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Transition and Democracy in Mongolia

RICHARD POMFRET

MONGOLIA HAS BEEN ONE OF THE MOST INTERESTING of the economies in transition from central planning during the 1990s. Massive external shocks in 1989 and 1990 led unexpectedly and suddenly to what was possibly the largest ever peacetime decline in a country's gross national expenditure. At the same time Mongolia embraced democracy and rapid economic reform, which exacerbated the decline in output and high inflation. Despite expectations of a political backlash, the 1996 elections produced a pro-reform government which accelerated economic liberalisation. By the late 1990s Mongolia was pursuing a policy of almost complete free trade and had one of the most flourishing democracies in Asia.

The overall economic performance has not been bad, with positive output growth since 1994 and inflation reduced to below 10% by the middle of 1998 (Table 1). Admittedly, the decadal performance only looks good by the poor standards of post-Soviet economies, and a widening budget deficit in 1998–99 may not be sustainable. Moreover, as in all transition economies, poverty has increased (World Bank, 1996).¹ Nevertheless, under adverse initial conditions, Mongolian economic performance is sufficiently good to offer support and hope to those proposing rapid economic reform and a democratic political system:

The most remarkable feature of Mongolia is the peaceful manner in which it achieved a transition from a centrally-controlled political system to a democracy with flourishing political parties and a participating electorate. The advent of unprecedented political freedom and a stable, open political system augurs well for future economic growth and improved quality of life. (UNDP, 1997, p. 29)

The aim of this article is to determine whether this judgement stands up to closer scrutiny. The first section provides a brief review of the economy on the eve of the rapid reforms introduced after the July 1990 presidential election. The second section describes the reform programme introduced in the first half of the 1990s and reinvigorated after the 1996 elections. The third section argues that the lack of strong political backlash against economic transition in Mongolia is partially due to two economic stabilisers which smoothed the adjustment process: the traditional pastoral lifestyle and the flourishing informal sector. The next section analyses the role of democracy in Mongolia, emphasising the broad consensus on underlying fundamentals, including the desirability of a market-based economy and incorporating attitudes towards the pastoral sector and the informals. The final section draws some conclusions.

TABLE 1
MONGOLIA, SELECTED ECONOMIC INDICATORS, 1995–1998

	1995	1996	1997	1998
Growth in real GDP (%)	6.3	2.6	4.0	3.5
Increase in CPI (year end—%)	53.1	44.8	20.3	6.5
Government revenue (% of GDP)	33.7	27.8	29.5	25.9
Government expenditure (% of GDP)	40.4	36.0	38.1	37.1
Current account balance (% of GDP)	– 5.5	– 10.0	1.3	– 11.3
Exchange rate (year end—togrog/US\$)	474	694	813	915
Export prices (% change in US\$ price)	23.7	– 21.6	3.7	– 30.8
Import prices (% change in US\$ price)	9.1	2.6	– 7.5	– 9.7
Terms of trade (% change)	13.4	– 23.6	12.2	– 23.3

Source: IMF (1999), updated in International Monetary Fund Press Release no. 99/23, 16 June 1999. Some 1998 figures are provisional estimates.

The starting point

Mongolia came under Soviet influence in 1921 and declared itself a People's Republic in 1924. Imposition of central planning was, however, delayed until the late 1940s. Collectivisation disrupted Mongolia's pastoral economy and new industrial towns were created. Table 2 shows the changing rural–urban composition of the population. Virgin Lands programmes increased the area under crops from 265 000 hectares in 1960 to a peak of 838 000 hectares in 1989.² The 1980s saw a major growth spurt as Mongolia was more tightly integrated into the Council for Mutual Economic Assistance (CMEA) international planning system. With large inflows of capital, inputs and technology from Eastern Europe and the Soviet Union, net imports amounted to a massive 30% of GDP. Industry, and especially mining, developed rapidly. Mongolia was so completely integrated both politically and economically with the Soviet Union that it acquired the label 'the 16th republic'.

