



## "Analysis of Mongolian economic structure"

**(Part 2 of 2)**

In this part we compared the main economic sectors of Mongolia to those of other selected countries with mineral abundant countries. The data is collected from the different sources, World Bank, United Nations Conference on Trade and Development, and National Statistical Office of Mongolia, therefore, please note that there might be discrepancies between some indicators.

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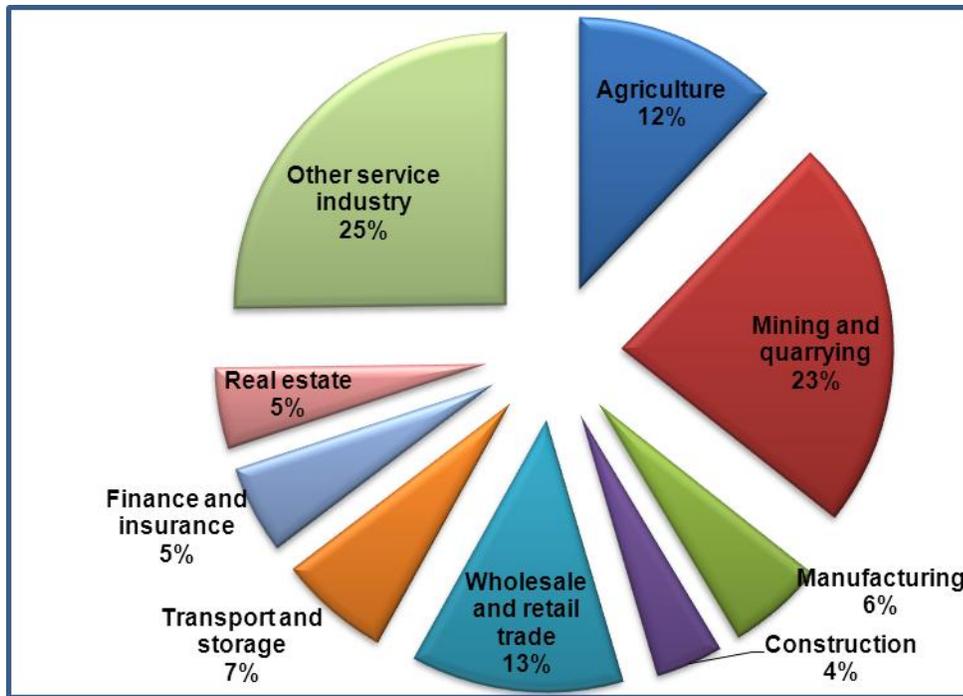
In the previous reports, we have informed that Mongolian economy grew 7.8% in 2014. Mining GDP growth remained robust, expanding to 23.5 percent in 2014, increased from 19.3 percent a year ago. The strong mining production was led by revamped copper production largely from the new Oyu Tolgoi (OT) mine while the declining coal price further dampened coal production (WB). Despite the strong mining sector, growth in the non-mining sector dropped to 3.6 percent in 2014 from 9.8 percent in 2013, due to contraction in wholesale/retail industry and an overall slowdown in other non-mining sectors.

Agriculture maintained robust growth of 14.4 percent in 2014 and the transportation sector displayed strong growth of 23.5 percent. However, the construction industry only grew 1 percent in 2014 from striking 83.5 percent growth two years ago. The wholesale and retail sector, second biggest contributing sector to Mongolia’s economy, contracted 6.9 percent in 2014 after 6.5 percent growth last year.

*Top 5 industries of Mongolian economy*

As per 2014 data by National Statistics Office of Mongolia; mining, agriculture, trade, transport and storage and manufacturing industries contributed the most to total production of Mongolia as shown in Figure 7. The agriculture, mining and wholesale and retail industries produced half of the GDP in 2014.

