higher economics growth for Mongolia contributed by both the external and internal economics. However, the potential problem for Mongolia economic can be explored from both its internal and external economics as well. Thus, the following section will divided into 2 sub-sections, it says internal and external economics.

### **2.2.1 Internal economics**

There are three main industries for Mongolia. As for the development of Mongolia economics development, there are Mining, Agriculture and Manufacture. According to the new statistic records, agriculture is around 13 percent, Mining is 30 percent and manufacture is 9 percent.

The following section will be devoted to introduce the main industry in Mongolia.

#### **(1) Agricultural sector**

From the long-time ago of Mongolia economy, the sector that contribute the national revenue and employment rate is agriculture sector. Agriculture is the main part of Mongolia economy, and it is also essential for each family in Mongolia. According to National Statistics Office of Mongolia (NSO) in 2016, among the 3 million Mongolian get employment directly and indirectly from agriculture sector, and it also contributed about 13 % of Mongolia's GDP.

Mongolia's economic sector is according to many factors like climate, geography, territorial size, geopolitical location, natural resources, cultural heritage and limited market size. In recent year, agricultural production

contributes high percent of nation production. Here are the agriculture production that contribute: 31 percent wheat and wheat products, 30 percent meat products, 27 percent dairy products, 2 percent skins and hides, 2 percent fruit and vegetable , 2 percent livestock feed and 1 percent animal and plant oils. Some product can also get the high value-added based on the dairy product, sheep's wool, red meat, cashmere and camel hair.

In the livestock sector, Mongolian mostly use animal to work with, so people are closed with animal. The popular animal that people in that area likely to raise are cattle, horses, goats, sheep, and camels. These kinds of animal account massive rate in agricultural product, they account for 83% with the modifiable. These kinds of animal give a lot of benefit for Mongolian. For example, sheep and goat contribute hair and hides in processing sector. Moreover, according to the National Statistics Office, this country has more than 60 million herding animal. Mongolia is hard to do farm due to weather condition; however, Mongolian farmers tend to grow wheat, potato and rapeseed..., etc. They can grow the crop for their short summer only in order to provide the family financial.

## (2) Manufacturing sector

Manufacturing sector in Mongolia is small and accounted for only 6.2% of GDP in 2012. Of the total economically active population of around one million people, only 48,000 were employed in the manufacturing sector. The following figure shows there are 2 threatens to Mongolia manufacturing industry. One it the percentage of Manufacturing to GDP is volatile, it would bring the negative impact to Mongolia economics, furthermore, the



manufacturing industry is quite weak to Mongolia due to it is lower than 10% in recent years.

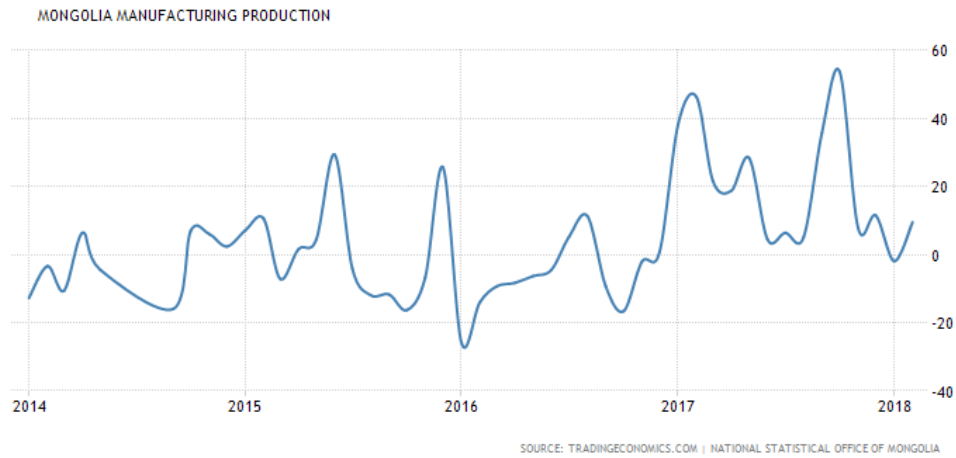


Figure 2.6 The Percentage of Manufacturing Production to GDP for Mongolia

Data source: Tradingeconomics.com/National Statistical Office of Mongolia

### (3) Mining sector

In 2016, the mining sector accounted for 21 percent of the GDP, 85 percent of exports, over 30 percent of the national budget revenue, and over 70 percent of the country's foreign direct investment. This (figure 2.7) shows the share of GDP in the mining sector.

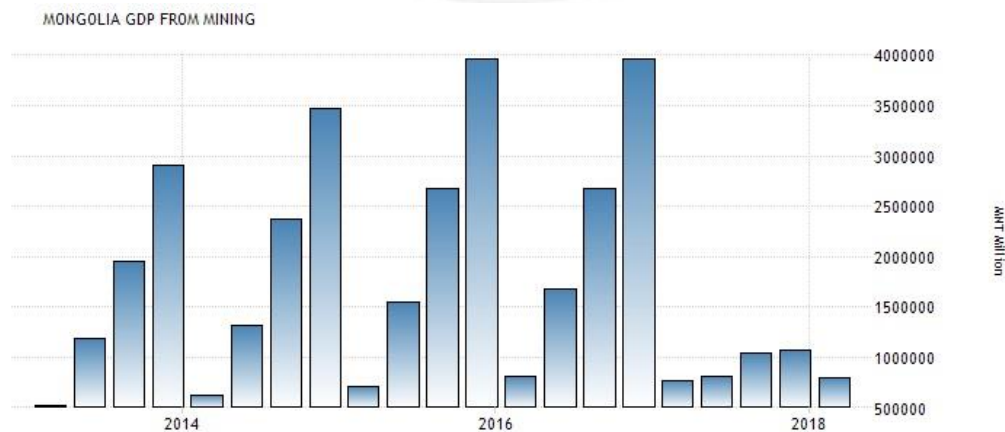


Figure 2.7 The GDP from Mining for Mongolia

Data source: Tradingeconomics.com

During the booming mining time, Oyu Tolgoi copper mine industry, has imported many equipment and machine to support the mining operation.

This pushed Mongolia's trade deficit to US\$ 1349 million in July 20 11.

Mongolia's mineral has the plentiful advantage edge to Asia market with the stability of political, and this country gets the goods and service of mineral sector from U.S to supply the mining equipment to this country. With the short-term prospect with their partner, China, which has the mistake of government policy cause this sector not to be in long-term cooperation. Yet it will be have the medium to long-term cooperation between the U.S of the mining goods and service with Mongolia.

According to Mineral Resource Authority of Mongolia in 2009, Mongolia geology provides the massive mineral area with over 1,000 mineral deposits, 8,000 occurrences of 80 different specific mineral areas. Gold, silver, copper, tin, tungsten, molybdenum, coal, iron ore, uranium, limestone, lead, wolfram and crude oil are the resource that Mongolia has, and its gold and cooper resource are dominant in the world. In 1924, Ulaanbaatar got the electric power from the coal mining as the main of power. Due to the increasing of mineral sector in this country iron ore metallurgical plant, copper and molybdenum processed the factory in Darkhan (1961) and Erdenet (1978) provinces. In the late 1980s, several coal-mining sites were to be the Power Plant of Mongolia's capital while limestone and gold mining are also steadily grow. From 1992 to 2001, Mongolia exports gold from 624kg to 14 tons, moreover, it was 10.5 exporting in 2007. There are 130 domestics and foreign companies come to invest in gold mining sector in Mongolia. In 2006,

exploration expenditure of Mongolia accounted for 4% of global exploration budget.

Mongolia's medium-term economic outlook is positive, Due to the rapidly expanding mining and quarrying sector, especially the copper and coal sector, has grown by 11 percent annually in 2010 -2014. This growth was the FDI, which accounted for 45 percent of GDP in 2011. The mining sector became the main economic sector in Mongolia, with grown exports reaching 89 percent of all exports, of which 89 percent were exported to China in 2018.

Even though poverty has declined and the per capita income has increased, however, Mongolia has more vulnerable to external shocks because of the fact that the single sector is dominant in the mining industry and has no economic diversification. We haven't developed other sector. We just focus on Mining sector. In the half of, the economy grew by 5.3%, its recovering economic can recover their economic from 1.2% only in 2016. Service lifted GDP stands for 4.3% and agriculture stands for 1.0 point. Coal production and coal exports also increase from one-step to another step. However, mining as the whole droop, which interrupt the industry sector growth. On demand, investing in mining has contributed 13.2% growth and added with the consumption 1.6 points.

## 2.2.2 External economics

### (1) Export

Mongolia is the 75<sup>th</sup> export economy country in the world. During 2016, their exported and imported were difference between \$4.94B and 3.33B with the positive trade view. The GDP of Mongolia at that time was 11.2B and GDP per capita was 12.2K. The top exports of Mongolia are Copper Ore (\$1.61B), Coal Briquettes (\$971M), Gold (\$758M), Crude Petroleum (\$337M) and Iron Ore (\$249M), and they mainly supply to China, UK, Russia, Germany, and Italy.