This world was turned upside down in the second half of 1989 with the collapse of communism in Eastern Europe and the effective disintegration of the CMEA. Soviet ties were maintained, but the flow of assistance declined in 1990 as the USSR itself experienced growing economic difficulties. In 1991, as the Soviet Union dissolved, Mongolia suffered a huge negative economic shock. Not only did net inflows cease, but also supply chains broke and the favourable terms of trade arising from underpriced Soviet oil and other supplies and overpriced payments for Mongolian copper exports came to an end. The combined shock has been estimated at equal to loss of around half of gross national expenditure (Pomfret, 1993; Boone, 1994).

Despite its vassal status, Mongolia had the advantage over the other 15

TABLE 2
NUMBER OF URBAN AND RURAL RESIDENTS IN MONGOLIA (000)

	1919	1959	1963	1969	1979	1986	1991	1997
Urban	53.8	183.3	408.8	527.4	817.0	1052.8	1235.6	1226.3
Rural	589.2	662.5	608.2	670.2	778.0	896.9	951.6	1127.0

Source: Adiyasuren (1998, p. 61)

soon to be independent Soviet republics that it was already a sovereign state with internationally recognised borders, national institutions and the trappings of statehood. Elections were held in July 1990. The victorious President Orchirbat terminated the People's Republic and embarked on a programme of rapid price liberalisation and voucher-based privatisation (Pomfret, 1993, 1996). The parliament was dominated by the successor to the Communist Party, which, despite its heritage, neither halted economic reform nor prevented the drawing up of a new constitution in 1992 under which Mongolia has had a democratic system with peaceful alternation of power.³

The reform programme

What was the record of the initial reform effort? Output continued to decline in 1992 and 1993. These were also years of hyperinflation, a rapidly depreciating exchange rate and incipient dollarisation. Living standards noticeably declined, as the guaranteed services of the old system deteriorated and the greater availability and variety of goods promised by advocates of market-based reforms were scarcely visible. In the medium term, however, macroeconomic performance improved as positive GDP growth was recorded in 1994 and inflation began to abate.

Both the characterisation of Mongolia as a rapid reformer in the early 1990s and the interpretation of its economic performance as short-term pain prior to long-term gain have been questioned. Murrell (1996) argues that price reform was liberal in proclamation but partial in practice.⁴ The privatisation process was also dramatic in announcement, with beautiful vouchers engraved with Chinggis Khan's head issued to the population and a prominently renovated stock exchange building, but after a promising start in 1991 the privatisation programme ground to a halt in mid-1992; little privatisation occurred beyond the small-scale, and the stock exchange was quiescent.⁵ Financial reform was initiated with the replacement of the monobank by a two-tier banking system in 1991, but this step was followed by substantial disintermediation due to lack of public confidence in the banking system and the financial sector remained in poor shape throughout the 1990s (Hahm & Yener, 1998; IMF, 1999, pp. 26–35). Nevertheless, the principle of creating a market-based economy remained firm and two key achievements, to which we will return in the next section, were the decollectivisation of livestock farming and the exit of the government from petty trading activities.

The relationship between policy and performance is attenuated by the role of aid and copper. Mongolia's apparent liberalism and geostrategic location made it a favoured aid recipient, especially when aid is measured on a per capita basis. The large inflows reduced the need for domestic adjustment to maintain balance of payments equilibrium.⁶ Mongolia was also helped by buoyant world markets for copper, by far its largest export, in the early and mid-1990s (Table 3). Lower copper prices in 1996 reduced the GDP growth rate and raised questions about the sustainability of Mongolia's post-1994 growth.⁷

Even allowing for these reservations, the general impression, certainly within the country, was of a rapid transition from central planning which had resulted in considerable short-term hardship during the first half of the 1990s. In practically all Eastern European countries domestic elections at this stage of the transition process

TABLE 3
MONGOLIAN EXPORTS 1995–1998 (US\$ million)

	1995	1996	1997	1998
Copper	258	254	199	145
Cashmere	49	63	49	31
Gold	52	52	105	102
Total exports	537	476	567	439

Source: Customs Office of Mongolia.

revealed a backlash against reform with many explicitly former communist parties regaining political power. In Mongolia's June 1996 election the Democratic Coalition won a landslide victory.

