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TRADE POLICY REVIEW

Report by

MONGOLIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Mongolia is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Mongolia.

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I. INTRODUCTION

1. Mongolia is one of the first economies in transition that became a Member of the World Trade Organization (WTO). By becoming the Member of the WTO in 1997, Mongolia has proven to support the concept of multilateral trading system and the trends of global economic development.

2. This is the first review of Mongolia's trade policy since its accession to the WTO, the main objectives of which are, as the Government of Mongolia considers, to bring to the attention of the Members the major results and changes that occurred in trade policy within the reporting period, as well as the current economic and trade situation of the country, issues, constraints and policy directions in the future.

3. The Government of Mongolia is ascertained that this first review shall play an important role in determining and bringing the economic development objectives to the right path, in coherence with rules and regulations of the WTO.

4. This Report by the Government attempted to reflect current economic liberalization issues, external trade and foreign direct investment (FDI) environment and structural changes therein, changes in major economic sectors, multilateral and bilateral trade situation and trends and directions in trade and economic development.

II. MONGOLIA AND MULTILATERALISM

5. It is the consideration of the Government of Mongolia that cooperation in multilateral trading system will play a significant role in economic development and bringing the living standards of the population up, especially for Mongolia, 50% of the GDP of which account for exports.

6. As of present, Mongolia does not belong to any of regional trade and economic agreements. This is the indication that Mongolia promotes open and liberal foreign trade policy. Nonetheless, the Government does not exclude the possibility of acceding to and/or initiating any such multilateral and bilateral agreements and with this purpose careful studies are being undertaken.

7. The Action Programme of the Government of Mongolia reflects to thoroughly study for possibilities that arise from regional cooperation agreements, possible accession to APEC and other similar agreements, as well as to increase Mongolia's role in regional development, promote and intensify trade and investment cooperation within the region and to negotiate free trade agreements with some of the countries in the region.

III. ECONOMIC AND TRADE DEVELOPMENTS: 1997 - 2003

8. Transition from centrally-planned economic system to market economy has started in Mongolia from early 1990s. As a result of decisive measures taken by the Government towards directing the economic development to the new path and creating new leverage for development as a whole, positive trends have started to occur from mid-1990s.

(1) CURRENT MACRO ECONOMIC SITUATION

9. Despite the fact that the country has faced considerable obstacles and constraints during the transition, the Government considers that it could overcome the economic difficulties of the period by ensuring socio-political stability in the country.

10. In the transition to market economy, economic reform has played a vital role. Within this framework, a number of measures directed towards privatizing state-owned enterprises, promoting private sector, developing national industries, liberalizing foreign trade, attracting FDIs, undertaking structural changes, carrying out adequate financial and monetary policies, recuperating and restructuring the banking system have been taken during the last period.

11. As a result, since 1993, positive indicators occurred in economic development. The real economic growth has reached 3.3% in average between 1993 and 2004. The real economic growth in 2002 was 4%, in 2003 5.5% and expected growth in 2004 reaches 8%. If inflation rate in 1995 was 53.1%, then in 1998-2003 it did not exceed the average of 10.0% annually. In 2002, it accounted for only 1.6% presenting the lowest level within the whole period. This indicates that macro economic and financial environments have substantially improved creating favourable condition for running businesses in Mongolia.

12. One of the indicators of macro economic situation is the exchange rate of Tugrug (national currency) against hard currencies. In the last 3-4 years, the exchange rate has been somewhat stable. In 2003 compared to that of 1995, Tugrug against USD depreciated by 2.5 times, to that of 1997 - by 1.4 times, to that of 2000 - by 6.4%, which means that between 1997-2002 it ranged on average around 17.2% annually. Between 1999-2002, Tugrug has depreciated in average by 5.4% annually.

13. As a result of comprehensive measures taken to overcome banking and financial crisis and the revitalization of the sector, the general trust of the people and of economic entities in banks has grown, bank reserves have increased and credit resources, which play an important role in economic development have, consequently, increased. The privatization process undertaken in the banking sector has given birth to new foreign-invested commercial banks, which in turn permitted the introduction of international banking management and of the 17 commercial banks operating today 5 are foreign-invested banks.

14. Besides, financial mediation services have started to develop since 1999 and non-banking financial institutions (NBFIs), as well as Savings and Credit Corporations (SCCs) have been established. As of 2003, 104 NBFIs were registered operating in mainly providing micro-credits, thus making certain contribution to the economy. SCCs have become big engines, which accumulate savings and provide credits.

15. The Law on Non-Banking Financial Services and related regulations adopted in 2002 have created the legal ground for such services. In 2003, the total credits of NBFIs increased by 51.7% reaching 18.9 billion Tugrugs compared to the previous year, thus accounting for 2.3% of the banking sector. As well, in total 33.8 billion Tugrugs were credited to individuals and entities by SCCs and accumulating 38.4 billion Tugrugs in savings.

16. Within the framework of economic stabilization objectives, certain measures have been taken to reduce unemployment. As such, the unemployment rate dropped from 5.5% in 1995 to 3.5% in 2003.

17. As of the end of 2003, the share of trade in the GDP reached 28.8%, of agriculture 20.0%, of transportation 15.1%, of mining 9.5% and of processing industries 6.0%.

18. The promotion of private sector was one of the major objectives of the Government of Mongolia. A particular attention was paid to privatization of state-owned enterprises. Livestock, crop land and trade sector were privatized since early 1990s and bigger entities such as the Trade and Development Bank, Agricultural Bank, NIC (petroleum distribution) and Mongol Daatgal (insurance) companies were privatized since 2000. The Government's Action Programme for the next four years

states that private sector is the engine that drives growth, thus it is stipulated to continue with privatization process, including big entities. Privatization resulted in that the 75-80% of the GDP is produced by the private sector.

(2) EXTERNAL TRADE AND FOREIGN DIRECT INVESTMENT

(a) Foreign trade

19. By becoming the Member of the WTO in 1997, Mongolia has chosen the path of multilateral trading system and made its principles the engine for development. 25%-30% of the GDP account for trade. This shows that the country's economy heavily depends upon external trade. Therefore, it is important for the country like Mongolia land-locked in-between the two giant states, to correctly identify and accurately implement trade policy. The choice of multilateral trading system and its principles, on the basis of which the pursuance of a more liberal trade policy in general has had positive reflection on the economy.