Figure 1. Structure of Mongolian economy, 2014

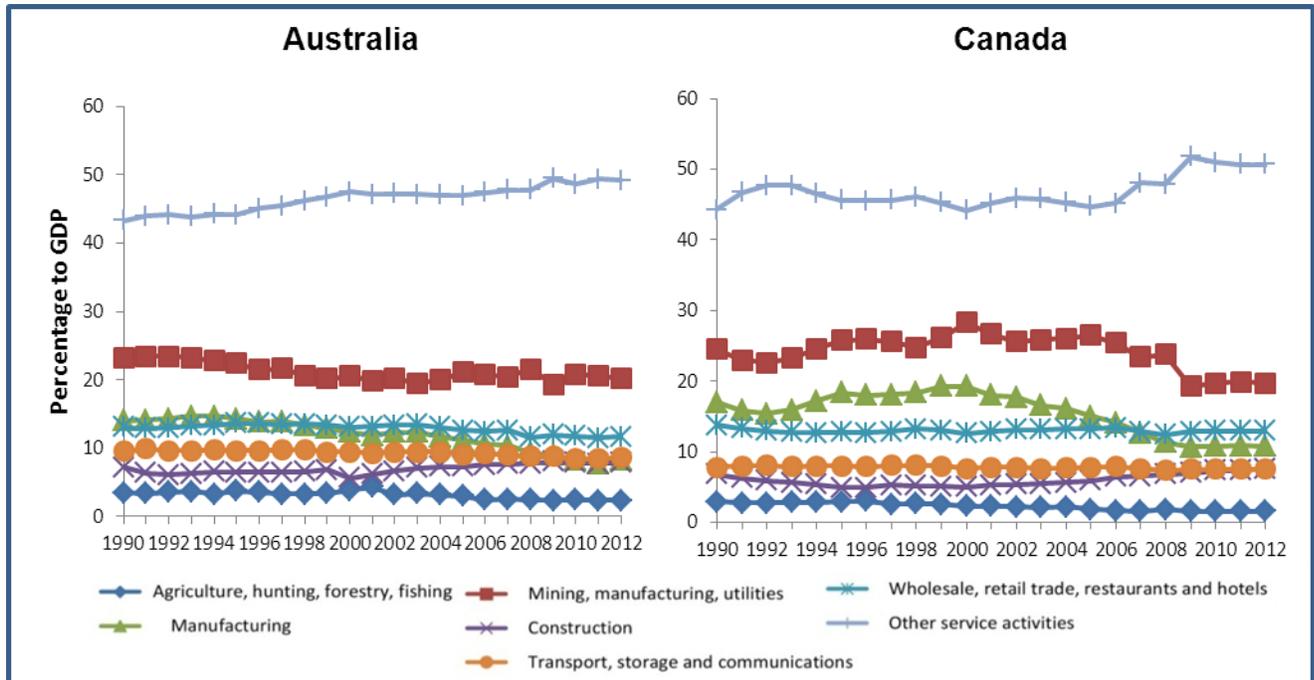


Data source: NSO

*Comparison of the main economic sectors of Mongolia with other countries*

Based on the data from United Nations Conference on Trade and Development, World Development Indicators by the World Bank we have made comparison between economic sectors of selected resource rich nations. The period covers from 1990 to 2012 (the latest data available at the source).