The Democratic Coalition were not only reformers, they were radical reformers. The new government's first step was to free energy prices; the price of coal went up by 48%, electricity 60% and heating 40%. Import duties were abolished and other forms of protection removed.⁸ In July 1997 Mongolia acceded to the World Trade Organization. Subsidies were reduced or abolished and public administration was streamlined. The Law on Housing Privatisation passed by Parliament in October 1996 was delayed by presidential veto but eventually became law in February 1997, and 25 000 flats were privatised in Ulaanbaatar in 1997.⁹ Enterprise privatisation was reinvigorated in 1997; in 1996 13 enterprises had been privatised and yielded revenue of 1.5 billion togros, while in 1997 236 privatised enterprises yielded 15.5 billion togros (IMF, 1999, p. 85). Sales tax coverage was extended, income taxes streamlined, and fees for service introduced to increase government cost recovery. Social sector spending was reformed, e.g. by introducing a health insurance system, although some reforms (e.g. enhancing human capital formation and preserving social safety nets) are not radical.

The overall picture of the Mongolian economy by 1997 was that the first phase of post-communist development was complete. The economy was clearly market-based, although financial sector reform was still required and some large enterprises were still in need of restructuring.¹⁰ Why had the process happened so relatively smoothly without a major political backlash after several difficult years?

The economic stabilisers

The adjustment process in Mongolia was helped by two economic stabilisers. The first is country-specific; the traditional pastoral lifestyle was resilient to economic changes. The second could be a general phenomenon; the informal sector eased transition from central planning by maintaining a flow of desired goods and services and alleviating urban unemployment.

The negative output performance of the first half of the 1990s was centred on agriculture, industry and some mining activities. The sown area declined from its 1989 peak of 837 900 to 372 600 hectares in 1995, as supplies of mechanical and chemical inputs were cut off. Many industrial enterprises faced disruption of their supply chains and loss of demand. Some mining operations were also disrupted,¹¹

TABLE 4
OUTPUT OF BASIC INDUSTRIAL AND MINING PRODUCTS 1993–1997

	1993	1994	1995	1996	1997
Copper concentrate	334	343	346	351	435
Gold	1117	1789	4504	6976	8451
Coal	5617	5158	5019	5111	4924
Fluorspar	537	383	527	565	567
Felt	241	108	77	96	75
Woollen fabrics	290	77	71	45	8
Carpets	1000	682	596	666	644
Leather and sheepskin coats	96	92	30	20	3
Leather footwear	1031	407	246	87	42

Note: Copper, coal and fluorspar in thousand tonnes, gold in kilograms, felt and woollen fabrics in thousand metres, carpets in thousand square metres, leather and sheepskin coats in thousands, and leather footwear in thousand pairs.

Source: IMF (1999, p. 40).

although the Erdenet copper complex, which was Mongolia's dominant hard currency earner (Table 3), maintained its output levels of copper concentrate (Table 4).

Within the domestic economy, the pastoral sector reversed a two-decade decline. The number of animals increased from 25.9 million in 1990 to 31.3 million in 1997. This followed the privatisation of livestock production in 1991–92, after which, initially at least, the traditional lifestyle was seen to provide a reliable subsistence consumption level and some insulation from the collapse of the economy. Urban–rural migration was reflected in the decline in the urban share of Mongolia's population from 57% to 52% (Table 2). Even within the cities there was a reversion to traditional lifestyles as families vacated their poorly maintained and erratically heated flats to live in felt *gers* with private stoves.¹²

Following the collectivisation of agriculture, the livestock farming system had been based on the agricultural cooperative (*negdel*). In December 1990 the 255 *negdels* mostly corresponded to the administrative districts (*soums*), which did not necessarily correspond to divisions based on optimal land use. Each family was entitled to keep 50 head of livestock (75 in the Gobi regions) for their own food needs, so that around a third of livestock were privately owned in 1990. Nevertheless, production and marketing decisions were overwhelmingly taken at the *negdel* level rather than by individual herders.

