



# 2021 Mongolia Economic Report *EXTERNAL VERSION*

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## Executive Summary

- In 2020, Mongolian economy experienced the worst contraction since the 2009 financial and economic crisis. Following the contraction of 4.6% in 2020, the International Monetary Fund forecasted Mongolian economy to grow by 4.5% in 2021, as a result of **the stimulus measures adopted by the authorities, improving trade condition and high export demand**.
- For the first three quarters of 2021, the GDP sees a **3.6% growth rate**. For the first 11 months of 2021, **the foreign trade turnover** reached USD 15 billion which is **27.9% higher** than that of the same period of 2020 (**+18.8% compared to 2019**). Exports reached USD 8.8 billion (**+28.8% YoY**), of which 82.3% were mineral products. Imports amounted to USD 6.2 billion (**+26.6% YoY**). The trade balance produced a USD 2.6 billion surplus as of November 2021.
- **China is Mongolia's strongest trading partner**. 86.3% of Mongolian exports were sold to China whereas 37.5% of Mongolia's imported goods come from there. Russia ranks 2<sup>nd</sup> as imports source and 5<sup>th</sup> as exports destination in 2021.
- In 2020, imports from Mongolia to Switzerland **increased by 40.3% YoY with a value of CHF 873 million** (if excl. gold bars and other precious metals: **+21.9% YoY, CHF 1.6 million**). The largest imports (excl. gold bars and other precious metals) were textiles, clothing, shoes (52.7%) and forestry and agricultural products, fisheries (36.3%).
- Exports from Switzerland to Mongolia amounted to CHF 9.9 million in 2020, registering a **decrease of 11.4% YoY** (if excl. gold bars and other precious metals: CHF 8.8 million, **-20.9% YoY**). Biggest export groups (excl. gold bars and other precious metals) were precision instruments, clocks and watches and jewellery (44% of total).
- **Foreign direct investment stocks was over USD 1.65 billion more in 2020 than the previous year**. By the end of 2020, the countries with major investments in Mongolia were Canada (38%), China (26%), Singapore (6%) and Luxemburg (6%).
- In addition to the **China-Mongolia-Russia economic corridor**, Mongolia seeks cooperation with "third neighbors" partners such as India and the United States of America, to alleviate its reliance on China and Russia. A '**Transparency Agreement**' between Mongolia and the USA entered into force in 2017 and both sides signed a **Strategic Partnership Agreement** in August 2019.
- Mongolia remains vulnerable to commodity prices fluctuations (mainly coal and copper) and climate shocks. Its political uncertainty (such as problematic governance and corruption) stays as a key concern for business climate. Furthermore, the IMF support program on fiscal consolidation and rehabilitation of the banking system, expired on May 23<sup>rd</sup> 2020.

# 1 Overview of economy

Mongolia is the world's largest landlocked country, with a territory covering an area of around 1.6 million square kilometers. Of a total population of 3.4 million, urban population accounts for 69% while rural population accounts for 31%. By the end of 2020, around 47.6% of the country's inhabitants lived in the capital city – Ulaanbaatar. Since its democratic transition in early 1990s, Mongolia has turned into an emerging economy, which has traditionally been based on livestock and agriculture. However, with the extensive mineral deposits, the mining industry has become more and more vital to the national economy, especially for exports. Mineral products took up 82.3% of the total exports in the first eleven months of 2021. Regarding the GDP composition of Mongolia in 2020, mining (23.3%) and agriculture (13%) are also the top two contributors.

## 1.1 Impacts of the COVID-19 on macroeconomics

The COVID-19 pandemic has caused a 4.6% contraction of the economy in 2020. Mining, construction, trade, services and transportation sectors were most affected and suffered significant losses. Mongolia's economic growth recovers gradually in 2021 driven by a better trade condition and high export demand. In the first nine months of 2021, the GDP of Mongolia sees a 3.6% growth rate<sup>1</sup>. The International Monetary Fund (IMF) forecasts Mongolia's economic growth rate to reach 4.5% in 2021<sup>2</sup>.

**Table 1: Mongolia's GDP Growth (2015-2020) and Forecasts (2021)**

Year	2015	2016	2017	2018	2019	2020	2021*
%	2.4	1.5	5.6	7.7	5.6	-4.6	4.5*

Source: National Statistics Office of Mongolia; IMF

\*Forecast

A recovery has shown in mining sector in 2021. Along with the global economic recovery, Mongolia has exported USD 7.3 billion mineral products by November 2021 (+52.8% YoY), a 21.6% increase compared to November 2019<sup>3</sup>. For the service sector, by first half of 2021, the income of restaurants was USD 81 million (+8.3% YoY), 2.5% higher than the pre-pandemic time in 2019<sup>4</sup>. However, border closures still prevent tourists from coming to Mongolia and the income of hotels dropped to USD 21.9 million (-11.1% YoY) till mid-2021, almost half of the income earned in 2019<sup>5</sup>.

Whereas at the beginning of the pandemic foreign direct investment (FDI) has been reduced and the financial account deficit widened, the capital flows began to recover since mid-2020, owing to successful debt refinancing measures. FDI registered a growth equal to 15.3 % of the country's GDP in September 2021, compared with a 9.5% in the same time period last year and 14.1% in 2019 before the outbreak<sup>6</sup>. The global economic recovery is also expected to influence favorably on Mongolia's export prices, the central bank is aiming at a surplus of more than USD 200 million of the total balance of payments in 2022<sup>7</sup>.

The extended border closures, tighter global financing conditions and turbulence brought by the pandemic have forced the public and private sectors to borrow externally. Mongolia's external debt reached USD 33 billion in the second quarter of 2021, a USD 3 billion increase YoY<sup>8</sup>. The number is likely to continue to grow till the end of this year.

Labor market conditions are affected as well. The unemployment rate reached 7.5% in 2020 and is forecasted to be 6.75% in 2021<sup>9</sup>. The labor force participation rate declined to 56.8% in the second quarter of 2021 (60.5% in 2019). In addition, the number of employees in non-mining, agricultural and energy sectors decreased by 6.7% by mid-2021<sup>10</sup>.

<sup>1</sup> Mongolian Statistical Information Service (2021), retrieved from [https://www.1212.mn/stat.aspx?LIST\\_ID=976\\_L05&year=2021&q=3](https://www.1212.mn/stat.aspx?LIST_ID=976_L05&year=2021&q=3), last accessed on January 24, 2022.

<sup>2</sup> IMF (2021), Mongolia: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Mongolia", retrieved from <https://www.elibrary.imf.org/view/journals/002/2021/251/article-A001-en.xml>, last accessed on January 24, 2022.

<sup>3</sup> Mongolian Statistical Information Service (2021), retrieved from [https://www.1212.mn/tables.aspx?TBL\\_ID=DT\\_NS0\\_1400\\_005V1](https://www.1212.mn/tables.aspx?TBL_ID=DT_NS0_1400_005V1), last accessed on January 24, 2022.

<sup>4</sup> Ibid

<sup>5</sup> Ibid

<sup>6</sup> CEIC Data (2021), "Mongolia Foreign Direct Investment: % of GDP", retrieved from <https://www.ceicdata.com/en/indicator/mongolia/foreign-direct-investment-of-nominal-gdp>, last accessed on January 24, 2022.

<sup>7</sup> Montsame (2021), "Balance of payments to be in surplus of USD200 million", retrieved from <https://www.montsame.mn/en/read/278590>, last accessed on January 24, 2022.

<sup>8</sup> CEIC Data (2021), "Mongolia External Debt", retrieved from <https://www.ceicdata.com/en/indicator/mongolia/external-debt>, last accessed on January 24, 2022.

<sup>9</sup> IMF (2021), "World Economic Outlook Database, October 2021", retrieved from <https://www.imf.org/en/Publications/WEO/weo-database/2021/October>, last accessed on January 24, 2022.

<sup>10</sup> Bank of Mongolia (2021), "Financial Stability Report Volume 15, September 2021" (in Mongolian), retrieved from [https://www.mongolbank.mn/documents/sanhuugintb/FSC\\_report\\_202109.pdf](https://www.mongolbank.mn/documents/sanhuugintb/FSC_report_202109.pdf), last accessed on January 24, 2022.

In response to the challenges brought by the pandemic, the Mongolian Government introduced its long-term development policy plan 'Vision 2050'<sup>11</sup>. The ambitious plan aims at transforming Mongolia into a leading regional power by 2050. It outlined 9 fundamental goals:

- 1) Educate the entire population with “the mother tongue, the history and the heritage” and develop shared values;
- 2) Provide quality education and ensure a safety environment for everyone to enjoy a happy life;
- 3) Improve employment, increase family income and develop middle class;
- 4) Fulfill sustainable economic growth and reduce poverty;
- 5) Build smart and sustainable governance and enhance cooperation between state, private sector and civil society in all areas;
- 6) Promote an environmentally friendly green development;
- 7) Strengthen national defense capacity and protect human rights and freedoms;
- 8) Pursue a competitive and relatively well-balanced regional and local development;
- 9) Develop a comfortable, environmentally friendly, people-centered and smart city.