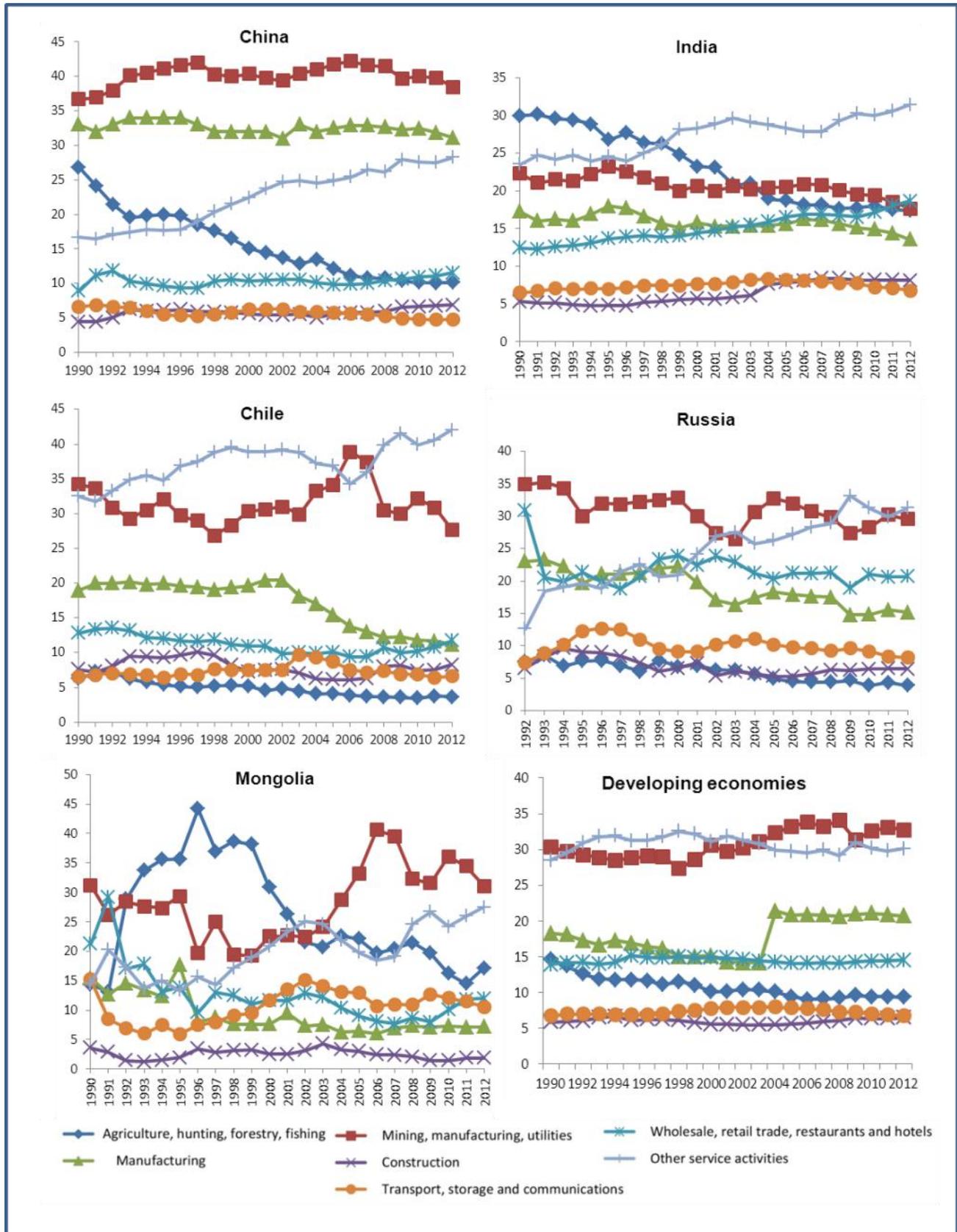
Figure 2. Economic sectors of Australia and Canada (as a percentage to GDP)



Data source: UNCTAD

Figure 2 reveals that the general trend of economic structures of advanced economies, such as Australia and Canada, stabilized and no significant structural change is observed. Service sectors and trade activities contribute more than 60% to the total GDP of the countries. Although percentage of mining industry to GDP is decreasing gradually, its contribution is still considerable and stays around 20%, while service and construction industries of Canada and Australia are increasing gradually.