Privatisation of the herds was implemented in two stages in 1991 and 1992. The initial reaction was mixed, as herders lost centralised functions such as veterinary services and technical advice, for which they now have to pay, as well as social services provided by the *negdels* such as health and education. Individual herders now had to shoulder the natural risks of the harsh and volatile climate, as well as the economic risks of selecting the wrong herd composition. Moreover, this switch of organisation occurred in the absence of market networks and support services such as commercial banks or other rural credit institutions.

Between 1991 and 1993 the size of the herds was almost constant, although there were some changes in composition; the number of sheep and camels declined, horses

and cattle remained constant, and goats increased. Beginning in 1994, however, aggregate numbers grew at record rates. Favourable climatic conditions helped, but the development was generally ascribed to the new incentive system as private herders took greater care of their livestock and saw increased numbers as the principal avenue to asset accumulation. Marketing channels were established so that herders could sell milk or wool or hides in order to obtain basic consumer goods. Live animals were, however, rarely sold, implying a reluctance to become involved in larger transactions and a risk-averse view of livestock as insurance against uncertain economic and climatic conditions.¹³

The return to pastoralism was, however, not entirely a retreat from economic specialisation to self-sufficiency. Out of the net increase of 5.4 million head, 5.1 million consisted of goats, indicating a market orientation, producing cashmere for export, which became more pronounced after the lifting of the ban on raw cashmere exports in 1996 improved the price to herders. Thus, even though the return to pastoralism may have been a defensive coping mechanism to deal with the vicissitudes of transition from central planning, it was also a market response shifting the output mix more in line with Mongolia's comparative advantage, at least in the short run. The expansion of the herds has had adverse environmental consequences due to pressure on pastureland, especially land close to provincial capitals.¹⁴ There may also be a cost in increased vulnerability due to goats' susceptibility to cold; the 1990s was a decade of mild winters, but severe cold could kill many of the herders' assets.

The second stabiliser was the informal sector, which grew rapidly in the mid-1990s, and according to Anderson (1998, p. 16) accounted for around a third of economic activity by early 1997. The informal sector was a response of small-scale entrepreneurs to bureaucratic regulations, which were not necessarily undesirable but which placed an onerous fixed cost on small enterprises. The informals were not illegal and were not tax evaders; they paid a flat tax which may or may not have been higher than if they had been formal enterprises subject to the full tax legislation. Ease of entry and relative freedom from external constraints offset the burden of higher taxes.¹⁵

Anderson (1998) argues convincingly that the informals played a key role in improving economic well-being by making goods and services available which the formal sector was not providing. Anderson's survey included kiosk owners, taxi services, boot-repairers and other miscellaneous occupations. The most apparent function is in providing flexibility where the formal sector provided inconvenient public transport routes, boots too expensive for some consumers to acquire new footwear, and so forth. They also provided incomes which ranged from small supplements for poor people in marginal activities to incomes for full-time taxi drivers which exceeded the salary of the country's President.

The growth of the service sector was even more visible, at least in the capital city, in 1998 (*Mongolia Update 1998*, p. 33). That year also saw a rapid growth in imports of used cars and four-wheel drive vehicles from Japan, Russia and elsewhere, mostly in small batches by individual traders. Although the informals grumble about continuing red tape, they appear to be much more controlled by the invisible hand of market forces than subject to grabbing hands of rent seekers.¹⁶

The role of democracy

There is a widely held view that democracy and rapid development are incompatible. This is considered by many to apply to the high-performing Asian economies, and Kubicek (1998) makes a similar claim to justify autocratic rule in the Central Asian transition economies.¹⁷ In this view, democratic regimes find it too difficult to push through legislation with long-term benefits but short-term costs, so a coherent and consistent long-run economic development strategy is impossible. Mongolia is a counter-example to this view.

