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ASSESSMENT OF MONGOLIAN TRADE POLICY

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In this paper Mongolian trade policy issues during 1990-2000 are considered. The task can be best reached begin by recognizing essential facts. First Mongolia had very constant trade policy over decades. However due to last 10 years political and economic changes rose problems in relevance to trade policy. In this article let me summarize only the fundamental characteristics of the policy and how it was administrated by the Mongolian Government. In Mongolian case, not the ministries but the Parliament plays a vital role in formulation of trade policy. The paper concludes with the comments on the effectiveness of the policy issues. In addition there will be some ideas about the future prospects of the policy.

1. MONGOLIAN TRADE POLICY BEFORE 1990s

When Mongolian economy was influenced by the Soviet Union economy, Mongolian trade policy was determined by the Soviet Union's policy. The production and the trade of the Mongolia were conducted in accordance with a "socialist division of labor" organized by the Council of Mutual Economic Assistance (CMEA) and trade with other countries was heavily restricted.

As a shown at the Table 1, exports to the other CMEA countries accounted for 98% of Mongolian's total exports, and exports to the Soviet Union accounted for almost 80% of Mongolian's total exports in 1980. The foreign trade was under the state trade monopoly and the state planning. Therefore all export was subsidized by the Government. Also domestic prices were under the state control. Import tariffs were differential and export controls existed through export license.

However since early 1980s the situation began to be changed. In the 1980s dramatic changes were taking place as the former USSR and central and eastern European countries experienced radical political and economic upheaval. This global process did not exclude Mongolia and the country needed to adjust itself to this global trend of transition from a socialist, centrally planned economy to a democratic, market economy.

Mongolia needed to reorient its trade flows completely and upgrade the quality of its exports to meet the high standards of the world market. The Mongolian export composition by countries changed significantly. The share of Mongolian total exports to other countries besides CMEA rose from 2% in 1980 to 85.4% in 1995.

Table 1. Export (at current prices, mil. togrog)

	1960	1970	1980	1990
Total export	286.6	337.6	1199.5	1967.4
By countries:Bulgaria	4.9	13.5	26.7	49.9
Vietnam			3.1	0.8
GDR	10.8	17.2	39.1	
USSR	219.8	230.9	951.9	1540.7
Cuba		0.6	2.7	3.8
Poland	7.4	13.4	25.8	33.2
Romania	1.1	7.2	17.8	30.2
Hungaria	6.2	9.1	23.1	41.1
Czechoslovakia	22.3	24.4	67.1	89.1
China	13.1	6.9	11.6	33.7
Yugoslavia	0.2	0.5	4.0	8.3
USA			0.4	2.7
Austria		0.4		0.1
Germany			4.4	40.7
England		3.3	8.4	9.0
Holland			0.9	4.5
Italy			0.9	16.4
France			1.3	8.2
Switzerland	0.7	0.5		3.5
Japan	0.2	1.4	2.2	22.7
India				0.1

Source: "National Economy of the MPR for 70 years" State Statistical office of the MPR, Ulaanbaatar, 1991, page 139

Since 1990 the level of Mongolia's foreign trade especially its exports fell sharply from 739.1 $ million in the 1988 to 382.6 $ million in 1993. (National Statistical Office, Statistical Yearbook, 1998.p.212). The reasons which led to the decline were the collapse of the CMEA, the main trade partner of Mongolia and substantial reduction of financial assistance from the former USSR. The collapse resulted in a decrease of exports and shortages of key raw materials: petroleum, spare parts and consumer goods. Under these sharp deteriorations in macroeconomics condition the government formulated and started to implement a macroeconomics stabilisation and economic reform program which has three main reforms: pursuit of tight fiscal and monetary policies, liberalisation of price and foreign trade and privatization of state owned assets including livestock.

2.TRADE POLICY DURING 1990-1996

This period was the most challenging period in trade policy history. The Mongolian Republic Revolutionary Party was the majority in the parliament and D. Byambasuren's government (1991-1992) was quick to understand that it would have to seek new markets for its exports and reform In the budgetary area : the tax system was renewed with customs duties (at 10 per cent) replacing the old import price differential system, sales taxes were being introduced instead of the implicit turnover taxes, and corporate and income taxes were being introduced; public spending was reduced substantially, mainly due to inefficient subsidies to state enterprises.