20. If in 1995, the total trade turnover of the country accounted for USD 937.2 million, in 2000 it reached USD 1,150.3 million, in 2001 USD 1,159.2 million, in 2002 USD 1,214.7 million and in 2003 USD 1,416.9 million that is compared to that of 1995 the increase by 1.5 times and to that of 2000 by 23.2%.

21. Although the total trade turnover has steadily been increasing, trade remains in deficit for the whole period except for 1993-1995. For instance, trade deficit in 1997 accounted for USD 16.8 million, in 2000 USD 78.7 million, in 2001 USD 116.2 million, in 2002 USD 166.7 million and in 2003 USD 185.1 million, which compared to 2000 is the increase by 2.4 times. The reasons lying behind the increase of trade deficit over years include trade dependency on few export commodities, high percentage of raw materials in exports, heavy dependency of these raw materials on world market prices, the ever increasing needs for imports and more costly foreign trade due to high transit transportation costs.

Table 1. Total trade turnover, USD million

	1995	1997	2000	2001	2002	2003
Total trade turnover,	937.2	919.8	1,150.3	1,159.2	1,214.7	1,416.9
of which:						
Export	521.9	451.5	535.8	521.5	524.0	615.9
Import	415.3	468.3	614.5	637.7	690.7	801.0
Balance	106.6	-16.8	-78.7	-116.2	-166.7	-185.1

22. If before 1990s, former Soviet Union and Eastern European countries took more than 90% of our total trade, after 1997 major changes have occurred in the geographical distribution of Mongolia's trade partners. Presently, Mongolia trades with more than 80 countries, the PR of China, the Russian Federation, the USA, the EU, the Republic of Korea and Japan being our major trading partners.

Table 2 below shows our major trading partners and their share in total trade.

	1995	1997	2000	2001	2002	2003
Total,	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
PR of China	13.0	32.0	34.8	32.3	32.0	32.2
Russian Fed.	29.5	27.0	21.8	23.4	23.5	21.6
USA	4.3	7.2	13.8	13.7	15.6	11.7
EU	10.8	14.3	9.2	9.2	7.3	9.4
Rep. of Korea	5.1	2.6	5.9	6.8	9.0	5.3
Japan	15.0	6.6	7.1	6.2	4.0	5.1

Since 1990, Mongolia has concluded nearly 30 bilateral trade and economic cooperation agreements.

23. In order to make the customs procedures more appropriate, the Customs and the Customs Tariff Laws were adopted in 1996 and subsequently amended in 2001, 2002, 2003 and 2004 respectively. The ASYCUDA (automatic system customs data) system was used since 1995, which was replaced by GAMAS (automatic system customs data) in 2003 facilitated a more simplified and speedy customs clearance procedures. As well, a "one-stop" service principle was introduced to fasten the customs services and to reduce the bureaucratic ladder for businesses.

24. The national standards are adopted by the National Standards Council on the basis of consultation between the Government, producers, businesses and the consumers. The Law on Standards and Conformity Assessment was renewed in 2003 to ensure the compliance with the WTO Agreement on Technical Barriers to Trade.

(b) Mongolia's bilateral trade relations

25. More than 50% of our total trade accounts for trade with the Russian Federation and the PR of China. The main export products of Mongolia to Russia are mainly products of animal origin and minerals, including beef, horse meat, fluorspar and copper concentrates and gold and to China are copper and molybdenum concentrates, wool, cashmere, hides and skins. Due to the reason that exports to these countries are dominated by agricultural products, they are fragile to technical barriers of these countries. Besides, access to the Russian market is becoming more problematic, import duties on Mongolian traditional products are sharply increasing and external trade activities are becoming more costly in relation to Russia's accession process to the WTO. In particular, Russia's transportation costs and export taxes have been increased, which negatively affect Mongolia's trade as a whole, and bilateral trade deficit is increasing year by year. As of 2003, compared to 1995, trade turnover with Russia dropped by about 10%, whereas trade with China increased by 3.5 times.

26. The share of the USA in the country's total trade was about 12% as at the end of 2003, that is compared to 1995 is the increase by 4 times. The major export goods include textiles. With the objective to increase trade and investment between the two countries, the Government of Mongolia aims to start the negotiations of a free trade agreement with the US. As such, an Agreement Concerning the Development of Trade and Investment Relations was signed between the two countries in July 2004. Under the Agreement, a Joint Trade and Investment Council has been set up.

27. Trade with the EU accounts for about 10% of our total trade. In 2003, trade between Mongolia and the EU increased by more than 30% compared to 1995. Gold, textiles and cashmere goods are the main export goods of Mongolia to the EU. The objectives in bilateral trade cooperation with the EU in the near future include the registration of Mongolian traditional export goods as

geographical indications, as well as seeking the possibilities of inclusion of Mongolian cashmere products in the EU GSP scheme.

28. Japan and the Republic of Korea together take about 10% of the total trade, of which 5.3% accounts for the Republic of Korea. Trade with Korea has increased in the last years. In 2003, compared to 1995, it increased by 1.6 times. Trade between Mongolia and Japan in 2003 has dropped by double compared to 1995, which is considered was mainly due to the Asia crisis of 1997-1998 and the substantial decrease of Mongolia's exports. There remain enough constraints in the increase of Mongolian exports to these countries as their tariffs and import requirements for animal products are still very high.

29. High costs for transportation through the territories of the Russian Federation, as well as of the PR of China and other obstacles in transportation make the transit transportation costly, thus difficult to access the markets in the EU, the US, Japan and the Republic of Korea. Taking this into consideration, expediting the negotiations of the tripartite Agreement on Transit Transportation between Mongolia, Russia and China is more than important for the country. Addressing these problems also requires additional technical assistance.

(c) Exports

30. Mongolian exports are composed of few items, namely minerals such as copper, molybdenum and fluorspar concentrates and gold, textiles and animal originated raw materials such as wool, cashmere, hides and skins, meat and intestines. Minerals and textiles account for more than 60% of total exports.

31. Over the last few years until 2000, there has been an increase in the share of exports in the GDP: 42.8% in 1997, 52.7% in 1999, 57.7% in 2000. However, in 2001 it dropped to 51.5%, in 2002 even more to 47.9%, recovering by a bit in 2003 reaching 49.3%. Such fluctuations were mainly due to natural disasters such as drought and dzud (harsh winter conditions) between 2000 and 2002, the decreased demand for copper and cashmere and the decline of the world prices for these commodities.

