



Economic and Social Commission for Asia and the Pacific

## Foreword by the ESCAP Executive Secretary: Dr. Noeleen Heyzer



*It* gives me great pleasure to launch herewith a periodic newsletter on the activities of the ESCAP Subregional Office for East and North-East Asia (SRO-ENEA). The Office, which opened on 17 May 2010, is the first of three additional Subregional Offices that have been established to strengthen ESCAP's ability to focus on priorities in each of its very diverse geographic subregions. By integrating a subregional, geographic approach into its thematic work, ESCAP is better placed to provide services to our Member States in addressing development challenges and towards promoting knowledge-sharing and stronger subregional and intra-regional cooperation.

The new ESCAP office is located in the centre of the fastest-growing economic region in the world. With two of the three largest economies in the world, East and North-East Asia has a population of 1.56 billion. It will remain a vast engine of growth for the world for decades to come, and it will be a global leader in ensuring stability and security. And as a global leader, the subregion has already taken on the task of identifying solutions to address the social disparities and environmental challenges and to mitigate the impact of natural and manmade disasters that occur all too frequently in East and North-East Asia. ESCAP looks forward to working with all Member States, and especially those of the Subregion, in achieving these critical goals.

This Newsletter serves three purposes:

First, as a knowledge-sharing platform, addressing issues of a global and common nature, and providing the opportunity for stakeholders to express their own perspectives, identify best practices and share experiences gained.

Second, it seeks to provide an assessment of development

gaps to reorient the development paradigm towards enhancing economic complementarities and opening up opportunities to expand and deepen a wide range of economic relations in the subregion. Economic cooperation among the East and North-East Asian countries flows from their geographic proximity as well as from their country-specific economic and social development objectives. This powerful, resourceful and vast subregion offers many opportunities for stronger collaboration with all stakeholders and for further complementarities in addressing socio-economic challenges. In doing so, the subregion can harness its full potential to become a powerful driver of change not only for the entire ESCAP region but also as a globally recognized force through strengthening south-south cooperation.

Third, the newsletter seeks to explore feasible policy options that can help reduce disparities among member countries and make their development more inclusive and sustainable - a process that governments, the private sector, civil society organizations and communities at large are struggling with. All countries wish to improve the quality of their economic growth and increase income security for the population. At the same time, they all face serious ecological and social equality challenges. To achieve these goals and overcome these challenges are critical parameters in the promotion of sustained growth and social development.

I hope that you will come to find this newsletter useful in keeping you informed on pressing matters of development policy and I hope you will pass it on to others, as well.

Noeleen Heyzer

Under-Secretary-General of the United Nations and  
Executive Secretary, United Nations Economic and  
Social Commission for Asia and the Pacific

*"Towards a people centered sustainable development agenda"*



## SRO-ENEA Newsletter: Issue 2010/1 ESCAP Serving East and North-East Asia



In the inaugural issue of this Newsletter, we feature the only landlocked country in East and North-East Asia: **Mongolia**. The impact of the recent financial crisis highlighted Mongolia's vulnerability to external shocks. The financial crisis that started in 2008 badly affected the Mongolian economy through different channels including increasing trade and current account imbalances, rising inequalities, and widening infrastructure and other development gaps. These effects in turn reduced employment, capital inflows and government revenue, thus limiting policy options to address structural impediments to development. This edition of the

newsletter outlines some of the challenges that remain, such as trade and transport infrastructure and some of the policy options that may help prevent or mitigate the impact of future crises.

This newsletter is a concrete manifestation of the concerted efforts of ESCAP to use knowledge and experience sharing as drivers of change at both regional and subregional levels. We welcome viewers' comments on both content and format and look forward to providing you with meaningful tools to further advance the cause of all people.

**Peter Van Laere**  
Director, SRO-ENEA

## FOREIGN TRADE

The case for subregional cooperation to boost trade and transit is evident when considering that almost 80% of Mongolia's trade is with its four subregional neighbors: China, the Russian Federation, the Republic of Korea, and Japan. Moreover, Mongolia could be an important transit country in intra-regional trade between its neighbors. Currently, the main transit routes for products going through Mongolia's border points are northern border with the Russian Federation and southern border with China. The economy has access to 6 ports in the Russian Federation and one port in China. Mongolia has the potential for development into a "land bridge" between energy-rich Russian Federation and energy-deficient subregional economies with its high potential for manufactured and agricultural exports.

