

An Inefficacious Shock Therapy?: A Critical Analysis of Mongolian Neoliberal Reforms

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Abstract: This research aims to critically review the development process and connotation of neoliberal reform in Mongolia, which has been implemented since 1991 under the International Monetary Fund's (IMF) program. This paper outlines the historical context of the transition, the so-called shock therapy, and analyzes Mongolia's economic performance and socioeconomic changes after neoliberal reform, particularly focusing on the free market monetary policy. The policy was a crucial turning point for Mongolia, in which neoliberalism almost eliminated the former socialist planned economy and took a dominant position in the Mongolian political economy. Over the past three decades, successive administrations have implemented various measures based on a free monetary policy promoted by the IMF to obtain foreign loans and aid. However, despite the long-term reforms, thorny issues, such as a sharp currency depreciation, soaring debts, unemployment, inflation, budget deficits, poverty, crime, and corruption, still remain unresolved. In short, Mongolia's shock therapy transition appears to be inefficacious. The nation may need to develop policies that take into account the characteristics of their economy and are able to stabilize people's livelihoods.

Keywords: Mongolia, neoliberalism, shock therapy, free market monetary policy

Introduction

Throughout the 20th century, Mongolia experienced various political-economic systems from the Qing Empire's rule until 1911, a short-term autonomous regime from 1913 to 1924, and a socialist economy established by the Soviet Union from 1924 to 1990. Following the collapse of the Soviet Union in 1991, Ulaanbaatar made an abrupt transition from a socialist

planned economy to a liberal capitalistic market economy. Initiating a "free market monetary policy" was a key action for the shift. Since the transition, Mongolia has become a market economy with a multi-party-political system. Liberalist ideas have come to dominate Mongolia's policy making and many emerging political parties have advocated these as part of

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their platforms.²⁹

For instance, the Mongolian Liberal Democratic Party (MLDP), which was established in 1998, publicly stated that they support neoliberal policies. The Republic Party (PR) and the Mongolian Civil Democratic New Liberal Party, which were founded in the 1990s, have also advocated neoliberalism. The Mongolian Democratic Party (MDP) (changed the name to the Democratic Party in 2000), which was established in 1990, has supported “liberal conservatism” for their official political line, which in fact also has many parallels with neoliberalism (Supreme Court of Mongolia, 2019). Even the Mongolian Social Democratic Party (MSDP) has promoted a liberalist practice, “liberal monetary market policy” after they came to power in 1996 through a coalition with the MLDP. No matter which party has been in power, Mongolia has adopted neoliberal reforms for their economic transformation since the early 1990s.

These neoliberal reforms have been carried out without much forethought for the nation, albeit they served to fill a void after the collapse of the Soviet Union. The reform policies were often introduced without prior explanation or public debate, leading to low levels of public understanding and support (Shagdar, 2007: 1). Even though liberalism has a long history of more than 300 years in the Western tradition, Mongolian political development has very little experience with this ideology prior to 1990. Most intellectuals were unfamiliar with liberalist ideas, such as economic and political freedom, privatization, monetarism, and deregulation, and as a result, very few scholars were not asking the necessary

questions to understand the implications of liberalist policies. In such a situation, the then-Prime Minister Dashyn Byambasuren (Д.Бямбасүрэн) hastily signed the Decree No. 20 on January 15, 1991, which signified Mongolia’s full acceptance of financial assistance and neoliberal policy suggestions of the International Monetary Fund (IMF) (Murrell et al., 1992: 8-11; Boldbaatar, 2017: 173). Since then, neoliberal reforms have had a profound impact on Mongolian political, economic, and social development and the country embarked upon an irreversible path towards a market economy (Shagdar, 2007: 1).

Nearly four decades have passed since the reforms, and analyses on how neoliberalism has dominated the Mongolian society and what consequences have been drawn from them remain under-researched. Ulaanbaatar’s limited international influence and difficulty in accessing the Mongolian language seem to have restricted in-depth observations on the nation. Yet, the exploration of the economic transformation and consequent socioeconomic changes of Mongolia indeed has implications for studies of transitional economies that are still undergoing transformation or are likely to proceed with economic transition in the future. In that regard, this paper is an attempt to examine major socioeconomic changes in Mongolia after the neoliberal reforms of the 1990s by conducting a critical review of the reform measures. This analysis particularly focuses on certain important economic indicators, such as foreign loans, currency depreciation, the consumer price index, GDP growth, and the unemployment rate to elaborate on the changes.

