



“Analysis of Mongolian economic structure”

(Part 1 of 2)

GDP growth

In the latest issue of Mongolian Economy Update by the World Bank, says, in 2014, Mongolian economic growth has slowed as it began to adjust to unsustainable economic imbalances.

#206, Elite Complex B,
Chinggis Avenue 14, 1st khoroo
Sukhbaatar district
Ulaanbaatar,
Mongolia

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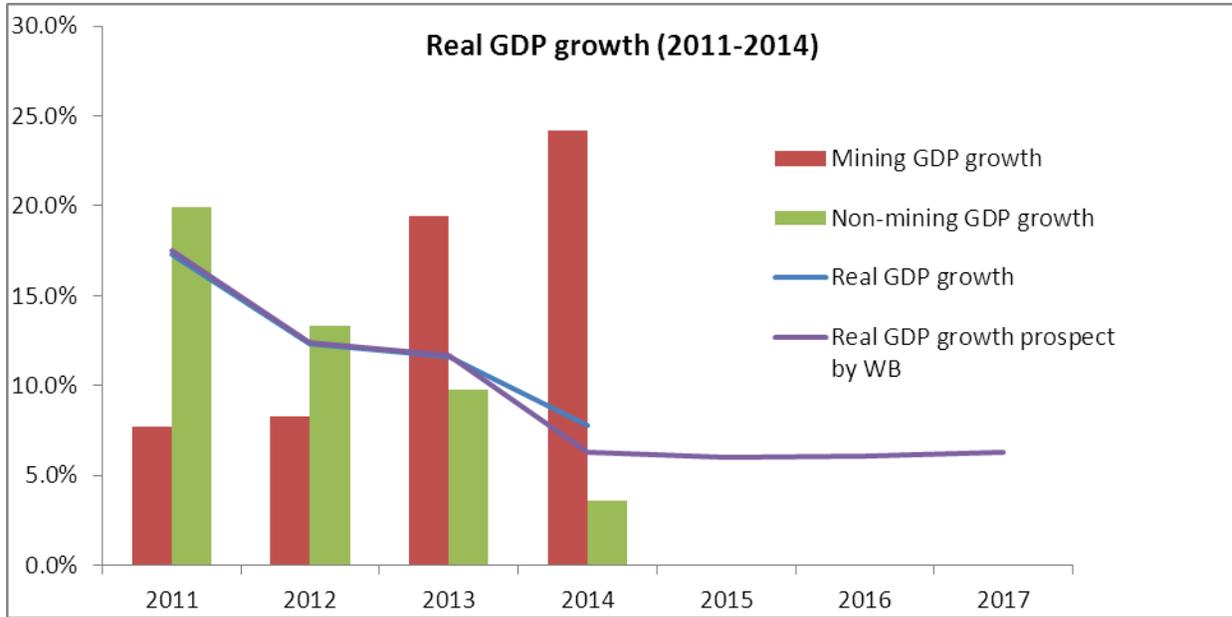
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According to the latest release by the National Statistics Office of Mongolia, real growth of Mongolia slowed to 7.8% in 2014, from 12.8% in the previous year. Economic growth is likely to continue slowing in 2015 as the economy remains under pressure from the external imbalance and high inflation. The World Bank has estimated the real GDP growth of Mongolia to be stabilized by 6% for next 3 years.