Mongolia's democracy can look chaotic, corrupt and incompetent when placed under a spotlight. The President may, and does, veto the parliament's proposed Prime Minister. Bank failures in 1998 due to loans to MPs led to bail-outs with public money. Reversal of a decision on casinos in early 1999 subjected the government to a liability suit from the Macanese investors. The examples could be multiplied and illustrated by lurid stories from the hyperactive press.¹⁸ Nevertheless, on the big picture of economic policy, the democratic process has produced a consistent development strategy, with an acceleration in 1996 in response to the will of the electorate. An important prerequisite is that although political debate is noisy the spectrum of views is not wide; there are large areas of agreement about the type of society in which Mongolians wish to live, and about the economic component of this shared vision.

The second half of 1998 illustrated the economic consistency amidst superficial political tension. In June 1998 the opposition walked out of the parliament over the government's decision to merge a state-owned bank with a private sector bank, and by the boycott effectively halted regular parliamentary business. In July the government lost a confidence motion when some Democratic Coalition members voted with the opposition. Several candidates for Prime Minister were vetoed by President Bagabandi (who was elected in May 1997 and belongs to the opposition party) during the following months, and a new Prime Minister was only appointed in December 1998. Despite this appearance of political gridlock, the pre-June Prime Minister remained in office as a caretaker and the parliament passed a substantial tax package. The tax package was delayed by the political manoeuvring, but only by a few months, which allowed further reflection. The key items, a 13% value added tax and a \$7 per ton increase in the excise tax on petroleum, were not watered down¹⁹ and one component which was less economically desirable, a 13% export tax on gold, was vetoed by the president. Other important progressive legislation passed in the second half of 1998 included a reduction in the compulsory school starting age from eight to six, a media law banning state ownership or control of newspapers, radios and TV, and deregulation of the monopolised cellular phone and internet provider markets. During the second half of 1998 Mongolia also maintained a remarkably consistent monetary and exchange rate policy despite a large negative terms of trade shock (estimated at 11% by the IMF, 1999, p. 6) and the emergence of a sizeable current account deficit.²⁰

The December 1998 government attempted to distinguish itself from its predecessor by focusing on social protection and the need for a clear development strategy.²¹ Its practical commitment during the first quarter of 1999, however, was to

macroeconomic stabilisation, financial reform and public service streamlining, which is probably what would have happened without any change in government. Macroeconomic stabilisation was essential as the budget deficit increased to over a 10th of GDP and, although plans to reintroduce import duties at a general rate of 5% were the most controversial measures, revision of the corporate and income tax structure to expand the tax base were more important, yet uncontroversial. Similarly with financial reform, any government faced with the problems of non-clearance of payments and rising bad debts in late 1998 and early 1999 would have had to act,²² but the direction of financial reform does not appear to have changed. Public service reform is also mandated by the budget deficit, as well as by increased concerns about corruption, but the emphasis on shifting from an input-based to an output-driven public service in order to increase transparency and reduce costs is widely shared among parliamentarians (under the label of the 'New Zealand model'). The general pattern is of lively debate and party differentiation on some issues, but broad consensus on underlying fundamentals.²³

The Mongolian People's Revolutionary Party (MPRP), the successor to the sole pre-1990 party, has played a generally positive role. After the election of a reformist President in Mongolia's first free election in 1990 and promulgation of a new constitution, the MPRP used its huge organisational advantage to gain a landslide victory in the 1992 parliamentary elections. While taking a conservative position in economic debates, the MPRP played by the democratic political rules and accepted a peaceful change of government after losing the 1996 parliamentary elections to the Democratic Coalition (DC). In the May 1997 presidential election the MPRP nominee, Bagabandi, won 60.8% of the vote on an 85% turnout in an election vetted as fair by international observers. The MPRP then won a series of by-elections indicating its growing popular support despite its parliamentary minority, and it mounted a more confident opposition to the Democratic Union coalition. In May 1998 the MPRP distanced itself from the past by adopting a new logo, replacing the red star by a red rose (the emblem of social democracy) and a yin-yang symbol (representing respect for nature).²⁴ Essentially, Mongolia had moved to a two-party system with a more interventionist (MPRP) and a more liberal (DC) party sharing much common ground, although both parties were riven by factions so the system could prove unstable.