²⁹ A There are 36 political parties currently registered in the Supreme Court of Mongolia.

In the next section we outline the historical context of Mongolian economic transition, the so-called shock therapy, after the dissolution of the Soviet Union. We then analyze Mongolia's socioeconomic changes after the free market monetary policy to critically review the negative consequences of the neoliberal reforms focusing on major indicators. In the concluding part, our analysis attempts to make some recommendations for the future

development of Mongolia. This paper uses a large number of vernacular resources written in the Mongolian language, such as academic journal articles, books published by the Institute of Sociology of the Mongolian Academy of Sciences, Mongolian government reports, news articles, and corporation reports. Most of these materials were obtained from the National Library of Mongolia Database.

Mongolia's Shock Therapy Transition

1. The Historical Context of Mongolian Economic Transition

To examine how the ideology of neoliberalism has been introduced to Mongolia and has penetrated the state's institutions, it is firstly necessary to understand the operation of power, main policies, and the socialist reforms in the early 20th century. Mongolia had initiated socialist reforms in the 1920s and developed the "Basic Plan and Statistics" until 1940. Through these reforms, the government roughly completed setting up a socialist economic system in 1960. Mongolia's economic policies had since aimed to increase the livestock industry production and develop manufacturing industries (Nergui et.al., 1974: 81-106).

The most important institution that formulated the outline and objectives of the National Economic Plan was the People's Congress of Mongolia, and the plan was carried out by the Ministerial Conference. The National Planning Commission was the central agency responsible for planning the economy. It consisted of the central bank of the Ministry of Finance, the National Science and Technology Commission, the administrative departments of the Republic of Mongolia, and the provincial and county planning committees. The main practice of this

commission was establishment of economic plans, such as the One-Year and Five-Year Plans, and longer-term goals for Mongolia's development. It also supervised the progress of economic plans.

However, since the collapse of the Soviet Union, a neoliberal ideology, which was markedly different from before, suddenly dominated Mongolian society, particularly through a monetary policy designed to drive a free market economy (hereinafter "free market monetary policy"). The gist of the free market monetary policy was to privatize Mongolia's overall economic process through establishing a free and private economy and strengthening the private economic system via investment, price and foreign trade policies (import, export, and foreign loans), while weakening the role of state-owned enterprises (SOEs) (Nergui et.al., 1998: 48).

The policy was divided into five categories. The first category was macroeconomic policy, which included macroeconomic stabilization measures, tight monetary policy, fiscal policy, and policies to build an economic system based on the private sector. Main macroeconomic indicators of the national economy were

turned into figures indicating the degree of liberalization (Nergui, 2007: 39). The second category was functional policy that contained foreign economic policy, investment, pricing, and infrastructure development policy. The third was socio-cultural policy, which incorporated human resource development, social protection, demographic policy, health policy, education, and cultural policy. The fourth type was the regional-sectoral policy, which included regional economic development, industrial policy, agricultural policy, and ecological policy. The final category was military reform and legal reform for national security (Nergui et al., 1998: 44).

In the beginning of the reform, most of the Mongolian political parties did not advocate formulation of the free market. However, they afterward changed their political positions to get foreign loans for the purpose of reducing the worsening fiscal deficit. For that reason, the Mongolian government quickly carried out reforms guided by the IMF. They adjusted economic structure and removed regulations while incorporating international aid into the domestic reform agenda. In this process, the government was under the intensive pressure from international donors including the United States and international financial institutions (Stiftung, 2007). The IMF, the Asian Development Bank (ADB), and the World Bank established offices in Ulaanbaatar in February 1991 as Mongolia became a member of these organizations. The United Nations Development Program (UNDP) also started to implement their reform programs in the country.

The left-leaning party, the Mongolian People's Revolutionary Party (MPRP)³⁰,

came to power in 2000 and attempted to promote leftist policies. Nevertheless, they also had no choice but to carry out neoliberal reforms. That was because, if they had not continued to reform, the IMF would not have provided loans to Ulaanbaatar (Nergui, 2007: 39). The IMF and other international financial institutions pushed the government to remove regulations particularly relating to foreign trade, and to conduct price liberalization, tax reduction, and privatization of SOEs and state-owned banks. By conducting these measures, Mongolia's planned economy was gradually abolished (Rossabi, 2005: 36-37). This fast-changing policy afterwards led the society to initiate all-round reforms even involving the social sphere such as reducing government size, deregulation, and free distribution of vouchers to citizens.