During 1991-1997 in the foreign trade policy all import tariffs were unified at 15 per cent, all export taxes were eliminated, and import licensing was abolished. The functions of state foreign trade companies were reduced dramatically with the privatisation of foreign trade. Trading with CMEA countries began to be conducted at world prices and in convertible currencies. Most favoured nation (MFN) treatment was given by Japan and the United States and some OECD countries.

Adjustments in the exchange rate have played an important role in price adjustments because the exchange rate is a very important variable in the price formation in Mongolia. The dual exchange rate system, where the differences between official and market rates were substantial, was abolished. A challenging privatisation process was started in 1991. Using a system of vouchers, the Government privatised practically all small enterprises and more than 400 medium and large enterprises. As a result of privatisation and economic liberalisation there a sufficient private sector was created. The main characteristic of trade policy during 1990-1992 is that the state monopoly on foreign trade collapsed and the private sector's participation in the external trade had increased significantly. Especially, in 1990-1993 border trade with China, Inner Mongolia by street traders has increased.
Although total turnover of foreign trade declined during 1992-1994, since 1994 the deficit of current account of balance of payment has decreased. The current account balance over the last few years is shown in Table 3.

Table 2. The current account balance between 1987-1997
(at current prices, $ million.)

	1987	1988	1990	1992	1993	1994	1995	1996	1997
Exports	717.9	739.1	660.7	388.4	382.6	356.1	437.3	424.3	451.5
Imports	1104.6								
Balance of current account	-386.7	-374.5	-263.3	-29.9	+3.6	+97.7	+22.0	-26.6	-96.2

Source: National Statistical Office, 1998

The current account deficits occurred in early 1990s, can be explained by political and economic disintegration of the former USSR and other CMEA countries which led to the sudden stoppage of their foreign aid to Mongolian the shift to the new payments system in convertible currencies. Although Mongolia has been making efforts to diversify its trade, its export commodity composition however has changed very little. Main export commodities were and are scoured wool, camels' wool, cashmere, horse skins, camel woolen goods, meat, in other words animals origin products, molybdenum and copper concentrate. Therefore the export earnings are very dependent on the world market, especially raw materials, prices and consequently the current account balance.

If most developing countries went through import substituting trade policy, the new government of Mongolia (1992-1996 P.Jasrai) aimed to provide an export promotion trade policy through export subsidy, export credit insurance, long term low rate financing, tax discount on export. In 1995, the commercial banks provided about 86.4% of total 138 billion togrog loans to priority sectors and state owned factories. From this loans only 58.0 billion togrog loan has gone to the private sector. While having import tariffs, the Government decided to exempt the import of equipment, machinery by exporting industries from from import tariff and sales tax. In addition the domestic export was exempted from export and sales taxes.

Table 3. Tax exemption
(at current prices, million togrog)

Tax discount and exemption	1994	1995
The import tariff discount	570.5	1206.4
The export and sales taxes exemption	1201.1	14564.8

Source: from the presentation on "Fiscal and monetary policy for export promotion" symposium, 1996, p.14

Moreover the investment to export oriented industries was exempted from income tax. For instance, in 1995 this exemption consisted about 2409.7 million togrog. However the lack of the capital made direct and indirect export credits to priority sectors and firms impossible. The national banks provided loans to state owned enterprises which did not perform well, economically and financially. And the government could not subsidize small and medium size exporters. In sum, the export promotion policy did not perform well because of unstable macroeconomic situation and weak financial and banking systems. In addition, it included only some trade policy instruments, whereas there were significant needs of more complex policies such as targeting most priority export industries, long term government support policy to these industries.

In 24 May 1993, P. Jasrai's the government took the decision to prohibit import of some goods and services by implementing 86th instruction. The ban covered the following goods: drugs, instruments for its production, book, journal, cinema, video, photo materials which advertise violence and pornography, animals, a hunt of which prohibited by the law and protected in "Mongolian Red book" and their origin raw materials.

In addition, by this 86th instruction the Government published the list of 11 goods which import are under license. The list covered basically import of some chemical goods. Therefore we can say that import licensing still existing.

In 21 June 1995 the Government published the 100th instruction about technical regulations for safety, health, quality guarantee, standardization, certification, package requirement. For instance, export and import of animal origin raw materials, intestine, fish, milk, milk products, eggs, pure honey, vegetables, fruits, animal origin fat, meat products, sugar, its products, cacao, baby food, cereals, nuts, coffee, tea, food concentrates, all kinds of beverage, cigarettes, oil, its products, non-organic chemical products, radio-active elements, medicine, toys, guns and other products' covered by quality guarantee. However the implementation of 100th instruction in the real life is still weak because of information lack about standard requirements.

