Connectivity and export diversification

Presentation by Jose Luis Diaz Sanchez
Senior Country Economist for Mongolia, World Bank

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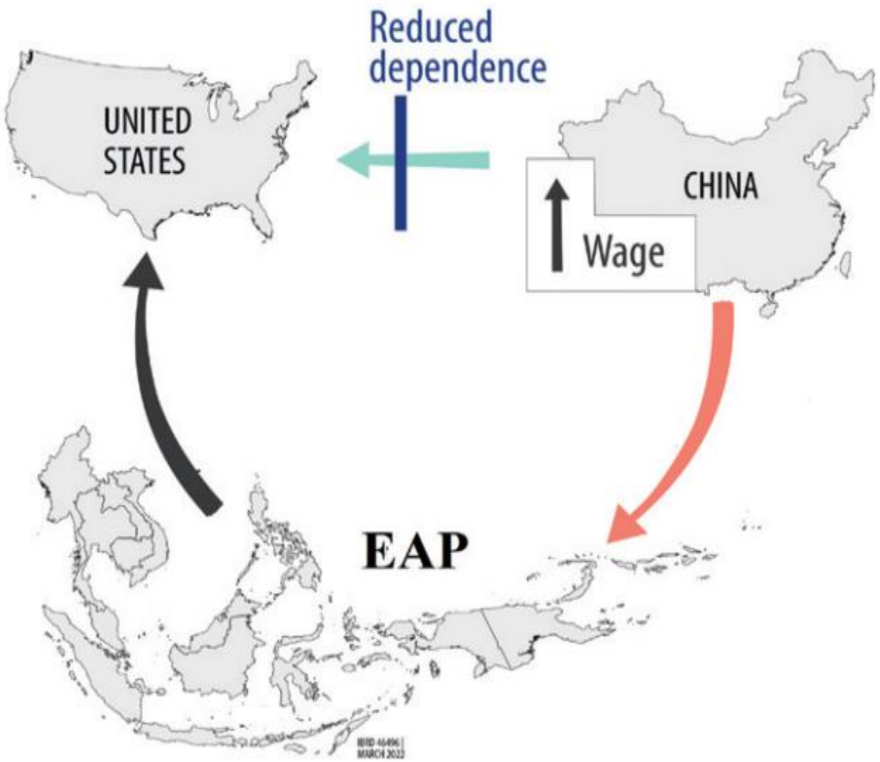
The global outlook and trade are facing multiple challenges

- The pandemic has taken a huge toll on economic growth, global value chains, and the policy space to support the economies;
- China’s Zero-Covid policy amplifies the risks through border closures and supply disruptions;
- The prolonged war in Ukraine further complicates the story with high energy prices, supply disruptions, food insecurity, inflation and heightened policy uncertainty.

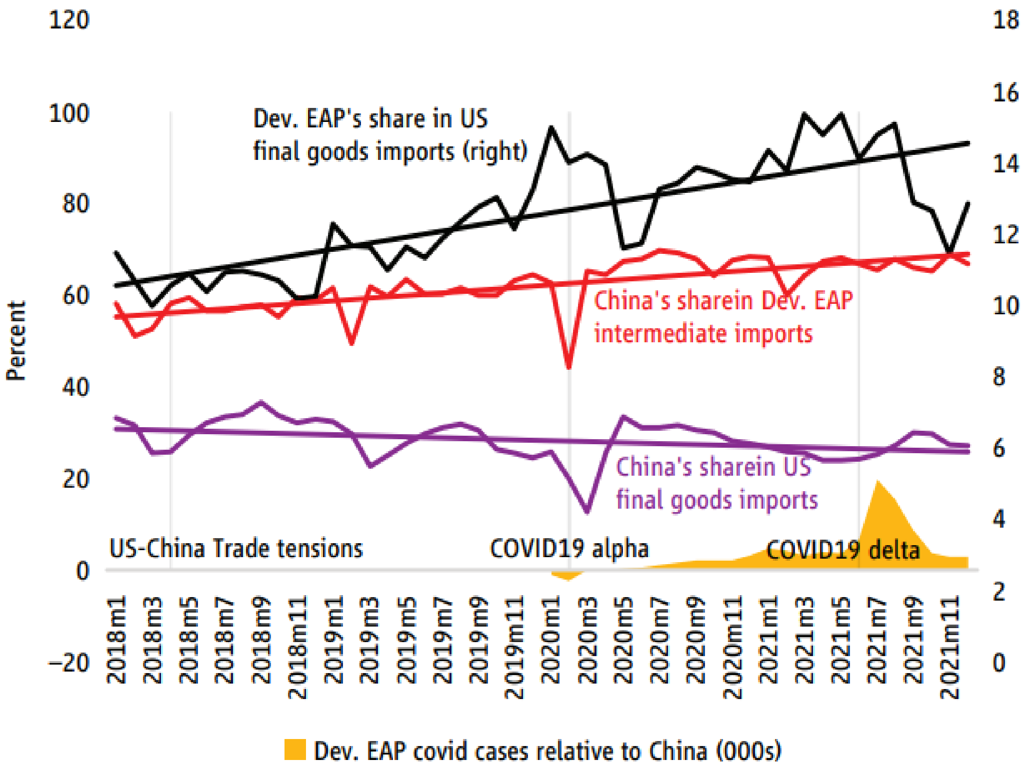
Direct trade between China and USA declining and the EAP needs to adapt to changing trade landscape