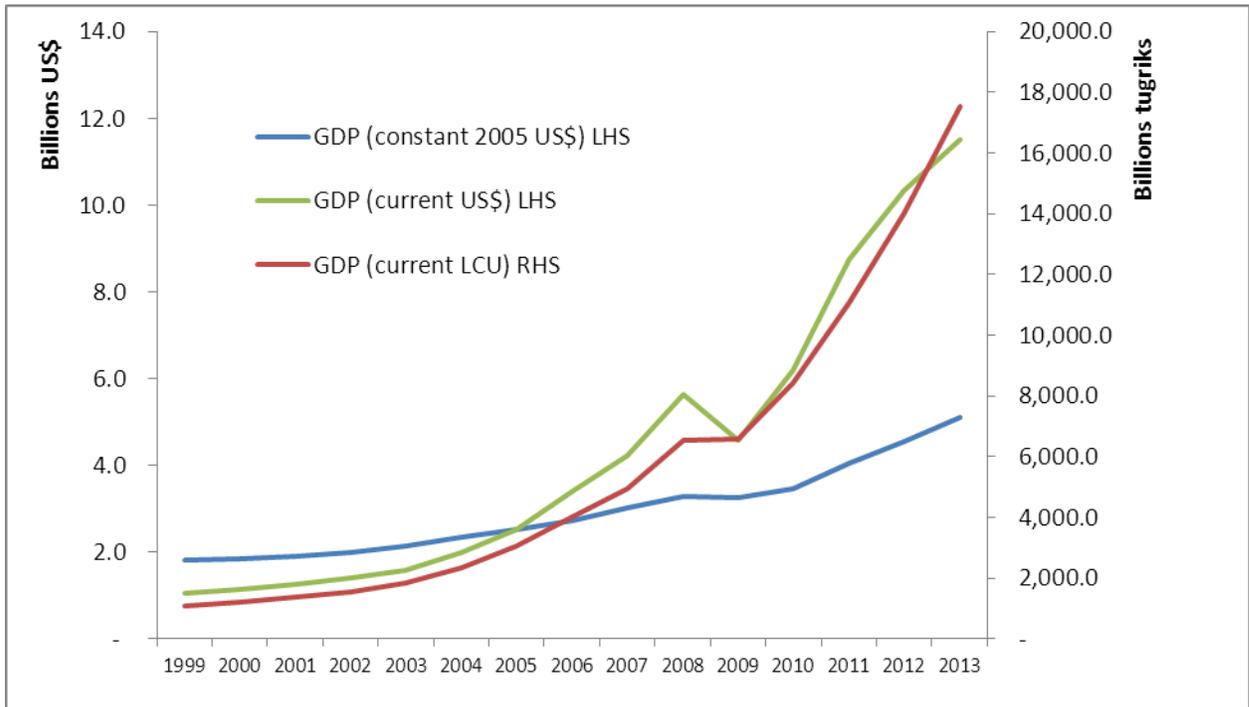
Figure 1. Real GDP growth of Mongolia



Date source: NSO, World Bank

Since 1999, Mongolian economy expanded immensely, as shown in Figure 2. The GDP of Mongolia has grown 10 times in terms of current value, or more than tripled in terms of 2005 US\$ constant price. The figure shows that, for last 15 years, Mongolian economy expanded constantly except for 2009, and the growth has intensified for last 5 years, during the mining boom years.