The dimension of trade policy during 1992-1996 period is Mongolian raw cashmere exports policy because cashmere is an important export product and main source of income to Mongolian herders and domestic cashmere processing firms. According to the Gobi Regional Economic Growth Initiative report: "Mongolia is second larger producer of cashmere behind China with about 3.000 tons per year or 21% of the world market and cashmere processing and manufacturing industries make up about 37% of industrial gross domestic projects in the country". Therefore Mongolian producers' lobby for protection has much dominant power than other industries' producers' lobby. When world price began to rise in 1994, the domestic producers lobbied for more strong protection policy and in April, 1994 Jasrai's government imposed a ban on raw cashmere exports. Just after the imposition of ban, in 1995 world price rose to almost 40$ per kg and domestic producers' gain increased. The impact of this policy on the budget and the current account balance was very positive. As the Table3 shows, during the period of ban (1994-1996) the tax revenue rose from 82194.0 to 162923.6 (million togrog) or about 50%. In 1994 –1996, the current account had surplus since 1987. (See table 2). However in 1996, the ban was eliminated at the discussion with Asian development bank and other international financial organizations. In addition, Mongolia was preparing to join the World Trade Organization therefore in 1997, the ban was replaced with a 30% export tax. In the future, under the accession agreement with WTO Mongolia will have to decide to free the cashmere export by gradually eliminating the export tax. In trade policy analysis, we always compare loss and gain from any policy instruments. In cashmere case, the export ban leads to an overall income loss since herders' losses are not offset by producers' gain. In the case, if world economic growth will increase in near future consequently cashmere demand abroad will increase and if the quality of Mongolian cashmere will increase, these changes will deliver benefits to the incomes of herders, domestic processing firms, and clothing manufactures, then none would lose at the expense of others. Moreover, instead of imposing export tax, other policy instruments such as subsidies, low interest rate loans, tax holidays can be used to encourage domestic industries to compete with foreign purchasers for Mongolian cashmere.

In 29 January 1997, Mongolia had joined the World Trade Organization (WTO). In the accession agreement to the WTO Mongolian government had agreed to convert all existing non-tariff barriers into bound duties and not to introduce new non-tariff measures with tariffs for each item by 15%. In addition, the commodities were coded according to the " Harmonized System of Coding Goods" developed by the WTO. To summarize, during this period, Mongolian trade policy has began challenge into market determined trade policy from state determined one.

3. MONGOLIAN TRADE POLICY DURING 1996-1998

The trade policy during 1996-1998 period had most unique experience by creating and implementing the import tariffs abolition policy in its history. Therefore in this section we would concentrate on the main reasons why in this period of transition the government of Mongolia has decided to implement this policy and on the impact of the policy. In April 1997 the newly formed M. Enkhsaikhan's government of Mongolia, decided to implement a new taxation reform package. The main aim of the tariff abolition policy was to liberalise foreign trade and to reduce the overall tax burden. According to the new taxation law, enterprise income tax was lowered and the taxation structure simplified. Before there were four tax brackets: 15, 25, 35 and 40 per cent ; after, there were only two: 15 per cent and 40 per cent (for above annual 100 million togrog income). This reform resulted in immediate reduction of the tax burden from 16- 57 per cent in 1997. Thus domestic sales taxes is expanded into a general value added tax on all sales of goods and services. Excise tax was increased on imported petroleum, spirits and passenger vehicles. The export tax was introduced on exported raw cashmere. And the most important new initiative was the abolition of all import tariffs except for very few products such as spirits.

Since the Mongolian economy is very dependent on imported goods, especially capital goods and services, the Government of Mongolia, after consultation with IMF, decided that the abolition of tariffs would lead to a reduction of the price level, an increase in the volume of imports and an increase in the competitiveness of Mongolian products on the world markets. The main reason for this decision was based on the lack of sufficient import-competing industries in Mongolia and deep dependency on the imports over all sectors of the economy. In short, Mongolia has to import essential capital goods from developed market countries and so it needs to export its products in order to acquire foreign currency to pay for its imports.