Furthermore, the rights to develop mines, a vital part of Mongolia's economy, was largely transferred from the government to foreign companies through auctions (Griffin et al., 2001). The IMF was directly involved Mongolia's neoliberal reforms in conjunction with other international financial institutions, deciding on the loan period and foreign debt payment (Rossabi, 2005). They also affected Mongolia's social policies through supporting privatization of health services and social security (De Beyer, 2000; Rossabi, 2005). The United States played an important role by supporting Mongolia to join the IMF, the World Bank, and the ADB in 1991. The U.S. Congress has aided Mongolia every year, and the House Democracy Assistance Commission initiated a plan in 2007 to support Mongolia's Parliament (Dumbaugh and Morrison, 2007). Some

³⁰ The MPRP is the oldest political party in Mongolia, which was founded as a communist party in 1920 by Mongolian revolutionaries. It changed its name from MPRP to the current Mongolian People's Party (MPP) in 2010.

non-governmental organizations, such as the Soros Foundation and World Vision, also became involved in the neoliberal

reforms of Mongolia in the name of poverty alleviation (Paul, 1995).

2. Mongolia's Shock-therapy Transition in Three Stages

This neoliberal reform was, in a nutshell, "shock therapy," which was originally advocated by the American economist, Jeffrey Sachs and Swedish economist Anders Åslund. The supporters of this radical economic reform have argued that complete liberalization of economic activity and privatization of SOEs is the only way to make the former socialist economies prosperous (Lipton and Sachs, 1992: 293). Visiting delegations of economists from the IMF and the ADB explicitly proposed a shock therapy plan in their assessment report in 1991 when they began to intervene in the nation's economy. As the primary objective was the immediate promotion of SOE privatization, the "Privatization Law," the "Foreign Direct Investment Law," and the "Company Law" were enacted in May 1991 to provide favorable legal conditions for the implementation of the free market monetary system.³¹ The Mongolian government drew on the experiences of Poland and the Czech Republic in implementing active neoliberal reforms, two other transitional economies that promoted sweeping reforms.

Mongolia's shock therapy was focused on its privatization policy, which divided national enterprises into large and small ones and proceeded with denationalization through free distribution of vouchers (Liao, 1994: 75). The policy was promoted in three stages. The first stage was SOE privatization carried out from 1991 at the implementation of Privatization Law in

July 1991 to 1993. The process was rapidly conducted in various sectors. Through a public bidding in December 1991, the Mongolian government sold small-sized SOEs and agricultural cooperatives including livestock (Jermakowicz and Kozarzewski, 1996: 7-8). By the end of 1992, approximately 50 percent of large enterprises and 70 percent of small and medium-sized enterprises were denationalized (Russia NIS Survey Monthly Report, 1993).

The second stage from 1993 to 1995 was price liberalization. Overall prices rose rapidly during this time. The annual inflation rate reached 325 percent in 1993 compared to the previous year. As rising prices caused many factories to go bankrupt, unemployment accordingly soared (Rossabi, 2005: 52). As the value of Mongolian currency fell sharply, the IMF provided loan packages to Mongolia and the government had to follow reform policies led by the organization. Due to the high inflation rate, the GDP, consumption, and investment also soared 41 times, 35 times, and 32 times, respectively, from 1993 to 1995. In the year of 1995, Monetary Aggregate (M2) increased 18 times, and fiscal revenue and consumer prices escalated 26 times and 46.8 times, respectively, compared to those of 1991 (Nergui et al., 1998: 64).

The final stage was the full-scale neoliberal reforms from 1995 to 2005. This stage was focused on issuing licenses for the development of mines to

³¹ For the details of the Privatization Law, the Foreign Direct Investment Law, and the Company Law, see the official website of the Mongolian government, <https://www.legalinfo.mn/law/details/123> (search date: 28 September, 2020).

foreign companies through the “Mineral Resources Law” and “Petroleum Law.” The enactment, in effect, resulted in transferring the resources property from the state to multinational corporations. Even though the Mongolian government had never issued any permit to foreign companies before 1991, as many as 11,301 permits were issued from 1993 to 2005 and 6,245 cases were further permitted from 2006 to 2017(Daily News, 2018: 35-36).

