

THREE ASPECTS OF ECONOMIC TRANSITION: THE CASE OF MONGOLIA

Dissertation

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By

Dari Khongorzul
Ritsumeikan Asia Pacific University

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ABSTRACT

In the last two decades, an increasing amount of research has been devoted to the study of transition countries of the Former Soviet Union. The Mongolian transition process, however, has been largely neglected. This study intends to fill this gap in the literature by examining the transition pattern of the Mongolian economy.

In the first part of the dissertation, I study the factors contributing to a social-political and economic transformation through a historical analysis of pre-communist and communist Mongolia. It also considers the policies that were applied, the reasons for the country's success or failure, and Mongolian economic performance in comparison to the other Central Asian transition countries. In particular, it focuses on output performance, privatization and liberalization policies, state-owned enterprises, foreign direct investment, determinants of inflation, problems of economic management, growth and diversification of trade, trade reform, and exchange rate policy.

The results of the first part show that Mongolia reformed rapidly, and has been fairly successful in its transition despite starting with economic crises. Comparison with other Central Asian transition countries suggests that Mongolia compares favorably with the CIS countries in the region. Despite external shocks and some less than successful policy implementation, inflation rose less rapidly, output declined less sharply, and the first positive GDP growth appeared earlier.

The second part examines small and medium enterprise issues and developmental barriers for SMEs. This section examines the proposition that lease financing might play a significant role in overcoming SME financing problems. Through two-phase interviews and surveys, a model was developed to demonstrate the position of lease financing providers in the SME financing market, and a survey was implemented based upon a sample of 160 SMEs. The results of the study support the suggestion that Mongolian small and medium sized firms have the potential to be a driving force behind the Mongolian transition process. However, most SMEs have problems in obtaining financing for both working capital and equipment investment. The survey findings

suggest that lease financing could provide an efficient solution to the financing problems of the SMEs in Mongolia.

The third part of the dissertation investigates empirically the long run relationship between government expenditures and GDP growth, and its effects on the Mongolian economy. Using the data for Mongolia, the study examines the implications of six versions of Wagner's law for the period between 1965 and 2005, using the latest approach from time series analysis. The results of the study indicated a positive relationship between government expenditure and economic growth, and a high level of consistency with Wagner's hypothesis for the Mongolian data.