Mongolia has a foreign trade with more than 110 countries. However, the major trading partners of Mongolia are its neighboring economies, namely those of China and the Russian Federation (Figure 1 and 2). The transit related costs of overseas goods through the territory of these two neighboring countries accounts for one-third of total transport costs of Mongolia. The economy is heavily



dependent on commodity exports, notably copper, gold and cashmere. Mineral products, of which copper concentrate was the largest single item, accounted for more than 60% of total export earnings in 2009 (Figure 3). Imports play an important role in the Mongolian economy as evidenced by the fact that most industrial products and consumer goods are imported from other countries. The main import items are machinery, minerals products, transportation equipment as well as textile and textile articles (Figures 4). In 2009, China was the largest source of import supplying 36% of total imports, followed by the Russian Federation with 31.5% and the Republic of Korea with 7.1%.

Tapping into the full potential of subregional trade is not easy to achieve but it is worth the effort, considering that prosperity generated by trade can contribute to economic and social development in each country. In fact, trade within East and North-East Asia and between it and Mongolia is still hampered by several physical and non-physical barriers: complex and opaque trade policies, weak border management/high costs from border delays, visa requirements, detours when crossing borders and clearing customs, poor transport infrastructures. In accordance with



## The Need for Improvement of LLDCs' Analytical Capability: International Think Tank for LLDCs

In 1776, Adam Smith observed that the inland parts of Africa and Asia were the least economically developed areas of the world.<sup>1</sup> Much later today we can still see a stark picture for most of the landlocked developing countries. The LLDCs have been looking for solutions that would help overcome the difficulties caused by their inherent development handicap. Since the physical and historic realities could not be changed, the only remedy, naturally, lies in human-induced policy measures. Policy measures of not only the LLDCs themselves, but also of the transit countries and bilateral and multilateral donors. Not only individual measures, but also collective actions of the international community.

Until recently, the challenges faced by the LLDCs were largely ignored. There were no collective responses. That was changed by the Almaty Declaration and the Program of Action of 2003. This was the first time the United Nations family did acknowledge seriously the need to address the LLDC issues internationally. In this drive, the Group of Landlocked Developing Countries in New York played a decisive role and carried out numerous important activities to mobilize political support and raise awareness at the United Nations. Mongolia was one of the pioneers to organize and lead the Group since 1994.

The idea of a need to improve the analytical capability of the LLDCs through establishing an international think tank was first presented by the President of Mongolia<sup>2</sup> at the

First Summit of the LLDCs in Habana in 2006. The proposal was further developed in his speech at the LLDC Trade Ministers' Meeting in Ulaanbaatar in 2007 which specifically invited LLDCs to set up the Think Tank in Ulaanbaatar. Numerous decisions and resolutions by and for the LLDCs were adopted during 2007 and 2009. The 65<sup>th</sup> session of ESCAP that took place from 23-29 April 2009 unanimously adopted a full-fledged resolution<sup>3</sup> in support of establishing the Think Tank in Ulaanbaatar which is considered a landmark step forward in promoting Mongolia's initiative.

As a follow-up to these decisions, the International Think Tank was inaugurated by the United Nations Secretary-General, H.E. Mr. Ban-ki Moon and the current Prime Minister of Mongolia, then Foreign Minister, H.E. Mr. Sukhbaataryn Batbold, on 27 July 2009 in Ulaanbaatar. The Foreign Ministers of the LLDCs at their 9<sup>th</sup> Meeting in New York endorsed the Multilateral Agreement on the establishment of the International Think Tank for the LLDCs in Ulaanbaatar as an intergovernmental body.

With this important decision, the International LLDCs Think Tank now becomes a reality, internationally and operationally. The Think Tank is now looking for ways and formats of cooperation with various institutions that have common interests and cross-cutting issues that will help all stakeholders actively and efficiently collaborate.

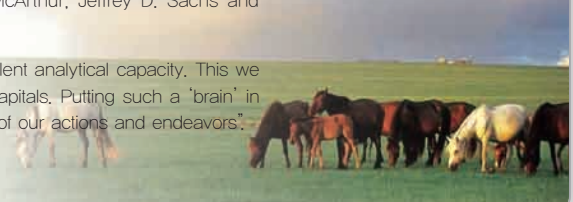
**By Dorjpalam Gerel,**

Ambassador of Mongolia in Seoul

<sup>1</sup> The Challenges Facing Landlocked Developing Countries, Michael L. Faye, John W. McArthur, Jeffrey D. Sachs and Thomas Snow; Journal of Human Development, Vol.5, No. 1, March 2004

<sup>2</sup> "If we want to maximize the efficiency of our coordinated efforts we should have an excellent analytical capacity. This we believe could be reached through establishing an international think-tank in one of our capitals. Putting such a 'brain' in place we could build optimal strategies on any matter of our interest and avoid duplication of our actions and endeavors."