Chinese companies were especially active participants in acquiring the development rights of Mongolian resources, because of China’s strong demand following rapid economic growth in the early 21st century. For instance, according to 2019 report of the Mongolian Minerals and Petroleum Authority, there were a total of 2,796 valid mining and exploration licenses with foreign license

holders accounting for 20.6% of that total. One-quarter of those foreign licenses were from China (See Table 1). Besides the mineral resource development, the overall privatization process continued to accelerate after the State Great Khural (Parliament) election of the Democratic League in 1996. A large number of SOEs, banks, houses, and land were changed from state ownership to private ownership.

Mongolia’s reforms since the 1990s, the so-called shock therapy transition, can be summarized as a neoliberal transformation toward small government, privatization, and deregulation. This process was accelerated through the free market monetary policy and brought about major changes to Mongolian society. The next section critically examines the specific socioeconomic changes in the post-reform period of Mongolia.

Table 1: Origin of valid mining and exploration licenses holders in Mongolia in 2019

	Holder	License		Area Size
	Count	Count	Hectare	Percent
Total	1,772	2,796	7,364,471.7	100%
Mongolian entities	1,411	2,208	5,449,892.2	74.0%
100% foreign entities	257	423	1,515,970.7	20.6%
(China)	(136)	(172)	(373,687.0)	(24.7%) ^a
Joint foreign entities	104	165	398,608.7	5.4%

Note^a China’s share of 100% foreign entities.

Source: Mineral resources and petroleum statistics 2019/12 (p. 8)³²

Undesirable Economic Performance after Neoliberal Reforms

1. Deterioration of Main Explicit Economic Indicators

The free market monetary policy that was in place for more than 20 years has had a negative impact on the Mongolian economy. The national debt continued to climb and the livelihood of Mongolians deteriorated. During the last two decades, there was an increasing number of

bankruptcies in industrial sectors, and the value of Mongolian currency, the tugrik (tögrög), plummeted. Domestic investment in the technical sphere was insufficient and the corruption of government officials became rampant (Nergui et al., 1998: 49). The Mongolian

³² Mineral Resources and Petroleum Authority. <https://mrpam.gov.mn/public/pages/133/2019.12eng.pdf> (search date: 22 May, 2022)

government was under pressure from foreign countries and institutional lenders. Meanwhile, the private sector gradually grew in the national economy and began to capture the state little by little.

To demonstrate the extent of how much the Mongolian economy declined, this section analyzes the changes in the main explicit indicators of the national economy. This exploration helps us to understand how the free market monetary policy was embedded in the political system through macroeconomic indicators. It also provides clues to the ways the policy had an adverse effect on Mongolian political, economic and social development. The main explicit indicators are related to macroeconomic factors of national development.

Before the neoliberal reforms were launched in 1991, the socialist political economy was the most important area of scholarship studied by Mongolian political parties and government officials. The research objects of socialist political economy included production relations, socialist property, the nature of labor, production, commodities, distribution, transactions, consumption, commodity-currency relations, planning, commodity value, accumulation, total social output value, national income, wages, profit, investment, and labor productivity. At that time, Mongolia did not use the indicator of “GDP” to evaluate economic growth, but instead used “Gross National Product” (GNP) as one of the main indicators. GNP is associated with an increase in the real income of the population, because it calculates economic activity generated by the country’s people. When GNP was used as a basic indicator to calculate economic activity, the most critical detailed factors of the government were the national labor production, average real income per capita, and the national accumulation

(Nergui, 2019).

Ever since the shock therapy had been initiated, these traditional economic indicators were gradually replaced by other indicators including a foreign direct investment (FDI) rate calculated in US dollars. In the five years after the beginning of reforms, critical examination of these neoliberal reforms remained unexplored by Mongolian scholars. There was almost no research or policy reporting on issues surrounding the new economic indicators. In 1996, however, the then-Mongolian Finance Minister Erdenyn Byambajav first disclosed the details of the IMF policies, the economic transition process, and the main direction of national development. He initially stated that Mongolia would formulate national economic policies based on 13 economic indicators: (1) foreign loans, (2) currency depreciation, (3) the consumer price index, (4) foreign trade imbalance (trade deficit), (5) the budget deficit for GDP, (6) investment, (7) money supply, (8) budget balance ratios, (9) bad accounting, (10) GDP deflation, (11) GDP growth, (12) GDP per capita, and (13) the unemployment rate. These indicators provided a detailed account of the new economic policy, and the overall transition from a planned economy to a liberal market economy. Mongolian scholars have since examined the connotations and characteristics of the 13 indicators to reveal the nature of the neoliberal reforms based on the free market monetary policy.