A total of 50 specific objectives which cover a wide range of social and economic development aspects are also listed within the fundamental goals. Each objective will be carried out in a three-stage pace: 1<sup>st</sup> stage (2021-2030), 2<sup>nd</sup> stage (2031-2040), 3<sup>rd</sup> stage (2041-2050). Some of the economic related objectives include:

- *Objective 3.3* Render employment support, develop business know-how and skills, and raise the competitiveness of small and medium enterprises.
- *Objective 3.4* Provide financial services and risk protection designed to expand the middle class.
- *Objective 4.1* Promote macroeconomic stability and transform the middle class into a predominant group.
- *Objective 4.2* Create an export-oriented economy through promoting the development of priority sectors.
- *Objective 4.3* Develop a multi-pillar and inclusive financial system connected to the international financial markets.
- *Objective 4.4* Join the economic and trade integration in the region and facilitate trade.
- *Objective 4.5* Develop internationally competitive micro, small and medium enterprises and increase employment.
- *Objective 4.6* Establish an internationally recognized wealth fund to support the objectives of economic diversification, innovation, human development, new technology and green growth.
- *Objective 8.1* Create basic conditions for rapid economic growth by fully connecting to the regional economic integration through an integrated infrastructure network.

Implementation having only just started with the 1<sup>st</sup> stage, it is too early to evaluate on the feasibility and chances for the government to reach the aim set by the policy plan.

## 1.2 Macroeconomic Situation

In 2016, Mongolia was hit by an economic crisis due to declining commodity exports revenue (mainly coal and copper) and government overspending<sup>12</sup>. After the crisis, Mongolia's economy went into three years of robust growth, with an averaged GDP growth rate at 5.9% from 2017 to 2019<sup>13</sup>. In 2020, due to the COVID-19 and its disruptive effect including mobility restriction, Mongolia's economy plunged into a big contraction (-4.6%) for the first time since 2009. The economic rebound was strong with a double-digit growth rate at 14.8% in the first quarter of 2021. Increasing exports and a surge in private investment, especially in the mining industry, staged the economic recovery. However, the momentum is downward and the growth rate declined to 3.6% by third quarter.

Mongolia's economy remains vulnerable to external shocks due to excessive external funding and narrow economic base. A debt-driven growth since 2010 has made the country heavily indebted. Total public and private sector debt rising from less than 50% of GNI in 1996 to almost 285% in 2017<sup>14</sup>. The gross external debt reached a record high of USD 32.2 billion by the end of 2020<sup>15</sup> and continues to rise in 2021. Mongolia also has rather thin international reserves which poses a downside risk to the outlook given the uncertainty of the pandemic. The international reserves fluctuate substantially in 2021 and have fallen from an all-time high of USD 4.9 billion to 4.2 billion between April and October<sup>16</sup>.

<sup>11</sup> Cabinet Secretariat of Government of Mongolia, '“VISION-2050” LONG-TERM DEVELOPMENT POLICY OF MONGOLIA', retrieved from [https://cabinet.gov.mn/wp-content/uploads/2050\\_VISION\\_LONG-TERM-DEVELOPMENT-POLICY.pdf](https://cabinet.gov.mn/wp-content/uploads/2050_VISION_LONG-TERM-DEVELOPMENT-POLICY.pdf), last accessed on January 24, 2022.

<sup>12</sup> Reuters (2017), "IMF says Mongolia economy is recovering, showing 'durable' growth", retrieved from <https://www.reuters.com/article/mongolia-economy-imf-idUJSL4N1OK1SY>, last accessed on January 24, 2022.

<sup>13</sup> World Bank (2021), "GDP growth (annual %) – Mongolia", retrieved from <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=MN>, last accessed on January 24, 2022.

<sup>14</sup> World Bank (2021), "World Development Indicators", retrieved from <https://databank.worldbank.org/source/world-development-indicators>, last accessed on January 24, 2022.

<sup>15</sup> Bank of Mongolia (2021), "Mongolia's Gross External Debt Position", retrieved from [https://www.mongolbank.mn/eng/liststatistic.aspx?id=4\\_3](https://www.mongolbank.mn/eng/liststatistic.aspx?id=4_3), last accessed on January 24, 2022.

<sup>16</sup> Bank of Mongolia (2021), "International Reserves, in millions of USD", retrieved from <https://www.mongolbank.mn/eng/dbgrossreserves.aspx>, last accessed on January 24, 2022.

According to the most recent released data from World Bank, Mongolia's poverty rate was at 28.4% in 2018, which fell from 29.6% in 2016<sup>17</sup>. Poverty is projected to rise in 2020 due to the pandemic and declined slightly in 2021, but a full recovery to pre-pandemic level might not be realized until 2022<sup>18</sup>. In general, the poverty reduction has been in a slow-down pace since 2016.

The Mongolian Government has taken different regulatory measures to tackle the economic contraction. The Bank of Mongolia decided to extend the maturity of consumer loans with repayment difficulties by up to 12 months until July 1, 2021 and introduced a long-term financing instrument aimed at supporting SMEs and non-mining exports<sup>19</sup>. Since April 2020, the Ministry of Finance, the Bank of Mongolia, the Mongolian Mortgage Corporation and commercial banks have announced to defer the payment of principal and interest on mortgage loans. The implementation has been prolonged several times till the end of 2021<sup>20</sup>. As of June 2021, a total repayment of USD 1 million in mortgage loans to 59'926 households has been deferred<sup>21</sup>.

Triggered by public protests, a change of cabinet took place in late January 2021<sup>22</sup>. The recurring bouts of political volatility aggravates the economic uncertainties. In February 2021, the new Prime Minister Luvsannamsrai Oyun-Erdene announced a USD 3.5 billion comprehensive plan on health protection and economy recovery<sup>23</sup>. The plan includes 56 sets of measures such as loans to support employment and agricultural sector and is designed not to pose an additional burden on the state budget and government's debt. In addition, the measures of repo financing (short-term borrowing in government securities) and mortgage loans will be sourced from the central bank and commercial banks. The plan also lays out actions to increase economic activity through intensifying the projects underway with the international loans and grants money and to finance development projects of Erdenes Tavantolgoi LLC (Mongolia's largest producer of hard coking coal) and other projects with benefits to the economy<sup>24</sup>.

The three-year Extended Fund Facility (EFF) program<sup>25</sup> initiated in 2017 by IMF in collaboration with the Asian Development Bank (ADB), the World Bank (WB), Japan, Korea and China has been completed in 2020. Mongolia continues to closely cooperate with international financial institutions and donors. Since June 2020, the Government requests for donor financing have intensified and a total amount of USD 550 million additional budget support from IMF, ADB and Asian Infrastructure Investment Bank (AIIB) was disbursed in H2 2020<sup>26</sup>. WB has designed a new Country Partnership Framework (CPF) for Mongolia which covers the period of FY2021-2025 with a special focus on job creation and climate resilience<sup>27</sup>. ADB has also launched a new Country Partnership Strategy (CPS) for Mongolia covering 2021-2024 to lay resilient foundations for inclusive and sustainable growth<sup>28</sup>. AIIB approved a USD 21 million loan in 2021 to support the country's roll-out of vaccine delivery plan and thus stabilize the fragile economy<sup>29</sup>. These international cooperation programs are in line with Mongolia's "Vision 2050" plan as well.

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<sup>17</sup> World Bank (2020), "Mongolia Poverty Update", retrieved from <https://www.worldbank.org/en/country/mongolia/publication/mongolia-poverty-update>, last accessed on January 24, 2022.

<sup>18</sup> World Bank (2021), "Macro Poverty Outlook for East Asia and the Pacific", retrieved from <https://thedocs.worldbank.org/en/doc/c6aceb75bed03729ef4ff9404dd7f125-0500012021/related/mpo-mng.pdf>, last accessed January 24, 2022.

<sup>19</sup> Bank of Mongolia (2020), "Monetary Policy Statement", retrieved from <https://mongolbank.mn/eng/news.aspx?tid=1&id=2682>, last accessed on January 24, 2022.

<sup>20</sup> Montsame (2021), "Mortgage repayment deferral support to continue until end of year", retrieved from <https://montsame.mn/en/read/269188>, last accessed on January 24, 2022.

<sup>21</sup> Bank of Mongolia (2021), "Financial Stability Report" (in Mongolian), retrieved from [https://www.mongolbank.mn/documents/sanhuuqintb/FSC\\_report\\_202109.pdf](https://www.mongolbank.mn/documents/sanhuuqintb/FSC_report_202109.pdf), last accessed on January 24, 2022.