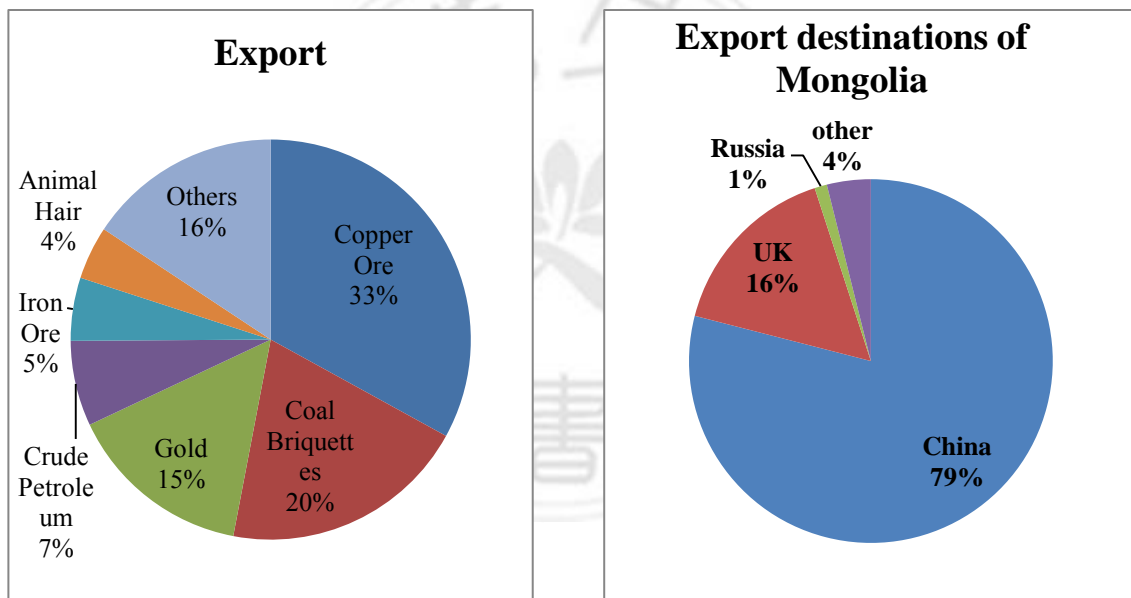


Figure 2.8 The Export Condition to Mongolia

Data source: Original Study

This pie chart shows that the 79 percent of total export of Mongolia shares China, it means Mongolia export is relying on China too much. The main export country China is 79% of total imports and then UK 16% followed by Russia (1%) and other country (4%). Besides that, it also shows the mineral resources are the key commodity to export.

## (2) Import

In 2016, it was the 94<sup>th</sup> largest imported country in the world due to \$3.33B amount. During the last five years from 2011 to 2016, the imported rate of Mongolia has decreased from 6.3B to 3.33B. The most imported products in this country are refined petroleum, car, Electricity, package medicaments and telephone which comes from various countries like China, Russia, Japan, South Korea and Germany.

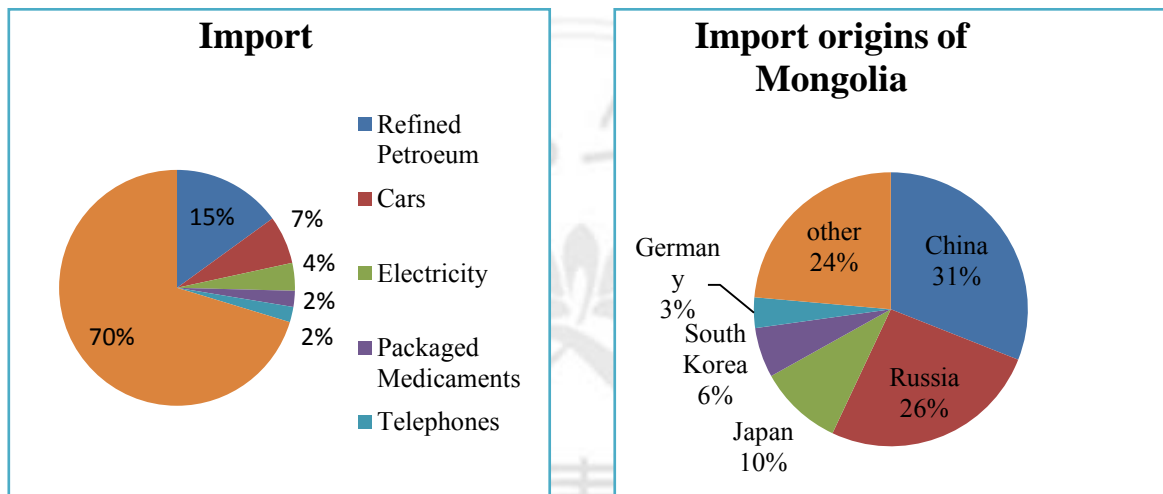


Figure 2.9 The Import Condition to Mongolia

Data source: Original Study

Above pie chart shows that 79 % of Mongolia's exports depend on China and Mongolia's economy is too rely on China. The main importer country China is 31% of total imports and then Russia 26% followed by Japan (10%) and Germany (3.3%). According to above export and import pie chart, the main export and import country of Mongolian is China. It means Mongolian foreign trade is relying on China too much.

### (3) Trading volume

In 2016, the total trade volume between Mongolia and the world's 157 countries and regions was 8.275 billion U.S. dollars, a year-on-year decrease of 2.3%. Among them, total exports amounted to 4.917 billion U.S. dollars, an increase of 5.3% year-on-year; imports totaled 3.358 billion U.S. dollars, a year-on-year decrease of 11.6%; trade surplus was 15.59 U.S. dollars, 1.8 times the same period of the previous year. In 2016, Mongolia's total trade with China was 4.963 billion U.S. dollars, a decrease of 6.4% from the same period of last year, and accounted for 60.0% of the total foreign trade volume of Mongolia during the same period. Among them, total exports to China amounted to 3.902 billion U.S. dollars, which represented a decrease of 0.2% over the previous year; total imports from China amounted to 1.061 billion U.S. dollars, a decrease of 23.7% from the same period last year. Major trading partners are: mainland China, Russia, South Korea, Japan, the United States, Germany, the United Kingdom, and Switzerland. Since 1999, the mainland has replaced Russia as Mongolia's largest trading partner. From 2004 to 2013, the total trade volume between China and Mongolia increased by a factor of 10 over a ten-year period.

Mongolia's export product categories continue to be concentrated in mineral products, textiles, hides, skins, animal hair and products, pearls, gemstones, precious metals, and cultural goods, etc. The above products account for 96.5% of total exports. The major commodities imported are mechanical and electrical goods and spare parts, energy products, roads, aviation and waterway transportation tools and their parts, textiles, chemical and chemical products, plant products and foodstuffs, steel products and their products.

## 2.3 Capital market development in Mongolia

The economic growth requires money from financial sector, also financial markets and capital market too. The capital market is the main supply of long-term development for country, but Mongolia does not because Mongolia capital market is underdeveloped. Less than 0.7% of bond financing companies are listed in stock exchange, and financial institute does not join. Thus, financial market, which is related to commercial banks play the main role in economy for financing for business.

### 2.3.1 The structure of finance market

From table 2.1, it shows the indirect finance is over 90% for Mongolia, therefore, the business lack the multiple financing channels. Maybe that can be claimed a reason to the weakness of the development in the manufacturing industry.

Table 2.1 Structure of the Mongolian Financial Sector

	2009			2010			2011			2012			2013			2014		
	No	Assets (billion MNT)	% of total assets	No	Assets (billion MNT)	% of total assets	No	Assets (billion MNT)	% of total assets	No	Assets (billion MNT)	% of total assets	No	Assets (billion MNT)	% of total assets	No	Assets (billion MNT)	% of total assets
Banks	15	4,421.8	95.8	14	6,245.6	95.9	14	9,371.6	95.7	14	11,992.2	95.9	13	20,883.7	97.0	13	22,562.6	96.6
NBFIs	455	195.5	4.2	430	265.6	4.1	472	416.1	4.3	452	507.8	4.1	502	648.5	3.0	557	783.1	3.4
Insurance companies	18	41.1	0.9	17	55.4	0.9	17	81.2	0.8	18	108.0	0.9	17	113.2	0.5	17	136.7	0.6
SCC	212	45.0	1.0	179	49.0	0.8	162	61.9	0.6	151	67.7	0.5	143	71.2	0.3	139	76.8	0.3
Finance companies	177	96.5	2.1	182	128.6	2.0	195	205.4	2.1	212	252.1	2.0	245	344.1	1.6	326	444.0	1.9
Securities companies	48	13.0	0.3	52	32.6	0.5	98	67.6	0.7	95	96.1	0.8	97	120.0	0.6	75	125.6	0.5
Total financial system	470	4,617.3	100	444	6,511.2	100	486	9,787.7	100	466	12,500.0	100	515	21,532.2	100	570	23,345.7	100

Data source: Bank of Mongolia et al (2014): "Financial Stability Report"

96% of total market assets are in banking field, but non-banking is only 1.9% of total market assets and insurance with negotiator companies are less than 1.5%. The bank sector is the main part of financial field, since 2008, the total loan has also increased 3.5 times which equal 251%..