Nonetheless, economic growth was undesirable as described earlier. In the early years of the reform, the IMF primarily provided foreign loans and adjusted the exchange rate of the Mongolian tugrik against the US dollar to implement the free market monetary policy. Through foreign loans, the organization was able to effectively control Mongolia’s foreign

trade, budget, and investment policies. The exchange rate adjustment led to the devaluation of the tugrik against US dollar. The currency devaluation affected many

vital economic indices, such as prices and bad debts. It also caused real GDP growth and per capita GDP to fluctuate.

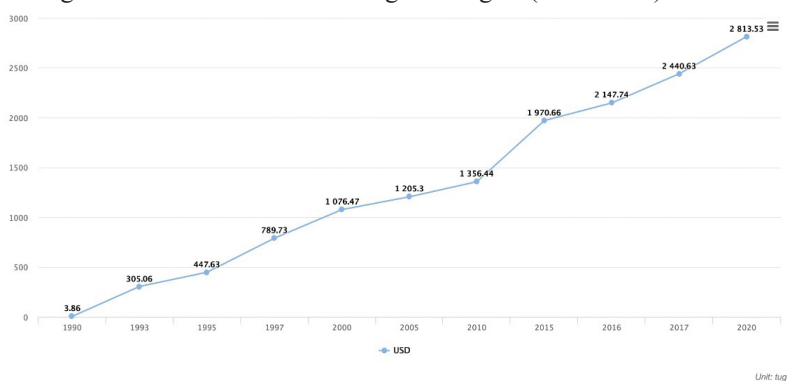
2. Devaluation of the TTugrik and Lagging GDP Growth

Securing US dollars and foreign loans became the most important factor in Mongolia's economy. The U.S. currency was more important than its native currency. Fluctuating exchange rates made the Mongolian economy even more unstable. The GDP in 1990 reached 1.3 billion tugriks. The GDP was equal to about US\$ 330 million dollars, because one US dollar was exchanged to 3.86 tugriks at that time. Yet, the value of the tugrik sharply declined after the neoliberal reforms guided by the IMF. One US dollar was worth 447 tugriks in 1995. Even though the GDP in that year reached 65.1 billion tugriks, it was only about 150 million US dollars, which was only about half of the 1990 GDP.

The Mongolian government and the IMF gradually adjusted the exchange rate, but the value of the tugrik continuously

depreciated. In 1991, one US dollar was almost equal to three tugriks. In 2005, one US dollar was worth 1,205 tugriks and was increased to 1,970 tugriks in 2015, 2,147 tugriks in 2016, and 2,440 in 2017 (Denizer and Gelb, 1992:7; Mongolian Statistical Yearbook 2017: 8-10). This means that for the last 26 years, the value of the Mongolian currency has declined more than 800 times. As a result, Mongolia's GDP increased when calculated in Mongolian tugriks, but fluctuated and mostly fallen against the US dollar. The GDP was US\$7.18 billion in 2010 and reached US\$13.99 billion in 2012, but suddenly fell to US\$2.57 billion in 2013 and US\$1.19 billion in 2014.³³ It soared to US\$7.19 billion in 2017 and US\$13.1 billion in 2019. Significant fluctuations of GDP growth since 2017 resulted from an increase in FDI.

Figure 1: Exchange rates for US dollars to Mongolian tugrik (1990-2020)



Source: National Statistics Office of Mongolia. Statistical Information Data base; Rate of foreign currencies. <https://www.1212.mn/tables.aspx?> (search date: 28 June, 2022)

³³ World Bank data. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=MN> (search date: 26 March, 2021)

The continuous devaluation of the tugrik has had a significant impact on the price of mineral resources of the nation. The decline of the Mongolian currency value increased the country's competitiveness in resource prices, and it accordingly led to a surge in Mongolia's resource exports. In particular, exports to China, a huge consumer of natural resources, continued to increase. As a result, Mongolia's dependence on trade with China rose excessively. Furthermore, due to the devaluation of the tugrik, domestic prices continued to rise and inflation created an increase in poverty in Mongolia, the result of an outflow of national resources in the name of foreign direct investment.