<sup>22</sup> The Diplomat (2021), "Mongolia's Prime Minister Offers Shock Resignation Amid Protests", retrieved from <https://thediplomat.com/2021/01/mongolias-prime-minister-offers-shock-resignation-amid-protests/>, last accessed on January 24, 2022.

<sup>23</sup> Xinhuanet (2021), "Mongolia to implement comprehensive plan against COVID-19", retrieved from [http://www.xinhuanet.com/english/asiapacific/2021-02/10/c\\_139735866.htm](http://www.xinhuanet.com/english/asiapacific/2021-02/10/c_139735866.htm), last accessed on January 24, 2022.

<sup>24</sup> Montsame (2021), "Parliament reviews MNT 10 trillion economy recovery, health protection plan implementation", retrieved from <https://www.montsame.mn/en/read/260175>, last accessed on January 24, 2022.

<sup>25</sup> IMF (2017), "IMF Executive Board Approves Financial Arrangement for Mongolia", retrieved from <https://www.imf.org/en/News/Articles/2017/05/24/17193-imf-executive-board-approves-financial-arrangement-for-mongolia>, last accessed on January 24, 2022.

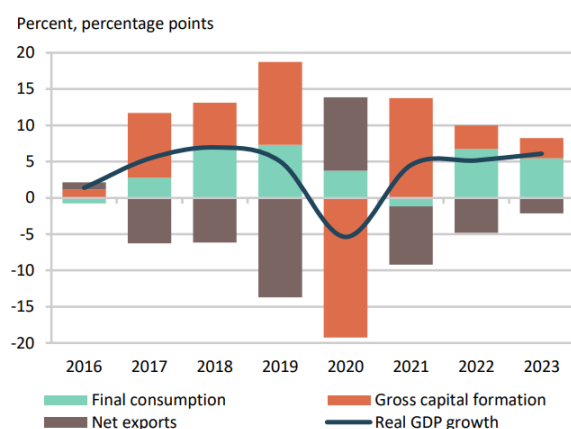
<sup>26</sup> World Bank (2021), "Mongolia Economic Update : From Relief to Recovery (English)", retrieved from <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/158131612895925383/mongolia-economic-update-from-relief-to-recovery>, last accessed on January 24, 2022.

<sup>27</sup> World Bank (2021), "Mongolia: New World Bank Group Country Partnership Framework to Focus on Sustainable and Resilient Recovery", retrieved from <https://www.worldbank.org/en/news/press-release/2021/05/25/mongolia-new-world-bank-group-country-partnership-framework-to-focus-on-sustainable-and-resilient-recovery>, last accessed on January 24, 2022.

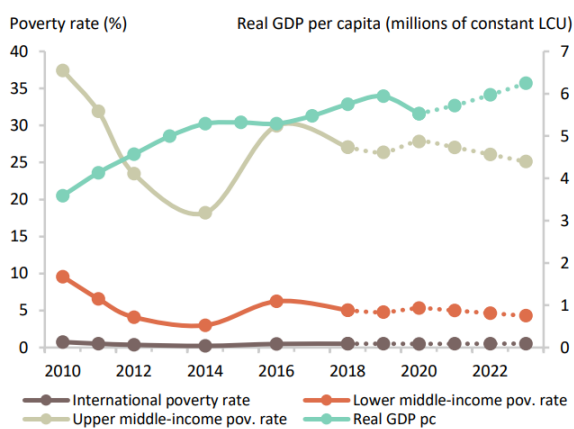
<sup>28</sup> ADB (2021), "ADB Partnership with Mongolia to Focus on Recovery from COVID-19 for Inclusive and Sustainable Growth", retrieved from <https://www.adb.org/news/adb-partnership-mongolia-focus-recovery-covid-19-inclusive-and-sustainable-growth>, last accessed on January 24, 2022.

<sup>29</sup> AIIB (2021), "Accelerating Global Efforts for Priority Populations to Access Vaccines", retrieved from <https://www.aiib.org/en/news-events/news/2021/Accelerating-Global-Efforts-for-Priority-Populations-to-Access-Vaccines.html>, last accessed on January 24, 2022.

## Real GDP Growth and contributions to the real GDP growth



## Actual and projected poverty rates and real GDP per capita



Source: Mongolian National Statistics Office, WB<sup>30</sup>

### 1.3 Structural economic reforms

The IMF's three-year EFF program, which aimed at securing macroeconomic stability and adjusting it through reforms to improve its durability, expired in May 2020. The program ended without concluding its reviews due to prolonged period with insufficient progress in banking recapitalization amid the pandemic situation<sup>31</sup>. Throughout the years, the program has helped to discipline fiscal policy, improve the central bank's standards, strengthen the financial sector especially the banking industry, foster diversification and protect the most vulnerable during the transition period<sup>32</sup>.

The country has shown promising outcomes despite the unprecedented challenges. In 2020, the average inflation rate amounted to 3.7%, down from 7.3% in 2019. The current account deficit narrowed to USD 433 million in 2020 from USD 2.1 billion in 2019. The current account adjustment also led to a strong recovery in reserves, with the historically high of USD 4.9 billion reached in April 2021<sup>33</sup> mentioned in the previous chapter. There is an ongoing Banking Sector Reform Program<sup>34</sup> approved by Bank of Mongolia covering both public and private banks. The reform will help decrease bank ownership concentration and improve bank transparency and public monitoring.

### 1.4 Implications of recent changes in fiscal policy

COVID-19 has brought a fall in revenues and an increase in health expenditure. The country's fiscal position deteriorated substantially in 2020 and the fiscal deficit accounted for 9.5% of GDP in 2020, the highest level since 2016<sup>35</sup>. To cope with the large revenue shortfall, Mongolia Government has approved a three-phase fiscal relief package amounting USD 1.5 billion for the period from April 2020 to July 2021. The package includes 8.8% of GDP in income support measures to households and 2.2% of GDP in income support measures to firms (particularly SMEs)<sup>36</sup>. In February 2021, the Mongolian Government adopted another round of stimulus package involving USD 3.5 billion in the coming three years<sup>37</sup>. The package is financed through the financial sector including quasi-fiscal operations (activities undertaken by state-owned banks and enterprises at the direction of the government, where the prices charged are less than the "market rate") by the Bank of Mongolia.

Mongolia's fiscal relief measures are dominated by income support and tax exemption. However, the Government debt sustainability is unfavorable which leaves limited space to provide further boost for economic recovery. Public debt as a share of GDP accounts for 77.4% by end of 2020 and is projected to be over 80% in 2021<sup>38</sup>. A reform of tax incentives

<sup>30</sup> World Bank (2021), "Macro Poverty Outlook for East Asia and the Pacific", retrieved from <https://thedocs.worldbank.org/en/doc/c6aceb75bed03729ef4ff9404dd7f125-0500012021/related/mpo-mng.pdf>, last accessed on January 24, 2022.

<sup>31</sup> FitchRatings (2020), "More Mongolian Banks to Consolidate, Signaling Reform Commitment", retrieved from <https://www.fitchratings.com/research/banks/more-mongolian-banks-to-consolidate-signaling-reform-commitment-15-07-2020>, last accessed on January 24, 2022.

<sup>32</sup> IMF (2017), "IMF Executive Board approves financial arrangement for Mongolia", retrieved from <https://www.imf.org/en/News/Articles/2017/05/24/17193-imf-executive-board-approves-financial-arrangement-for-mongolia>, last accessed on January 24, 2022.

<sup>33</sup> Bank of Mongolia (2021), "International Reserves, in millions of USD", retrieved from <https://www.mongolbank.mn/eng/dbgrossreserves.aspx>, last accessed on January 24, 2022.

<sup>34</sup> Bank of Mongolia (2021), "Annual Report 2020", retrieved from <https://www.mongolbank.mn/documents/annualreport/2020e.pdf>, last accessed on January 24, 2022.

<sup>35</sup> World Bank (2021), "Mongolia Economic Update : From Relief to Recovery (English)", retrieved from <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/158131612895925383/mongolia-economic-update-from-relief-to-recovery>, last accessed on January 24, 2022.

<sup>36</sup> World Bank (2021), "Country Partnership Framework for Mongolia for the Period FY21-FY25", retrieved from <https://documents1.worldbank.org/curated/en/820241621966528091/pdf/Mongolia-Country-Partnership-Framework-for-the-Period-FY21-FY25.pdf>, last accessed on January 24, 2022.

<sup>37</sup> Xinhuanet (2021), "World Bank expects Mongolian economy to recover in 2021", retrieved from [http://www.xinhuanet.com/english/2021-03/26/c\\_139838432.htm](http://www.xinhuanet.com/english/2021-03/26/c_139838432.htm), last accessed on January 24, 2022.