Table 2.2 Statistics for Outstanding Loans to the Private Sector

	2008		2009		2010		2011		2012		2013		2014	
	Amount in billion MNT	(%)	Amount in billion MNT	(%)	Amount in billion MNT	(%)	Amount in billion MNT	(%)	Amount in billion MNT	(%)	Amount in billion MNT	(%)	Amount in billion MNT	(%)
Loans outstanding to private sector	1,556.0	59.0	1,699.1	64.0	1,854.6	57.5	3,072.4	54.9	3,819.2	55.0	5,968.1	55.7	6,618.8	53.2
Normal	1,336.1	50.7	1,225.6	46.2	1,472.6	45.6	2,752.8	49.2	3,494.8	50.3	5,388.8	50.3	5,867.9	47.2
up to 1 year	584.6	22.2	439.8	16.6	414.2	12.8	604.5	10.8	965.4	13.9	1,362.8	12.7	977.5	7.9
1–5 years	703.7	26.7	662.4	24.9	975.3	30.2	1,967.9	35.2	2,259.9	32.6	3,643.3	34.0	4,410.4	35.5
5 years and more	47.9	1.8	123.4	4.6	83.1	2.6	180.5	3.2	269.5	3.9	382.6	3.6	480.0	3.9
Total loans outstanding	2,635.1	100	2,655.0	100	3,228.2	100	5,597.7	100	6,941.1	100	10,715.6	100	12,440.9	100

Data source: Bank of Mongolia (2014): Loans Outstanding Reports 2008–2014

The table demonstrates that the loan to private sector reduced to 53%, if compare between 2014 and 2009. Lower than half of loan is working normal, so it can be danger in loan sector. One third of normal loan is account in mid-term loan, and long-term loan still account in low context, moreover, loan is for short term and it also need to have high interest rate too.

### 2.3.2 The legislative and administrative environment of the capital market

The equity and pledge markets are for private and public sector for raising long-term financing while capital market is about 28% of local long-term financing for developed and developing country. Drawing differentiation, bank loans have growths averaging only 2.8 years in emerging economies, as against 4.2 years in developed economies, investment-grade in developed



countries are 8.0 years and 7.7 years, respectively, and in emerging markets they are 6.0 years and 6.9 years. The share of the Mongolian capital market accounts only 3% of domestic financing, and pledge market has managed by government bond. There are no high-yield bonds in Mongolia. Financial Regulatory Commission (FRC) has established to secure the national financial market, and it focuses on capital market process, legal environment, developing rule, and protect the legal rights for related institutions. In terms of the government environment, the capital market is regulated by the Corporate Law (2011), the Securities Law (2013), the Law on Investment Funds (2013) and the Law on Asset-Backed Securities (2010), among others. Both the companies and securities laws were revised in 2011 and 2013 to assist more room for security issuance as a way of financing business. The latter two laws are new legislation to promote investors and the issuance of derivatives on the capital market.

The main ruling body of the capital market is the Financial Regulatory Commission (FRC). In 2006 it was established that the regulatory body for managing more than 1,000 non- bank financial institutions (NBFIs), comprising insurance companies, non-bank financial companies, brokerage companies, and savings and credit cooperatives. The aim of the FRC is to ensure national financial market stability. The FRC is in work of improving the methodologies for the capital market procedures, the legal environment of the capital market, developing rules, and, insurance market and other non-banking financial services, such as savings and credit cooperatives and currency exchange units. Moreover, it acts as the chief observer for

compliance, conducting inspections and examinations, protecting the legal rights of its components and solving disputes for all the related institutions.

The main institution of the Mongolian capital market is the Mongolian Stock Exchange (MSE). It was established in 1991 to execute the privatization of state-owned enterprises in the early stages of transition. With the approval of the Securities and Exchange Law (1994) and the Corporate Law (1995), a secondary market was established and brokerage firms operated and financed by the MSE were privatized.

In April 2011, Mongolia signed the “Master Service Agreement” with London Stock Exchange in order to develop the system of stock exchange. Due to this opportunity, the “Millennium IT” operating system promotes MSE in 2012, and that system enables the user easy to trade securities. There are 303 public companies are in MSE list now, and FRC support the financial administration for MSE. Thus, it just launches for stock exchange, and it need time to motivate institutional investors to join with MSE.

### **2.3.3 Market participants**

Participants in capital market are stock market expert, listed companies and investor. The more detail will be states in the statement below:

Stock market expert: Organization and expert need to get the special license from the FRC. As the result, there are 120 licensed companies and 500 market experts who are working in this field. Now the market experts companies is gradual increase in 2013 (Figure 2.10). In 2011, it significantly increased with 76%.

Listed Companies: To be the listed company is not common in Mongolia. There are out of 39,000 registered, but there are only 303 companies, which are listed in MSE.

The main point of Mongolian listed companies were accepted in the early 1990s by privatization acceptance. At the same time, government states two type of investment ticket, one is citizen and one more is privatize enterprise. There were 470 body were registered in MSE as public. Unluckily, it not works due to lack of understanding of stock market.

Investors: The people who participate in trading of capital market. There are 302,050 local and foreign investor participants in Mongolian Stock Exchange

Government decided to issue the 1,072 shares of state-owned coal-mining companies in order to let citizen to receive the benefit from it. As the result, thousands of new investors opened their account to invest stock in Mongolia Securities Clearing House and Central Depository. There were 785,863 account which is deposit and 99.4% are from the local people of Mongolian.

The local and foreign investor has significant changes according to the economic situation, investment law..., etc. During the mining boom-led economic year, there were massive foreign investors. Domestic investor continuous growth, but foreign investment did not because of economic downturn in 2012. In 2013 the share of foreign investors in stock-market trading fell by 80% points, with a further 3 percentage point decrease in 2014

(Figure 2.10). In contrast, the share of domestic investors has seen continuous growth, reaching 91% in 2014.

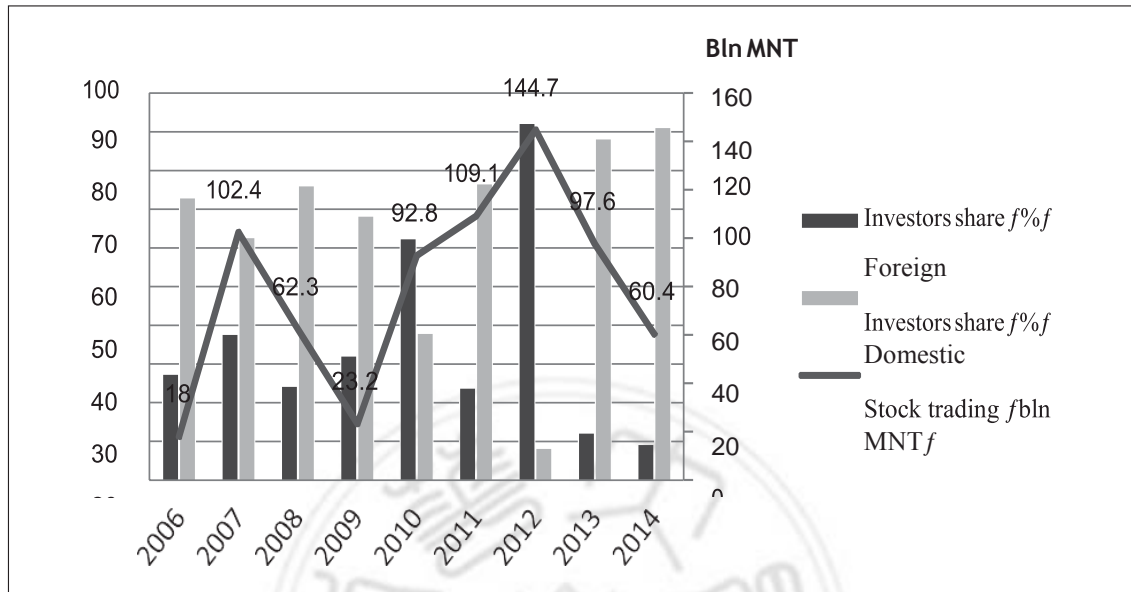


Figure 2.10 Investor Participation in Stock Market Trading

Data source: FRC (2014) Annual Report

The market sharing volume for last period has followed by economic and foreign investment trend. Moreover, in 2012 trading volume increased accordingly, with MNT 145 billion. Because of not well develop in private sector, insurance market; it is not the good sign for stock market.

### 2.3.4 Market performance

In the last decade the capital market increased from 1.8% of GDP to 6.6% (2005-2014). The trading value also increased from MNT 2.5 billion to 144.7 billion (from 2005-2012). It can show that the local companies has contributes to grow the trading value and share in order to develop business investment, but it still not meet the private demand for capital market. In 2015, the MSE

issue the new index which called “MSE All” in order to provide more detail for the investor. The following table will show the main market indicator of capital market and also the other relevant information.

The main MSE index is the TOP-20 index. It calculated based on the market capitalization and normal daily trade of the top-20 securities listed on the MSE. In February 2015, the MSE established a new index called “MSE All” in order to give more detailed and realistic price information for market participants. The following table provides the main market indicators of the capital market, including listed companies, market value and trading, the TOP-20 index, and bond trading. Now there is no derivatives market.