Conclusions

First impressions that Mongolia has been a rapid reformer and has been fairly successful over the 1990s despite a horrendous starting point stand up to closer scrutiny. The democratic regime has been a positive political element of both the commitment to economic liberalism and the coping with adversity.

One key element has been the cultural homogeneity and continued orientation towards the traditional pastoralism which was shared by most Mongolians through the communist era. The Mongolian People's Republic did not experience the juxtaposition of traditional versus modern which was so strong in the Asian parts of the Soviet Union. After 1990 the distance between reformers and members of the former Communist Party was not huge. In particular, both camps accepted the desirability of

livestock privatisation (and undesirability of full private ownership of grazing land) and were willing to encourage the informal sector (or not to obliterate it with a grabbing hand). These two economic stabilisers became especially important in easing the adjustment to a market economy from 1994 or 1995 onwards.

The relationship between successful transition and democracy has been mutually reinforcing. The democratic system encouraged the politicians to respond positively to popular pressures for livestock privatisation or for allowing the informals to flourish. The contribution of these economic stabilisers to halting and then reversing the decline in living standards during the mid-1990s helped to strengthen democracy, encouraging people to vote for reformers in June 1996 and for a more circumspect view of the need for social protection in May 1997.

The positive assessment does not mean that all is plain sailing for the next decade. Financial reform and the exchange rate regime require further action; these are difficult areas for all countries, and there are no universally accepted prescriptions. The budget deficit, considered manageable by the IMF (1999, p. 7) at 8.5% of GDP in 1997, widened substantially in 1998–99 (Table 1).

The coping mechanisms also need transformation. The informals need to be gradually incorporated into the formal sector if public administration, such as collection of VAT, is to function smoothly. The growth of the herds has put pressure on the pasture lands. The coal stoves of the *gers*, as well as the exhaust from cars, many of which are used vehicles imported by informals, contribute to Ulaanbaatar's growing urban pollution. Economic inequality has increased, in part due to successful entrepreneurs in the informal sector and the widening wealth differentiation of herding families. The democratic regime may be a good vehicle to deal with these problems, but that is a question for post-transition Mongolia.

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¹ The Mongolian Statistical Office publishes slightly different figures, with a poverty rate of about 25% at the end of 1997, but there is agreement that the incidence of poverty increased during the 1990s. The UNDP estimates that 70% of the poor are children or adolescents and that in 1997 around 4000 children were living on the streets, 60% of them in Ulaanbaatar (UNDP, 1997, p. 25). The issue was highlighted in November 1998 when a crackdown on homeless youth found 312 'manhole children', including escapees from the children's prison and a one-month-old baby, living by the pipes of Ulaanbaatar's underground heating system, emerging occasionally through the manholes in the streets (*Mongolia Update 1998*, UNDP Ulaanbaatar, p. 18).

² Mongolian government statistics quoted in Mongolian Development Research Center, *Economic Intelligence Report, Occasional Papers N. 1*, Ulaanbaatar, June 1998, p. 11.

³ The post-1990 election results and voter turnout are summarised in UNDP (1997, p. 59). The Communist Party's successor won a landslide victory in the 1992 parliamentary elections but lost the 1996 parliamentary elections. Its candidate won the 1997 presidential election.

⁴ Pomfret (1993, pp. 5–7 or 1996, pp. 84–87) provides examples of government regulation of prices in order to alleviate the short-term impact of price increases.

⁵ Secondary trading did not begin until August 1995. Corporate governance remained a major problem throughout the 1990s, as lack of transparency in accounting or disclosure rules prevented the stock market from playing a role in promoting good management.

