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## **MONGOLIA: Trade Facilitation and Logistics Development Strategy Report**

### **EXECUTIVE SUMMARY**

In this report, the existing Mongolian logistics industry is reviewed for an in-depth analysis of both demand and supply issues for trade logistics. The potential demand on the logistics industry is also assessed with a review of the Mongolian major industries and the three free trade zones. The major transport routes are examined together with Mongolia's access to major export and import markets. Existing policy and operational impediments to the logistics industry are reviewed with recommendations being made to cover these impediments.

Mongolia is the 19th largest country in the world by landmass and is sandwiched between the two North Asian giants of Russia and PRC. Since its transition to democratic government in 1990, the Mongolian economy had been in transition into being a market economy.

#### **Demand-Side Issues**

Existing economic activities in Mongolia are still limited to traditional activities of minerals mining, agriculture and animal husbandry making up a major portion of the local economy.

The mining is the biggest economic sector in Mongolia, contributing more than half of the GDP. Copper, coal and gold are the major resources. Recent increase in world commodity prices had resulted in many foreign mining companies taking up exploratory licenses in Mongolia. The discovery of large copper deposits in the Omnogovi province had also focused the world's attention on Mongolia. With these discoveries, it is now pertinent to plan and implement transport links to facilitate the delivery of the minerals to the destination countries (e.g. PRC). In addition, a special mining zone could be implemented to support the development of the mining industry in Omnogovi province.

The livestock industry is another key industry in Mongolia. However, this industry is highly subjected to the external factors of bad weather and diseases. In addition, the industry is currently dependent on Russia as an export market. To counter the external factors, it is recommended that steps be taken to protect the livestock through farmhouses and improving the hygiene level at domestic veterinary, agriculture and production. Improving hygiene will also Mongolia to expand their efforts to diversify exports into other export markets of China, North Asia and South East Asia.

Cashmere and cashmere products are important processed products in Mongolia. Currently, the industry is mainly utilising the southern multi modal route via Xingang Port in China over the shorter northern route of Trans-Siberian Highway due to customs delays and need to make train reservations a month in advance. Domestically the industry is also facing the issue of onerous documentation processes. Both issues can be resolved through a bilateral agreement with Russia and streamlining of permits required for exports.

The decision to implement Free Trade Zones in Mongolia is important to promoting more economic activities in regions away from Ulaan Baatar and generates employment opportunities for the locals. Moreover, the government also recognised that the three zones selected at Altanbulag, Zamyn-Uud and Tsagaan Nuur were different in terms of accessibility, proximity to market and readiness to zone implementation.

In view of the difference, this report proposes that the zones be implemented with a different focus in mind. The Zamyn-Uud zone is next to PRC and is ideal for Chinese manufacturers to establish manufacturing plants to take advantage of existing infrastructure and the European Union's grant of tax exemption for Mongolian goods. Finally, Tsagaan Nuur's distance from major markets and lack of existing transport infrastructure make it a challenge for zone implementation. It is proposed the local authorities consider building up the local economy through establishment of entrepot centre for local and foreign goods.

It is also important for the various zones to have a clear idea of zone implementation. Thus, the various zone management should employ the services of international consultancy to conduct master planning exercises for the zones.

## **Supply-Side Issues**

Mongolia is also an important transit country for the region.

The transit trade is served by the Trans-Mongolian Railways. Linking Sukhbaatar in the north, Zamyn-Uud in the south and passing through the capital of Ulaan Baatar, this railway is the backbone of the country's long distance transportation serving as a transit route for the transportation of major imports/exports of crude oil, timber and wood products, fertilizers and machineries etc.

The existing rail operations in Mongolia can be improved with the adoption of double-stacked technology to increase the capacity of the existing rail. This technology is

already widely utilized in the US and can utilize existing resources to support two times the current freight volume. In addition, the government can initiate a long-term contract with Russia to secure lower operating rates to increase the cost competitiveness of the Trans-Mongolian Railway.

The Mongolian government is seeking to improve intra-country connectivity through developing an integrated network for roads, communications, information and energy. Road and bridges are planned for remote regions while focus will be made on the Millennium Road networks. This development is crucial for Mongolia due to its huge landmass with low population density. Road networks will lower transportation costs and improving accessibility through providing the last mile of distribution services. The government should also liaise closely with the local industry to share information on national road plans and also to solicit opinions on its plans.

Three logistics facilities, a central logistics centre, a comprehensive trucking terminal and a container-handling terminal are proposed to be built in Ulaan Baatar. The central logistics centre will free up capital tied up in fixed assets and by centralizing the facilities, allow economies of scale. The comprehensive trucking terminal will service more than 200 trucking companies and allow them proper facilities for conducting business and operations. Finally the container-handling terminal will encourage the development of containerization.

Currently, Mongolia has about 60 freight forwarders, with only one-third providing integrated logistics services while the rest offer limited form of transportation. About 10 Mongolian companies handle 60% of the transit traffic while Russia companies handle the rest of the traffic. The key players invested in better information systems and facilities such as cargo terminals and warehouses. In recent years, innovative services such as the Mongolian Vector and the Friendship block train services were implemented by local logistics companies and enhanced Mongolia's route in linking trade flows between Asia and Europe. The government should encourage such innovative services to enhance the logistic industry.

In addition, the government should also address the issue of a lead agency to champion the needs of the transport and logistics industry. A national classification system can be implemented to resolve the current issue of inconsistent standards of professionalism in the industry.