Table 2.3 Mongolian Capital Market Indicators

	2000	2005	2010	2011	2012	2013	2014
Listed companies	410	392	336	332	329	326	303
o/w: actively traded	125	108	69	102	96	122	123
Market capitalization							
in billion MNT	40.5	55.7	1,373.9	2,168.6	1,799.9	1,670.5	1,442.7
in million USD	36.9	45.6	1,092.9	1,553.0	1,292.9	1,006.7	763.9
in percent of GDP	3.3	1.8	16.3	16.5	10.8	8.7	6.6
Trading value							
in billion MNT	3.0	2.5	92.9	109.1	144.7	97.6	12.9
in million USD	2.7	2.1	73.9	250.8	104.2	8.5	7.1
in percent of GDP	0.2	0.1	1.1	0.8	0.9	0.5	0.1
Bond trading value (in billion MNT)							
Government	11.1	6.8	30.0	236.7	0.0005	0.0	23.9
Corporate	0.0	2.7	0.0	4.4	0.3	0.0	0.0
Top 20 index							
High	506.3	1,053.0	14,759.8	21,687.6	17,714.5	16,736.7	15,264.6
Low	459.6	955.9	14,006.0	18,515.0	15,449.8	15,315.8	14,475.2
Average	489.0	995.3	14,331.3	19,846.7	16,839.1	15,874.0	14,883.0
Close	469.9	1,019.2	14,759.8	21,687.6	17,714.5	16,301.8	14,854.2

Data source: Statistical Bulletin of the Bank of Mongolia

In market valuation, the listed companies account for USD \$1.4 billion. The market price to book a value ratio averages 3.5, implying that shares of companies are 3.5 times overvalued measured to their book values. The average P/E ratio of listed companies is 17.5, indicating a comparatively overvalued drift in the capital market. Since 2011, the transaction and the TOP-20 index were decline in trade MSE.

There wear many listed companies which are not active; three was 80% of active listed companies were invested by small number of investor. According to the Financial Stability Report 2013, it was only 86.3% of total market capitalization in Bank of Mongolia. The reasons are: liquidity of stock exchange is weak, lack of specialists, lack of financial knowledge.

Bond market has controlled by government, and government and Bank of Mongolia is the host of issuing the bond and treasury bill. There is no secondary market in Mongolian stock market, and it mostly controlled by commercial bank. In 2011, there was the biggest bond trading in Mongolia by government issuing bond with 98%. (Table 2.3).

October 2012, the regulation on Issuing and Trading of Government Securities was issued, and Bank of Mongolia needs to manage instead of government. In contrast, the values of government bond were decline.

According to the theory, corporate bonds are similar to long-term maturities, and it's not being the financing for operating the transaction. Now, there are only 5 companies issues bond in Mongolia. Due to this situation, capital market of Mongolia is still not working fluently yet.

## 2.4 Competitiveness index

Though, Mongolia enjoy the plenty natural resources, however, it still suffer for many threatens to economic development, such as the undeveloped capital market, and the weakness in manufacturing industry, and the higher corruption ration and unemployment rate, The following figure shows the competitiveness index for Mongolia which ranges from 0 to 7, it indicate the country have higher competitiveness if the index value is higher. The value for Mongolia is lower than 4, it indicating that Mongolia economics is not in good condition in general.



Figure 2.11 The Competitiveness Index for Mongolia

Data source: Tradingeconomics.com / world economic forum

# **CHAPTER THREE**

## **LITERATURE REVIEW**

Referring the relative study of discussing the macroeconomics condition of Mongolia, they can be grouped into 2 conclusions, one is positive for the Mongolia economics the other gives the pessimistic opinion to the economic development of Mongolia. Therefore, this chapter aims to collect the related literature and do the analysis. For providing suggestion to the analysis to development and prospect in Mongolia economics

### **3.1 Positive**

The population of Mongolia is not in the massive amount even its size of country is big, so the population of Mongolia is 3.2 million. The World Bank measure the Mongolia is that it becomes the mid-low income country for per capita income according to their unstoppable economic growth during the last few years. This organization expects that, this country will change to the mid-high income country in the upcoming year if they are based on Mongolia's Ministry of Economic Development.

There are several reasons because the Mongolia is optimism. Mining has been the factor that develops the economics of Mongolia. Because of their endowed natural resources, mining factor play the significant role to shape the GDP of this country grow from 14-25 per cent. The main export resources of this country are copper, gold and coal..., etc., and it became the main supplier of China during 2011 to 2012.



Regarding to Batnasan(2013), though Mongolia is the one of smallest country by measuring the size of its economy and trade's turnover among the Asia countries, but it turns to be the flourish place of economy view with the beneficial land and natural which is the good asset for depositing. Moreover, it is a country which possibly gets economic growth in the near future, and it is transforming one of the important provider of mineral to the world market step by step soon. The plenty nature resources is the strength of the economic development for Mongolia. Consistent with the conclusion of Wan-Tran Huang, Saruultuya Tsendsuren (2013), it concludes that Mongolian is the developing country and it contributes the economic activity in the world. Hence, it needs importing the technology and equipment to enhance their economic because they are full of useful raw natural resource as the input to get the final products. Contribute the economics potential factor, Tuvshintugs Batdelger (2014) concludes that the economy of Mongolia is rapidly grow and also exploits the chance from economy. According to the Economist Intelligence Unit, Mongolia economy was the highest performer in 2013 with 11.70 percentage economic growth. In 2014, it was the 2<sup>nd</sup> place of the best economy performing after South Sudan.

Even Mongolia economic grow rapidly; the world market is not going to be notable sign for the world market. This country is the place for investors to run the business there. To be the proof, this country's government got USD1.8 billion from selling bonds which is an unexpected growth with the good sign of future economy for this country. According to Christopher MacDougall (2015), Mongolian future will depend on government people to get benefit from foreign investor; Mongolia will depend on foreign investment to maintain the economy. Mongolia's untapped resources, strengthening legislative and

political environments, and increasing transparency are all contributing to the country's potential. With a population of 3 million, future prosperity will require continued positive developments and further foreign investment into the economy.

Regarding to copper and coal project, Oyu Tolgoi and Tavan Tolgoi project, they expect that this project will become the full capacity for mining filed with the full hope of economic development in the next five years.

According to Michael E. von Fricken and Sukhbaatar Lkhagvatseren (2018), the neighbor country (China and Russia) still use the nomadic-pastoral lifestyle, and one third of Mongolia population are pastoral, moreover, livestock is the main part of Mongolia economy. Dr. Baatar Sonom (2009) thinks that, Livestock will be the part to enhance the economy in Mongolia. In addition, Enkhbayar Shagdar (2010), he also agree with the important of livestock too because livestock is the main product that supply to other country and also maintain the economy of Mongolia.

According to L. Tserendamba in 2015, Mongolia is the unique country which has the competitive edge of environment and mining, and it also good for eco-tourism.

Briefly speaking, the natural resource is the critical benefit to Mongolia economics. And it still will bring the potential benefit to the economic development in future.

### **3. 2 Negative**

With the economy efficiency, it is import to focus on neo-classic economic classic theory and government policy analysis. Some commitment from government can interrupt the company in competitive market with the long term view.

According to the Asia Foundation in 2014, the dropping price of coal and copper, and disagreement among the foreign investment make the economy of Mongolia is decline by losing export revenue \$800 million. In recent year, the long-term challenge for Mongolia is economic downturn. Although its economic growth also help this country to reduce the poverty from 38.7% in 2010 to 27.4% in 2012.

Moreover, Batchuluun (2010), concludes that Mongolia has passed around 18 laws and rule in order to resolve the problem of mining sector. Yet the industry lack of knowledge with this kind of rules which make the Mongolia get in to trouble to implement this kind of rules.

Secondly, Rural area is much more poverty than urban areas that is why the young people have only few opportunity of their job. In recently, there are the Local Development Fund for citizen to improve their livelihood and economic development in their local. 60 percent of urban people move to Mongolia Capital, Ulaanbaatar, to seek out the job and opportunity. This migrating is due to lack of service of water supply, sanitation, heating, and educations. However, people who get the unqualified skill of training will cause people to get few opportunities for their career, or they get low salary, so poverty of Ulaanbaatar was 19.8 percent in 2012.

The mining development in Mongolia is going to be stuck due to corruption, lack of regulation.

Mongolia economy is slow, so it queues to the factors that affect the poverty and income inequality. Because of inflation average 12.4 percent in 2013, it makes the living cost of Mongolia Capital increase also. Thus, this country needs a high employment, service from government to support in order to recover back their economy development.

According to Mongolia CA report in 2016, the economic in medium-term economic is becoming the positive sign, and the macroeconomic in this country will start to grow step by step in the near future. Copper and coal play the main role for economic development with the 11 per cent growth during 2010-2014. During that time 89 per cent of all national export is all of both sector, and 89 per cent export to China as the main market.

If Mongolia tends to foreign investment rather than other businesses, the sustainability of development in this country will be low percentage to sustain. What they need to focus should be the infrastructure because it would be the high demand factor for this country. If government still remains this strategy, this country will be facing a lot of problem, like infrastructure, poverty and technical skill.

According to Asel Isakova (2012), Mongolia has the advantage edge of their mining sector, but it could be for short and medium term also because too much mining the natural resource will harm the environment to this country in the long term. Unstable product and service price will induce macroeconomic volatility, and it will not be much interested in investment will the less

financial sector. Mostly, high resources rents will result in negative on economic grow in long term.

According to Süreyya YİĞİT (2013), Mongolian democracy and economic continues to face pressing issues such as “poverty, corruption, economic distortion and inequality, as well as some continued problems with human rights violations”

According to Trade economic (2017), Mongolia corruption rank is 36th out of 85 countries. It's very high number. Political corruption is the high risk for company to run the business. Thus, there are Criminal code and Anti-Corruption Law can help this country to avoid and reduce the corruption, and the legislation should be clear defined to order avoid the inconsistent.