As Ts.Batbold, a former economic adviser to the prime minister, noted, Mongolian overall import prices have included a high transport costs because of the country's landlocked position in geographical terms. Therefore, in the process of economic stabilisation the abolition of tariff was an important step in decreasing the price level. In addition by abolishing tariffs the government could solve the problem of hidden inequity in tariff payments, corruption, distortion of the import business and rent seeking which costs a lot to a small economy. All these incentives were economically appropriate. In addition, there are some discussion about the connection between the abolition policy provision and the presidential election which was held in June 1997. A substantial number of newly elected parliament members are representatives of Mongolian business sector who represents large companies who import goods and services in Mongolia and who initiated to reduce tariff from 15 per cent to 5 per cent which would provide them a better business environment. The new proposal of parliament members was positively approved by Mongolian government and moreover led to the policy of abolishing tariffs rather than just a 10 per cent reduction. This idea was born just before the presidential election in 1996.

The democratic coalition of the Mongolian democratic and social democratic parties being the majority in the parliament, have suggested that Mr. Ochirbat, who was their candidate to the presidential election should use this idea of abolition for his programme which was politically attractive. The parliament pursued a new policy to abolish the tariffs, just before the election and approved the law of abolition of all import tariffs in 18 April 1997. Giving all these facts, researchers and economists in Mongolia argue that the policy had a significant political implication behind.

The government's invention of the new tariff system was aimed to increase tax revenues in the future but it could result in a net fall in revenues in the short term. This was the general expectation of the tax reform. However it was not so harmful because the government has been making great effort to increase tax collection capabilities, to improve internal financial management system, and to obtain revenues through the continued sale of remaining state assets to the private sector. According to the data in only 1997 the revenue from the privatization was 10.1 billion togrog, whereas custom tariffs revenue in 1996 was about 13.9 billion togrog.

And theoretically, the abolition of tariffs results in a decrease in the government revenue and this was anticipated. However as Table 3 shows tax revenue did not fall; on the contrary, it increased significantly although foreign trade taxes were reduced by 36.7 per cent.

Table 4. The changes in the government revenue
(at current prices , million togrog)

	1995	1996	1997
Total revenue and grants	144622.9	162923.6	213650.5
Current revenue	135683.6	155932.5	197337.8
Tax revenue	105509.7	120977.7	165453.7
income profits and capital gains tax	48537.2	45608.1	68638.0
social security contributions	15764.6	18473.5	17304.3
taxes on property	54.0	n.a	n.a
domestictaxes on goods and services	28107.1	37231.0	58236.1
value added tax	16254.2	21528.3	37476.8
excise taxes	8579.7	11120.2	20756.8
other taxes	3273.2	4582.5	n.a
foreign trade taxes	9571.5	13917.4	8790.6
other taxes	3475.3	5747.7	12484.7
Non-taxes revenue	30173.9	34954.8	31884.1
Capital Revenue	3854.5	2581.8	10201.5
Foreign grants	5084.8	4409.3	6111.2

Source: National Statistics Office, 1997, p.105

In summary, tariff revenue has dropped significantly. However, the government has been able to maintain the balance of the budget and therefore we can conclude that the main implication of the tariff abolition policy, the revenue problem, was solved effectively and which can be seen in the table 3. As it shows, the tax revenue did not fall in 1997 which is a year after the tax reform. In contrary, it rose from 120977.7 (million togrog) in 1996 to 165453.7 (million togrog) in the following year. The government tariff revenue accounted for 8.5 per cent in the government tax income in 1996. Theoretically, the success of the abolition policy is dependent on the capability to find alternative sources for the government revenue gap caused from tariff abolition. Although we should mention that the budget was partly financed by foreign credit and grants, the positive revenue outcome is a good sign that the abolition policy can be sustained, because any budget deficits are likely to shorten the life of any trade liberalisation policy.

The abolition policy had a negative effect on the current account balance as theory predicted. Table 2 indicates that the current account balance imbalance increased dramatically, from -26.6 $ million in 1996 to -96.2 $ million in 1997. However, on the other hand, this dramatic increase in the imbalances of the current account can not be fully attributed to the tariff abolition alone. Although as predicted, the volume of imports has increased significantly after tariff abolition from $450.9 million in 1996 to $547.7 million in 1997. The point is that the economy's main export prices on the world markets have been reduced dramatically in the last two years and as many economists conclude this is the main reason why the imbalances in the current account have continued.