<sup>38</sup> IMF (2021), "IMF Executive Board Concludes 2021 Article IV Consultation with Mongolia", retrieved from <https://www.imf.org/en/News/Articles/2021/11/29/pr21350-imf-executive-board-concludes-2021-article-iv-consultation-with-mongolia>, last accessed on January 24, 2022.

regime may also be needed because of the country's narrow tax base. Already before the COVID-19 outbreak, Mongolia had many tax exemptions, with around 50% of VAT liabilities exempted from taxation<sup>39</sup>.

The Mongolian Government and WB jointly released a Public Expenditure and Financial Accountability (PEFA) assessment<sup>40</sup> in 2021. The assessment acknowledges that Mongolia has made great improvements in public financial management and has realized a high degree of transparency in its budget process. However, it also points out that the internal audit, accounting and reporting are not yet performed in accordance with international standards.

## 2 International and regional economic agreements

### 2.1 Mongolia's policy and priorities

#### ***Mongolia, China and Russia build economic corridor***

The China-Mongolia-Russia Economic Corridor (CMREC) was first proposed by China in September 2014. Two years later, its establishment became the first multilateral cooperation plan under the Belt and Road Initiative (BRI) and China, Mongolia and Russia signed a cooperation agreement in multiple areas, including trade, transport, infrastructure, cultural exchange and environmental protection<sup>41</sup>. On April 25, 2019 during the Second Belt and Road Forum, China and Mongolia signed a cooperation plan to promote the alignment of the BRI with the Mongolian Development Road program and to strengthen the CMREC<sup>42</sup>.

#### ***Mongolia and IMF***

Mongolia joined the IMF on February 14, 1991<sup>43</sup>. In 2008, due to a drop in copper exports during the financial crisis, Mongolia suffered an economic downturn. As a result, the IMF funded an economic program – which included a stand-by loan of around USD 232 million – that led to a quick recovery<sup>44</sup>. In September 2016, Mongolia asked again for the IMF assistance and obtained a USD 5.5 billion financing package from the Fund, ADB, WB, Japan, Korea and China. The three-year extended arrangement under EFF was approved on May 24, 2017, with two main pillars, namely fiscal consolidation and rehabilitation of the banking system<sup>45</sup>. After the extended program expired in May 2020, the IMF approved Mongolia's request for emergency financial assistance at about USD 99 million to meet urgent budgetary and balance of payment needs to address the COVID-19 pandemic<sup>46</sup>.

#### ***Mongolia and EFTA***

In June 2007, Mongolia and the EFTA Member States (Iceland, Liechtenstein, Norway and Switzerland) signed a Joint Declaration on Cooperation on trade-related issues –such as exchange information on trade in goods and services or technical barriers to trade–, private sector and investment. However, the framework of the Declaration remains relatively underutilized as both parties have only met twice in 12 years. The representatives of both parties met for the last time during a workshop on free trade agreements in Ulaanbaatar on March 21, 2019.

#### ***Mongolia's FTA network***

To date, Mongolia's only FTA is with Japan. The Economic Partnership Agreement (EPA)<sup>47</sup> with Japan aims at liberalizing and facilitating trade and investment between the two countries. Similar negotiations for such agreements are still ongoing with South Korea since 2008, with Russia since 2011 and with China since 2014<sup>48</sup>. The second meeting of the China-Mongolia FTA Joint Feasibility Study took place on February 14, 2019 in Beijing<sup>49</sup>. On November 23, 2020, Minister of Commerce Zhong Shan and Deputy Prime Minister of Mongolia Sodbaatar held the 16th meeting of the China-Mongolia Joint Commission on Trade and Economic Cooperation via video. Mongolia is also considering the possibility to reach a FTA with the Russia-led Eurasian Economic Union (EAEU).

<sup>39</sup> World Bank (2020), "Institutional and Structural Reforms for a Stronger and More Inclusive Recovery", retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/34330/Institutional-and-Structural-Reforms-for-a-Stronger-and-More-Inclusive-Recovery.pdf?sequence=1&isAllowed=y>, last accessed on January 24, 2022.

<sup>40</sup> World Bank (2021), "PEFA Performance Assessment Report 2021", retrieved from <https://documents1.worldbank.org/curated/en/170471633669495397/pdf/Mongolia-Public-Expenditure-and-Financial-Accountability-Performance-Assessment-Report-2021.pdf>, last accessed on January 24, 2022.

<sup>41</sup> CGTN (2017), "China, Mongolia sign deal on alignment of BRI, Development Road program", retrieved from <https://news.cgtn.com/news/3d3d774d32556a4d34457a6333566d54/index.html>, last accessed on January 24, 2022.

<sup>42</sup> CGTN (2019), "China, Mongolia sign deal on alignment of BRI, Development Road program", retrieved from <https://news.cgtn.com/news/3d3d774d32556a4d34457a6333566d54/index.html>, last accessed on January 24, 2022.

<sup>43</sup> IMF (2019), "IMF Office in Mongolia", retrieved from <https://www.imf.org/en/Countries/ResRep/MNG>, last accessed on January 24, 2022.

<sup>44</sup> Ibid

<sup>45</sup> IMF (2017), "IMF Executive Board approves financial arrangement for Mongolia", retrieved from <https://www.imf.org/en/News/Articles/2017/05/24/17193-imf-executive-board-approves-financial-arrangement-for-mongolia>, last accessed on January 24, 2022.

<sup>46</sup> IMF (2020), "IMF Executive Board Approves US\$99 Million Disbursement Under the Rapid Financing Instrument to Mongolia to Address the COVID-19 Pandemic", retrieved from <https://www.imf.org/en/News/Articles/2020/06/03/pr20232-mongolia-imf-executive-board-approves-us-99m-disbursement-under-the-rfi-address-covid19>, last accessed on January 24, 2022.

<sup>47</sup> Ministry of Foreign Affairs of Japan (2015), "Free Trade Agreement (FTA) and Economic Partnership Agreement (EPA)", retrieved from [https://www.mofa.go.jp/a\\_o/c\\_m2/mn/page3e\\_000298.html](https://www.mofa.go.jp/a_o/c_m2/mn/page3e_000298.html), last accessed on January 24, 2022.

<sup>48</sup> Oxford Business Group (2019), "New agreements between Mongolia and key neighbours set to boost foreign trade", retrieved from <https://oxfordbusinessgroup.com/analysis/partnering-trade-fresh-agreements-key-neighbours-are-set-boost-trade>, last accessed on January 24, 2022.

<sup>49</sup> China FTA Network (2019), "Second Meeting of China-Mongolia Joint Feasibility Research on FTA Held in Beijing", retrieved from [http://fta.mofcom.gov.cn/enarticle/enrelease/201902/39842\\_1.html](http://fta.mofcom.gov.cn/enarticle/enrelease/201902/39842_1.html), last accessed on January 24, 2022.

## **Mongolia and the United States of America**

The Agreement on Transparency in Matters Related to International Trade and Investment between the United States of America and Mongolia (“Transparency Agreement”) was ratified by the State Great Hural (SGH, the Mongolian Parliament) in 2014 and entered into force as of March 2017. The purpose of the Agreement is to improve the environment for the bilateral businesses through making transparent the process of developing and adopting trade-related laws and regulations, making fair the technical (administrative) handling of the trade-related issues, and fighting bribery and corruption. Within the framework of its implementation, the Ministry of Justice and Interior together with the National Legal Institute started publishing unofficial English translations of the laws of Mongolia on the internet<sup>50</sup>. The United States also implemented development projects with Mongolia through a Millennium Challenge Compact from 2008 to 2013. In order to help build critical water infrastructure in Ulaanbaatar, a second USD 350 million Compact entered into force in March 2021<sup>51</sup>. During a work visit on August 1, 2019, President Battulga signed a Strategic Partnership<sup>52</sup> with the US.

## **Mongolia’s cooperation with “third neighbors”**

Mongolia’s relation with China – as most significant trading partner and major recipient of financial and development assistance under the Belt and Road Initiative<sup>53</sup> – has pushed the country to engage with other partner nations. This new strategy aims at creating ties with countries such as India (which has given financial assistance to Mongolia for 3 years) or to enhance existing ties with the US. The Strategic Partnership signed with US in 2019 can be seen as an opportunity to limit China’s influence on the Asian continent. Furthermore, the European Union (EU) has provided Mongolia EUR 37.5 million for pandemic response<sup>54</sup>. Germany agreed to allocate a final amount of EUR 22 million for Mongolia’s sustainable economic development, energy efficiency and biodiversity<sup>55</sup>.

## **Member of WTO, AIIB, ADB, SCO and CAREC**

Mongolia joined the World Trade Organization (WTO) in 1997<sup>56</sup>. It is one of the founding members of the China-led Asian Infrastructure Investment Bank (AIIB), ratifying its membership at end of November 2015<sup>57</sup>. The ADB is Mongolia’s most important multilateral development partner since 1991, playing a key role in the country’s transformation to a middle-income, market based economy<sup>58</sup>.