32. The country's main export destinations are the PR of China, the USA, the EU, the Russian Federation and Singapore.

Table 3. Mongolian exports, by countries, in percentage

	1995	1997	2000	2001	2002	2003
PR of China	14.9	51.9	51.2	45.7	42.1	46.1
USA	4.9	6.5	24.3	27.7	31.6	23.2
EU	11.7	9.1	7.7	7.2	6.3	7.4
Russian Fed.	13.2	18.3	8.4	8.6	9.2	6.7
Singapore			0.01	0.03	0.02	5.7

33. With the purpose of increasing exports and their diversification, no taxes are levied upon exports, except for certain goods such as raw cashmere, iron, copper, aluminium wastes and wood. A national programme to Promote Export-Oriented Production was launched in 1998 to strengthen the economic capabilities of the country and to ensure sustainable development through the accumulation of savings and the increase of hard currency reserves. In addition, an Export Promotion Centre was established under the Foreign Trade and Foreign Investment Agency in 2002.

34. Some of the Mongolian export items enjoy preferential tariffs under the GSP schemes of the USA, the EU, Canada and Japan.

35. The Government aims to pursue the trade policy that would facilitate the one-sided structure of exports. Within this framework, the objectives are to diversify exports, promote new products, improve their competitiveness, reduce trade barriers, develop business relations with the South and North Eastern Asia and Europe, as well as actively work towards including more Mongolian products in the GSP schemes of developed countries.

(d) Imports

36. The country's imports are more diverse and less centralized compared to its exports. For instance, heavy machinery, equipment, electrical appliances counted for 21.0% of total imports in 2003, fuel 20.8%, vehicles 10.8%, textiles 10.4% and food and foodstuffs 7.7%. The imports of these goods account for more than 70% of total imports.

37. Import duties kept changing over the last years. In 1997, import customs duties were removed, between 1999-2000 import tariffs were imposed at 5.0%, in 2001 it was 7.0% and from 2002, the current tariff rate of 5.0% was imposed, which compared to many countries is a fairly low level and this shows that the country is committed to more liberal trade. On the other hand, such a low tariff is followed to promote the capacity of producers and traders to allow them to compensate for high transit transportation costs. In other words, higher import duties would particularly increase the consumer prices, thus make the supply of food and consumer goods difficult to access. The Government aims to impose differentiated import duties in order to promote domestic production, encourage the transfer of advanced technology, as well as for the concerns related to food security and better quality foodstuffs.

38. The share of imports in the GDP in 1997 accounted for 44.4%, in 1999 with some increase it reached 56.6%, in 2000 it reached 63.3%, whereas in 2001 it decreased to 52.6%. In 2002 and 2003 it increased more reaching 58.0% and 67.0% respectively.

39. The main importing countries to Mongolia are the Russian Federation, the PR of China, the EU, the Republic of Korea and Japan.

Table 4. Mongolian imports, by countries, in percentage

	1995	1997	2000	2001	2002	2003
Russian Fed.	50.1	35.4	29.2	33.6	34.7	33.1
PR of China	10.7	12.9	20.5	18.8	24.3	21.8
EU	9.5	19.3	10.4	10.4	8.1	10.9
Rep. of Korea	5.2	4.4	9.0	9.1	12.5	8.5
Japan	10.9	7.4	11.9	8.8	6.2	7.9

Imports from the above five countries account for more than 80% of the total imports in 2003.

(e) Foreign Direct Investment (FDI)

40. "Investment Programme", a mid-term policy and strategic activities for FDI, was launched in 2001. Among other activities, with the purpose of attracting FDIs, the year 2002 was announced the Year of Investment Promotion, within the framework of which an International Forum of Investors was organized. As well since 2002, the forum of investors in the mining, agricultural and other sectors has been organized annually, which resulted in the increase of FDIs by 40% in 2002 compared to the previous year. In total, FDIs made to Mongolia since 1990s reached USD 1.3 billion. In figures, the FDI made between 1997 and 2003 increased by 5.8 times compared to that between 1990 and 1996.

Table 5. Foreign direct investment, USD million

	FDI (1990-2003)	1990-1996	1997-2003	Increase
Total,	1,114.7	164.5	950.2	5.8 times
of which:				
PR of China	337.7	13.6	324.1	23.8 times
Canada	133.8	0.1	133.7	1,337 times
Rep. of Korea	83.3	9.2	74.1	8 times
Japan	60.5	23.7	36.8	1.6 times
USA	36.6	14.2	22.4	1.6 times
Russian Fed.	34.0	14.1	19.8	1.4 times

41. A particular attention was paid to the creation of a more favourable environment for FDIs. The necessary amendments made to the Foreign Investment Law of 1993 served a major pillar to attract and protect FDIs. These amendments include the expansion of forms and types of FDIs and the legal ground for concluding "Stability Agreements" has been established.

42. To protect and promote FDIs, the Government has concluded Agreements on the Promotion and Mutual Protection of FDIs with about 40 countries and Agreements on the Avoidance of Double Taxation with more than 30 countries.

43. Mining, information and technology, agricultural production and tourism have been identified by the Government as priority sectors for development and FDIs. The imports of some equipments and heavy machinery in these sectors enjoyed customs and VAT tax exemption.

44. The Government considers FDI as an important thrust in the economic development of the country. In reaching its objective to ensure a 6% annual economic growth, the Government in its Action Programme stated to create an environment that protects FDIs. Within the framework of this Programme, a policy that creates incentives for both foreign and domestic investment and a more stable legal environment, attracts new sources of FDIs, as well as to ensure a more effective use of FDIs will be carried out.

(3) LEGAL AND STRUCTURAL CHANGES IN EXTERNAL TRADE

45. Since its accession to the WTO, the Government has undertaken a number of measures directed towards refining and making trade laws in line with the WTO rules, regulations and requirements. The Insurance Law, the Food Law, the Labour Law, the Accounting Law, the Land Law, the Company Law, the Bankruptcy Law, the Free Zone Law, the laws on the Legal Status of Altanbulag and Tsagaannuur Free Trade Zones, the Law on the Legal Status of Zamyn-Uud Free Economic Zone, the Licensing Law, the Immovable Property Law, the Trademarks and Geographical Indications Law, the Civil Code and the Quarantine and Inspection for Transferring of Animals, Plants, Raw materials and Products of Their Origin Through the State Border Law were adopted. The unnecessary amendments were made to the Customs Law, the Customs Tariff Law, the Minerals Law, the Standardization and Conformity Assessment Law, the Environmental Protection Law, the Excise Tax Law, the VAT Law, the Foreign Investment Law, the Copyright Law, the Patent Law and the Taxation Law.

