

Prospects for Korea-Mongolia Economic Cooperation*

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1. Introduction

Since the fall of Genghis Khan's Mongol empire, there has been no significant interaction between the Koreans and the Mongols. It was only in March 1990 that the Republic of Korea and the Mongolian People's Republic reestablished diplomatic relations. This was made possible by simultaneous policy changes in the two countries.

In Korea, it was the Northern Policy of president Rho's government that opened a new horizon for Korea's economic and political relations with the socialist countries. The establishment of diplomatic relations with the USSR and some East European countries and the rapid expansion of economic relations with the socialist countries were owing to the Northern Policy. Mongolia was one of the Asian socialist countries with which Korea wanted to establish economic and political ties.

In the case of Mongolia, the economic reforms in the USSR and East European countries in the 1980s stimulated similar policy reforms in Mongolia. In the past, the Mongolian interaction with foreign countries was virtually limited to the USSR and other CMEA countries.

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But the economic reforms in the USSR and the reduction of Soviet economic assistance to Mongolia made the Mongolian policy makers realize that opening the economy and the adoption of a market system were essential for economic development of the country. In a sense, the Korean experience in economic development was regarded as a model case to follow for the Mongolian policy makers.

During the one year period since diplomatic normalization, the two countries engaged in exchanges of people as well as commodities. Businessmen, government officials, scholars, and even students from each country visited the other country in order to study its counterpart and to find opportunities for building mutually beneficial relationships.

The purpose of this paper is to discuss the recent economic relations and examine the prospects for mutually beneficial relations between the two countries.

2. Bilateral Economic Relations.

In 1990, the value of Korean exports to Mongolia was only \$515 thousand. But compared with the previous year's exports, it showed an increase of 267 percent. Imports from Mongolia were much higher. The 1990 value was \$2,191 thousand and the growth rate over the previous year was 373 percent. Table 1 shows that total bilateral trade in 1990, \$2,706 thousand, was less than 0.05 percent of the total Korean trade with the Northern countries in the same year. The table also shows that the Korean trade with Mongolia increased more rapidly than the trade with any other Northern countries in 1990.

Table 1, Korean Trade with Mongolia and Other Northern Countries

\$ million, %

		1988	1990	% change
Mongolia	Exports	0.140	0.515	267.4
	Imports	0.463	2.191	373.1
	Total	0.603	2.706	348.8
China	Exports	1,438	1,553	8.0
	Imports	1,705	2,268	33.0
	Total	3,143	3,821	21.6
USSR	Exports	208	519	149.5
	Imports	392	370	-5.6
	Total	600	889	48.2
Eastern Europe ¹⁾	Exports	270	541	100.4
	Imports	117	213	82.1
	Total	387	754	94.8
Others ²⁾	Exports	46	117	154.3
	Imports	46	33	-22.8
	Total	92	150	63.0
Total	Exports	1,962	2,731	39.2
Northern	Imports	2,261	2,886	27.6
Countries	Total	4,223	5,617	33.0

Korea's direct investment in the Northern countries rose rapidly. According to IPECK (International Private Economic Council of Korea), as of the end of 1990, a total of \$182 million in 74 projects were licensed for direct investment to the socialist countries. Although many Korean businessmen visited Mongolia to study the possibilities of joint ventures, direct investment there is yet to be realized. But

1) Yugoslavia, E. Germany, Poland, Czechoslovakia, Hungary, Rumania, and Bulgaria

2) Including Vietnam, Laos, Cambodia

Source: Economic Planning Board, Economic Bulletin, March, 1991.

IPECK, The Northern Economies, 1991, 3.

the Korean government recently provided development assistance to Mongolia in the form of a grant. The aid included one thousand tons of rice and such equipment as computers and printers.

About 30 high ranking Mongolian officials came to Korea in March 1991 to learn about the functioning of the Korean economy and Korean economic policies. They stayed in Korea for one month. The Korea-Mongolia Economic Cooperation Council currently plans to bring about 170 workers from Mongolia for technical training in Korean firms.

In March 1991, the Mongolian foreign minister visited Seoul. Meeting with his Korean counterpart, the minister said that Mongolia is seeking to turn to a market economy and that the government is considering introducing a special economic zone to attract foreign investment. The two foreign ministers signed four agreements on economic and cultural cooperation. The agreements cover economic, scientific and technical cooperation, trade, the mutual promotion and protection of investment, and cultural cooperation. Under the agreement Korea and Mongolia will give each other most favored nation status in trade and investment.

In August 1990, the Korea Exchange Bank signed a correspondent banking agreement with the State Bank of the Mongolian People's Republic, paving the way for Korean traders to settle export and import bills directly with the KEB.

3. Prospects for Korea-Mongolia Commodity Trade

The most important problem with Mongolia as a market for Korean

exports is that the market is small in terms of purchasing power. The Mongolian economy is actually the smallest among Korea's socialist trading partners. Mongolia's population is only 2 million. Geographically, access to Mongolia is possible only through China or the Soviet Union. Thus the Korean export commodities should be first carried to a Chinese port by sea and then transported to Mongolia by rail for a distance of about 2,000 kilometers.

But these factors are not critical disadvantages for the growth of Korea-Mongolia trade. The most important factor is the Mongolian policy toward international trade: if the government sees the expansion of trade with market economies as essential for its economic progress, the volume of trade, both of imports and exports, will grow rapidly. As long as the Mongolian exports to the world keep pace with the growth of its imports from the world, there will be no shortages of hard currencies or trade deficits to worry about.

In February 1991, Mongolia became the 155th member of the IMF and the 50th member of the ADB. By joining these multilateral financial or development institutions, Mongolia can now borrow from these institutions on preferential terms. Development projects such as building export factories or social overhead capital will be increased by the assistance from the multilateral institutions. Being a member of international institutions and having economic contacts with advanced countries will also increase bilateral flows of economic aid into Mongolia.