<sup>3</sup> ESCAP Resolution E/ESCAP/65/6 of 25 April 2009



the Logistic Performance Index (LPI) Survey conducted by the World Bank in 2010, Mongolia was ranked 141st out of 155 countries in terms of efficiency of the clearance process, quality of trade and transport related infrastructure, ease of arranging competitively priced shipments, competence and quality of logistic services, ability to track and trace consignments,

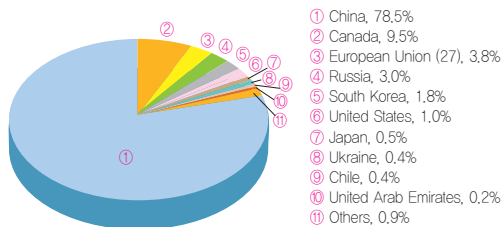
timeliness of shipments in reaching destination within the scheduled or expected delivery time. In 2009, the global Doing Business project ranked Mongolia 155th out of 183 countries in trading across borders.

At present, Mongolia has bilateral transit transportation agreements with China, Democratic People's Republic of Korea,



**Figure 1**

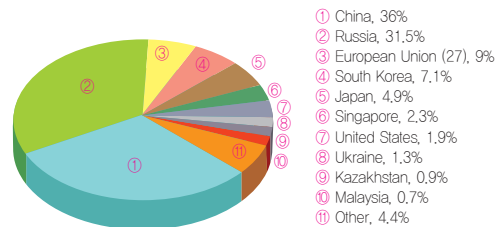
**Structure of Export Commodities by Country, 2009**



Source: European Union Commission, Trade statistics: Mongolia, 2009, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113420.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113420.pdf)

**Figure 2**

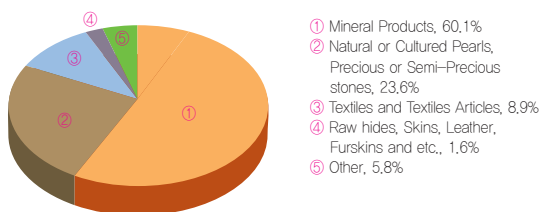
**Structure of Import Commodities by Country, 2009**



Source: European Union Commission, Trade statistics: Mongolia, 2009, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113420.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113420.pdf)

**Figure 3**

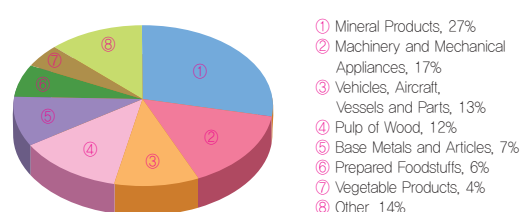
**Structure of Export Commodities by HS Heading, 2009**



Source: Embassy of Mongolia, Belgium: Trade Turnover, 2009, <http://www.embassyofmongolia.be/?q=node/121>

**Figure 4**

**Structure of Import Commodities by HS Heading, 2009**



Source: Embassy of Mongolia, Belgium: Trade Turnover, 2009, <http://www.embassyofmongolia.be/?q=node/121>

and the Russian Federation which facilitate the access of Mongolian goods to seaports and set special custom's warehouse or terminal zones for the purpose of storage, transit, grouping and other operations for goods of the landlocked country. However, there are needs to establish a clear subregional trade framework and to harmonize border regimes and customs procedures in order to guarantee a reliable and safe environment for trade to flourish in the whole subregion. A further step in this direction could be the establishment of

*(cont'd on page 6)*

## A LAND BRIDGE IN EAST AND NORTH-EAST ASIA

Among the East and North-East Asian economies, Mongolia is the only landlocked developing country (LLDC) in the subregion. ESCAP gives high priority to the LLDCs and their special needs through implementation of the Almaty Programme of Action (see Box on pg.5).

The global financial and economic crisis highlighted the vulnerabilities of the LLDCs, including Mongolia to external shocks. The economy of Mongolia, for example, is relatively less integrated with the world economy. However, it experienced a sharp drop in economic growth in 2009. The crisis largely impacted the country through trade channels, with a plunge in import demand from developed countries and a decline in exports. Low commodity prices for its principal exports also contributed to the sharp deceleration. In 2010, Mongolia is expected to regain what was lost in the economic crisis and contribute to a faster-than expected recovery in the East and North-East Asia. Notwithstanding its landlockness, the country could play a leading role as a land bridge in the subregion owing to its strategic geographical location.

**Eugene Gherman**

Deputy Director & Senior Economic Affairs Officer, SRO-ENE



## The Almaty Programme of Action

**“Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries”**

*This* Programme was adopted at the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation held in Almaty, Kazakhstan in August 2003.