⁶ The \$250 million in soft loans and grants committed at the 1997 donors' meeting was equal to the annual state budget revenue. The actual budget equation in 1997 worked out at a deficit equal to 8.5% of GDP, offset by aid disbursements equal to 12% of GDP, so that the net domestic financing requirement was a negative 3.75% (IMF, 1999, p. 10).

⁷ Cashmere and gold also accounted for substantial export shares, adding to volatility when prices of all three commodities fell in 1998 (see Table 1). The growth of cashmere and gold output was, however, related to the reform process as much as to initial endowment, as annual output of both grew rapidly to about 2200 tonnes of cashmere after the repeal of the export ban in July 1996 and to 8.9 tonnes of gold in 1997. The prospects of oil exports in the next decade (*Mongolia Update 1998*, UNDP Ulaanbaatar, p. 7) will add to growth and volatility. Oil exports to China started on a small scale in 1998.

⁸ The most controversial of these was the ban on raw cashmere exports. After the ban was lifted in 1996 several small and medium-size cashmere factories closed down.

⁹ Occupants living in their flat prior to October 1996 received the property free, while others paid, with reduced prices for pensioners.

¹⁰ Financial sector problems were highlighted when the first private bank, the Central Asian Bank, established in 1992, went into liquidation in September 1996. In December 1996 the government initiated closure proceedings on two of the 14 remaining banks (the People's Bank with losses of 17.4 billion togrogs and the Mongol Insurance Bank with losses of 5.9 billion togrogs) and transferred deposits to three new state-run banks (the Savings Bank, the Reconstruction Bank and the Loan Repayment Service). That these were only stop-gap measures was revealed by the 1998 problems of the Reconstruction Bank described below.

¹¹ The secret Mardai uranium mine, which opened in 1981 as a planned community for 25 000 people in an isolated region, stopped production in 1991 with the collapse of the USSR, was reopened in 1997 after a Canadian mining company injected \$6 million into the facility, but then ceased paying wages after the Canadian firm pulled out in late 1998 as the price of uranium dropped to record lows ('Tough Times in Uranium City', *UB Post*, 23 March 1999, p. 1).

¹² The UNDP (in *Mongolia Update June 1997*) estimated that 60% of Ulaanbaatar's 580 000 people lived in *gers*. Eighteen months later *Mongolia Update 1998* reported unofficial estimates of Ulaanbaatar's population 'as high as one million' (p. 39), which if true casts doubt on the urban-rural migration statement in the text.

¹³ Another manifestation of risk aversion was the widespread formation of voluntary cooperatives. The *khorshoo* differed fundamentally from the *negdel* in that its members were explicitly seeking independence from the local administration through self-help.

¹⁴ Poor maintenance of wells has also led to excessive grazing around the available watering points.

¹⁵ Proposals in spring 1997 to increase the vehicle tax and the flat rates under the Informal Sector Income Tax Law sparked a popular revolt. Anderson (1998, p. 23) estimates that, under the proposed tax of 14 000 togrogs per month, 9% of kiosk operators would be below the poverty line and 92% would be paying more than if they were subject to the (formal sector) Citizens' Income Tax Law.

¹⁶ Frye & Shleifer (1997) distinguish between invisible hand and grabbing hand models of how bureaucrats and entrepreneurs interact during transition, with evidence on the basis of surveys of small shops in Warsaw and Moscow that the former model applies to Poland and the latter to Russia. Frye & Shleifer emphasise that in the grabbing hand model government is incapable of providing basic services and private protection replaces public provision of law and order; Ulaanbaatar appears closer to the Warsaw situation, where 6% of respondents paid for private protection, than to the Moscow situation, where 76% did.