46. Previously specialized inspections, for example, standards, insurance, labour, environment, veterinary inspections, hygienic and sanitary inspections were carried out by inspection units under respective ministries. Since 2002, all these separate specialized units were brought under a single

umbrella organization-the State Specialized Inspection Agency, thus inspection services are provided at a one-stop-service principle.

47. In order to provide the local population with better quality and cheaper foodstuffs and consumer goods on one side and to purchase animal-originated raw materials such as wool, cashmere, hides and skins from herders and supply the domestic industries with raw materials on the other side, the Wholesale Network Programme was launched in 2002 by the Government. At present, the programme is being implemented in 14 aimags (provinces) of the total 21.

48. The Parliament Resolution No. 5 of 1998 on the "List of goods prohibited to cross the borders and the goods subject to non-tariff regulation" and the Government Resolution No. 219 of 2002 on the "List of licensed goods", together with this "Regulation on export and import licensing of goods subject to state control" set the list of prohibited goods and goods allowed for import and export with licenses. In accordance with the Regulation, the number of licensed goods was reduced from 19 groups of products to 9, which are coherent with international practice of licensing, i.e. previously licensed 4,000 types of chemicals were reduced to 300. Breeding animals, rare and very rare animals, raw materials therefrom, semens of animals, cultures of micro-organisms, uranium and thorium ores and concentrates, poisonous chemicals, human blood and organs for therapeutic and prophylactic purposes, explosives and guns are subject to licensing. Licensing is carried out by sectoral ministries and the Ministry of Industry and Trade is responsible for accumulating the information.

49. A number of projects implemented in trade and industry fields in the last years with the financial assistance of international organizations and donor countries, including the ITC, UNIDO and ADB have been resultful. As well, the German-funded projects on International Trade Policy/WTO and on Export-Oriented Trade and Industrial Policy are considered to be the successful ones.

50. Mongolia has set up bilateral intergovernmental foras in the form of committees and roundtables with some of its trading partners to discuss relevant issues concerning trade, economic, cultural, scientific and technical cooperation. For instance, such committees are established with the Russian Federation, the PR of China, the EU, Bulgaria, Hungary, the Czech Republic, Austria, Finland, the Republic of Korea, France, India, Kazakhstan, the Kyrgyz Republic, Ukraine, Belarus, Vietnam, Cuba and Turkey and with the UK, Canada and the DPR of Korea discussions are organized as roundtables. The Government Resolution 214 of 2004 nominates the heads of the Mongolian side of the committees.

51. There is a fora for discussion of WTO-related matters as well. The first inter-ministerial working group headed by the Minister for Industry and Trade established in 2001 was re-established in November 2004. The working group is composed of representatives of respective ministries' and agencies' and has the mandate to discuss the issues related to trade and the WTO in particular and drawing recommendations to the Government.

52. A specific attention was paid by the Government to the importance of the private sectors participation in developing and formulating trade policy. With the purpose of creating partnership and cooperation between governmental and non-governmental organizations and the private sector and making recommendations to the Government, a Consultative Committee with equal representation by the parties was established in 2001. As well, to ensure the involvement of professional associations in developing and promoting industrial and investment policies, close cooperation is maintained between the Government, the Mongolian National Chamber of Commerce and Industry, the Mongolian Employers' Federation and other professional associations.

IV. MAJOR ECONOMIC SECTORS OF MONGOLIA

Mining

53. Mining is one of the major sectors that plays an important role in the economy of the country. As of 2003, the share of the sector in the GDP accounts for 9.5%. Between 1995 and 2002, the sector takes 49%-50% of the total industrial output and in 2003 it reached 54.3% of the industrial output counting for the highest percentage in the last 10 years. Minerals accumulate 50% of our total export revenues.

54. Since 1997, there was a little or no substantial changes in the structure of minerals exports and in 2003, 26.6% of exports were copper concentrate, 22.7% - gold, 3.2% - fluorspar concentrate and 2.4% - molybdenum concentrate.

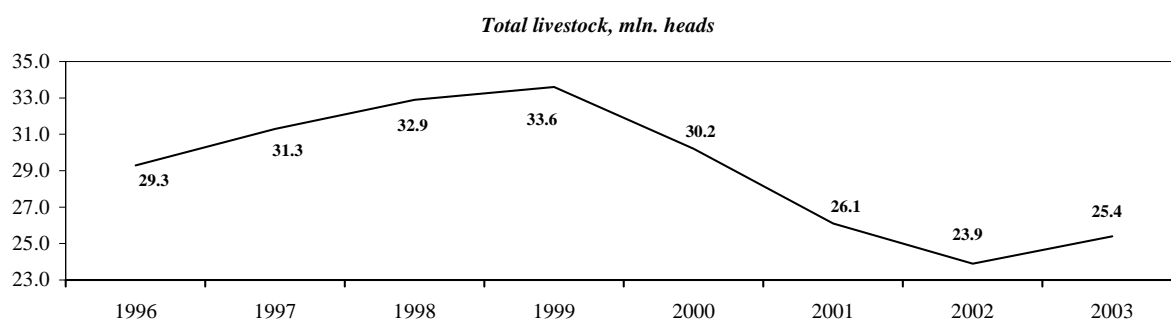
55. The Government set out the policy and directions in mining sector until the year 2010 and created the legal environment for Stability Agreements in order to attract and increase investment in this sector. As a result of a number of specific measures, investment in the sector in the last four years has increased by about four times.

56. Oil and oil extraction has started to play certain role in the economy. If before 2000 oil extraction took only 0.1% of total industrial output, then in 2003, it took 0.7%. As a result of appropriate measures taken by the Government in this sector, foreign investment in the sector has been gradually increasing since 1993 to 1998 reaching the highest point of USD 32.7 million. However, since 1999, investment has dropped and currently, the annual average of investment is USD 7.8 million.

