Mongolia and Japan: the road to economic partnership

Japan was one of the first great powers to have accepted the Mongolian People's Republic and establish diplomatic relations with it in February 1972. Since then Japanese-Mongolian relations have undergone several stages and always have evolved along the same line.

Political relations with that country were ceremonial in nature up to 1990. But the main dimension of these relations had already emerged in 1977, namely, Japan's providing economic assistance to Mongolia. Thus, already in that year, Japan helped create the “Gobi” cashmere factory in Ulaanbaatar. Presently, thanks to repeated Japanese grants, it has become a powerful plant – the main manufacturer of mohair, cashmere and wool products for export.

After victory of the democratic revolution in 1990, Mongolia, as is well known, underwent a deep economic crisis from 1991-1993, due to the fall of the USSR, the country's main support, which placed the country on the brink of catastrophe. It was in these years that Japan became one of Mongolia's main sponsors, if not the main sponsor. Japan moved to the head of the movement it had initiated, together with the World Bank, to provide donor assistance to Mongolia. As a result, in 1991 alone, Mongolia received $150 million in grant foreign assistance and $250 million in 1992-93. Note that this movement has grown with time from 24 to 30 member states, including the United States, Russia, China, the Republic of Korea, Germany, and others, as well as 10 international financial organizations. From 1991 - 2003 donors have met 10 times, mainly in Tokyo, and the total amount of assistance provided amounted to $2.4 billion, 52% of which is grant assistance and 48% - repayable loans. 50% of all donor income came from Japan.

Moreover, at about the same time and later on, Japan has independently provided Mongolia with financial and technical assistance, so that the total Japanese support by 2010 amounted to $3.6 billion. (More than 50% of the aid has been in the form of grants, the rest in repayable loans).

This assistance was comprehensive in nature, concerning almost all sectors of industry and agriculture, public transport, road construction, heavy equipment and machine repair, repair and restoration of school facilities, kindergartens and hospitals, the development of telecommunications, business management, etc.

Expressing the Mongolian people's deep gratitude to Japan for assistance and support since the the beginning of the democratic transition in 1991, Mongolian President Tsakhiagiin Elbegdorj particularly noted that this assistance "... has always been timely and relevant. We will always remember with warmth and gratitude how Japanese people lent us a hand in the most difficult of times, when due to the thermal power plant stop Mongolia could have frozen, when public transport stopped, when fire and emergency services vehicles no longer functioned, when we did not have enough schools and kindergartens for our children. ... Japanese taxpayers' money played a decisive role in overcoming our difficult times, and have been vital in the development of the country".

Mongolian President Tsakhiagiin Elbegdorj said these words in his statement at the business-forum of Mongolian (150 people) and Japanese (180 people) entrepreneurs, which included representatives of about 500 leading firms from both countries and was held in Tokyo at the time of Elbegdorj's visit to Japan, on July 21-24, 2014. This was a landmark visit because it marked the end of sponsorship and nonrecoverable grants and the transition to Japanese-Mongolian economic relations based on mutual benefit and complementarity.

Mongolia is interested in introducing Japanese technology, technical equipment, management, and work methods.
Japan, lacking any mineral wealth to speak of, is interested in obtaining from Mongolia mineral raw materials (coal, copper, zinc, etc.) and agricultural products: beef, horse and other meat, wool.

The parties have agreed to develop broad cooperation in agriculture, industry, infrastructure, and the mining and tourism industries. They have also agreed on financial and technical assistance from Japan in the realization of such major projects as the construction of a medical training and diagnostic center in Ulaanbaatar, a refinery plant in Darkhan and a new international airport near the capital.

But the main result of President Tsakhiagiin Elbegdorj's and Japanese Prime Minister Shinzo Abe's negotiations was reaching accord on an economic partnership Agreement to be concluded sometime in the near future. It will be the 15th agreement of this kind for Japan, and the 1st for Mongolia.

The idea to develop such a document first came about in 2010, during President Tsakhiagiin Elbegdorj's state visit to Tokyo – a visit which declared Japan Mongolia's strategic partner. Since that time, the idea has progressively taken on flesh and blood. And in 2014, 80 professionals, after 2 years of work, presented the preliminary text of the Agreement, comprising more than 1000 pages.

The Agreement is currently under revision, and is to be ratified in the year 2015.

Both leaders highly praised the forthcoming Agreement. Speaking at a press conference following the negotiations, S. Abe noted that it “will bring our complementary economic connection to a new level”, while Tsakhiagiin Elbegdorj stressed that it creates “a stable legal environment for enhancing bilateral economic and investment ties”. “We suggest,” Tsakhiagiin Elbegdorj continued, “finding a way to produce together and operate in international markets together”. Indeed, the entry into force of the economic partnership Agreement - and there can be no doubt that after finalization it will be ratified, as it is beneficial to both parties - will essentially mark the beginning of free trade and co-production using Japanese technology and know-hows, and will breathe new life into all spheres of business cooperation.

First of all, it will certainly help to promote trade between the two parties, which has amounted on average to 100 million dollars and alone in 2013 reached 280 million dollars, which, as Tsakhiagiin Elbegdorj complained in Tokyo, does not meet the needs and the sales capabilities of either party.

It is also intended to smooth the structure of trade. Today Mongolia imports 90% and exports 10%, with 50% of imports being used Japanese cars, and exports being beef, horse and other meats, and cashmere. For the expansion of quantity of goods, the parties agreed on removing the 11% tax on Mongolian cashmere and progressively reducing the 5% tax on the import of Japanese cars and the 38.5% customs duty on the import of Mongolian meat.

Finally, the Agreement will pave the way for an increase in direct Japanese investment, currently at $500 million, which in the opinion of the Mongolian President, is clearly "unsatisfactory".

It appears that the final text of the Agreement on economic partnership will be responsible for solving the problems outlined above, and the two countries will enjoy an increase in mutually beneficial joint economic interaction. This could potentially lead to the weakening of Mongolia's economic dependence on China and Russia and, in any case, will sharpen Japan's position as an important player on the Mongolian economic field.

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