<u>US-China direct trade declines and China is becoming a growing source of value added in EAP's exports</u>



Source: World Bank, EAP Update, April 2022

<u>As China's share of US final goods imports fell, the rest of EAP's share rose</u>



Source: World Bank, EAP Update, April 2022

Mongolia's trade has been limited in both trading partners and export diversification

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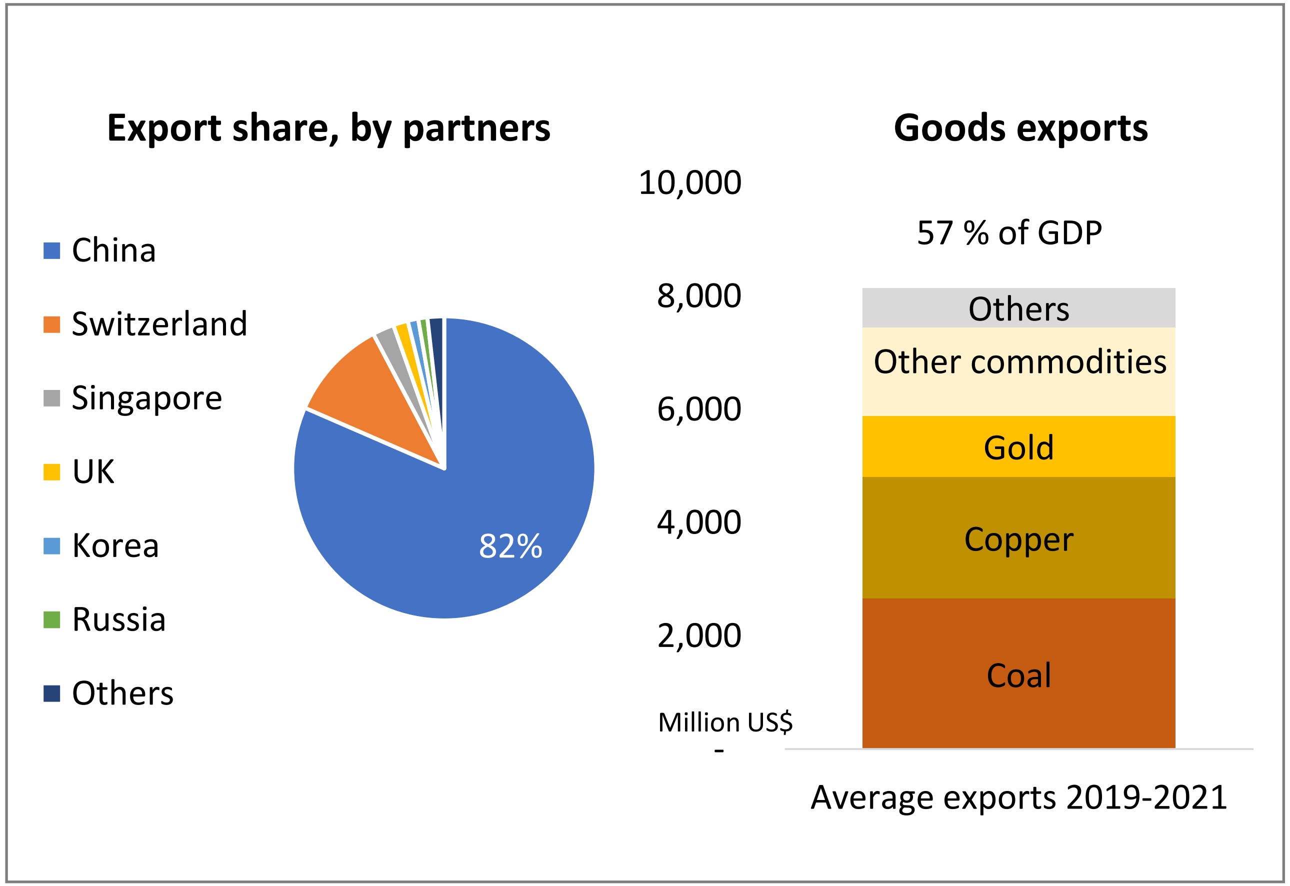
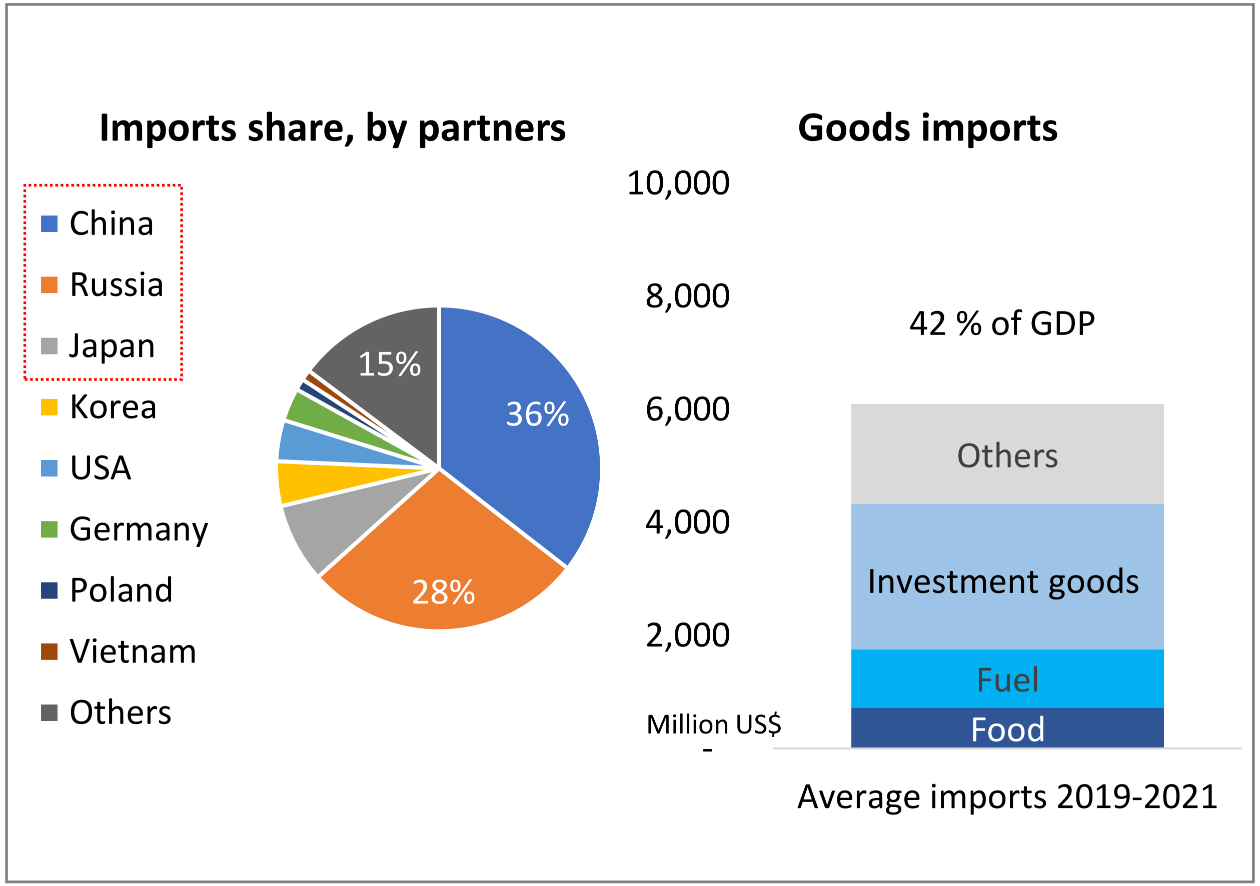
A net commodity exporter (mainly copper and coal to China)



Net importer of energy, food, and investment goods from China and Russia



Source: Customs.