57. In the future, a particular attention is to be paid to environmental rehabilitation of mining areas, the increase of minerals' exports, the increase of oil extraction and the creation of processing capabilities of crude oil.

Agriculture

58. The share of agricultural sector in the GDP in 1995 was 38%, in 1996 – 43%, in 1997 – 36%, in 2000 – 29%, in 2002 and 2003 – 20%. Livestock, one of the major constructors of agricultural output, counted for about 85%-87% of the total agricultural output between 1995 and 2000. In 2001-2002, it decreased to 80%. The reason is that between 1995-1999 the number of the heads of livestock has intensively grown to reach 33.6 million, which by 2003 decreased to 25.4 million heads. Such a sharp decrease was resulted by natural disasters, which caused the loss of more than 10 million heads of livestock.



59. The total agricultural output in 2003 accumulated USD 329.4 million, of which livestock accounted for USD 262 million and crops - for USD 67.4 million. If due to the reasons stated above, livestock has decreased, crops, on the other hand, shown some increase. Agricultural production, one of the major sources of the country's economic development, has faced substantial difficulties in the beginning of 1990s and domestic production had virtually collapsed. To halt the down-fall of the sector and put the sector into the right path of development and ensure its further growth were the issues of concern for the Government and as such, major changes have been undertaken since 1990s. Livestock and crop-land were privatized. Various programmes have been implemented at the national level to increase employment in the sector, to address the issues of poverty, to prevent from natural disasters, to introduce new technology and machinery, to ensure food security, to protect plants and to control pest and disease. An international forum of investors in the agricultural sector was organized in 2004 with the objective of attracting investors to the sector. These measures have resulted in the increase of agricultural output and in 2003 compared to that of the previous year increased by 7.5% and compared to 1995 increased by 44%.

60. Decrease of agricultural output in the last four years was mainly resulted from natural disasters and in 2003 as the heads of livestock grew, agricultural output increased.

61. In 2003, the Government adopted the "Food and Agriculture Policy" until the year 2015, which aims to create a better economic and business environment, increase production capacity and capability, ensure stable development and growth of livestock, crop and food sectors, produce a more ecologically clean and safe foodstuffs and improve their quality and distribution. A detailed work-plan was developed to ensure the implementation of the policy, which is being monitored.

62. The Government intends to privatize the land in the local areas, thus to open possibilities for local population to enjoy the benefits of it, to improve access to water in gobi and steppe areas, to promote farming and intensified agriculture, to improve the processing of agricultural products, as well as to provide the necessary support to the production of ecologically clean products and create markets for special quality livestock originated products.

Industry

63. Industry plays an important role in the economic development of the country. From the beginning of the 1990s to 2000, total industrial output decreased by 31% but increased by 11.8% in 2001, by 3.8% in 2002 and by 2% in 2003. The Government announced the year 2001 the "Year of Promoting National Industries", within the framework of which the Government put the objectives to define the priority sectors of economic development, create a more favourable legal environment for investment and to begin industrial technological renovation and it continues the implementation of these objectives. The collapse of processing industry has been halted and total production of the sector increased by 22.7% in 2001, by 24.3% in 2002, by 36.7% in 2003, accounting for 28% of the gross industrial output.

64. In order to strengthen competitiveness of products, introduce modern management, techniques and technology in priority sectors such as mining, meat, wool, cashmere and hides and skins processing industries, various concepts and programmes such as on "Cashmere", "Wool", "Hides and skins", "Wholesale Network Programme", "Short-term Development Concept on Geology and Mining", the "Concept of Developing Oil and Petroleum Sector until 2010" have been implemented and positive results have occurred in the development of the industrial sector.

65. The Government's policy in the sector is directed towards the implementation and establishment of free economic and trade zones, industrial parks to promote small and medium-sized

enterprises (SMEs), expansion of micro-credit system and promoting the use of industrial machinery and equipment via soft loans and leasing.

Energy and petroleum

66. Major restructuring of the sector started from the year of 2002 by adopting the "Energy Law". 18 private companies, which produce, transfer and distribute electricity and thermal energy, were established to open the sector to market competition.

67. As part of restructuring, an independent mechanism was created by establishing the Energy Coordination Authority (ECA), as a result of which opportunities opened up for attracting foreign and domestic investments. A more competitive services started being provided to the users of electricity and thermal energy, as well it ensured a more effective utilization. In 2003, qualitative results occurred for the first time and the sector's income was about USD 0.3 million.

68. For the fuel, the extraction of coal in 2003 compared to that of 2000 increased by 15.6% reaching 5.9 million tones. The renovation of technology and equipment of coal mines resulted in the full supply of domestic needs for coal and there is a plan to export 1-2 million tones of coal.

69. The share of electricity and energy in GDP has gradually been increasing in the last few years and reached nearly 11.5 million Tugrugs (about USD 10 million) in 2003 taking 1.6% of the GDP. The processing of electricity and energy in 2003 compared to 2000 increased by 6.5%, thus decreasing the importation of electricity and energy by 7.3%. The total production of thermal energy in 2003 increased by 2.8% compared to the previous year and compared to 2000 – by 3.6%. This was reasoned by the substantial increase of new buildings and constructions. As well, the consumption of thermal energy also increased in 2003 by 1.1% compared with the previous year and by 0.4% to compare with 2000.

70. Imported electricity shares 5.2% of the total consumption and in the future there is a plan to establish resources with the capacity to produce more than 100 mVATTs.

71. In order to improve the supply of energy, the Government is planning to build hydro-power stations in Western and Central regions, to establish more power cables and to implement programmes on the use of optional energy sources such as solar and wind.

Communications

72. From the end of 1990s, transit to the market economy was successfully carried out by increasing the efficiency of information and communication sector, improving the structure and administration and by renewing the technology of the sector. In 2001, the "Telecommunications Law" was amended and in 2003, the "Law on Postal Services" was adopted. In addition, several measures such as liberalization of the information and communication sector, promotion of fair competition and establishment of public service fund were undertaken, and the Information and Communication Coordination Committee was established. The Committee carries out such activities as issuing of licenses, eliminating restrictions, deepening the openness of the market, promotion of fair competition.

73. In 2000, the Mongolian State Great Hural adopted "The Concept for the Development of Information and Communication Technology of Mongolia to 2010", in accordance with which a "Medium-term strategy to develop information and communication technology" was approved in 2002 and it is being implemented.