Stable economic growth was an important goal of the neoliberal reforms. To achieve this end, the IMF hoped Mongolia's GDP growth rate could reach 4.5 percent, the actual growth of industrial products could reach 4 percent, the investment-to-GDP ratio could reach 24 percent, and the unemployment rate could remain at 6.5 percent. Nonetheless, inflation and devaluation of the tugrik was still rampant. For example, while the real GDP increased 4.5 percent in 1998 over the previous year, prices rose 20 percent. The inflation rate increased 4.4 times, which was higher than the real GDP growth. The investment-to-GDP ratio reached 24 percent and the unemployment rate remained at 6.5 percent (Nergui et al., 1998: 37).

The Central Bank of Mongolia pushed ahead with a policy to control the depreciation of the tugrik to less than five percent (Nergui et al., 1998: 46-47), but the decline of the tugrik has been faster than the actual GDP growth. A nominal GDP growth incorporating an inflation factor became the main

guiding indicator of the monetary policy. The deficit budget, budget revenue and expenditure, investment, and money supply (M2) were all planned to be based on the GDP. To assess the GDP, the gross social output and national income should be calculated. The state and business incomes, expenses, annual prices, constant prices, and industrial sector prices should also be estimated. Mongolian inflation is assessed in tugriks and the growth of the money supply and the actual growth of the country's GDP are also calculated by the nation's currency. Yet, the exchange rate level of the Mongolian currency is determined by the foreign exchange reserves and the US dollar exchange rate.

The devaluation of the tugrik has caused structural changes in the consumer price index and money supply. It has also decoupled itself from labor productivity, and the real household consumption and accumulation has changed accordingly. Foreign loans and aid have kept Mongolia at a disadvantage in foreign trade due to a budget deficit. This has also caused the nation's low proportion of domestic investment in GDP. Foreign loans and economic aid put pressure on the Mongolian government in various ways. The imbalance between the government income and expenditure has led to national budget deficits and bad bank debts.

The 2016 national statistical data of Mongolia (Mongolian Statistical Yearbook, 2017: 7-10) shows that the outcome of the free market monetary policy was negative. The GDP per capita in 2016 reached about 52.98 million tugriks, which was 1.1 percent lower than that of 2015. Mongolia's GDP in 2016 was 1,603.59 billion, an increase of only one percent compared to 2015 (1,580.7 billion).

A Lack of Improvement in Socioeconomic Conditions

Undesirable economic performance has caused negative socioeconomic impacts in Mongolia. As the neoliberal reforms did not lead to economic growth, overall socioeconomic conditions have been aggravated. The rates of unemployment and poverty have sharply increased. The greater the poverty, the more negative impacts it had on the society, and consequently the higher the crime rate. These deteriorating circumstances have affected the overall quality of life in terms of health, social security, and education. The free market monetary policy, which was the central part of the neoliberal reforms has, at least so far, failed to improve the quality of life for Mongolians.

In the post-neoliberal reform period, the average unemployment rate of Mongolia rose to more than six percent, because jobs in agriculture, Mongolia's largest employment sector, continued to shrink (ADB, 2020: 106). The unemployment rate in 2009, in particular, soared to 11.6 percent. To make matters worse, all prices in Mongolia continued to rise since the second phase of price liberalization started in 1993. The inflation rate compared to the previous year reached 325 percent in 1992 and 183 percent in 1993. Many factories went bankrupt due to the sudden rise in prices, which also contributed to high unemployment (Rossabi, 2005: 52).

Another reason for the high unemployment rate was excessive dependence on FDI that did not lead to robust job generation. Following the

Oyu Tolgoi³⁴ investment agreement in 2009, FDI inflows began to surge. FDI accounted for 71.1 percent of Mongolia's total investment in 2011 and 68.8 percent in 2012. Most FDIs went to the mining sector and multinational enterprises (MNEs) were major actors of the investments. However, these large-scale projects have not continued to increase real employment opportunities for Mongolians. The development of labor-intensive industries other than mining was very slow, because technology transfer to Mongolia was not carried out quickly by the MNEs. Their main goal was to acquire Mongolia's natural resources at low prices, and then transfer to China for processing into higher value-added products. In this process, Mongolia's economic structure became heavily dependent on resource-trading, which was insufficient to lead to sustainable and active job creation. Mining accounts for about 20-25 percent of Mongolia's GDP, 70 percent of industrial production, and 90 percent of exports. Nevertheless, mining and quarrying workers accounted for only 3.5 percent of total employment in 2009. By 2018, this figure did not increase significantly, only increasing to 4.6 percent.³⁵