Mongolia’s current trade features presented a significant disadvantage during the recent external shocks

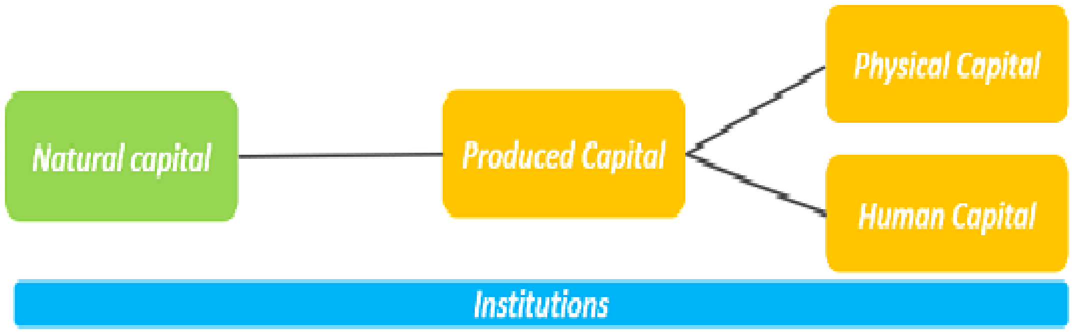
- The recent external shocks have created large balance of payment pressures.

- More diversified and sophisticated exports and trade partners can help Mongolia be more resilient in the face of global shocks and achieve Mongolia’s trade potential.

- There is room to leverage existing trade agreements with China and Russia but also with other large Asian economies including South Korea and India, as bilateral trade with these countries is below its potential.

To be able to diversify export destinations and products, Mongolia first needs to diversify its assets

Diversification of assets

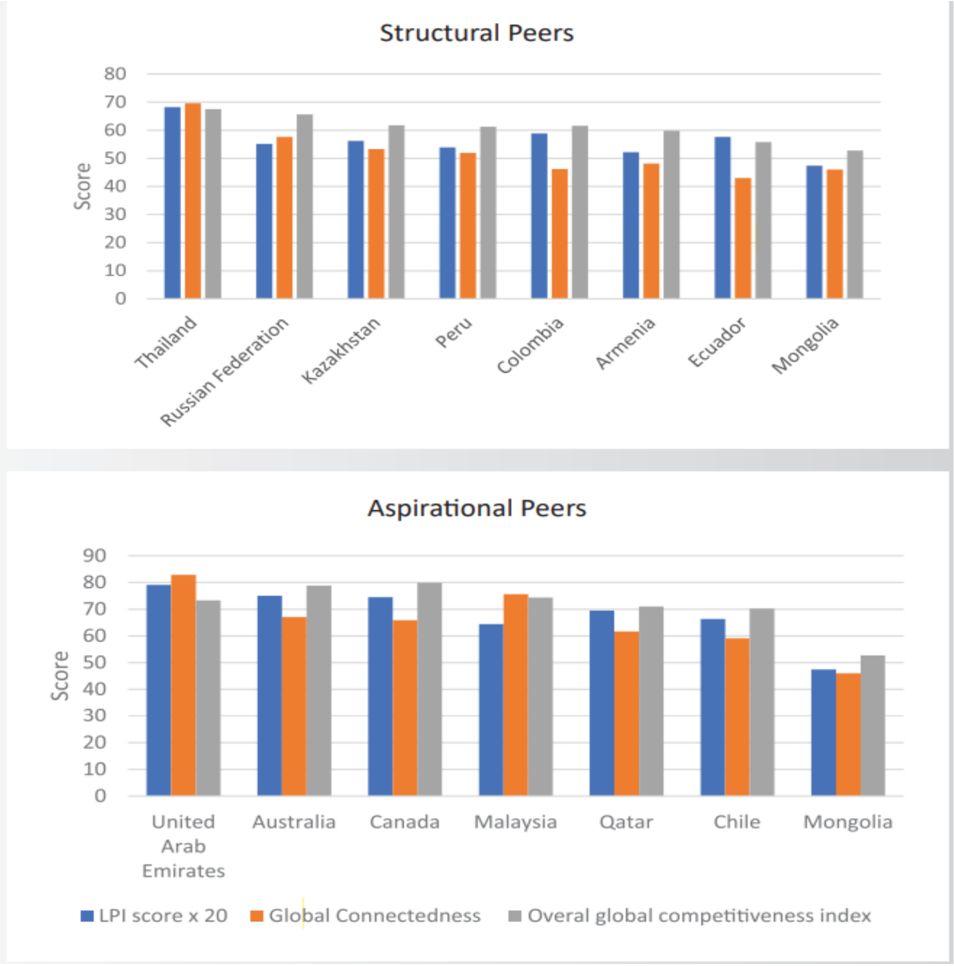


- The “Diversifying Development” framework (World Bank, 2014) suggests that countries should focus on diversifying their national assets portfolios, that is to ensure a better balance between natural resources, produced capital and economic institutions (including trade policies).