According to Anti-Corruption (2016), there was the high risk of corruption in Mongolia in 2016. Nepotism and human high had the question for the corruption problem. Lack of guidance, staff and resource can make people to commit the corruption, especially financial issue. Even public service of acquiring business license also occur the corruption. Most businesses find out that their stuck business operation because of public sector corruption too. Unstable payment for public service with less citizen report has involved the corruption more serious.

According to Enkhbayar Shagdar (2015), Livestock plays a significant role in the Mongolian economy, providing renewable sources of food and consumer goods. It directly supports the livelihood of more than half of the country's population. Processing raw materials of livestock origin constitutes Mongolia's main manufacturing industry and is one of the country's major sources of export earnings. Livestock is the key role for economy grows in

Mongolia because it provides more than half of population in livelihood, and it also manufacture to export too But Our government doesn't pay attention good enough in this sector.

According to N.Otgonsaikhan (2015), Mongolia's international trade statistics, minerals and raw materials were the main export products in recent years. However, value-added or finished products are the country's main import products. This implies that manufacturing is not developed in Mongolia. Raw materials have been exported and bought back at higher prices as finished products. This inefficient trade pattern has continued for many year.

Besides that, according to J.Y.Lin (2010), Mongolia economic sustainable will not be stable if they focus only foreign investment, so it should be attention on infrastructure to develop. If can be wisely to have strategy to develop his sector, their economic will be a mining based economy. It's hard to attract the foreign investment because of lack of infrastructure, high poverty rate and lack of technical professionals.

According to V.Danaasuren (2015), the Mongolian economy needs long-term investment to support sustained growth of the economy. For the last 12 years, all sectors except the mining sector and other services have shown no growth or decline. To shield the economy from external shocks and mining-led "Dutch disease", it is important to diversify the economy, which in turn requires long-term investment into sectors other than mining. As FDI is not utilized much in non-mining sectors, the domestic financial sector provides most business financing.

The financial sector consists of monetary and capital markets. Although the capital market provides the majority of long-term financing in developed countries, the Mongolian capital market is underdeveloped and it does not play a leading role in long-term financing. Only less than 0.7% of all registered entities are publicly listed on the stock exchange and corporate bond financing is almost absent. Therefore, the monetary market, consisting of 13 commercial banks, performs the leading role in allocating the necessary financing for businesses. The capital market has underperformed in terms of its role in the financial sector and a number of listed companies. The main reasons for the immature capital market are that: the liquidity of equity on the stock exchange is weak; the stock concentration of listed companies is high; there are no institutional investors, such as mutual funds, insurance companies and pension funds; the capital market has a lack of highly-skilled specialists; and there is a lack of financial knowledge among the public and companies regarding the benefits of the capital market and the opportunities to raise capital from the stock exchange.

These studies suggest that Mongolia economics still have to face some challenge which could damage their economic development.

Table 3.1 Summary of Past Study

	Names	Positive
1	Professor, Tuvshintugs Batdelger (2014)	The economy of Mongolia is rapidly grow and also exploits the chance from economy
2	Professor Batnasan (2013)	The flourish place of economy view with the beneficial land and natural which is the good asset for depositing. The plenty nature resources is the strength of the economic development for Mongolia.
3	Professor, Wan- Tran Huang, Saruultuya Tsendsuren (2013)	Mongolian is the developing country and it contributes the economic activity in the world. Hence, it needs importing the technology and equipment to enhance their economic because they are full of useful raw natural resource as the input to get the final products
4	Christopher MacDougall (2015)	Mongolian future will depend on government people to get benefit from foreign investor; Mongolia will depend on foreign investment to maintain the economy. Mongolia's untapped resources, strengthening legislative and political environments, and increasing transparency are all contributing to the country's potential.
5	Enkhbayar Shagdar (2010)	The important of livestock too because livestock is the main product that supply to other country and also maintain the economy of Mongolia.



Table 3.1 Summary of Past Study (Continue)

6	L.Tserendamba (2015)	Mongolia is the unique country which has the competitive edge of environment and mining, and it also good for eco-tourism.
7	According to Michael E. von Fricken and Sukhbaatar Lkhagvatseren (2018)	The neighbor country (China and Russia) still use the nomadic-pastoral lifestyle, and one third of Mongolia population are pastoral, moreover, livestock is the main part of Mongolia economy.
8	Dr. Baatar Sonom (2009)	Livestock will be the part to enhance the economy in Mongolia.
	Names	Negative
9	Professor, Batchuluun (2010)	Mongolia has passed around 18 laws and rule in order to resolve the problem of mining sector. Yet the industry lack of knowledge with this kind of rules which make the Mongolia get in to trouble to implement this kind of rules.
10	Professor, Sureyya Yigit (2013 )	Mongolian democracy and economic continues to face pressing issues such as “poverty, corruption, economic distortion and inequality, as well as some continued problems with human rights violations”

Table 3.1 Summary of Past Study (Continue)

11	Trade economic (2017)	Corruption is a high risk for companies operating in Mongolia, stemming from political corruption and pervasive judicial corruption.
12	Anti-Corruption (2016)	Corruption, nepotism and human rights violations are attributed to the judiciary being weak in Mongolia
13	Professor, N.Otgonsaikhan (2015)	Mongolia's international trade statistics, minerals and raw materials were the main export products in recent years. However, value-added or finished products are the country's main import products. This implies that manufacturing is not developed in Mongolia. Raw materials have been exported and bought back at higher prices as finished products.
14	Professor, Enkhbayar Shagdar (2015)	Livestock plays a significant role in the Mongolian economy, providing renewable sources of food and consumer goods. Processing raw materials of livestock origin constitutes Mongolia's main manufacturing industry and is one of the country's major sources of export earnings.
15	Professor, J.Y.Lin (2010)	If Mongolia will not pay attention to the development of sustainability of other businesses; as it continues only to rely on foreign investment, there is little guarantee of ensuring the country's economic sustainability.
16	Professor, V.Danaasuren (2015)	Mongolian capital market is underdeveloped

Data source: Original Study

## **CHAPTER FOUR**

### **METHODOLOGY**

#### **4.1 Method of this study**

It is very important to do analysis for Mongolia economics because Mongolia laid important rule in Asia economics. In contrast, there is the challenge of collect the data which make the research has the limitation of collecting. The data that the paper aims to collect is rare and related to the secret data, so it would be hard to get more reference to support the proposition in the research context for the method of analyzing. There is no databank to provide comprehend data for Mongolia although those source are important to contribute to research. According to this reason, the method of collecting would change to use other two sources; one is the source that is related to the studies; another source is statistic data that will combine with the first source to make the SWOT analysis. Hence, the methodology of this study is to collect data from different data bank and gathered empirical studies, and combined those sources by using the SWOT analysis.

The following tables demonstrate the summary of the economics condition for Mongolia.

Table 4.1 Mongolia's overall economic indicators over the past decade

year	Economic growth rate (%)	Import amount (millions of US dollars)	Export amount (millions of US dollars)	GDP at current prices (Million Togs)	Per capita domestic Gross Production (Togs)	Industrial Structure (% of GDP/GNP)					Consumer prices  The total index is compared with the previous year %
						agriculture	mining	manufacturing	Wholesale and retail	Transportation Warehouse	
2007	10.2%	2,061.8	1,947.5	4,956,647.2	1,729,540.4	18.4	27.1	6.2	6.3	6.5	15.1%
2008	8.9%	3,244.5	2,534.5	6,555,569.4	2,326,499.9	19.2	20.2	6.6	7.2	6.4	28.0%
2009	-1.3%	2,137.7	1,885.4	6,590,637.1	2,298,216.3	17.9	19.5	6.4	6.6	8.3	4.2%
2010	6.1%	3,200.1	2,909.5	8,414,504.6	3,025,974.6	14.3	22.7	6.4	8.3	7.7	13.0%
2011	17.3%	6,598.3	4,817.5	10,829,689.6*	3,821,070.2*	13.0*	20.2*	7.1*	9.7*	7.2*	10.3%
2012	25.8%	6,738.9	4,384.6	13,944,298.1	4,859,431.0	14.8*	18.6*	6.2*	9.3*	6.5*	14.3%
2013	11.7%	6,354.7	4,272.7	19,631,325.2	6,914,263.2	16.5	33.0	7.1	N/A	7.2	12.5%
2014	7.8%	5,236.6	5,774.6	21,844,250.3	7,470,751.9	N/A	30.6	10.4	N/A	4.8	11.0%
2015	4.2%	3,797.2	4,669.5	23,166,779.1	7,566,886.3	N/A	25.3	9.0	N/A	4.7	11.9%
2016	1.0%	3,357.9	4,917.3	23.89 Trillion chart	N/A	N/A	30.0	9.0	N/A	N/A	1.1%

\*: In order to estimate

Data source: data.worldbank.org

Table 4.1 demonstrates the economic condition for Mongolia in past decade. It shows Mongolia economic rely on the agriculture and mining industries a lot, for agriculture is around 15-20% of GDP, and mining is over 30%. However, the manufacture industry is less than 10%. Actually the manufacture industry is very important for the economic growth, not only it can encourage the GDP grows, it provides a lot of the working opportunities

for worker relative to other industry. This study employed SWOT method to analysis the current condition for Mongolia economics and its. And From the information of table 3.1, the problem and potential strength of Mongolia can be summarized and discuss as following using the SWOT method.