Mongolia takes part in the Shanghai Cooperation Organization (SCO) as an observing member since 2004<sup>59</sup>, joined the Central Asia Regional Economic Cooperation (CAREC) in 2003<sup>60</sup> and the Asia-Pacific Trade Agreement (APTA) in 2020<sup>61</sup>. The APTA agreement with Mongolia entered into force in 2021, making Mongolia its 7th member, beside India, Bangladesh, South Korea, Laos, Sri Lanka and China.

Mongolia’s accession to the APTA is significant for its joining the Asia-Pacific economic integration, expansion of its international market and attraction of foreign investment. The APTA members account for 65% of Mongolia’s foreign trade turnover, 90% of its export and 30% of its import. Up to date, the APTA members conducted four sessions of the Ministerial Council and reached an agreement to mutually enjoy reduced tax tariffs on over 10’000 types of goods.

The Joint Working Group on study of a potential to establish a free trade agreement between Mongolia and the Eurasian Economic Union (EEU – led by Russia, Kazakhstan and Belarus)<sup>62</sup> successfully held its first consultative meeting online in October 2020. The discussion continued in 2021 as a Russian delegation led by Deputy Prime Minister A.L. Overchuk visited Mongolia in October on the occasion of the 100<sup>th</sup> anniversary of the establishment of diplomatic relations between Mongolia and the Russian Federation<sup>63</sup>.

<sup>50</sup> APTA (2020), “Mongolia”, retrieved from <https://www.legalinfo.mn/details/1317>, last accessed on December 7, 2021

<sup>51</sup> United States Government (2021), “U.S. Relations With Mongolia”, retrieved from <https://www.state.gov/u-s-relations-with-mongolia/>, last accessed on January 24, 2022.

<sup>52</sup> The Diplomat (2019), “US Becomes Mongolia’s 5th Strategic Partner”, retrieved from <https://thediplomat.com/2019/08/us-becomes-mongolias-5th-strategic-partner/>, last accessed on January 24, 2022.

<sup>53</sup> The China-Mongolia-Russia Corridor is one of the six economic corridors under BRI. There are a total of 32 projects under the China-Mongolia-Russia Corridor including transportation infrastructure, energy sector, environment and ecology, etc. Among the projects there are a non-refundable aid of CNY 2 billion in an air pollution reduction project and a soft loan worth USD 1 billion used for constructing electric power transmission lines and thermal power plants. Source: [https://www.unescap.org/sites/default/files/5\\_Mongolia%20BRI%20progress.pdf](https://www.unescap.org/sites/default/files/5_Mongolia%20BRI%20progress.pdf), last accessed January 24, 2022.

<sup>54</sup> Montsame (2020), “EU to provide EUR 37.5 million for Mongolia’s pandemic response”, retrieved from <https://montsame.mn/en/read/231749>, last accessed January 24, 2022.

<sup>55</sup> Montsame (2020), “Germany to provide EUR 22 million for Mongolia’s sustainable economic development, biodiversity”, retrieved from <https://montsame.mn/en/read/243939>, last accessed January 24, 2022.

<sup>56</sup> WTO (2019), “Mongolia and the WTO”, retrieved from [https://www.wto.org/english/thewto\\_e/countries\\_e/mongolia\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/mongolia_e.htm), last accessed on January 24, 2022.

<sup>57</sup> AIIB (2019), “Membership status”, retrieved from <https://www.aiib.org/en/about-aiib/who-we-are/membership-status/>, last accessed on January 24, 2022.

<sup>58</sup> ADB (2019), “ADB and Mongolia: Fact Sheet”, retrieved from <https://www.adb.org/publications/mongolia-fact-sheet>, last accessed on January 24, 2022.

<sup>59</sup> Maduz, Linda (2018). Flexibility by design: The Shanghai Cooperation Organisation and the future of Eurasian cooperation, CSS Study, Center for Security Studies (CSS), ETH Zurich.

<sup>60</sup> CAREC (2019), “Mongolia”, retrieved from [https://www.carecprogram.org/?page\\_id=8](https://www.carecprogram.org/?page_id=8), last accessed on January 24, 2022.

<sup>61</sup> United Nations ESCAP (2010), “Mongolia accedes to the Asia-Pacific Trade Agreement as its seventh member”, retrieved from <https://www.unescap.org/news/apta-welcomes-mongolia-its-seventh-member>, last accessed on December 8, 2021

<sup>62</sup> Montsame (2020), “First consultative meeting of joint working group held”, retrieved from <https://montsame.mn/en/read/238653>, last accessed on January 24, 2022.

<sup>63</sup> Montsame (2021), “Mongolia-Eurasian Economic Union cooperation discussed”, retrieved from <https://www.montsame.mn/en/read/279098>, last accessed on January 24, 2022.



## 2.2 Outlook for Switzerland

There are currently no planned economic agreements between Mongolia and Switzerland.

## 3 Foreign Trade

### 3.1 Impacts of the COVID-19 on trade: the case of coal

The global pandemic has caused coal export value decline to USD 2.12 billion in 2020 (-31% YoY). Export to China represents 72.5% of Mongolia's total export revenues in 2020. Because of China's ban on Australia's thermal and coking coal<sup>64</sup>, Mongolia has become China's largest source of coking coal since the second half of 2020. In the first 3 months of 2021, coal export therefore saw a speedy recovery to USD 689 million (+173% YoY)<sup>65</sup>, which is also a 7% increase compared to the pre-pandemic time in 2019.

However, border closures due to the COVID-19 outbreak has from time to time disrupted the export activities as well in 2021. In September 2021, exports decreased by USD 78.9 million, a 8.9% decrease compared to the previous month. The major entry point for coal imports from Mongolia to China (Ceke Port, Inner Mongolia) was closed in October 2021 due to five confirmed cases in Inner Mongolia<sup>66</sup>. The daily number of trucks transporting coal between Mongolia and China is around 500 in 2021 which is far below the pre-pandemic level of over 2,000 trucks. China's "zero-case" policy and strict epidemic prevention measures (incl. complete unloading at the border) have made cross-border transportation difficult and slow. Mongolia's Prime Minister Luvsannamsrai Oyun-Erdene held online talks with his Chinese counterpart in October 2021 in order to ease the situation and expand bilateral trade<sup>67</sup>. Arrangements are being made by both sides to increase Mongolia's annual coal exports to China by 50% from 32 million tons currently<sup>68</sup>.

### 3.2 Development and general outlook

Hit hard by the pandemic, the foreign trade turnover in 2020 was USD 12.9 billion (-6% YoY), a first but not sharp decrease since 2016. The foreign trade balance in 2020 stood at USD 2.3 billion, the number has remained positive since 2014. However, the export sector is still highly dependent on mineral products. The mining sector exported in 2020 commodities worth USD 7 billion, an increase by 4% compared to 2019 and it is the only export sector that sees growth in 2020.

As of 2020, Mongolia's major export destinations were China (72.5%), Switzerland (22.2% - mainly gold), Singapore (2%), Great Britain (1.1%), Russia Federation (0.8%), and Italy (0.3%). Top import partners were China (36.1%), Russia Federation (26.4%), Japan (7.7%), USA (4.6%) and Republic of Korea (4.5%). 62.5% of Mongolia's total foreign trade was made with its two neighbors.

For the first 11 months of 2021, Mongolia traded with 159 countries and territories with a total foreign trade turnover of USD 15 billion. The number is by USD 3.3 billion or 27.9% higher than the same period of 2020. The trade balance produced a USD 2.6 billion surplus as of November 2021<sup>69</sup>.

**Table 2. Foreign Trade Performance, 2015-2021 (billion USD)**

	2015	2016	2017	2018	2019	2020	11/2021
<b>Total turnover</b>	8.5	8.3	10.5	12.9	13.7	12.9	15
<b>Exports</b>	4.7	5	6.2	7	7.6	7.6	8.8
<b>Imports</b>	3.8	3.4	4.3	5.9	6.1	5.3	6.2
<b>Balance</b>	0.9	1.6	1.9	1.1	1.5	2.3	2.6

Source: Customs General Administration

In 2020, the Ministry of Justice of Mongolia presented to the Parliament proposals to amend the Trademark Act. The reform proposals reflect the growing number of trademark applications and disputes in the procedures of the National Intellectual Property Office. The revised trademark law enters into force in 2021, representing ongoing endeavors to perfect the IP system in Mongolia. Although the new law would improve certain aspects of trademark protection in Mongolia, major issues and violations of WTO regulations are most likely to persist<sup>70</sup>.