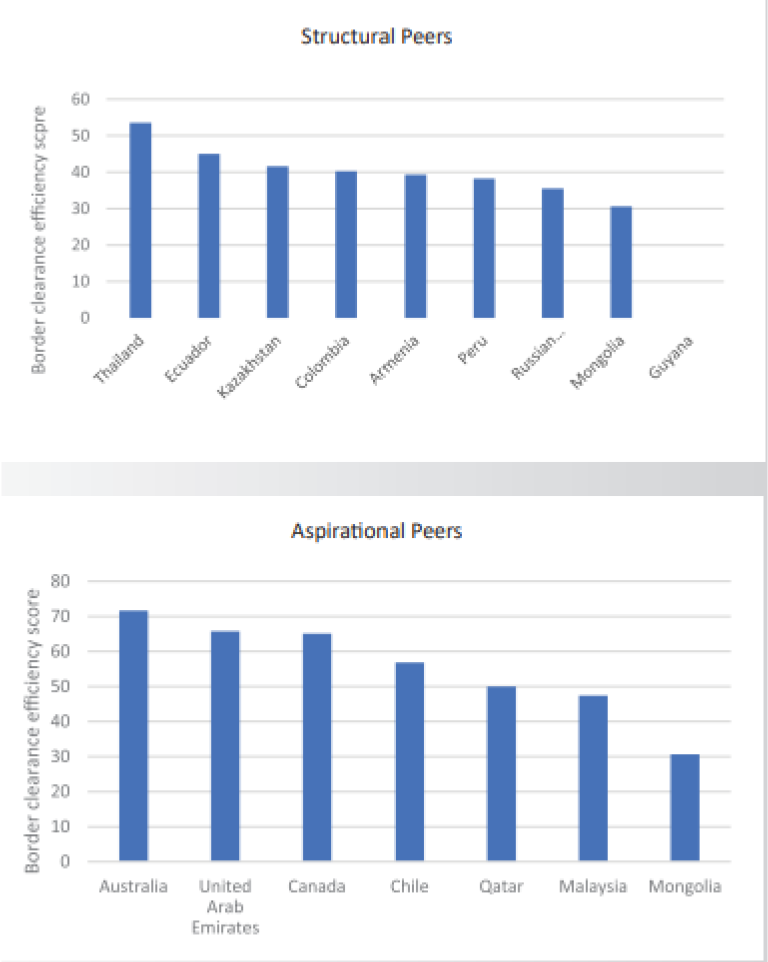
- Physical capital/infrastructure (critical to improving connectivity) is only one of the assets (although a very important one) that Mongolia will need to develop to be able to increase its assets to diversify its exports.

Connectivity issues put Mongolia in a disadvantageous position…

Mongolia compares poorly on logistics and connectedness



Performs weaker in terms of border clearance efficiency



Source: Mongolia InfraSAP, World Bank, 2018.

… and are hindering exports of goods and services

Transport sector:

Mongolia has poor physical connectivity, because of a combination of infrastructure gaps and inefficient cross-border processes that contribute to delays in the movement of goods.

Digital sector:

Mongolia ranks 62 (out of 63 countries) in the 2022 IMD World Digital Competitiveness Ranking which measures the capacity and readiness to adopt and explore digital technologies as a key driver for economic transformation.

However, Mongolia has high network coverage compared with its peer countries, and given its unique geographic location, it provides one of the fastest transit routes for international bandwidth broadband services between Asia and Europe.

Identifying constraints to trade diversification

- Previous World Bank analytical work already identified some of these constraints (InfraSap, 2020; Country Economic Memorandum, “Mines and Minds”, 2020).

- An ongoing World Bank study aims to identify opportunities and binding constraints for trade diversification and sophistication.

- More specifically, it is expected to identify reforms (i) that would promote domestic value-added in exports and lower non-tariff barriers to leveraging existing trade agreements, and (ii) identify potential export markets and products (e.g. ICT sector).