¹⁷ Kubicek's assertion that 'authoritarianism in Central Asia may be, on balance, preferable to attempts to introduce democracy into the region' (1998, p. 31) is based on the experience of Uzbekistan, Kazakhstan and Kyrgyzstan. The first two are clearly authoritarian. Kubicek claims that in Kyrgyzstan, the 'bulwark of democracy in the region' according to Al Gore, President Akaev 'saved democracy by resorting to undemocratic methods' in 1994-96 and was only thus able to keep economic reform on track. Bremmer & Welt (1996) view Kazakhstan's slide into authoritarianism as a necessary response to the delicate ethnic balance, but once President Nazarbaev embarked on this path concern for state stability was transformed into concern for the President's own political longevity and 'a solid undemocratic foundation' was laid. Abazov (1999), analysing Kazakhstan's January 1999 election results which legitimised an authoritarian presidency, approvingly compares the evolution of Kazakhstan's political system to Guillermo O'Donnell's concept of technocratic delegative democracies in Latin America and to Gaullist France. Matveeva (1999) also describes the authoritarianism in the five Central Asian countries, but is sceptical of the governments' ability to deal with mounting problems unless they achieve greater legitimacy through democratisation.

¹⁸ On the day I flew into Ulaanbaatar in March 1999 the press headlines dealt with new developments in the murder case of an MP stabbed to death in October 1998, a bribery case surrounding an MP supporting the casino bill, and allegations of another MP's attempted rape of a journalist. Another story covered the sacking of the Agricultural Ministry State Secretary in connection with the disappearance of \$500 000 from the proceeds raised by the sale of US wheat aid donated in 1997. Many

of the press's reports are unsubstantiated allegations unfettered by libel legislation, but it is widely believed that the murder was politically motivated. Shortly before, in October 1998, another MP was in hospital with serious head injuries after a bar-room brawl with a political opponent.

¹⁹ Indeed the VAT rate was higher than originally envisaged. A 10% VAT was introduced on 1 July 1998, but the higher rate was approved in August and became effective on 1 September (IMF, 1999, pp. 11–12).

²⁰ The IMF (1999, p. 9) estimated a current account deficit equal to 12% of GDP in 1998, in contrast to a small surplus in 1997.

²¹ The 1996–98 governments saw growth as the primary anti-poverty instrument. The new government agreed with this, but wanted to reinstate social safety net measures which it claimed had been allowed to lapse. The 1996 government had espoused a market-driven development strategy, symbolised *inter alia* by abolition of the National Development Board, which had been the main economic development policy coordination office, directly under the Prime Minister. The new government argued that a clear strategic focus was necessary for aid coordination, and deplored the tendency for MPs to support projects favouring their own constituencies and for competition among ministries (e.g. between the Ministry of Finance and the Ministry of External Affairs for influence over international economic matters, including aid).

²² The problems were exacerbated by the decline in Mongolia's export prices which fed through the financial system and the real economy. Both the copper and coal mines subsidise the Energy Authority by paying high energy prices and the railways reduce power stations' costs by cross-subsidisation through high freight rates for copper and low rates for coal; with the decline in the railways' revenue from copper transport and the copper mine's non-payment of bills due to the Energy Authority, the Energy Authority ran into difficulties supplying residential and other customers. There were also well-publicised banking irregularities, e.g. the Investment and Technology Innovation Bank held large amounts of non-clearing funds but was also found to have diverted to private accounts substantial deposits made as tax payments; see the press statement by the Prime Minister, 'National Conciliation and Harmony is Vitally Important', 4 March 1999.

²³ Even on such a potentially contentious issue as large-scale privatisation there is remarkable consensus. Successive governments have tried to sell the State Department Store and the high-rise Ardyn Bank Building in Ulaanbaatar, but have been frustrated by lack of decent bids. MIAT airline, the Gobi cashmere factory and the state petroleum company are on all agendas for privatisation, and the desirability of buying out the Russian share of the Erdenet mining combine (a joint-venture from the Soviet era) is widely accepted as a prelude for privatisation. Land privatisation, advocated by the Democratic Coalition in 1996, is now recognised on all sides as appropriate for arable land but not for pasture land.

²⁴ The party also passed a resolution expressing 'deep regret' for the 'tragic' purges of the 1930s and 1940s in which tens of thousands of Mongolians died.

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