The high unemployment rates have worsened the livelihoods of civilians and workers and have led to a widening gap between the rich and the poor. During the first seven years since neoliberal reforms were implemented in Mongolia, income distribution has deteriorated rapidly. In particular, the second stage of liberal

³⁴ The Oyu Tolgoi mine is located in the South Gobi region of Mongolia, which is one of the largest known copper and gold deposits. It has been developed by the joint venture of Rio Tinto, the world's second-largest metals and mining multinational company, and the Mongolian government.

³⁵ For these figures, refer to the website of National Statistics Office of Mongolia, Labor Force Data, http://1212.mn/stat.aspx?LIST_ID=976_L04 (search date: 10 June, 2022).

reforms (1993 to 1995) gave rise to a serious divergence in the distribution of household income. Poverty, as a result, increased rapidly and became widespread in the early shock therapy transition. As much as 36.3 percent of Mongolians lived below the poverty line³⁶ in 1995.³⁷ Poverty reduction has not improved significantly until recently as indicated by the figure that 28.4 percent of Mongolians lived below the poverty line as of 2018.³⁸ In other words, the economic reform has not translated into higher growth and poverty eradication.

The fast privatization of the SOEs

has also fueled poverty. Following the large-scale privatization of state-owned enterprises and mines, a handful of domestic political factions and multinational enterprises dominated former state assets. Although the total scale of livestock in Mongolia has continuously increased, ownership has been increasingly concentrated with a minority of owners. Due to reduction in taxes and government size, the welfare system of the government has weakened putting great pressure on Mongolians and deteriorating the people's social security.

Table 2: Poverty indicators by national poverty line, selected years 1995-2018

Year	Poverty headcount ratio			Poverty Gap			Poverty severity		
	National	Urban	Rural	National	Urban	Rural	National	Urban	Rural
1995 ^a	36.3	38.5	33.1	10.9	12.2	8.9	4.8	5.7	3.6
1998 ^b	35.6	39.4	32.6	11.7	13.9	9.8	5.6	7.1	4.4
2003 ^b	36.1	30.3	43.3	11.0	9.2	13.2	4.7	4.0	5.6
2008	35.2	26.9	46.6	10.1	7.7	13.4	4.0	3.1	5.2
2009	38.7	30.6	49.6	10.6	7.9	14.4	4.1	2.9	5.6
2010 ^c	38.8	33.2	49.0	11.5	9.4	15.2	4.6	3.7	6.4
2011 ^c	33.7	28.7	43.2	9.2	7.7	11.8	3.5	3.0	4.5
2012 ^c	27.4	23.3	35.4	7.1	6.2	8.8	2.7	2.4	3.2
2014 ^c	21.6	18.8	26.4	5.2	4.9	5.8	1.9	1.9	2.0
2016 ^c	29.6	27.1	34.9	7.7	7.2	8.8	2.9	2.8	3.2
2018 ^c	28.4	27.2	30.8	7.2	7.2	7.2	2.7	2.8	2.4

Note: a-Poverty rate was estimated by the National Statistics Office of Mongolia in collaboration with the World Bank using the information from the Monthly Household Survey and the Living Standards Measurement Survey; b-Poverty rates are estimated based on the Living Standards Measurement Survey, but are not comparable due to differences in consumption baskets and different poverty lines (Griffin, 1995; Marshall et al., 2008); c- Poverty measures have become comparable from 2010 on in accordance with the National Statistics Office of Mongolia and the World Bank as the methodology has become consistent.

Sources: ADB (2020) citing National Statistics Office of Mongolia. Statistical Information Database; Poverty Indicators. www.1212.mn (search date: 10 June, 2022); Helble, M., eds. 2020. Mongolia's Economic Prospects: Resource-rich and Landlocked Between Two Giants. Asian Development Bank (ADB).

³⁶ The poverty line means the monetary cost to a given person at a given place and time. It is the cost of a bundle of goods deemed to be sufficient for basic needs and is comprised of two components, food and non-food (National Statistics Office of Mongolia and Uochi, I., 2020: 76). The National Statistics Office of Mongolia defines the national poverty line in collaboration with the World Bank to make the poverty rate comparable over time (ADB, 2020).