<sup>64</sup> SCMP (2020), "China's ban on Australian coal could be 'indefinite' amid heightened political tensions", retrieved from <https://www.scmp.com/economy/china-economy/article/3105202/chinas-ban-australian-coal-could-be-indefinite-amid?module=inline&pgtype=article>, last accessed on January 24, 2022.

<sup>65</sup> Bank of Mongolia (2021), "Mongolia's Foreign Trade Review (March 2021)", retrieved from <https://www.mongolbank.mn/documents/statistic/externalsector/tradebalancereview/2021/03e.pdf>, last accessed on January 24, 2022.

<sup>66</sup> Global Times (2021), "China-Mongolia border port in lockdown as Shanghai tour group transmission expands", retrieved from <https://www.globaltimes.cn/page/202110/1236693.shtml>, last accessed on January 24, 2022.

<sup>67</sup> Ministry of Foreign Affairs of the People's Republic of China (2021), "Li Keqiang Meets with Mongolian Prime Minister Luvsannamsrai Oyun-Erdene via Video Link", retrieved from [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202110/t20211013\\_9550671.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202110/t20211013_9550671.html), last accessed on January 24, 2022.

<sup>68</sup> Global Times (2021), "COVID-19 cases in Inner Mongolia affect ports, but coal imports from Mongolia set to jump", retrieved from <https://www.global-times.cn/page/202110/1236851.shtml?id=11>, last accessed on January 24, 2022.

<sup>69</sup> Customs General Administration, "Mongolia", retrieved from <https://gaali.mn/statistic/news/61aebdec83ab8930733b95ed>, last accessed on January 24, 2022.

<sup>70</sup> Uyanga Delger (2021), "Mongolia: Trademark Law Reform Bill" [presentation slides].

## **Export**

In the first 11 months of 2021, exports reached USD 8.8 billion (+28.8% YoY). Mongolia made exports to 63 countries. China (86.3%), Switzerland (6.7%), Korea (2.4%) and Singapore (1.8%) made up 97.2% of the total exports.

By classification of export items, the minerals took up 82.3% or USD 7'266.4 million; natural or cultured pearl, precious and semi-precious stones – 10.7% or USD 943.9 million; textile products – 3.4% or USD 298.4 million; vegetable products – 1% or USD 88.9 million, and prepared food products – 0.5% or USD 46.8 million. These categories produced 97.9% of the total export value.

From January to November 2021, 100% of crude oil, iron ores, copper concentrates and zinc concentrates were exported to China; 92.7% of coal – to China; 73.7% and 26.3% of fluorspar (mineral used for manufacturing glass and jewelry) – to China and the Russian Federation; predominant percentage of raw hides of equine and bovine animals – to China; 84.3% processed hides of equine and bovine animals – to Italy; 66.4% and 16.3% of combed cashmere – to Italy and Great Britain; 100% of washed cashmere – to China; 86% and 14% of gold, unwrought or in semi-manufactured forms – to Switzerland and Republic of Korea. These categories made up 92% of the total export value<sup>71</sup>.

## **Import**

For the first 11 months of 2021, imports amounted to USD 6.2 billion (+26.6% YoY). Mongolia imported goods originating from 152 countries. China (37.5%), the Russian Federation (27.7%), Japan (6.6%), Republic of Korea (4.4%), Germany (3.3%) and the USA (3.1%) were major partners, jointly accounting for 82.6% of the total imports.

During the same period, the import goods in values consisted of machinery, mechanical appliances and parts thereof, electrical equipment and their spare parts (USD 1'133.3 million or 18.3%), mineral products (USD 1'169.9 million or 18.9%, among them, oil products accounts for USD 982.5 million or 84%), products of animal origin, vegetable products and foods (USD 864.6 million or 14%), vehicles and aircraft and parts thereof (USD 1128.9 million or 18.2%), base metals and articles of base metal (USD 541 million or 8.7 percent), products of the chemical or allied industries (USD 526.2 million or 8.5%). These goods in whole accounted for 86.7 % in the total imports<sup>72</sup>.

## **3.3 Bilateral trade**

### **Trade in goods**

According to the Federal Customs Administration, Switzerland imported goods from Mongolia worth of CHF 872.7 million in 2020 (if excl. gold bars and other precious metals: CHF 1.6 million). This represents an increase of 40.3% YoY (if excl. gold bars and other precious metals: +21.9% YoY). The largest imports (excl. gold bars and other precious metals) were textiles, clothing, shoes (52.7%) and forestry and agricultural products, fisheries (36.3%)<sup>73</sup>.

Exports from Switzerland to Mongolia amounted to CHF 9.9 million in 2020, registering a decrease of 11.4% YoY (if excl. gold bars and other precious metals: CHF 8.7 million, -20.9% YoY). Biggest export groups (excl. gold bars and other precious metals) were precision instruments, clocks and watches and jewelry (44% of total), followed by products of the chemical and pharmaceutical industry (25.4% of total) and machinery, appliances and electronics (18.3% of total)<sup>74</sup>.

In 2020, total bilateral trade turnover increased by 39.4% YoY and reached CHF 882.6 million, despite the COVID-19. At the end of 2020, Switzerland's trade balance with Mongolia remained negative at CHF 611 million (however, it presents a trade surplus when excl. gold bars and other precious metals CHF 7.13 million)<sup>75</sup>.

From January to October of 2021, bilateral trade increased by 16.3% compared to the same period last year (incl. gold bars and other precious metals). Switzerland imported CHF 804.2 million worth of goods (incl. gold bars and other precious metals), corresponding to a 15.8% YoY increase. Swiss exports (incl. gold bars and other precious metals) stood at CHF 12.7 million, amounting to a 58% increase<sup>76</sup>.

Whereas more than 90% of the imports from Mongolia are raw materials, gold holds a special position in bilateral trade. For the first 11 months of 2021, Switzerland was the destination of 86% of Mongolia's exported gold. Swiss refineries process 80% of the unrefined gold mined in the world each year, Switzerland being traditionally a leading gold refining hub. On the other hand, Mongolia has significant gold reserves. According to some experts, Oyu Tolgoi, the biggest mining project in the country, could contain 48'000 kg of gold. However, two thirds of the gold is extracted through artisanal mining. With the support from Swiss Agency for Development and Cooperation (SDC), Mongolian government

<sup>71</sup> Ibid

<sup>72</sup> Ibid

<sup>73</sup> Swiss Federal Customs Administration – FCA (2021), "Swiss-Impex Database", retrieved from <https://www.gate.ezv.admin.ch/swissimpex/index.xhtml>, last accessed on January 24, 2022.

<sup>74</sup> Ibid

<sup>75</sup> Ibid

<sup>76</sup> Ibid

launched the Sustainable Artisanal Mining Project (SAM) in 2005 aiming at formalizing and legalizing artisanal mining activities while developing the capacities of the miners. SAM project transforms mineral resources into a means of subsistence for poor populations and future generations without adverse consequences for the environment. To date, over 7'000 miners have directly benefited from the project<sup>77</sup>.

## 4 Direct Investments

### 4.1 Development and general outlook

#### *Inward FDI*

To revive the investors' confidence and to attract more foreign investment, the Government established a Council on Protection of Investors' Interests (2016), a Public-Private Consultative Committee (2017) and a One-stop Service Center (2019). FDI stock in Mongolia has continuously increased since 2016<sup>78</sup> and was over USD 1.65 billion more in 2020 than the previous year. By the end of 2020, the countries with major investments in Mongolia were Canada (38%), China (26%), Singapore (6%) and Luxemburg (6%)<sup>79</sup>.

**Table 3. FDI stocks in Mongolia (USD billion)**

Year	2015	2016	2017	2018	2019	2020
Total	20.7	16.3	18	20.2	22.6	24.2

Source: Bank of Mongolia<sup>80</sup>

**Table 4. Total FDI in Mongolia (as of 2020, in USD billion)**

Country	Canada	China	Singapore	Luxembourg
<b>2020</b>	9.2	6.2	1.6	1.5

Source: Bank of Mongolia

With the worsening of the global macroeconomic situation and the resulting drop in mineral prices, FDI inflows to Mongolia have stagnated in 2020. The economic recovery in 2021 is supported largely by a moderate recovery in investment in the country's mining sector. Investment spending is picking up as mining companies resume development. Expansion plans that had been postponed in 2020 because of strained financial positions and mobility restrictions started to operate and move forward. However, the extent of recovery is constrained by political instability. The previous prime minister resigned after protests at the beginning of 2021 and there was also a change of presidency in mid-2021. Oyu Tolgoi, the country's largest copper-gold mine and the biggest source of FDI, is also facing difficulties in renegotiating an agreement<sup>81</sup>. Mongolia's FDI is heavily concentrated in one sector (mining and quarrying) in comparison to other developing countries. The mining and quarrying sector alone constitutes 77.5% of FDI inflow in 2020<sup>82</sup>.