## **4.2 SWOT analysis**

### **1. Strengths**

#### **(1) Plenty of natural resources**

Plenty of natural resources and second biggest landlocked country in the world are Mongolian main economic strength. Plus, the flourish place of economy view with the beneficial land and natural which is the good asset for depositing.

Mongolia has full of nature s include forests, fish, and a variety of minerals. In the late 1980s, There are 15 million hectares are the forest, which equals 9.6%, and Timber stock were about 1.3 billion cubic meters. Major forested areas were approximately 73 percent Siberian larch, 11 percent cedar, and 6.5 percent pine. Timber stocks were estimated to be 1.3 billion cubic meters. Mongolia's northern rivers and lakes contained more than 50 native species of fish; Even Mongolia has full of fish from lake, but Mongolian not like fish.

This country have full of mineral product, like coal, copper, gold..., etc. In the mid-1980s, coal had deposited in Aduun Chuluu, Baga Nuur, Nalayh, Sharin Gol, and Tavan Tolgoy. Copper and molybdenum had found at Erdenetiyn-ovoo and at Tsagaan Subarga in Dornogovi Aymag. Fluorite

deposits were located at Burentsogt in Suhbaatar Aymag, at Berh and Bor Ondor in Hentiy Aymag, and at Har-Ayrag in Dornogovi Aymag.

## (2) Young workforce

Another one of the strength of Mongolia is young labor force. Young people aged 15 to 29 by labor force status and educational attainment. Animal also the main source part of Mongolia consumption and national economy, which support this country for 20% of total GDP.

Below pie chart shows that the 69 percent of all population is between 15 to 64 years old, 4 percent is above 65 years old and 27 percent shares under 15. It means Mongolia labor force is young and more than half of all population is young people. It is the main strength of Mongolia.

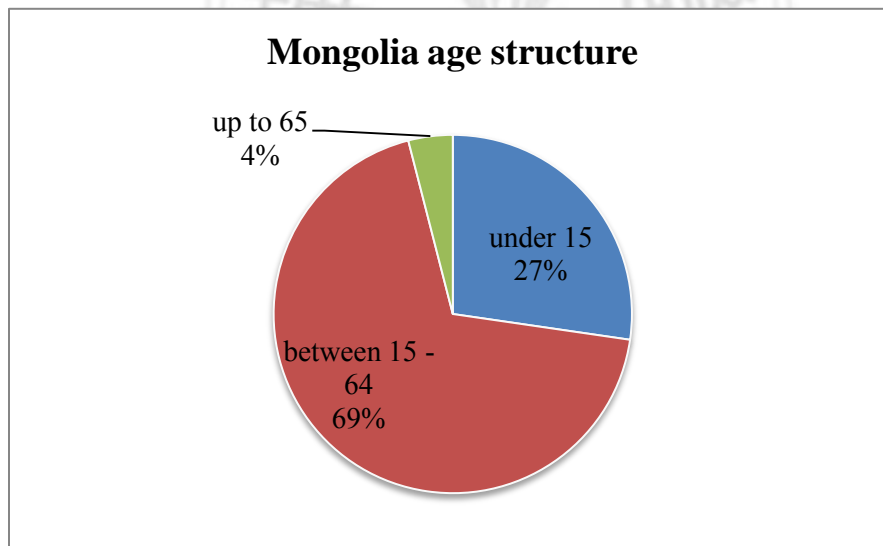


Figure 4.1 Mongolia Age Structure

Data source: Original Study

- Percentage of population under 12
- Percentage of population between 15 and 64 years old

- Percentage of population 65+
- 845,134 young people under 15 years old
- 2,121,781 persons between 15 and 64 years old
- 123,267 persons above 64 years old

### (3) Strong stock farming

The one of the biggest strength of Mongolia is Livestock. Livestock is the main mining product to develop this country economy, and it support nearly half of total population in Mongolia, moreover, livestock of Mongolia has contributed and exported too many countries. Livestock account for 90% of total agriculture and 12.5% of national export. Livestock workers make up 34.5% of the total labor force. The livestock sector is responsible for 90% of total agricultural production and comprises 12.5% of all exports.

## 2. Weaknesses

### (1) Over-reliance on neighboring countries

Locating landlocked country and also among huge countries are one kind of weakness in Mongolia. Even though two big countries will protect the development in the neighboring countries, it still bring some gap result from the restricted development such as foreign trade. Mongolia foreign trade is too relying on China, Mongolia import from China around 90 percent of FT and export to China also. It means on the one side, if China and Russia economic go down, Mongolia economic will do too.

### (2) Weak infrastructure

Thus the infrastructure in this country is still weak. Most of Mongolian got the electricity from Soviet-era of coal-fired power plants, and nowadays Russia still supplies this power to Mongolia. Even in the recent year, Mongolia built the road, but it not still meets the demand. Even Mongolian has built many the infrastructures (paved road) in recent year; it cannot still match with the demand of current requirement. They will face the obstacle when the winter coming, and some road still need to maintain too. During the ageing Tran-Mongolia Railroad time, a spur of the Tran-Siberian Railroad, it is owned in equal parts by the two governments, Mongolia and Russia. Thus, it needs to invest and develop in infrastructure in advance in order to contribute as the part of economy substantial development.



### (3) Higher corruption

Mongolia's big problem is corruption. Even there is the laws to against rule, the government still not fully implement. The reasons are conflict of interest, lack of transparency, lack of system, lack of government control. There are 18 laws to resolve the problem, but it still not work at all due to industry lack of knowledge of the government rule.

### (4) Extreme disparity between rural area and urban area

Furthermore, Rural area is much more poverty than urban areas that is why the young people have only few opportunity of their job. In recently, there are the Local Development Fund for citizen to improve their livelihood and economic development in their local. 60 percent of urban people move to Mongolia Capital, Ulaanbaatar, to seek out the job and opportunity. This migrating is due to lack of service of water supply, sanitation, heating, and educations. However, people who get the unqualified skill of training will cause people to get few opportunities for their career, or they get low salary, so poverty of Ulaanbaatar was 19.8 percent in 2012. The following summary of the weaknesses for Mongolia.

### (5) Over-reliance on the mining sector

Mongolia economy is base livestock of agriculture as the main. In 2014, 26% of national GDP are from mining sector. During the last decade, we can say that Mongolia economy is based on mining to grow. During the last decade, Mongolia's economy has been buffeted by the varying value of the global mineral market with its economic growth fluctuating greatly as a consequence. Then World Bank reported that, in 2014 copper account for a large percentage of total export that equals 37 percent and coal equal 13 percent ready that

contribute to the China project, which extend until 2017. However, coal export to China dropped in 2015, which made the bad sign for economy. Coal and copper dropped for 10 percent, which made the country drop 3 percent of GDP in 2016.

This finding affirms that the mining sector is a major component of the Mongolian economy and will remain a vital part of the nation's development. The world economic crises of 2008 had telling effects on the mining industry in Mongolia. The prices of copper fell from \$8,000 a ton to \$3,400. This worldwide recession negatively impacted Mongolia's economy, given that the mining industry is the main economic pillar of the Mongolian GDP. This resulted in Mongolia's monetary balance going from 4.4 percent of GDP surplus into a deficit of 9.6 percent. This simple finding is testimony to the place and vitality of the mining sector in the overall economic growth and national development of Mongolia. In general, economic security and its development is a vital part of the overall national security of all modern countries, Mongolia being no exception. Mongolia was one of the worst impacted countries in East Asia by the global financial crisis in 2009 due to its significant dependence on natural resources exports. Nowhere is this more apparent than in contemporary Mongolia.

### 3. Opportunities

#### (1) High educated workforce

According to World Atlas in 2017, adult +15 in 2015 literacy was 98.4% in Mongolia. It increased 0.6% from 2000 to 2015. Total is the percentage of the population age 15 and above who can, with understanding, read and write a short, simple statement on their everyday life. Generally, 'literacy' also encompasses 'numeracy', the ability to make simple arithmetic calculations. This indicator is calculated by dividing the number of literates aged 15 years and over by the corresponding age group population and multiplying the result by 100. Moreover, Mongolia rank is 34th in 156 countries worldwide with the education of people. It means that Mongolia is a highly educated people. And with few people to take care of, it will be easier for government to plan for the populace.

#### (2) Vast territory and rich resources

The population of Mongolia is not in the massive amount even its size of country is big, so the population of Mongolia is 3.2 million. Low population density is the one kind of opportunity of Mongolia because it will be abundance of resources in areas where there and resource endowment.

Presently, Oyu Tolgoi and Tayan Tolgoi focus on copper ore depositing, which can survive the business with the minimum 50 years of mining. Mongolia government account for 53% of copper deposit, and the rest is foreign investor. They expect that Oyu Toigoi will account one third of Mongolia's GDP by 2020 in export sector.

Mongolia is the plenty of natural resources and According to Batchuluun's, this country is plenty of natural resource, and Mineral Resource

Authority has issued 6,171 mining places which cover 71,107,888.66 hectares and equals 45 percent of Mongolian territory.. They export copper, molybdenum and gold to China, fluorspar to Russia, USA, and Ukraine, and gold to USA and Great Britain. 70% of export is to China, and Russia is the third biggest country that Mongolia exports to.