Figure 2. GDP growth of Mongolia in different terms

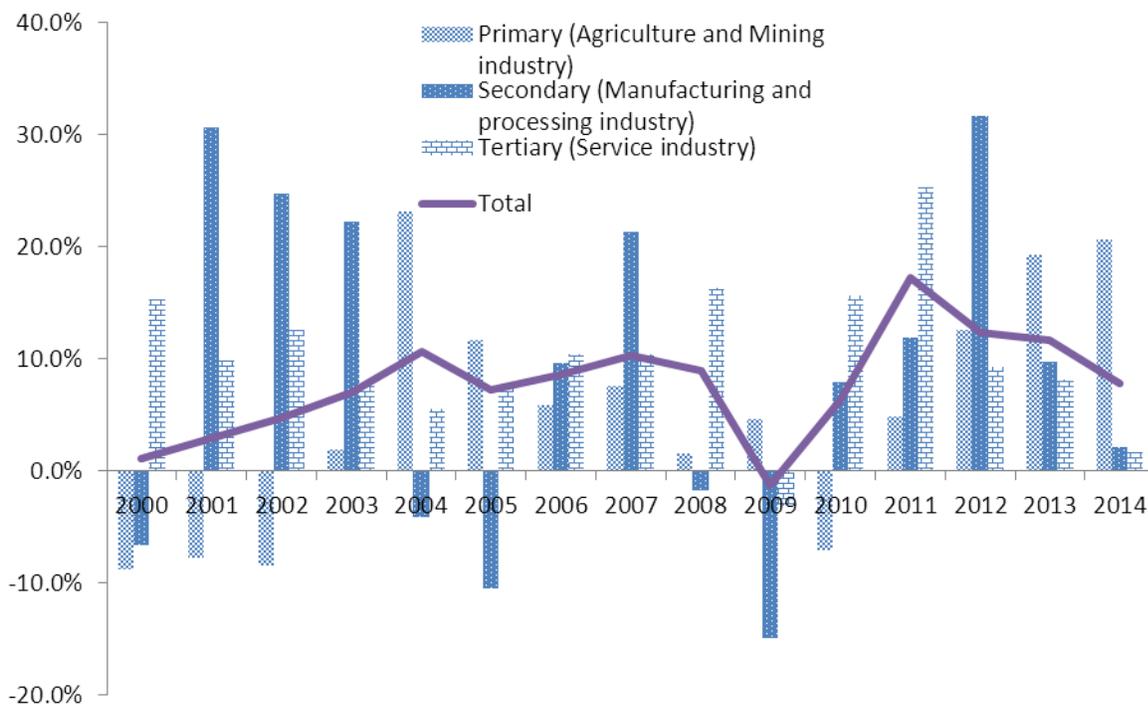


Data source: World Bank

Structure of Mongolian economic growth

We broke down the GDP growth of the country by its level of economic activities: primary, secondary and tertiary as shown in figure 3.

Figure 3. Growth of production of primary, secondary and tertiary sectors (2000-2014)



Data source: NSO



Primary sector has been experiencing strong growth since 2010, thanks to the 3rd agricultural campaign and investments in the mining sector. Growth of secondary sector or the manufacturing sector has shown the most volatility for last 15 years. On the other hand, tertiary sector was constantly growing during same time.

We have used SPSS software to reveal if there is any correlation between these three sectors and total GDP growth and the results shown in the table 1.

Table 1. Correlation matrix

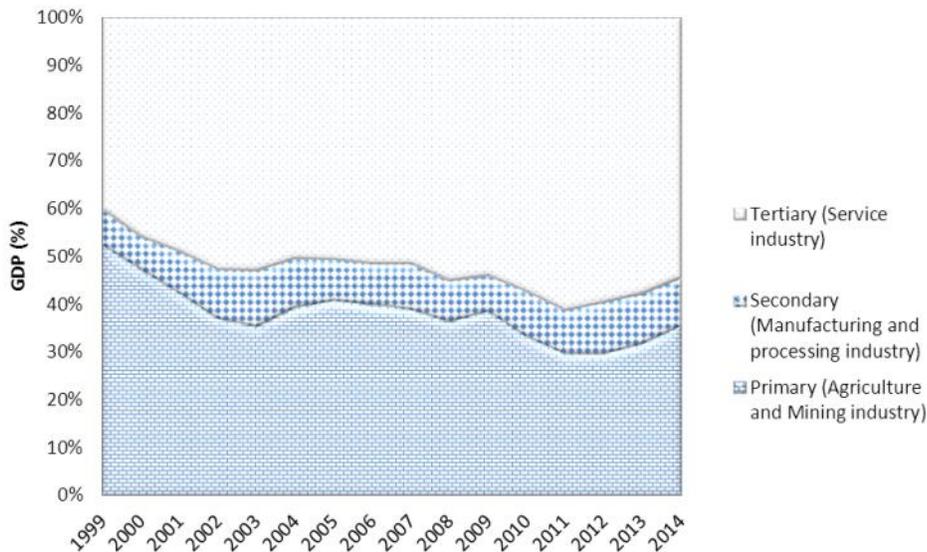
		Primary	Secondary	Tertiary	Total
Correlation	Primary	1.000	-.234	-.449	.515
	Secondary	-.234	1.000	.262	.292
	Tertiary	-.449	.262	1.000	.468
	Total	.515	.292	.468	1.000

The correlation matrix revealed that total GDP growth had positive correlation with the primary sector production growth for last 15 years.