74. Taking into account the rapid enhancement of various services based on the information technology "Law on Information Security", "General Law on Information Technology", "Law on E-signature", "Law on E-agreement" and "Law on E-governance" have been drafted. Citizens are provided with the opportunity to follow the activities of the Government and to participate in drafting of laws by giving their comments through "Open government" website on www.open-government.mn operating within the framework of the law.

75. As a result of the above mentioned measures and introduction of new technologies into the communication sector, income of the communication service increased dramatically in the last years and reached 92.4 billion tugrug in 2003, which increased 5.8 percent in comparison with the previous year and 2.9 times in comparison with 2000. The number of mobile telephone users has increased reaching 75.1 thousand in 2000, 91.2 thousand in 2001, 256.8 thousand in 2002 and 319.4 thousand in 2003. The number of internet users has also increased continuously and reached 11.2 thousand in 2003, which is 12 percent more compared to the previous year, and it doubled compared to the year 2000.

76. In 2002, the telecommunications service monopoly was dismantled and the basis for a fair competition regime was established; competitiveness was introduced into the internet service, international and domestic postal services, information technology utilization and services and the market was opened up. Besides, "Mongolian Telecommunication" company – the only state-owned company in the information and communication sector is scheduled to be privatized in 2005. Within the framework of the sector's development policy and strategy measures aimed at opening up the service market, eliminating restrictions, coordinating utilization of radio waves, as well as prices and tariffs, facilitating exchange tariff system, establishing an unified information system, implementing "e-Mongolia" program, introducing e-commerce, e-service, distance-training, e-publication and distance-diagnosing and amending related laws and regulations are planned to be carried out.

Transport

77. The Laws on Auto Transportation and Air Transportation were adopted by the Mongolian State Great Hural in 1998 and 1999 respectively. Mongolia joined conventions on international transit transportation – TIR and on the contract for the International carriage of Goods by road (CMR) in 2001 and 2003 respectively.

78. As of today, Mongolia has signed inter-governmental agreements on transportation with 7 countries. Mongolia has concluded bilateral transit agreements with the PR of China (1991) and the Russian Federation (1993), as well as working on establishing a triangle framework agreement on transit traffic between the People's Republic of China, Mongolia and the Russian Federation.

79. The share of transport and communication sectors in the GDP reached 13% in 2003, which is an increase in comparison with the previous year. This share was 6.3% in 1995 and 9.3% in 2000. Total freight by all means of transportation was 17.6 million tons in 2003, 13.5 million tons in 2002, 10.6 million tons in 2000, 8.9 million tons in 1995 respectively. In 2003, the total freight increased by 30.2% to compare with the previous year, by 65.6% to compare with 2002 and doubled from 1995.

80. Freight forwarding consists of 69.7% by rail, 30.2% by roads and 0.1% by air. In 2003, total freight transportation turnover was 7,504 million tons/km or increased by 13.6% compared with the previous year, by 67.8% compared with 2000 and 3 times to compare with 1995. Railway freight has been continuously increasing in recent years and reached 12.3 million ton/km in 2003, which is 5.5% increase compared with the previous year, 34.1% compared with 2000 and 68% compared with 1995. However, air freight has been showing a tendency to decline in the last 2 years, which is connected to

the development of rail and road transportation. The "Concept to Develop Rail Transportation" was approved recently and within its framework several measures such as change of information and communication inflow cables into optical cables, improvement of road conditions, and development of industrial bases are being carried out.

81. Mongolia has concluded agreements on the utilization of Mongolian air space with 37 foreign invested air companies and provided flight administrative services (instructions) for about 120 thousand flights during 2000-2003, ensuring secure air travel. Privatization of this sector started in 2003 and will end in the first half of 2005.

82. The "Millennium Road" programme was launched in 1999 in order to link the Western part of Mongolia with its Eastern part by auto-road. Except for one state-owned company all auto road transportation companies have been privatized. In 2003 the number of all kind of vehicles which have gone through state technical inspection has increased by 29.4% compared with 2000 and by 87% compared with 1995.

83. Duplicated statistics show that the passenger transportation in 2003 was 167 million persons, which is the increase by 58.8% compared with the previous year and by 80.5% compared with 2000.

Construction and urban development

84. Construction, installation and capital repair works have been continuously increasing since 1995. For instance, increases were in 2000 by 2.1 times compared to 1995, 3.1 times in 2002 and 3.6 times in 2003. In 2003, 57% of construction installation and capital repair works were carried out by domestic companies, while 13% by joint ventures and 30% by foreign companies. Share of new buildings completed by construction companies in the construction, installation and capital repair works were 74.8% in 2000, 78.4% in 2002 and 81% in 2003.

85. As of today, there are 733 construction and installation companies, 118 engineering and exploration companies carrying out activities under special licenses and around 70 construction material plants are operating in Mongolia.

86. The "Law on Construction" and the "Law on Water Supply of Urban Area and Utilization of Cleaning Pump" were adopted in 1998 and 2002 respectively. Privatization of the construction sector is basically finished as a result of set of measures aimed at enrolling non-privatized companies into the annual privatization programme of the Government.

87. With the aim to intensify the development of the infrastructure sector, the Government of Mongolia is focused on continuing to implement developing programmes on energy, auto-road, telecommunication and information network, to improve competitiveness of rail transportation, to build infrastructure in major deposits, to introduce high tech, know-how, to increase international flights using Mongolian air space.

Banking and finance

88. Mongolia has transferred into two-tiered banking system by adopting the "Banking Law of Mongolia" in 1991. As a result of decisive actions undertaken by the Government and the Bank of Mongolia to overcome transition crisis, the banking sector began to show signs of recovery since 1999; moreover stability in the financial sector has been strengthened and financial intermediation has been intensified. In 2003, private deposits allocated in commercial banks increased by 66.4% from the previous year and loans issued to business entities and individuals by 91%.

89. As a result of restructuring of the banking sector transaction between commercial banks are intensified. Although the monetary market of Mongolia is yet to be centralized, today, Tugrug and foreign currency transactions between banks are being actively carried out. Tugrug and foreign currency contracts between banks reached around 39 billion Tugrugs in 2003 and transactions of 333.9 billion Tugrugs with an average interest rate of 10-16 percent have been made.