With its low level of industrialization, Mongolia has to turn to exports of primary products and manufactured products which are not skilled labor intensive and do not require large amounts of capital in-

vestment. Fortunately, Mongolia is endowed with large amounts of some mineral resources like coal, fluorspar molybdenum and copper. Korea's imports of crude materials from other countries, not including mineral fuels, amount to 10 billion dollars a year. If Korean general trading companies find that some raw materials can be imported from Mongolia under favorable terms and with steady supplies, expansion of Korea-Mongolia trade will be realized very rapidly. Actually, most of the Korean imports from Mongolia in 1990 were industrial raw materials like wool, copper, and pig iron.

Korean exports to Mongolia in 1990 were mostly manufactured products. They included disposable syringes, computers and VCRs. Mongolia needs machinery and equipment for building export production facilities and infrastructures. It also imports large amounts of consumer goods each year. Korea has competitive edge in these products in the world market unless they require the most advanced technologies in the production. Korea also has a geographic advantage in exports to Mongolia over other competitors like Japan, the U.S. or European countries.

Hyundai Motor Co. exported 30 passenger cars to Mongolia for the first time in March of this year. The company is expecting that a total of 330 cars will be exported this year. Daewoo Corporation is currently negotiating exports of telecommunications equipment worth \$30 million. The company recently exported 7,000 refrigerators to Mongolia. These products, however, were made in China at a joint venture factory established by Daewoo Electronics Co. and two Chinese companies in 1988.

The growth of commodity trade between Korea and Mongolia will

depend crucially on how international trade is handled in Mongolia. If international trade remains a monopoly of the government, a rapid increase in trade cannot be anticipated. There must be some strong incentives for the producers of potential export products to start exporting and to increase exports. This is especially important in the early phase of export expansion. With bureaucrats of national trading companies in Mongolia conducting international trade exports will mainly depend on the behavior of foreign buyers, domestic producers having little influence on the production and volume of exports. Nationalized foreign trade may be necessary in the situation where most of the nation's foreign trade is with other socialist countries. For increased foreign trade with market economies, the inefficient functional separation of foreign trade and domestic production should be abolished.

Since 1987, Mongolia has taken some measures in line with the goals of introducing production incentives and liberalizing foreign trade and capital flows. It is important to intensify these reforms if Mongolia is to enjoy the benefits of increased contacts with the capitalist countries.

4. Prospects for Korean Direct Investments and Economic Assistance

In recent years many Korean firms have established production facilities in foreign countries. Korean foreign direct investment is directed toward both developed countries and developing countries. In the case of developing countries, Korean firms are interested in de-

velopment of primary resources or utilizing low wage workers for producing labor intensive goods for the world market.

Mongolia has a total population of only 2 million. Therefore direct investment for the purpose of utilizing the Mongolian labor force or penetrating the Mongolian domestic market is not viewed as feasible. But direct investment for exploiting natural resources or for processing these products can be expected to be profitable in the long run. Since Korea now imports these products from foreign countries, finding markets for the outputs will not be a problem.

In April 1991, the Korean government simplified procedures for investment in socialist countries in order to boost direct investment in them. The maximum amount of investment in the Northern countries that does not require a thorough government examination was increased to \$2 million from \$1 million. Now an investment of less than \$2 million in socialist countries only needs the approval of the Bank of Korea. The Mongolian economy is facing difficulties because of the suspension of assistance from the Soviet Union. The country now needs preferential long-term loans and direct investment from other countries. The Mongolian government is currently considering the introduction of a special economic zone to attract foreign investment.

Considering the recent developments in Korea-Mongolia relations and the economic policies of the two countries, one can see that it will not be long before a Korea-Mongolia joint venture is established in Mongolia. But goods trade and exchange of ideas and people between the two should be increased first; private capital will flow next.

It will be much easier for Korean firms to trade with or invest in Mongolia if the Korean government provides some official develop-

ment assistance to Mongolia. Korea's economic aid to developing countries has been very small compared with that of industrialized countries like Japan or the U.S. But the Korean government is planning to substantially increase the volume of aid in the next few years. In 1990, the total official development assistance of Korea amounted to \$89 million. In any one year, approximately 100 developing countries receive grant aid or technical assistance from Korea. Recently a long term concessionary loan, the Economic Development Cooperation Fund loan, has become an important aid channel. But the EDCF loans tend to be allocated to a few favored countries.

In the early stages of the Mongolia's development, technical assistance from Korea in the form of sending trainees and students to Korea or utilizing Korean experts in various fields of production in Mongolia will be very useful.

5. Concluding Comments

The Korea-Mongolia economic relationship can be expected to intensify and thus benefit both countries only if Mongolia succeeds in its own economic reforms. The recent economic reforms in Mongolia and other socialist countries should not be seen as being just for the purpose of adopting some important free market measures in the economic operation of those countries. The substance of the reforms is the integration of the stagnated socialist economies with the dynamic market economies of the industrialized countries and the Newly Industrialized countries. The experience of the last few decades has shown that the socialist economic controls and the cooperation among

the socialist countries with little contact with the capitalist countries made it impossible to improve the economic conditions of the countries at any speed acceptable to the people.

What is now realized by many policy makers of the socialist countries is that only by integrating with the capitalist economies of high growth and advanced technologies, can the socialist economies expect long term growth. The success of the Mongolian reforms will depend heavily on the understanding by the Mongolian people of the reasons for the reforms. Korea also has much to gain from the success of the Mongolian reform and the rapid growth of the Mongolian economy. And, many Koreans now believe, increasing commodity trade and other forms of economic cooperation with Mongolia is the most important help that Korea can offer Mongolia.

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