The Programme aims to establish a global framework for action for developing efficient transit transport systems in landlocked and transit developing countries, while taking into account the interests of both. The Programme of Action thus seeks to:

- (a) secure access to and from the sea by all means of transport according to applicable rules of international law;
- (b) reduce costs and improve services in order to increase the competitiveness of those countries' exports;

- (c) reduce the delivered costs of imports;
- (d) address problems of delays and uncertainties in trade routes;
- (e) develop adequate national networks;
- (f) reduce loss, damage and deterioration en route;
- (g) open the way for export expansion, and;
- (h) improve the safety of road transport and the security of people along the corridors.

Of the 30 landlocked countries in the world, 12 are located in the ESCAP region, including Mongolia. Hence, ESCAP has been proactive in supporting the implementation of the Programme's goals in the areas of transit transport policy and infrastructure development.

### ESCAP SUPPORTS



#### Transit Transport Policy and Infrastructure development

- (1) Adoption of the Intergovernmental Agreement on the Asia Highway Network; And the Trans-Asian Railway Network
- (2) Preparation of a map of road and rail networks for the Special Programme for the Economies of Central Asia (SPECA), and;
- (3) Development of an integrated international intermodal transport network in Asia.



#### International Trade and Trade Facilitation

- (1) Assist landlocked developing countries in acceding to the World Trade Organization (WTO);
- (2) Provide easier access to markets for the exports of landlocked developing countries and transit development countries, and;
- (3) Streamline and harmonize trade information flows through electronic one-stop systems, known as “single window” systems.



standards for the electronic transmission of trade related data. While a common use of the same platform would be optimal, the implementation of an electronic system for the transmission of trade related data in each country of the subregion, harmonizing the standards and codes on which those systems are based and aligning them to international standards, would be a significant step forward.

## INFRASTRUCTURE

*Cross*-border transport infrastructures in Mongolia have suffered from inadequate physical conditions, weak institutional and productive capacities, small domestic market, high vulnerability to external shocks, and remoteness from maritime ports. The distance to the closest sea ports in China (Tianjin) and the Russian Federation (Vladivostok) are 1,700 and 3,800 km respectively. The transport infrastructure of the country is limited and that is a significant constraint on economic capability and business. Therefore, improving trans-border infrastructure is fundamental for both developing a transit, transportation and logistics sector in Mongolia and opening new transport corridors in the subregion.

Mongolia has about 50,000 km of roads. Most roads are gravel or dirt tracks and there is only one paved corridor from Ulaanbaatar to the border with the Russian Federation. However, this paved road is in poor condition and rapidly deteriorates due to the harsh winters and it can be repaired only in warmer summer months. In spite of high road usage in Mongolia and growing vehicle ownership, the quality and quantity of roads remain at a constant low level. The road transport sector faces two main issues. Firstly, there is a lack of funding, apart from major projects being implemented within the country with technical and financial assistance of international agencies. Secondly, the existing road transport system does not meet both domestic and foreign demands. In order to satisfy these needs, the National Transport and Trade Facilitation Committee of Mongolia has approved and

is implementing several road projects, including building of new roads between Ulaanbaatar and the Chinese border and between the Russian and Chinese borders in the west of the country through the city of Khovd to improve transport links with North and South Asia with the financial assistance provided by ADB and the Export Import Bank of Korea<sup>1</sup>. These projects are also carried out as part of the Asian Highway network being established across the region.

As far as rail is concerned, the railroad system within the country is one of the key modes of transport available for trade. Currently the railway system, called "Ulaanbaatar Railway", accounts for nearly 95% of freight turnover within Mongolia<sup>2</sup>. This main line is a continuation of the Trans-Siberian railway with a single track system that uses the 1,520 mm gauge track and terminates in Beijing. Due to the need to change gauges on Chinese railroads, there is currently a gauge break system at the Mongolian-Chinese border. Also in China, cargo destined for Mongolia is restricted to a single rail carrier (Synotrains). China has been playing a major role in rail infrastructure development in Mongolia aimed at facilitating trade between the two countries. China plans to provide investment into construction of a new railway line connecting the main line with the Gobi and the East regions of Mongolia. The extension is needed to expedite socio-economic development of the Gobi region where huge mineral resources were discovered and a new industrial zone named "Sainshand-mining, metallurgy, and energy complex" is expected to be created.

The biggest freight movement within Mongolia is transit freight. Currently China imports about 10 million tons of crude oil per annum from the Russian Federation via Mongolia. The import of hydrocarbons is expected to rise significantly as China's oil demands will increase to about 33 million tons by 2015. Since sea ports in China become heavily congested and an alternative land route for imports of oil may be required, container rail traffic is expected to increase.