³⁷ National Statistics Office of Mongolia and the World Bank, 2020

³⁸ Uochi, I., 2020. Mongolia Poverty Update 2018, The World Bank; Mongolian Statistical Yearbook, 2018.

Unemployment, along with poverty, is likely to increase the crime rate, causing a negative social domino effect. For instance, there were 24,653 crimes in 1997 that increased 2.7 times compared with the year of 1990. The number of offenders reached 21,600 in 1997, an increase of 2.3 percent compared to 1990. Among them, unemployed people accounted for 68 percent (Nergui et al., 1998: 62-63). These phenomena indicate that the neoliberal reforms did not improve the overall welfare of Mongolians. The promotion of reforms did not remarkably result in alleviating

poverty and increasing economic security. Therefore, a controversy over the validity of neoliberal reforms has recently been raised in Mongolia. Some intellectuals have reviewed the gains and losses of neoliberal reforms through academic activities such as the “Neoliberalism and Mongolia” conference in 2018 in which Mongolia’s debt problem was discussed. At this conference, Mongolian economist Kh. Batsuuri pointed out that common people did not feel the effects of economic growth, and the Mongolian economy is not currently growing.³⁹

Conclusion

This article attempts to elaborate on the effects of neoliberal reforms in Mongolia and to critically review the free market monetary policy. Mongolia began moving towards democracy with a separation of legal, administrative, and judicial powers based on a market economy after the neoliberal reforms in the early 1990s. Under the free market system, a large portion of land, property and resources ended up directly in the hands of multinational enterprises from the United States, Europe, China, and Russia as part of FDI.

Despite the long-term reforms, the state’s poverty problem has not been improved and is even spreading. The unemployment rate is still relatively high, and crime and corruption are rampant. Overall economic development is out of balance. Mongolia’s currency has tumbled 800 times over the two decades the reforms have been promoted. This nation has lost their economic independence and has to rely on foreign loans. The fiscal deficit problem still remains unsolved.

The government does not have a clear industrial development plan. The import dependence on Chinese goods exceeds 90 percent in the recent years. Prices are rising faster than wages. As Mongolian economist-cum-philosopher Bayartsetseg pointed out, it is no exaggeration to say that Mongolians have lost their independent sovereign state.

From such a turmoil, the elite ruling class and political oligarchy have become the most powerful interest groups in the society. The free-market economy became the basis for these elite groups to capture economic and political benefits. The government, in retrospect, failed to consider the pros and cons of neoliberalism before allowing it to enter the country when shock therapy was introduced in 1991. In particular, they did not weigh the expected impacts of a free market monetary policy implemented by the IMF would have on the economy and society. The free market monetary policy was the key action of liberal reforms, but this forced Mongolia into social unrest.

³⁹ For the details, see “Discussion: Where has neoliberalism led us?” <https://gogo.mn/t/226752>. (search date: 22 July, 2018)

When the nation implemented the policy, not only did the minority get rich and the majority impoverished, it also caused foreign investors to plunder the local resources through privatization.

Mongolia's important investors and trade partners such as global financial organizations, the United States, China, and Russia, have directly or indirectly intervened in the country's political and economic policies. The state is no longer rooted in the real lives of the Mongolians when making policies. It was believed that shock therapy would advance economic reforms with the lowest risk and bring about social prosperity. Instead, it resulted in quite negative consequences for the country. The free market monetary policy did not create equal wealth in Mongolia. It only made a very small number of people rich. Most of the people are still struggling to survive and many are living on the cusp of poverty. The large-scale privatization of state-owned property forced the transfer

of mineral resources to multinational enterprises, who control of Mongolia's economic lifeline and force Mongolia to yield.

The neoliberal shock therapy transition has been shown to be ineffective in Mongolia. It may be necessary to formulate a development policy that prioritizes national interests to help Mongolia overcome its current political and economic difficulties. At the same time, with regard to political and economic development strategies, Mongolia should increase labor productivity and surplus products, unite the people internally, narrow the gap between the rich and the poor, consolidate national sovereignty externally, and get rid of the huge debt trap. To achieve this, the nation needs a well-designed system that reflects the nature of Mongolia and takes into account the characteristics of their economy, promoting realistic policies that can stabilize people's livelihoods.

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