In terms of share of these sectors in the economy, tertiary industry gained the highest share, 54.6% in 2014, from 40% in 1999, although, for last 7 years, service industry losing its share to the primary sector. Share of primary industry to the total GDP was 52.4% in 1999, now decreased to 35% in 2014.

Although the total GDP, and investment has surged to the country for last few years, the manufacturing sector or the value added production did not developed as much as other sectors. Its share to the GDP constantly stayed around 8 to 10 percent.

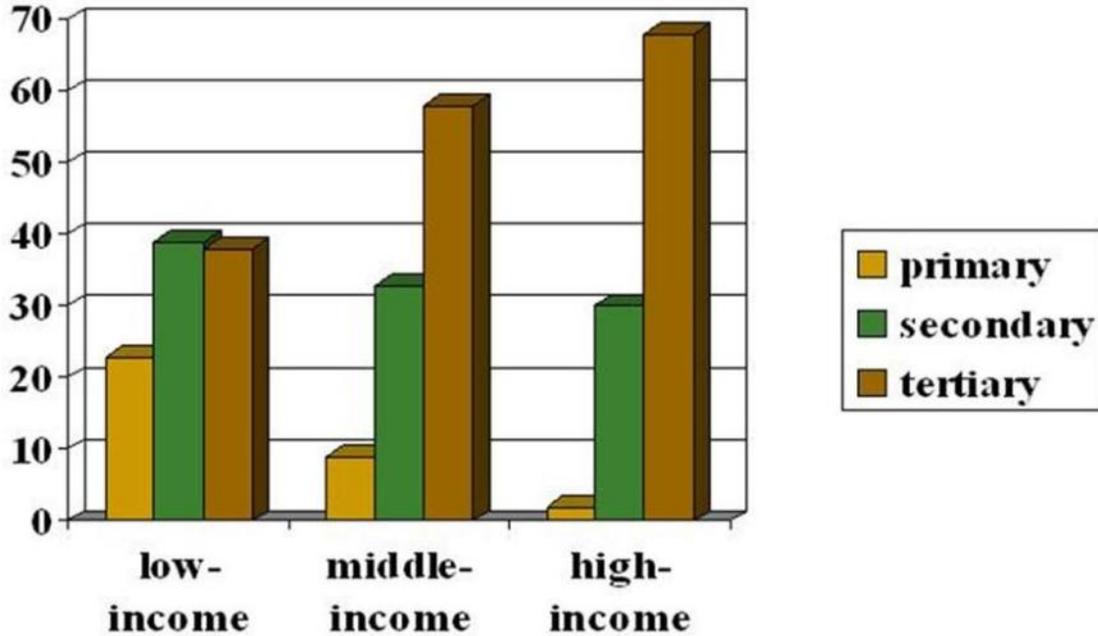
Figure 4. Structure of GDP (1999-2014)



Data source: NSO

The classical development economics literature posits a strong relationship between changes in the sectoral composition of an economy and its rate of growth.