<sup>77</sup> EDA (2021), "Sustainable Artisanal Mining", retrieved from <https://www.eda.admin.ch/deza/en/home/laender/mongolei.html/dezaprosjects/SDC/en/2005/7F04344/phase4>, last accessed on January 24, 2022.

<sup>78</sup> Bank of Mongolia (2019), "Foreign Direct Investment (FDI), and its importance", retrieved from [https://www.mongolbank.mn/documents/press\\_conference/20191022\\_01e.pdf](https://www.mongolbank.mn/documents/press_conference/20191022_01e.pdf), last accessed on January 24, 2022.

<sup>79</sup> Bank of Mongolia (2020), "Mongolia's External Sector Review", retrieved from [https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview\\_202004e.pdf](https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview_202004e.pdf), last accessed on January 24, 2022

<sup>80</sup> Bank of Mongolia (2021), "Mongolia's International Investment Position", retrieved from [https://www.mongolbank.mn/eng/liststatistic.aspx?id=4\\_2](https://www.mongolbank.mn/eng/liststatistic.aspx?id=4_2), last accessed on January 24, 2022.

<sup>81</sup> Financial Times (2021), "Rio Tinto makes offer to Mongolia over troubled copper project", retrieved from <https://www.ft.com/content/9e3e015e-113b-4be7-a51e-1b00cab85201>, last accessed on January 24, 2022.

<sup>82</sup> Bank of Mongolia (2020), "Mongolia's External Sector Review", retrieved from [https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview\\_202004e.pdf](https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview_202004e.pdf), last accessed on January 24, 2022.

## FDI, inflow, by economic sector, in USD million

№	Economic sector	IV улирал		2020.IV/19.IV
		2019	2020	Changes
1	Construction	17	2	-15 ▼
2	Education services	0	0	0 ▼
3	Processing industries	8	3	-5 ▼
4	Wholesale and retail trade; repair of motor vehicles and motorcycles	48	45	-3 ▼
5	Accommodation and food service activities	0	0	0 ▼
6	Information and communication	3	4	1 ▲
7	Professional, scientific and technical activities	4	51	47 ▲
8	Financial and insurance activities	52	28	-25 ▼
9	Transportation and storage	8	4	-4 ▼
10	Administrative and support service activities	9	29	20 ▲
11	Mining and quarrying	873	588	-285 ▼
12	Other service activities	16	1	-16 ▼
13	Real estate activities	3	3	0 ▼
14	Agriculture, forestry and fishing	0	0	0 ▲
15	Electricity, gas, steam and air conditioning supply	0	0	0 ▲
16	Other	1	1	0 ▲
	<b>Total</b>	<b>1043</b>	<b>759</b>	<b>-283 ▲</b>

Source: Bank of Mongolia

### Outward direct investment

Mongolia's outward investment increased in 2020, amounting to USD 689.1 million, up from USD 664.7 million in 2019<sup>83</sup>.

## 4.2 Bilateral investment

### Mongolian direct investment in Switzerland

There are no records on Mongolian FDI to Switzerland.

### Swiss direct investment in Mongolia

According to the Mongolian Statistical Information Service, Switzerland's FDI inflow in Mongolia reached USD 35.1 million in 2019. Moreover, based on the data from the Bank of Mongolia, the stock of Swiss FDI in Mongolia amounted to USD 134 million by end of 2020, which ranks Switzerland as Mongolia's 16th largest investor<sup>84</sup>. The Swiss National Bank does not provide any public figures on Swiss FDI to Mongolia.

# 5 Trade, Economic, Investment Promotion

## 5.1 Foreign economic promotion instruments

The Embassy of Switzerland in the People's Republic of China and the Swiss Agency for Development and Cooperation (SDC) Office in Mongolia are dedicated partners for Mongolia on its way to sustainable socio-economic development. For one, this is highlighted by regular inter-governmental exchanges between Switzerland and Mongolia. In addition, from June 24 to July 3, 2019, the President of the National Council, Marina Carobbio Guscetti, paid a visit to Ulaanbaatar in an official capacity focused on development cooperation<sup>85</sup>.

The SDC aims to contribute to equitable and sustainable socio-economic development in the country. The Cooperation Strategy 2018-2021 for Mongolia focuses on four domains, namely jobs, climate and migration and the rule of law<sup>86</sup>. Thanks to the SDC's projects in pilot mining sites, artisanal miners' conditions have improved through the gradual formalization of the sector. Artisanal mining activity – which accounts for 2/3<sup>rd</sup> of the national gold production – is now legally recognized. Registered miners can benefit from social and public services. The average income increased by 67% between 2014 and 2016<sup>87</sup>.

In accordance with the Swiss Parliament's approval of Switzerland's International Cooperation Strategy 2021-2024 in autumn 2020, SDC will give greater emphasis to countries in fragile contexts and focus on specific regions (Africa, Middle East, South-East Asia and Eastern Europe). As a result, and in light of Mongolia's economic potential, SDC will phase out its bilateral development cooperation in Mongolia by the end of 2024, ensuring a responsible phasing out and securing the jointly obtained results as well as capitalization of gained experience. Beyond 2024, future partnerships

<sup>83</sup> Bank of Mongolia (2021), "Mongolia's International Investment Position", retrieved from [https://www.mongolbank.mn/en/liststatistic.aspx?id=4\\_2](https://www.mongolbank.mn/en/liststatistic.aspx?id=4_2), last accessed on January 24, 2022.

<sup>84</sup> Bank of Mongolia (2021), "Mongolia's External Sector Review", retrieved from [https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview\\_202004e.pdf](https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview_202004e.pdf), last accessed on January 24, 2022.

<sup>85</sup> FDFA (2019), "An official visit of the President of National Council of the Swiss Confederation to Mongolia", retrieved from <https://www.eda.admin.ch/countries/mongolia/en/home/news/news.html/content/countries/mongolia/en/meta/news/2019/President>, last accessed on January 24, 2022.

<sup>86</sup> Swiss Agency for Development and Cooperation (2017), "Cooperation Strategy Mongolia: 2021-2024", retrieved from <https://www.eda.admin.ch/eda/en/dfa/dfa/aktuell/newsuebersicht/2020/02/botschaft-iza.html>, last accessed on January 24, 2022.

<sup>87</sup> Swiss Agency for Development and Cooperation (2017), "Cooperation Strategy Mongolia: 2018-2021", retrieved from [https://www.eda.admin.ch/dam/deza/en/documents/laender/cooperation-strategy-mongolia-2018-2021\\_EN.pdf](https://www.eda.admin.ch/dam/deza/en/documents/laender/cooperation-strategy-mongolia-2018-2021_EN.pdf), last accessed on January 24, 2022.

and support of Switzerland in Mongolia may be envisaged, such as in the area of global challenges (e.g. climate change), humanitarian aids (if need be), policy development or trade.

In October 2020, the Swiss Business Hub (SBH) China, representing the official Swiss international trade and investment promotion agency Switzerland Global Enterprise, mandated a study to explore the potential of the Mongolian market regarding business opportunities for Swiss companies. In its findings, the report recognized governance as the main challenge for conducting business in the country, but also pointed out the alignment of SDC's focus areas (agriculture/food security, technical and vocational education and training, as well as governance) with key development directions presented in the Vision 2050 policy plan (see above) and suggested Switzerland could leverage on existing networks and resources from SDC project activities in planning possible future actions. A decision on a potential future engagement is pending.

Starting in July 2021, the Graduate Institute Geneva (University of Geneva) is leading a capacity building project with Bank of Mongolia, financed through funds from the State Secretariat for Economic Affairs (SECO). Tailored to the central Bank's specific needs, the aim of the project is to build analytical and technical expertise to conduct effective monetary policy, promote stable and efficient financial sector and be more operationally sustainable. The project is planned to come to a close by end of 2022.

## 6 Annexes

### Appendix 1: Structure of the Economy

Mongolia: Structure of the Economy		
	2019	2020
<b>Distribution of GDP (%)</b> <sup>1</sup>		
Primary Sector	37.3%	36.9%
Secondary Sector	15.1%	16.1%
Tertiary Sector	47.6%	47%
<b>Distribution of labour (%)</b> <sup>2</sup>		
Primary Sector	30.37%	28.21%
Secondary Sector	16.52%	16.31%
Tertiary Sector	53.11%	55.48%

#### Sources:

<sup>1</sup> Mongolian Statistical Information Service (2021), "INDUSTRIAL COMPOSITION OF GROSS DOMESTIC PRODUCT, by divisions", retrieved from [https://www.1212.mn/Stat.aspx?LIST\\_ID=976\\_L05&type=tables](https://www.1212.mn/Stat.aspx?LIST_ID=976_L05&type=tables), last accessed on January 24, 2022.