Figure 3. Economic sectors of developing countries with abundant natural resource (as a percentage to GDP)



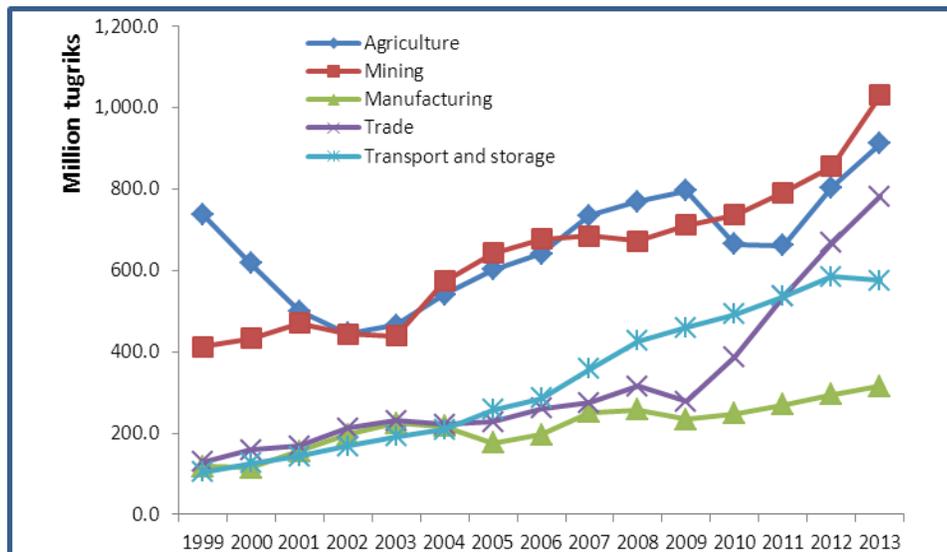
On the other hand, economic structural change of selected developing countries show significantly different trend (Figure 3). Service and Mining sectors are the most contributing sectors in the developing countries' GDP. While contribution of manufacturing has surged in 2004 and stayed stable since, agricultural sector's contribution is decreasing steadily.

It can be observed that economic structures developing countries such as China, India and Chile are changing in the manner that is managed and comparatively stable trend. Percentage of agricultural sector to GDP has decreased more than 15 percentage points in India and China. While the contribution of mining sector in the economy is comparatively stable in China and India, manufacturing sector's contribution is decreasing faster in Chile, from 20% to 10% in ten years. Service sector has become the top contributing sector to GDP in India and Chile while its contribution to Chinese GDP is also increasing fast.

Russia and Mongolia has shown more volatile trend in their economic structure. Russia's economic structure has shown very similar pattern to Chile since 1996. Although mining sector is contributing significantly to GDP, its percentage is slightly lower than it was ten years before. Service industry is the only industry that is increasing in terms of contribution to GDP of Russia; conversely, manufacturing sector's contribution is decreasing steadily. As for Mongolia, agricultural sector contribution has been decreasing with much faster rate than other selected countries since 1996; though it is increasing on the increasing trend for last few years. Although contribution of mining industry has surged since 2002 and makes up a significant part of the GDP, it shows much volatility. Trade and service sectors are increasing steadily since 2009.

In terms of value, general trend of the main contributing industries of Mongolia is on the increasing track, however with different speed and angles (Figure 4).

Figure 4. Trend of main contributing industries production (in 2005 constant tugriks price)