However, between 1994-1995, volume of imports increased significantly from $258.4 million to 415.3. This figure is relatively bigger than it was after the abolition in 1996. It can be explained with the fact that, in 1995, the world price increase of the Mongolian main export items (copper, cashmere) and decrease in the world price of petroleum.

In addition, Enkhsaikhan' the government carried out its obligation before World Trade Organization to regulate the import of good and services' and in 8 January 1998 changed slightly the 86th instruction from 1993 and published 5th instruction. 5th instruction consists from two parts. First part concerns the ban on export and import of some goods and services. Second part is about the imposition of non-tariff barriers on some goods and service.

Table 5. The list of goods which are under the ban

№	Goods
1	All kinds of drugs
2	Instruments for drug consumption and production
3	Materials which advertise pornography and violence in book, journal, cinema, video, photo form
4	Animals hunt of which prohibited by the law and protected in "Mongolian Red book"
5	Animals origin raw materials

Source: "State information", 7, 1998

In addition, by 5th instruction the Government published the list of goods which import are under non tariff barriers.

In addition, there had been implemented "The 210th instruction of state control on trade and industry, services" (from 1995), "The 192th instruction of state control on health, infection analysis, medicine and biomedicine" (from 1995), "The 57th instruction of state control on standard, quality" (from 1996) which are all non-tariff barriers.

In foreign trade regulation practice, there are some uncertainties about which instructions are valid or not because as a noted G. Seseer in his book, "in practice the 86th instruction is valid and there are still did not accurate list of goods and service which import or export are prohibited from 5th instruction".

Table 6. Non-tariff barriers

№	Goods	The custom difference
1	Uranium, its concentrate	export
2	Some toxic chemical goods	export and import
3	Weapons, fire, arms, their spare pats	export and import
4	Explosive materials	export and import
5	Donor human organs	export and import
6	Donor blood	export and import
7	Animal husbandry	export
8	Anciemt historic and cultural precious materials	export
9	Historic and cultural materials, animal, plant, anatomical, archaeological, palaeontological findings	export

Source: "State Information", 7,1998.

In the Mongolian case, given the unstable political situation, the abolition policy was likely to be reversed and from spring 1998, the policy reversal began. The new government (Ts.Elbegdorj) cabinet was resigned just after two months in July 1998. Meantime the excise tax law was approved by the parliament and its coverage of expenditures on passenger vehicles, alcoholic beverages, and petroleum and tobacco products is quite rational, as it impacts the consumption of goods that generate negative externalities.

Table 7. The excise tax rate

№	Items to be levied excise tax	Tariff rate (in USD per)
1	Petrol	31-36.0 per tonne
2	Diesel fuel	41.0 per tonne
3	Food spirit	7.0 per litre
4	All kinds of vine	0.5 per litre
5	Cigarettes	0.2 per 100 pcs
6	Tabacco	0.1 per 1 kg

Source: From "Business and Trade in Mongolia" edited by Mongolian Chamber of Commerce and Industry.

The law of excise tax did not cover the import of beer. However, the domestic beer producers' lobby was very strong and they repeatedly have appealed to the Government for imposition of excise tax on imported beer. Therefore, in 12 May 1999, the Government made the change to excise tax law and imposed a excise tax on beer import 0.5 USD per litre. To summarize, the trade policy during observed period was relatively a free trade policy.

4. MONGOLIAN TRADE POLICY DURING 1998-2000

After resignation of the M. Enkhsaikhan's cabinet one by one, governments erected new trade barriers such as export tariffs, seasonal import quotas on some goods.

Amarjargal's government initiated the law of imposition of export taxes on export of some goods mainly, in response to environmentalist concerns and in 8 January 1999 it was approved by the parliament. According to this law, export of timber, sawn wood became taxable at following rates.

Table 8. List of goods levied by export tax

Code	Name of goods	Measurement unit	Tariffs (togrog)
44.01 44.03	Wood Timber	Sq.metre	150000
44.03 44.06	Wood dwelling materials	Sq.metre	150000
44.07 44.09	Sawn wood	Sq.metre	150000

Source: "State Information" Num:3 (82) from 21 January 1999

The impact of this policy was immediate. We can see that, during 1998-1999 wood and wooden articles' export as a percentage to total export fell from 10.0 to 1.5 percent. (Mongolian Statistical Yearbook, 1999, page 150). It implies that the current export tax does discourage of wood and wooden articles. However there is great deal of smuggling, especially, in raw cashmere export. According to some estimation, an estimated 50% of raw cashmere exports to China avoid the export tax. It means the Government loses about 1$ million budget revenue every year. Therefore the Government should improve export tax collection by organising a customs technical assistance and training programs as far as possible.