<sup>2</sup> Mongolian Statistical Information Service (2020). "EMPLOYMENT, by classification of economic activities, sex, age group", retrieved from [https://www.1212.mn/stat.aspx?LIST\\_ID=976\\_L04&type=tables](https://www.1212.mn/stat.aspx?LIST_ID=976_L04&type=tables), last accessed on January 24, 2022.

## Appendix 2: Essential Economic Data

Mongolia: Essential Economic Data			
	2019	2020	2021
<b>GDP (USD billion)</b> <sup>1</sup>	14	13.14	14.28
<b>GDP per capita (USD)</b> <sup>1</sup>	4'245	3'916	4'186
<b>GDP growth (% of GDP)</b> <sup>2</sup>	5.6%	-4.6%	4.5%
<b>Inflation rate (%)</b> <sup>1</sup>	7.3%	3.7%	5.4%
<b>Unemployment rate (%)</b> <sup>1</sup>	10%	7.5%	6.75%
<b>Fiscal balance (% of GDP)</b> <sup>2</sup>	0.9%	-9.2%	-5.4%
<b>Current account balance (% of GDP)</b> <sup>2</sup>	-15.2%	-5.1%	-12.8%
<b>External debt (% of GDP)</b> <sup>2</sup>	73.9%	73.9%	76.3%
<b>Public and publicly-guaranteed debt service (% of exports)</b> <sup>3</sup>	5.4%	9.6%	-
<b>Reserves incl. gold (months of imports)</b> <sup>2</sup>	7.1	5.8	4.7

Shaded cells indicate IMF staff estimates

### Sources:

<sup>1</sup> IMF (2021), "World Economic Outlook Database, October 2021", retrieved from <https://www.imf.org/en/Publications/WEO/weo-database/2021/October>, last accessed on January 24, 2022.

<sup>2</sup> IMF (2021), "Mongolia: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Mongolia", retrieved from <https://www.elibrary.imf.org/view/journals/002/2021/251/article-A001-en.xml>, last accessed on January 24, 2022.

<sup>3</sup> World Bank (2021), "Public and publicly guaranteed debt service (% of exports of goods, services and primary income) - Mongolia", retrieved from <https://data.worldbank.org/indicator/DT.TDS.DPPG.XP.ZS?locations=MN>, last accessed on January 24, 2022.

### Appendix 3: Trading partners of Mongolia

**NOTE: the above data differs from the data showed in Appendix 4. For the sake of this report, data from Mongolian sources will be used for international comparison, while data from the Swiss sources will be used to assess bilateral exchanges.**

Trading Partners of Mongolia									
Rank	Country	Exports			Rank	Country	Imports		
	Jan - Dec 2020	(USD million)	Share %	Change %		Jan - Dec 2020	(USD million)	Share %	Change %
1	China	5'493.6	72.5%	-19.1%	1	China	1'910.2	36.1%	-7.3%
2	Switzerland	1'681.6	22.2%	2142.5%	2	Russian Federation	1'340.0	26.4%	-19.1%
3	Singapore	151.3	2.0%	0	3	Japan	406.7	7.7%	-30.5%
4	United Kingdom	84.1	1.1%	-71.1%	4	USA	245.4	4.6%	-15.3%
5	Russian Federation	57.3	0.8%	-15.9%	5	Republic of Korea	235.8	4.5%	-11.7%
6	Italy	19.4	0.3%	-57.2%					
					15	Switzerland	35.1	0.7%	44.2%
	<i>European Union</i>	126.7	1.7%	-65.1%		<i>European Union</i>	563.4	10.6%	-3.9%
	<b>Total</b>	<b>7'576.3</b>	<b>100.0%</b>	<b>-0.6%</b>		<b>Total</b>	<b>5'294.0</b>	<b>100%</b>	<b>-13.6%</b>

**Source:** Mongolian Statistical Information Service (2021), "Foreign Trade - Exports, by countries and by years / Imports, by countries and by the end of selected years", retrieved from [https://www.1212.mn/Stat.aspx?LIST\\_ID=976\\_L14&type=tables](https://www.1212.mn/Stat.aspx?LIST_ID=976_L14&type=tables), last accessed on January 24, 2022.



## Appendix 4: Bilateral trade Switzerland – Mongolia 2019/2020

**NOTE:** the above data differs from the data showed in Appendix 3. For the sake of this report, data from Mongolian sources will be used for international comparison, while data from the Swiss sources will be used to assess bilateral exchanges.

Bilateral Trade Switzerland - Mongolia, Jan - Dec 2019/2020									
Class of goods	Import in CHF mln.		Δ	Import	Export in CHF mln.		Δ	Export	Trade balance
	Jan - Dec 2019	Jan - Dec 2020	in %	share %	Jan - Dec 2019	Jan - Dec 2020	in %	share %	Jan - Dec 2020
1 Forestry and agricultural products, fisheries	0.43	0.6	33.3%	36.3%	1.80	0.15	-91.8%	1.7%	-0.43
2 Energy source	-	-	*	-	0.00	0.00	171.8%	0.1%	-
3 Textiles, clothing, shoes	0.78	0.84	7.1%	52.7%	0.16	0.16	-1.9%	1.8%	-0.68
4 Paper, articles of paper and products of the printing industry	0.00	0.00	**	0.0%	0.01	0.02	8.2%	0.2%	0.02
5 Leather, rubber, plastics	0.00	0.00	137.7%	0.2%	0.22	0.05	-77.7%	0.6%	0.05
6 Products of the chemical and pharmaceutical industry	0.00	0.00	-68.1%	0.1%	2.11	2.22	5.1%	25.4%	2.22
7 Stones and earth	0.00	0.00	*	-	0.24	0.12	-47.7%	1.4%	0.12
8 Metals	0.00	0.04	**	2.8%	0.84	0.52	-38.2%	6.0%	0.48
9 Machine, appliances, electronics	0.05	0.00	-83.1%	0.6%	1.90	1.60	-16%	18.3%	1.59
10 Vehicles	-	-	*	-	0.03	0.01	-50.4%	0.2%	-
11 Precision instruments, clocks and watches and jewellery	0.02	0.1	330.9	7.3%	3.65	3.84	5.2%	44.0%	3.73
12 Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	0.00	0.00	-95.5%	0.0%	0.05	0.03	-50%	0.3%	0.03
<b>Total 1 (excl. gold bars and other precious metals)</b>	<b>1.31</b>	<b>1.59</b>	<b>21.9%</b>	<b>100%</b>	<b>11.03</b>	<b>8.73</b>	<b>-20.9%</b>	<b>100%</b>	<b>7.13</b>
<b>Total 2 (incl. gold bars and other precious metals)</b>	<b>622.20</b>	<b>872.74</b>	<b>40.3%</b>	<b>100%</b>	<b>11.15</b>	<b>9.88</b>	<b>-11.4%</b>	<b>100%</b>	<b>-611.0</b>

\* Percentage change/share/price not interpretable or not calculable

\*\* Percentage change > 999.9 %

Source: Swiss Federal Customs Administration – FCA (2021), “Swiss-Impex Database” retrieved from <https://www.gate.ezv.admin.ch/swissimpex/index.xhtml>, last accessed on January 24, 2022.

## Appendix 5: Foreign Direct Investment

Mongolia: Foreign Direct Investment Inward					
Rank	Country	FDI Stock, 2020 (bio. USD)	Share (%)	Stock variation (%)	FDI flow, 2020 (mio. USD)
1	Canada	9.17	37.9%	17.2%	448
2	China	6.22	25.7%	4.6%	76
3	Singapore	1.57	6.5%	-4.5%	38
4	Luxembourg	1.49	6.2%	4.7%	28
5	Japan	0.98	4.1%	5.9%	26
6	United States	0.75	3.1%	0.5%	63
7	Netherlands	0.68	2.8%	-0.7%	0
8	United Kingdom	0.60	2.5%	15.8%	46
9	Australia	0.52	2.2%	7.6%	3
10	Republic of Korea	0.47	1.9%	1.4%	2
16	Switzerland	0.13	0.6%	-1.4%	-
	<b>Total</b>	<b>24.21</b>	<b>100%</b>	<b>8.5%</b>	<b>759</b>

### Source:

1 Bank of Mongolia (2021), "Mongolia's External Sector Review", retrieved from [https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview\\_202004e.pdf](https://www.mongolbank.mn/documents/statistic/externalsector/bopreview/bopreview_202004e.pdf), last accessed on January 24, 2022.

2 Mongolian Statistical Information Service (2021), "Foreign investment stock, by country / Foreign investment inflows, by country", retrieved from [https://www.1212.mn/stat.aspx?LIST\\_ID=976\\_L09\\_1&type=tables](https://www.1212.mn/stat.aspx?LIST_ID=976_L09_1&type=tables), last accessed on January 24, 2022.