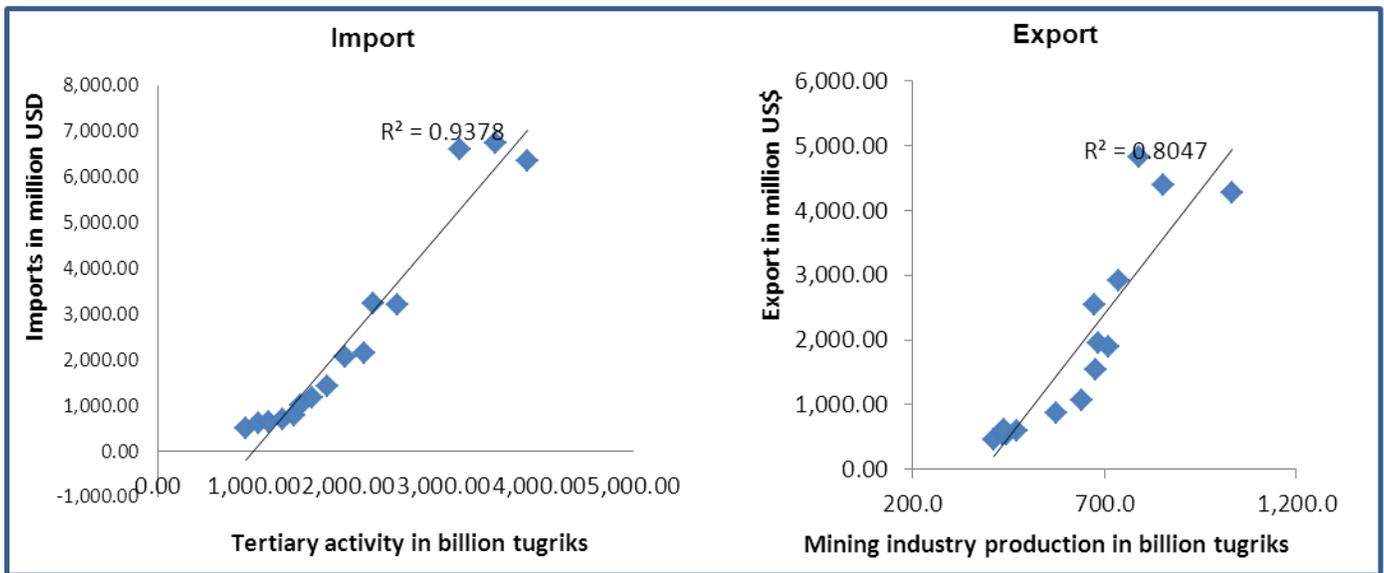
Data source: NSO

Mining and trade industries have increased sharply and simultaneously since 2009. Transport and storage sector has been increasing steadily since 2004. Although the manufacturing, trade and transport and storage industries started from the same point in 1999, their positions in 2013 reveal large distances between them.

Reason of the surge of trade is partly driven by increasing demand triggered by the increased income (increase of per capita GDP), and surge of FDI in the mining sector, where the main machinery and equipment is required to be imported. Figure 4 suggests that increased demand might neither be created by the manufacturing sector nor support much the production of value added production.

Therefore, it can be assumed that the trade activity or the service sector of the Mongolian economy should have been supported significantly by the import. We calculated the correlations between import and tertiary activity output of Mongolia for last 15 years. The correlation between these two data was 0.96, suggesting almost perfect positive relationship between import and service industry. This could be one point that proves that growth of tertiary activity has not been driven by the manufacturing sector.

Figure 5. Relationship between import and tertiary activity, and export and mining industry production



Data source: NSO

Also we calculated the correlation coefficient between export and mining industry production for last 15 years. The coefficient was 0.89, which suggests very strong positive relationship between two indicators, proving that Mongolian export growth is mainly driven by the mining production growth.



## Conclusion

The structure and the trend of the Mongolian economy suggest that primary and tertiary activities are growing much higher speed than the manufacturing activity. It can also be concluded the manufacturing sector has not developed enough for last 15 years. Although the tertiary activity has increased significantly, our analysis shows that it has not been caused by or has affected the manufacturing sector. We concern that, due to the fast growth and liberalization of trade might cause the premature deindustrialization, which has occurred in some emerging economies.

The trend and volatility of economic structure for last 15 years suggest that Mongolia should take drastic measures or implement the policy to change the sectoral composition of the economy in such manner that is managed and provided long term stable economic development.

Although the mining sector should be important and will be one of the main drivers of the economy growth for the coming years, recent events in commodity market and slowdown of Mongolian growth keep signaling that Mongolia cannot rely on primary activity any longer. As manufacturing is critical to alleviate the balance of payment and provide the stable growth to the economy, we always suggest that Mongolia needs to take more initiative in producing value added products, develop forward linkage of mining industry and concentrate on possibilities of importing technologies and exporting value added products.

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