In 8 April 1999, the Parliament approved the change to the Customs law to impose the ban on import of all kinds of spirit. This decision was taken mainly to stop smuggling of excise tax on spirit import and to prevent the unqualified spirit import.

In 3 June 1999, the Parliament re-imposed tariffs on the imports of some agricultural products and established seasonal tariffs on the imports of some vegetables. The main target of this policy was the protection of domestic producers, especially small and medium size agricultural firms.

Table 9. The re-imposed tariff rates on some products

Code	Name of goods	Time	Tariff rate (percent)
0703.10.00	Potatoes	1 Sept-1 April 1 April-1 Spt	15 5
0703.10.00	Onion	1 Sept-1 April 1 Apri-1 Spt	15 5
0704.90.10	Cabbage	1 Sept-1 April 1 April-1 Spt	15 5
0706.10.00	Carrot	1 Sept-1 April 1 April-1 Spt	15 5
0706.10.20	Turnip	1 Sept-1 April 1 April-1 Spt	15 5

Source: "State Information" N:27(106) 1999. Page 398

In addition, the domestic producers of flour repeatedly have appealed to the Government for more protection policy. As a statistics shows between 1990-1996 the domestic flour production fell by almost twice or by 48.63 percent (Mongolian statistical Yearbook, 1999, p.126).

Therefore the Government re-imposed the import seasonal tariff for flour import exactly like vegetables: 15% tariff between 1st September and 1st April and 5% tariff between 1st April and 1st September periods. The effect of the implementation of such seasonal tax on domestic vegetables and flour production is uncertain due to only a year had passed since the imposition of tariffs.

Furthermore, the Government (Amarjargal's cabinet) introduced a new tariff law and it has been approved by the Parliament in 1 July 1999. By this new tariff law all import goods and service became taxable 5% tariff of in order to protect domestic production and reduce demand for import goods. The main reasons why the Government reversed the previous zero tariff policy were the incentive to stop the decline of domestic production and protect the population from unqualified goods and certainly, to increase the budget revenue. The second reason for re-imposition of tariffs is fairly inadequate because border control ability to prevent unqualified goods by following 100th instruction from 1995 about technical regulations for safety, health, quality guarantee, standardization, certification was and still low due to poor technical state and training program for customs staffs. The newly committed tariffs, covering all importing goods, except few ones, took effect in 5 July 1999. Since 1998 some types of non-tariff barriers had been raised such as the implementation of "Sanitary law" (from 1 May 1998), "Health law"(1998) which covered special treatments for export and import of some goods and service. However, import of some goods remained without tax because these goods are most important spare parts of the domestic industries, especially health sector. In addition, the policy aimed to support foreign investment in strategic sectors and a development of technology industries.

Table 10. List of goods without tariff

National Code	Name of goods	Tariff rate
0101.11.00 0102.10.00 0103.10.00	Animals: thoroughbred horse, thoroughbred cattle, thoroughbred pig, thoroughbred sheep and goat	0 0 0
8473.30.00	All kind of data processing equipment machinery, its spare parts, optic equipment	0
84.41	All kind of semiconductors, transistors, phisics-chemicals products	0
85.42	Electronic integral circuit and electronic microchips	0
90.18	Medical, veterinary, surgical, dental instruments X-rays, radiation measuring and control instruments	0
90.22	Medical research and experimental electronic equipment	0
90.22	Optical instruments and hospital equipment	0

Source: "State information", 27 (106), page 397

As a I noted before, cashmere export policy all time attracts the main attention of the Government as well as public. According to the Gobi Regional Economic Growth Initiative report: "In 1999, almost 600 tons cashmere was exported to China plus another 600 tons was exported illegally without payment of the 30% export tax. Since 1996 domestic cashmere processing firms have faced the problem of shortage of raw material for production. However their lobby to re-establish the export ban on raw cashmere was defeated in parliament. Let me concentrate on the main reasons why the government has decided not to re-establish the export ban. If a ban was imposed, on the one hand, domestic firms' raw material purchase costs would decline, increasing their profits. On the other hand, herder income would decrease significantly. Herders which consist over 40% of the population would not like the ban because of the decline in their income and they were main voters in the upcoming parliament election which was held in June 2000. Besides Mongolian government would lose about 7$ million in tax revenue since the 8$ million loss from the export tax would not be offset by the additional 1-2$ million collected from increased domestic firms' income. (Gobi Regional Economic Growth Initiative report, page 2). In addition, an export ban would raise difficulties with the World Trade Organization and other donor organizations.