90. Certain results are being achieved according to measures undertaken within the State monetary policy, focused on ensuring and strengthening the stability of the financial sector, providing banks with conditions to conduct their businesses in accordance with international standards, making financial institutions transparent and open to the public, conducting supervisions in line with internationally accepted methods and means.

91. Government is planning to strengthen the financial market, to develop financial intermediation, to intensify secondary market of bonds, to issue government bonds into the international market, to improve the legal environment for banking, to reduce interest rates of loans and to strengthen the security of private accounts.

Tourism

92. The Government identified tourism as a priority sector for development. As a result of measures aimed at improving harmonization, coordination and management between sectors, developing infrastructure and advancing the quality of services to international standards, the contribution of the tourism sector in the GDP reached around 10% in 2003. If the number of tourists visiting Mongolia in 1996-1999 was 388.1 thousand, in 2000-2003 it reached 733.1 thousand persons, increasing by 1.9 times and the total income of the sector in the same periods grew from USD 82.8 million to USD 445.7 million or increased by 5.4 times.

93. In order to promote Mongolia in foreign countries and to increase the number of tourists, the Government announced 2003 as the year of "Visit Mongolia" and as an outcome of specific activities undertaken by the Government, the number of tourists increased by 12% compared with the previous year. Based on the experiences of other countries, where tourism is highly developed and where a "visiting year" is proclaimed for several years under specific themes, the Government renounced the year 2004 as the year of "Discover Mongolia". As result of numerous actions taken in order to attract tourists and to improve services 285 thousand tourists came to Mongolia and earned USD 241 million as of November 2004.

94. Tourism sector is fully privatized and many domestic and foreign investors have entered into the sector and carrying out activities. As of the first 11 months of 2004, more than 500 entities are dealing with tourism in Mongolia, 60 percent of which are foreign invested entities.

95. Mongolia is a member of the World Tourism Organization. In order to facilitate tourism, eliminate any barriers occurring with receiving tourists and ensuring their security, as well as to improve the legal environment of tourism, Mongolia has signed inter-governmental Agreements on cooperation in tourism sector with the Government of the PR of China, the Republic of Korea, India and Kyrgyz Republic.

96. The Government of Mongolia encourages environmentally friendly tourism development policy, preserving national history, cultural heritage and custom, and furthermore is planning to implement measures aimed at setting up tourism camps that meet international standards and service requirements, intensifying the development of domestic tourism and reducing seasonal reliance.

V. MULTILATERAL TRADE COOPERATION

(1) MONGOLIA AND THE WORLD TRADE ORGANIZATION

97. Mongolia has continuously been encouraging multilateral trading system. Mongolia has, in the past, pursued a more open and liberal trade policy, eliminating step-by-step trade barriers by cutting high tariffs and reducing non-tariff measures. Although these measures resulted in the increase of the number of our trading partners and the advantage for Mongolia to trade with other countries on MFN-basis, our trade deficit does not decrease. This, in major part, is related to the high tariffs and tough non-tariff measures maintained by our trading partners. As such, due attention was paid to the use of advantages of multilateral trading system and strengthening the national capacity. Despite the successful implementation of a German-funded project on International Trade Policy/WTO, considering the complexity of the WTO agreements, additional technical assistance is required to ensure the full implementation of the agreements.

The Doha Development Agenda

98. The Government of Mongolia is convinced that trade liberalization plays and should play a vital role in improving the living standards of not only Mongolians, but the world population as a whole, and fighting poverty and positively affect the development of all countries. From this point of view, the Government is working to make the necessary contribution to successful implementation of the Doha Development Agenda.

Agriculture

99. Agriculture as one of the essential components of the DDA is an influential part in building a fair trading system. Agriculture, specifically livestock, is the major economic sector of the country. Therefore, the Government attributes major importance to the liberalization of trade in agriculture. In the past, the Government has eliminated export subsidies and domestic support systems in the sector and imposed a single tariff of 5% across the board, except for certain strategic goods, on which seasonal tariffs are followed. The support measures have been taken within the framework of the Green Box and the Agricultural Agreement requirements.

100. High tariffs, strict sanitary requirements, as well as huge export subsidies and domestic support provided to the sector by the developed and some of the developing countries create unnecessary barriers to access their markets and increase agricultural exports of developing countries. It is more than necessary to take measures directed towards improving the quality of agricultural products of mainly developing countries, thus increasing their competitiveness. For this purpose, more technical assistance is sought from donors. In addition, a joint effort is called to make the unnecessary barriers to trade, in terms of standards and other requirements, appropriate.

101. In agricultural negotiations Mongolia, as a developing country, has in the past and will maintain and support the issues related to food security, rural development and environment.

Non-agricultural market access

102. The Government of Mongolia is in support of "negotiations, which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries" as stipulated in the Doha Declaration. Mongolia, despite the deficit of its budget, within its commitments and to comply with the WTO agreements, maintains a

single duty rate of 5% on almost all products across the board that is a fairly low rate compared to other countries and it is of the position to cut the tariffs in differentiated form for non-agricultural goods, in other words, high tariffs should be subject to more reduction.

Services

103. Since its accession to the WTO, Mongolia has not taken additional commitments in services. In the services negotiations, Mongolia has not yet expressed its positions, although it carefully studies the process of negotiations and the positions of other countries. In the future, the Government intends to work more actively in this sector to express the Government's views and ideas upon it.

104. It is appropriate that the negotiations in services be directed towards ensuring the promotion of all participants' economic growth, as well as the development of developing countries and the land-locked developing countries in particular. At this point, the Government of Mongolia is of the position that the negotiations should be directed to open the markets of developed countries to developing countries in terms of the issues related to the movement of the population and increasing the types of services.

105. At present, markets for trade in services are open in Mongolia and the country does not maintain other types of barriers therein.

106. In developing countries the level of quality, standards and technical regulation is relatively different and the capacity is lacking. Therefore, more technical assistance is required from international organizations and donors.

Trade facilitation

107. This is an issue that has a particular importance in increasing trade especially for small island and land-locked developing countries with vulnerable economies. The Government of Mongolia has always maintained a pro-trade facilitation position.

108. Transit transportation costs for land-locked developing countries is relatively high (double) than for countries with access to the sea. Thus, the Government of Mongolia considers that provision of special and preferential tariffs for transportation by transit countries to land-locked developing countries would greatly contribute to fair competition.