#### 4. Threats

Higher unemployment rate, corruption ratio and weak manufacturing sector are the three main problems for the economic growth for Mongolia, the following section is going to discuss these three problems more detail.

##### (1) Unemployment rate:

This statistic (figure4.2) shows the unemployment rate in Mongolia from 2014 to 2018. In 2018, the unemployment rate in Mongolia is at approximately 7.3 percent.

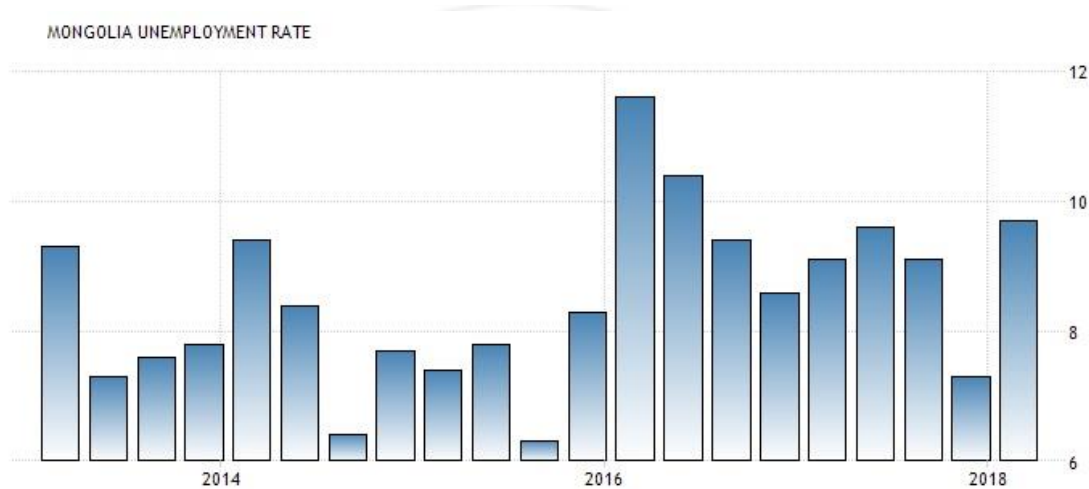


Figure 4.2 Mongolia Unemployment Rate

Data source: Tradingeconomics.com / world economic forum

More than half of the population in low and lower-middle income countries is younger than 26, and the large majority of them lack a decent job. According to the Global Employment Trends for Youth (2015), in 2014, the global unemployment rate for youth was 13%, and since 1995 it has been almost three times the adult rate. These numbers are alarming for many reasons. In particular, it has been shown that unemployment at a younger age strongly and negatively affects prospects for future labor market outcomes, especially in

terms of wages, employment and suboptimal investment in human capital (Mroz & Savage, 2005; Bell & Blanch flower, 2011). This explains why promoting youth employment has become a top policy priority in most countries (ILO,2015).

Mongolia, for instance, is one of these countries. In 2015, more than half its population was younger than 30 (the share of people between 15 and 29 years old being almost 27%), and the unemployment rate among youth is extremely high: in 2014, it was 17.4%, which is 4.4 points above the global rate.

## (2) Weak Manufacturing sector

This figure 4.3 and figure 4.3 show that Manufacturing Production in Mongolia increased 9.50 percent in February of 2018 over the same month in the previous year. Manufacturing Production in Mongolia averaged 4.31 percent from 2014 until 2018, reaching an all-time high of 53.70 percent in October of 2017 and a record low of -25.70 percent in January of 2016.

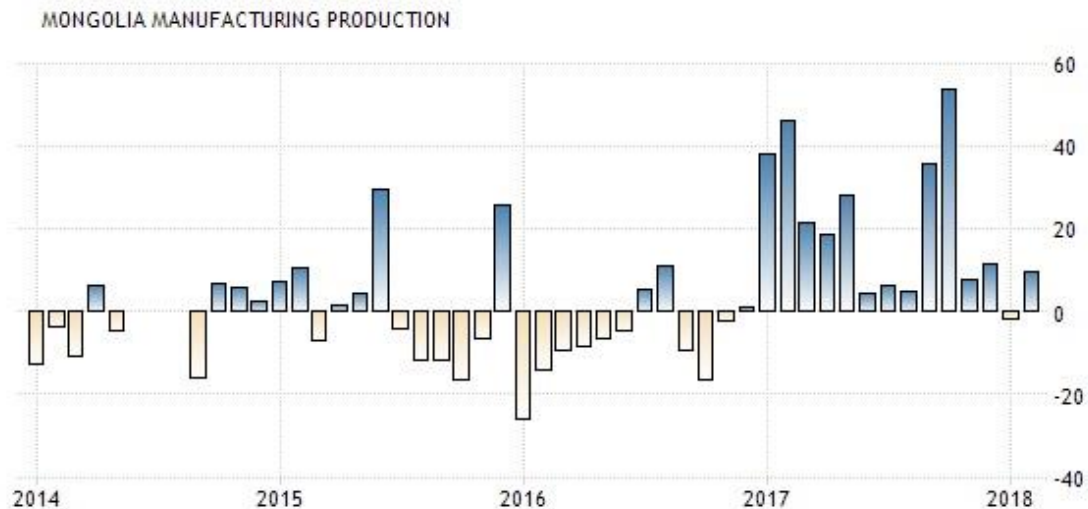


Figure 4.3 The Manufacturing Production for Mongolia

Data source: Tradeeconomic.com/ National statistical office of Mongolia

## Competitiveness of the manufacturing sector

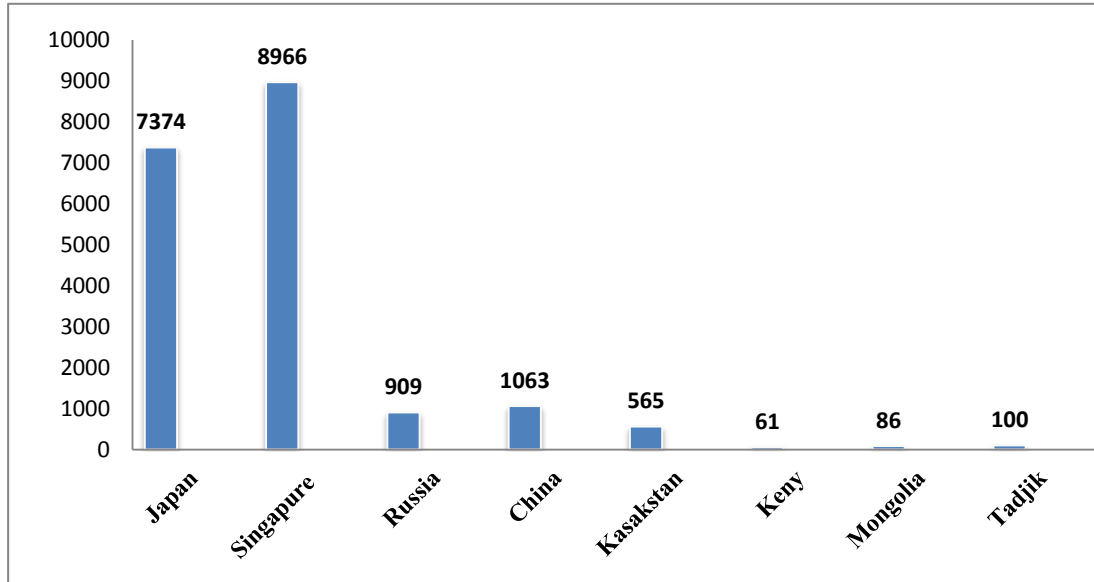


Figure 4.4 Competitiveness of the Manufacturing Sector

Data source: Original Study

The value added of our country's per-capita processing unit is \$ 86. The most developed countries are Japan \$ 7374, Singapore \$ 8966, Russia \$ 909, and China \$ 1063

According to International Competitiveness Index, Mongolia has 98 competitiveness from 144 countries, 81 technological solutions and 106 innovation indicators, which is weak in Mongolia's competitiveness in the industrial sector, economic structure and inadequate institutional and infrastructure development, low technology development and innovation culture and development.

In addition to the corruption ratio and higher unemployment rate, it still suffers for the following threatens, such as due to corruption, people cannot get job especially young people.

### (3) Higher Corruption and labor outflow

As a result, Mongolia improved its ranking on the Transparency International's Corruption Perception Index to 103 out of 176 countries in 2017 from 16 in 2016. It's very high number.

The number of people coming to South Korea rapidly increased since the two countries began social transitions. That time period influenced positively on the lives of Mongolians and our economy. The number of people going to South Korea slowed down for some time. However, the number of people seeking employment from abroad has slightly increased in the last two years due to Mongolia's economic difficulty and low availability of jobs.