Until now we have discussed about trade policy only in the trade in goods. Meanwhile, Mongolian trade in service is growing. Thus, in the Mongolian service sector now accounts for 36.7 per cent of GDP in 1999. One of the problems encountered in policy discussion of trade in service has been the lack of the available data of the true extent of the trade. Other kind of problems is that the impact of trade restrictions in services are much more difficult to measure. The statistical data on trade in services is derived from the "invisible" component of the current account of the country implies that in 1998 service export income became 77.9 million $ and service import expenditure 89.4 million $ (Yearbook of Mongol Bank, 1998, p.28). As a noted in the book, the main sectors of export and import service consisted tourism, air navigation, telecommunication, railway, air transport and tourism, technical assistance, railway, air transport, telecommunication, insurance sectors respectively. However, a large and unknown proportion of trade in services goes unrecorded. Generally, trade in services is subject to more government imposed distortion than trade in goods. In Mongolian case, there are no strict restrictions on the trade due to insignificant proportion of trade in services. With regard to telecommunications, the Mongolian market is more open than those of other countries. However foreign access to domestic financial markets has some restrictions. For instance, in Mongolian banking sector there is no foreign bank. In air transportation sector, Mongolian Government is not yet prepared to allow foreign airlines equal rights with domestic firm to operate domestic routes. It implies that there is lack of the existence of the principle of national treatment, that is, treating foreign service-providers in the same way as a national firms. Also, there are certain foreign firms which are afraid of the Mongolian costly and inefficient markets rather than high regulation in trade in services.

With regard to trade related intellectual property rights (TRIPS), although many developing countries have not recognised the concept of intellectual property rights, the Mongolian parliament had adopted patents and copyright laws and trademarks are protected from unauthorised use. Therefore Mongolian trade policy in trade in intellectual property goes in accordance with other major trading countries. However there is danger of existence of piracy, counterfeiting and imitation of knowledge created by companies of developed countries especially audiovisual services. If this situation will have a place in the future, Mongolia would have to face with the treats of denial of market access from most developed countries such as USA and EU.

After 2000 year the Parliament election Mongolian Republic Revolutionary Party became the majority in the parliament and the balance of political power swung toward more protection. The new Government (since July,2000) increased import tariff rate from existing 5% to 7% for all importing goods. In addition, the value added tax rate increased from 13% to 15%. The Government had

claimed to operate a encouraging policy towards export oriented sectors.

CONCLUSION

The study is empirical research. The aim of the paper was to overview Mongolian trade policy issues, its changes and especially export ban on raw cashmere and tariff abolition policy.
In examining Mongolian trade policy, it is important to be aware that the policy suffered from various changes of its own making.

An important conclusion which is emerged from the study is that during 1990-1996 and since 2000 Mongolian Republic Revolutionary Party ruled the overall macroeconomic development and in both periods the trade policy aimed to provide export promotion policy. The policy objective was to reform trade in the traditional sectors and to make policies more market-oriented and main policy instruments were import tariffs and export restrictions. Main dimension of the trade policy in this period was imposing the ban on raw cashmere export.

During 1996-1998 period, the trade policy in the import side moved to free trade policy by abolishing all import tariffs. In export side, the policy was relatively protecionist by imposing tax on cashmere and wood export and establishing non-tariff barriers.

Generally, during 1998-2000 period, the policy converted into more protection policy by re-imposing import tariff for all goods and imposing the import seasonal tariff for some import. Besides, the Government had implemented fully the various instructions about technical regulations for safety, health, quality guarantee, standardization, and certification and package requirement.

The current situation shows that a capacity of Mongolian economy is being limited meaning that due to last severe winters the number of livestock and especially value of traditional exports of animal origin raw materials would be not increase. Therefore the current Government should provide set of policy options to find out new export commodities for successful implementation of export promotion policy.