109. The provisions in Articles V (Freedom of transit), VIII (Fees and Formalities connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations) of the GATT have very specific significance in trade expansion.

110. Removing technical barriers to trade and reducing non-tariff measures will further contribute to trade liberalization and making trade freer in this globalizing world. Once again, the Government of Mongolia notes the necessity of technical assistance to build the capacity of developing countries in this particular issue. In the past, the Government of Mongolia jointly with the WTO and the ITC organized a national seminar on trade facilitation, as well it invited experts from these organization and the UN for making recommendations to the Government.

Rules

111. With regard to anti-dumping, subsidies and countervailing duties, Mongolia has not up to now taken any measure against any country and no country has taken similar measures against Mongolia. Presently, the Government is working on draft laws on these issues. Within the framework of the

WTO Agreements on Anti-Dumping and on Subsidies and Countervailing Duties, it is necessary to refine the domestic rules and regulations and relevant laws need to be drafted. The Government considers that the implementation of present WTO Agreements and commitments, more and effective technical support is required in general.

Intellectual property rights

112. Since its accession to the WTO, Mongolia has attributed due importance to the implementation of the TRIPS Agreement, thus bringing the national legislation into compliance with the Agreement and acceding to international IP conventions. In 1999, the Patent and Copyright Laws were amended and in order to ensure the implementation of IP laws, State IP Inspection Unit was established in 2000. A new law on Trademarks and Geographical Indications was adopted in 2003. Mongolia became a party to the Berne Convention for the Protection of Literary and Artistic Works in 1998 and in 2002, the decision was made to sign the WIPO Copyright and Phonogram Producers Treaties. However, there remain difficulties in the implementation of some of the provisions of the TRIPS Agreement, namely with regard to the control of IPR-infringing goods, strengthening the border control for and border measures against such goods. In this relation, technical assistance is required from the WTO in these particular enforcement measures.

Special and differential treatment

113. S&D treatment, as one of the major instruments of the multilateral trading system to diminish the disparities in development between the Member States, it is considered that it should have a legally binding effect on all Members.

Other negotiation issues

114. The Government of Mongolia supports the notion that multilateral rules on Singapore issues on investment, competition, trade facilitation and transparency in government procurement will further facilitate a more predictable global trade. The Government of Mongolia is supportive of the inclusion of trade facilitation in the DDA. Nonetheless, with regard to other Singapore issues, the Government is of the view that they need to be further examined within the WTO work programme.

115. Mongolia is a land-locked country with small and vulnerable economy, dependent upon few export items. Therefore, Mongolia was one of the initiators for establishing a group of land-locked developing countries within the WTO. At the Fifth Ministerial Conference of 2003 in Cancun, a communique was distributed by a group of land-locked developing countries.

(2) REGIONAL COOPERATION

116. Besides supporting and promoting the principles of the multilateral trading system, the Government of Mongolia it attributes due importance to the regional cooperation in the Asia and the Pacific. At present, Mongolia is the sole country that does not belong to any of the regional agreements. However, the Government attentively follows the activities of the ASEAN, the APEC and the PECC and maintains the observer status in some of them. As well, Mongolia participates in the economic cooperation in North-Eastern and Central Asian countries. The accession to the Bangkok Agreement is being carefully studied. In the future, it is intended to ensure a more active participation of the country in working groups of the APEC and possible accession to it.

(3) FREE TRADE AGREEMENTS (FTAs)

117. It is noted herein that the support from the bigger trading partners of the country plays an important role in the development of trade relations of such countries like Mongolia, land-locked with small and vulnerable economy and dependent on external trade. As such, the Government is making efforts to resolving trade issues that are hindered within multilateral trading system through bilateral mechanisms. For instance, the initiatives are being made to launch the negotiations of free trade agreements with our major trading partners such as the US, the EU and others.

(4) FREE TRADE AND ECONOMIC ZONES

118. With the objectives to increase trade, attract more investment and promote export-oriented industries, the Government is working towards establishing free trade and economic zones, as well as industrial and technological parks. The legal basis for such endeavours has been established by adopting the General Law on Free Zones, the Laws on the Legal Status of Altanbulag (in the northern border) and Tsagaannuur (the western part) FTZs and of Zamyn-Uud (southern border) FEZ in 2002, 2003 and 2004 respectively. "The Concept to Develop Industrial and Technological Parks" was approved by the Parliament Resolution No.54 of 2003.

VI. FUTURE TRADE AND ECONOMIC POLICY DIRECTIONS

119. Mongolia chose to develop a democratic society with market economy and since 1990 up to now, it has been striving after this goal. Within the framework of this objective, the pursuance of a policy to develop freer trade and economic relations has resulted in the stabilization of a macro economy. To strengthen these positive results, ensuring further stabilization of the economy and its growth remain the objective of the Government.

120. The new Grand Coalition Parliament and the Government formed as a result of the 2004 elections are working in the absolutely new conditions. In its Action Programme for 2004-2008, the Government aims to "deepen legal reforms in all spheres of political, economic and social life, sustain higher rates of stable, private sector-led economic growth by providing support for access to new markets on the basis of knowledge and information, and by implementing a regional development concept to reduce disparities in development between urban and rural areas".

121. Within the framework of the above objectives, the Government aimed to maintain the economic growth at 6% annually through increasing exports and FDIs, promote industrial, agricultural and service sectors and diversify exports, create a more favourable and reliable environment for investment and to ensure economic growth through a more active external trade policies.

122. To meet these goals, a draft concept to develop the country's external trade in the near future has been formulated. The concept reflects the purpose of developing and increasing trade relations of the country with our trading partners, strengthening regional and multilateral trade and economic cooperation, as well as with the WTO, pursuing the policy of promoting the production of final products and their exports and refining the legal environment. The concept is to be submitted to the Government in the near future. In accordance with the concept, it is aimed to increase trade turnover by the end of 2008 by 1.5 times compared to that of 2003, increase export sources to not less than USD 100-150 million yearly from 2006, maintain the share of exports in the GDP at no less than 60%, increase the FDIs by the end of 2008 by 2.2 times compared to 2003, pursue a more flexible import duty rates, promote trade facilitation and make the flow of trade freer by eliminating barriers to trade.