A major challenge to develop an adequate railway system

<sup>1</sup> A. Togosbold, "Recent Progress, Status of Development and Operation of the International Intermodal Transport Corridors in Mongolia", Ministry of Road, Transport, Construction and Urban Development of Mongolia, [http://www.unescap.org/tidw/cp\\_pm/TIS/CorridorStudy/EGM\\_files/Mongolia\\_CountryPaper.pdf](http://www.unescap.org/tidw/cp_pm/TIS/CorridorStudy/EGM_files/Mongolia_CountryPaper.pdf), accessed 6 September 2010.

<sup>2</sup> Mongoliana, "Railway transport in Mongolia", <http://www.ub-mongolia.mn/facts-mongolia/economy-mongolia/railway-transport-in-mongolia.html>, accessed 9 September 2010.

in Mongolia is the lack of competitiveness resulting in poor services as clients have no choice but to use the services of the only railway company. The railway system covers only the central Mongolian corridor and a small area in the North-East of the country. The railway system has not been upgraded since the beginning of 1990's. Most users of the railway system within the country complain that border crossings remain most difficult due to a lack of proper transshipment facilities at border stations. The border crossing charges are leveled at 30% of the total transport cost, which is too high for many individuals<sup>3</sup>, on top of which there are further heavy transit costs levied by customs authorities of both the Russian Federation and China. The current customs system is still very slow.

For Mongolia to fulfill its role as one of the land bridges, investment in trans-border infrastructure is indispensable. In particular, the 2005 National programme "Transit Mongolia" aims at "supporting and developing a transit, transportation and logistics sector in Mongolia that is based on real market demands involving active participation from the private sector and foreign investors and making use of the advantage of the country's geographical location".<sup>4</sup>

## THE WAY FORWARD AND THE ROLE OF THE SUBREGIONAL OFFICE

The diversity of the East and North-East Asian subregion enhances economic complementarities and opens up opportunities to expand and deepen a wide range of economic relations in the interest of all countries. Japan and the Republic of Korea are capital and technology intensive economies, China is labour-intensive while Mongolia and the Russian Federation have important natural resource endowments and energy supplies. China as one of the world's fastest growing economies and is the subregion's growth engine. It has deepened its linkages through vertically and horizontally integrated supply chains involving the Republic of Korea and Japan, and increasingly Mongolia and the Russian Federation as natural

resource suppliers. Economic linkages between the Russian Federation and other economies of the subregion are expanding as well.

Being located between the well-established transport systems of the main trading partners, the potential for transit of goods by rail and road of Mongolia is big, as is broader economic cooperation between that and other countries in East and North-East Asia.

Proximity to China's booming economy and to resource endowment of the Russian Federation has given Mongolia a big advantage in its attempts to become the land bridge in the subregion. Roads, railways, and energy infrastructures are fundamental to allow for faster transport and transit of goods and energy resources within the subregion and beyond. In this context, the East and North-East Asian subregion could benefit more from a better managed and regionally coordinated infrastructure. To be effective, the revamping of infrastructure needs of Mongolia needs to be accompanied by the creation of an appropriate legal and regulatory framework that favors cross-border economic activity and encourages private sector development.

The institutional setup provided by the ESCAP Subregional Office for East and North-East Asia offers significant opportunities to develop and initiate cooperative responses to subregional developmental challenges in the countries of East and North-East Asia.

The Subregional Office could provide technical assistance in developing efficient, safe and secure land and land-cum-sea transport links and fostering cooperation in the field of transport to facilitate foreign trade and tourism. Further expected outcomes are the strengthening of national capacities to deal with international transit, including border crossings; the harmonization of national transport legislation developed on the basis of UN conventions and agreements; and the further development of the Geographic Information System (GIS) database. The successful implementation of this multistakeholder projects would contribute to the sustainable economic development of all subregional countries by enabling them to reap the benefits of trade and cooperation.

<sup>3</sup> A. Erdenepurev, "Current Status of Trade and Transport Facilitation and Problems Related to Border Crossings", Ministry of Industry and Trade of Mongolia, [http://www.unescap.org/tid/mtg/mong06\\_ae2.pdf](http://www.unescap.org/tid/mtg/mong06_ae2.pdf), accessed 9 September 2010.

<sup>4</sup> D. Narnapurev, "National Committee on Trade and Transport Facilitation of Mongolia", <http://www.unece.org/trans/doc/2009/wp5/ECE-TRAS-WP5-GE2-02-pres06e.pdf>, accessed 13 September 2010



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