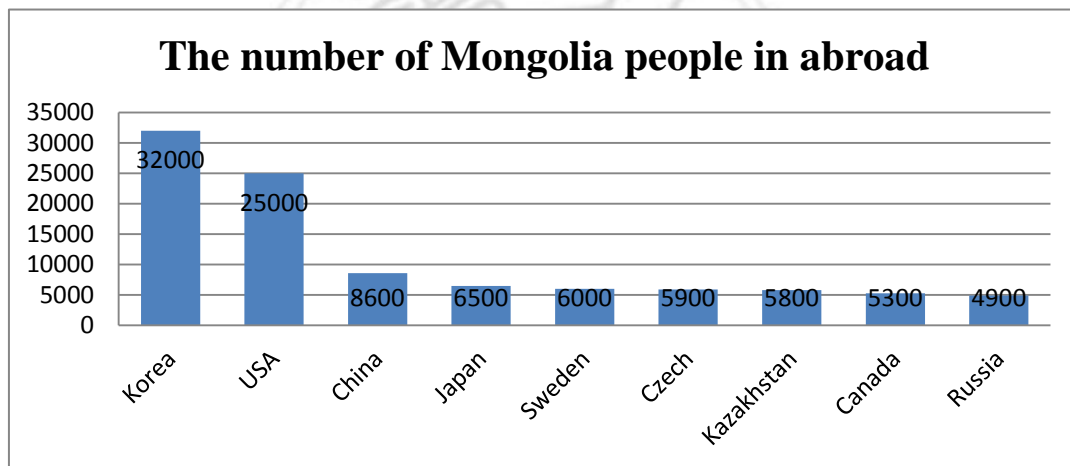


Figure 4.5 The Number of Mongolia People in abroad

Data source: Original Study

Above pie chart shows, about 130,000 Mongolians live abroad. 44 percent of the total population is in Korea (32,000), and in the USA (25,000). In other countries, up to 10,000 Mongolians live. Most of people who live in abroad are come there to work. They cannot get work in own country because of corruption and even if they have job, their salary is not enough to survive that's why many people are leaving birth country.



### 4.3 SWOT summary

In this study we use SWOT analysis. There are two factors such as Internal and external.

#### 1. Internal factors and the strategies: Strengths and Weaknesses

- Mongolia has plenty of natural resources but manufacturing industry is too weak so in here our strategy is using the natural resources to support manufacturing.
- For Mongolia, Livestock is important role of country's economic but manufacture is weak so our strategy is using strong stock farming to develop manufacturing further more to support foreign trade and it's one of the best opportunity to reduce unemployment creating new workplace

#### 2. External factors and the strategies: Opportunities and Threats

- Using educated workforce to reduce higher corruption
- Plenty of natural resources can be controlled by educated workforce wisely and efficiency
- Higher educated workforce is one of the best opportunities for Mongolian and this country is over-reliance on neighboring countries. In here, educated workforce can expand international relationship between other countries.
- Mongolian mining sector has been increasing but unemployment rate has been increasing as well. Our strategy is to reduce unemployment by mining sector.

Finally, the Internal and External Factors will be summarized as following,

Table 4.2 SWOT table

Internal Factors		<b>Internal Origin</b>	
		<b>Strength (S)</b>	<b>Weaknesses (W)</b>
External Factors		<ul style="list-style-type: none"> <li>• Plenty of natural resources</li> <li>• Young workforce</li> <li>• Strong stock farming</li> </ul>	<ul style="list-style-type: none"> <li>• Over-reliance on neighboring countries</li> <li>• Weak infrastructure</li> <li>• Higher corruption</li> <li>• Disparity between rural area and urban</li> <li>• Over reliance on the mining sector</li> </ul>
		<b>Opportunities (O)</b>	<b>S-O Strategies and Tactics</b>
<b>External origin</b>	<ul style="list-style-type: none"> <li>• Higher educated workforce</li> <li>• Vast territory</li> <li>• Rich resources</li> </ul>	<ul style="list-style-type: none"> <li>• People who are educated can control natural resource wisely and efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• To develop weak infrastructure by rich resources</li> <li>• To expand international relation by using educated workforce</li> <li>• Using educated workforce to reduce higher corruption</li> </ul>
	<b>Threats (T)</b>	<b>S-T Strategies and Tactics</b>	<b>W-T Strategies and Tactics</b>
	<ul style="list-style-type: none"> <li>• Higher unemployment</li> <li>• Weak manufacturing sector</li> <li>• Higher corruption and labor outflow</li> </ul>	<ul style="list-style-type: none"> <li>• Using the natural resources to support manufacturing</li> <li>• Livestock can help to develop weak manufacture</li> <li>• Decreasing unemployment using by producing natural resources</li> </ul>	<ul style="list-style-type: none"> <li>• To reduce unemployment by mining sector</li> </ul>

Data source: Original Study

# CHAPTER FIVE

## CONCLUSION

### 5.1. Conclusion

This study has covered general information about the Mongolian macroeconomic and its reform and development path in recent years. According to many discussion of the information of Mongolian macroeconomic that has gathered, Mongolia and neighbor country try to discover more detail of its economic because they expect that this country would be the good future for investment. In the term of potential of economic growth, there are also the suggestion and studies in order to establish the strategic and plan to develop.

Since 1990, Mongolia has turn to be the opened market environment. The economic growth of the country has been stable in recent years. It also shows that the GDP from 1990 to 2016 significantly grow, so it is GDP capita 6480.76 USD that 1990 is the base year. Mining, agriculture, construction and industry have the positive impact on Mongolia economic.

The main industry of Mongolia is mining and it shares 30% of GDP, agriculture around 19% of GDP and manufacturing is only 9percent. In addition to the Mining industry, 49% of total employment was concentrated in the agricultural sector and 18 percent in services, while in agriculture 31.7%, in industry 18.3% and 50% in services since employment and agriculture have shifted in the service sector and in 2000. Therefore, the main industries in Mongolia include mining industry, agriculture industry and service industry, but the manufacturing industry is relatively weak to other industry in Mongolia.

Government fully supports the mining activities, and they set that this sector is the main sector for developing country. The introducing to the advancement of technology from national and foreign investment are also focus on mining sector. Thus, they focus on open the competitive and market driven and the regulation for appropriate for private sector to explore and implement. 59.7% of mining sector has contributed to Mongolia economy growth, and 30% account for total nation export.

The Mongolian economy is so sensitive and highly susceptible to the foreign market and its two neighbors. The status of the Mongolian economy, political system, society and geographic strategy has been completely changed since the transition period started. Mongolia has also been changing in many respects and its multilateral relationships with other nations have been strongly maintained. In recently year, Mongolia quite change a lot include political system, society and geographic strategy, country relationship..., etc Thus, they have strong relationship with Russia, China, UK and Japan in order to build the strong connection of partner for economic growth.

In summary, the Mongolian economic development strategy should reflect alternative choices, the best one of which should be chosen and added to a carefully designed development timetable. Mongolia economic development strategy should be reflectively by implement the mid-term program for social development. Political party should be obeying the mew strategy and erase the old style of committing thing. Foreign investment also gets encourage to promote the national economic growth.

Every country has their owned big problem; if we look for Mongolia, the biggest problem of Mongolian is corruption, which interrupts the national economy development. Even there are many laws to against the corruption

activity, but there is no the strong commitment for government to implement. What are the factors that make Mongolian become like that? It can be the conflict of interest, interest, lack of transparency, incomplete access to information, an inadequate civil service system, and weak government control of key institutions. Due to this condition, The Mongolian Parliament approved a National Action Plan to Combat Corruption in November 2016, and the Independent Authority against Corruption is currently implementing the plan in order to strengthen the legal activity.

And Mongolia has passed around 18 laws and rule in order to resolve the problem of mining sector. Yet the industry lacks of knowledge with this kind of rules which make the Mongolia get in to trouble to implement this kind of rules.

Mongolia economic traditionally base on small and medium business. Due to their lack of institutional control, experience and management of mining sector, they are facing the problem of sustainable economic. Moreover, Mongolian economic development is also too much depend on China and Russia.

## **5.2. Limitation**

It is very important to do analysis for Mongolia economics because Mongolia laid important rule in Asia economics. In contrast, there is the challenge of collect the data which make the research has the limitation of collecting. The data that the paper aims to collect is rare and related to the secret data, so it would be hard to get more reference to support the proposition in the research context for the method of analyzing. There is no databank to provide comprehend data for Mongolia although those source are important to contribute to research. According to this reason, the method of collecting would change to use other two sources; one is the source that is related to the studies; another source is statistic data that will combine with the first source to make the SWOT analysis. Hence, the methodology of this study is to collect data from different data bank and gathered empirical studies, and combined those sources by using the SWOT analysis.

It also raises another limitation of the study, and that challenge is collecting the rare data bank that is the main source for support the paper, moreover, those sources important for the paper to analyze the Mongolian economics. There is less empirical study of those data either, and those studies are not suitable for study because those studies are made for commercial purpose. Thus, the paper has two limitations arise, first is less of empirical study, and second is statistic data that is complicated to match with the future research.

### **5.3. Suggestion**

Mongolia needs to extend their importing capacity and needs to have more economic development-oriented products, such as high technologies and equipment that could increase economic development in the long term. In fact, Mongolia is rich in natural resources, which are could be easy to produce final products within a local and international level.

Mongolia's need for economic cooperation with another country apart from two neighbors. Historically, Northeast Asian countries have always been strategically important partners for Mongolia in terms of their geographical proximity, historical relationships and low transportation costs. Now these countries are becoming the most important partners for Mongolia.

The sustainable of the economy is the important for Mongolia. It requires paying attention to invest weak infrastructure.

Mongolia government needs to pay more attention to develop manufacturing sector. On the one hand, it is opportunity to create new workplace, other hand it can help for Mongolia economic development.

This country needs to implement strict policy for against corruption. Mongolia government needs to take good care of young workforce to get job otherwise labor outflow of Mongolia will increase.

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