Figure 5. Global trend of economic sectors



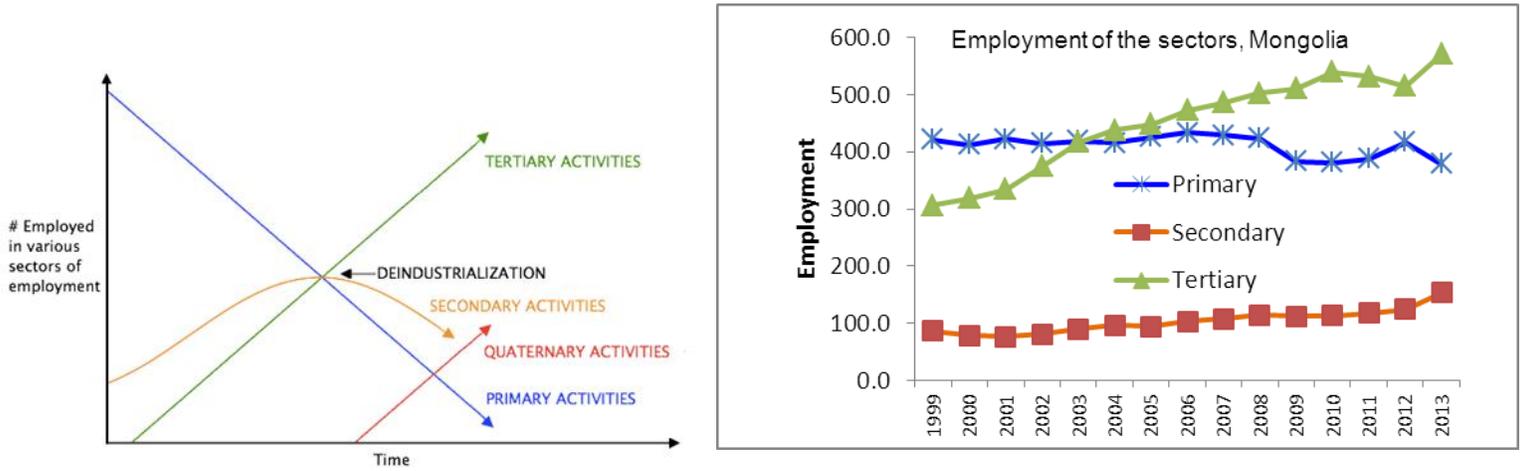
The intersectoral reallocation of labour from low- to high-productivity activities is seen as central to increases in overall productivity in developing countries. Specifically, industrialization and the growth of manufacturing are the engine of technical change and economic growth of the developing countries. In Mongolian case, contribution of manufacturing industry or the value added production to the country’s economy hasn’t been developed or stuck at one position.

Although, Mongolian economy has constantly expanded for last 15 years, the fastest growth has occurred only during the mining boom and agricultural campaign. Even during the period of highest growth of economy, and continuous emphasizes by the authorities on value added production, there were no change occurred in the structure of the economy.

Therefore, we could presume that Mongolian economic growth might be driven by the primary sector, which is highly vulnerable to the external and natural factors, which are not manageable by the human.

We also made another comparison of Mongolian economic structure with the Colin Clark’s sector model of an economy undergoing technological change.

Figure 6. Comparison of Colin Clark’s sector model and Mongolian sectors structure



Main point of Colin Clark’s sector model is by developing manufacturing activity and promoting technological development; primary economy can grow with stability and cause the tertiary activities to rise, then transit gradually to the tertiary economy. In Mongolian case, share of the manufacturing sector (secondary activity) is far below than other two sectors, and the trend shows that growth is much slower.

Although figure 6 shows that, tertiary activities increased significantly for last 10 years, share of the primary activity has not decreased, meaning that Mongolian economy still rely on the primary/unprocessed production rather than manufactured or value added production.

We could also presume that premature deindustrialization might be happening to the Mongolian economy; an issue raises economists’ concerns lately, that the economy cannot take advantage of the apparent broader benefits of manufacturing growth as much as other developed countries have.

Prepared by Masa Igata, Oyunbolor Tserenkhuu

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#206, Elite Complex B,
Chinggis Avenue 14, 1st khoroo
Sukhbaatar district
Ulaanbaatar,
Mongolia

Tel: +976 7011 9999

Fax: +976 7011 1991

Email: staff@frontier.mn

Web site: www.frontier.mn