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A new Asian tiger?

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ULAN BATOR, Mongolia.

This, one of Asia's poorest countries, has been an economic laggard relative to most of its Asian competitors. But now the economy has begun to grow rapidly. The question is, can this growth be sustained and perhaps even speeded up?

Mongolia is landlocked in the center of Asia between two powerful neighbors, China and Russia. Though roughly the size of Alaska, it only has 2.6 million people. Traditionally, the Mongols have been nomadic, tending their animal herds along the thousands of miles of Central Asian grasslands. But in the 13th century, under the brilliant leadership of Genghis Khan and his followers, the Mongols came together to conquer almost all Asia, including China and even most of Eastern Europe. The Mongol Empire was short-lived, however, and for the last few centuries Mongolia has been largely dominated by either China or Russia.

After the collapse of the Soviet Union, Mongolia moved rapidly and peacefully from being a communist state to a multiparty, largely free-market democracy. The Mongolians have been careful to maintain good relations with China, Russia and the United States, while being a bit wary about their large neighbors. (Alaskan National Guardsmen now train Mongolian troops, some of whom are serving in Afghanistan.)

SELECTED ASIAN TIGERS				
Country	Current GDP Growth Rate (%)	Per Capita Income (PPP in USD)	Corruption Ranking	Government Spending as Percent of GDP
China	10.5	7,730	70	20.8
Hong Kong	5.7	38,180	15	18.3
India	8.5	3,800	70	16.3
Malaysia	5.9	11,300	44	26.5

Singapore	6.2	31,700	5	14.6
South Korea	4.5	23,800	42	28.1
<i>Mongolia</i>	<i>8.4</i>	<i>2,280</i>	<i>99</i>	<i>41.7</i>

Despite true independence and political freedom, economic prosperity has lagged. As can be seen in the accompanying table, per capita incomes in Mongolia are much lower than the "tiger" economies of Asia. The Mongolian climate, with long, very cold and dry winters, has been too harsh for most agricultural production other than animal herding. The lack of agricultural growing centers and seaports led to an almost total absence of permanent settlements and cities. Only in recent years has the current capital, Ulan Bator, become a sizable city. Almost half of the country's population lives in or near the capital.

Despite its handicaps, Mongolia has a few things going for it. There are extensive mineral resources, notably copper and coal. The mining industry is not only booming, but rapidly expanding due to the current high metal and energy prices. China provides almost an unlimited market for the output of Mongolian mines. However, mining is a notoriously cyclical industry: Countries that bet most everything on it are always regretful during the down cycles.

Tourism also could provide many more jobs and foreign exchange for Mongolia. The scenery is magnificent, with its vast expanses of grasslands and mountains, ideal for tourists who like the wilderness, horseback riding and observing vast animal herds. At least one Mongolian tourist company is building a series of camps with the traditional round felt tents (that outsiders call 'yurts' but Mongolians call 'gers') for foreigners who want a really new vacation experience. Tourists will be able to stay in these surprisingly warm and comfortable gers, ride horses and other animals, and live for a few days like 13th-century Mongol warriors or herdsman. More modern structures, including luxury hotels and golf courses for the less adventuresome, also are being built.

Mongolia is unlikely to ever be a major manufacturing center given its remoteness, high transportation costs and lack of manpower.

But Internet technology may have come to Mongolia's rescue. Most Mongolians are well educated, with almost 100 percent literacy. They tend to be particularly good at languages. Many speak Russian, Chinese and English. (English is now widely taught and a substantial portion of the population has some knowledge of it.) By 2010, it is expected that 60 percent of Mongolians will have access to high-speed Internet.

The Internet enables them to develop and sell a wide variety of services, such as engineering and technical services, consumer support, translation and even specialized financial services. Their wage costs are low, and their technical skills high, which should give them a comparative advantage.

Despite the current boom, Mongolia faces a number of problems. A major impediment to economic growth is corruption. Mongolia ranks 99th on Transparency International's ranking (1 being the least corrupt — Finland; and 163 being the most corrupt Haiti). Mongolia is even perceived to be more corrupt than India and China, which are tied for number 70.

Another major problem is the large size of the government relative to country's level of economic development (41.7 percent). The governments of poorer high-growth countries normally do not exceed more than one-fifth (or 20 percent) of GDP.

Big government causes a serious fiscal and regulatory drag on the private and entrepreneurial sector and, if not corrected, is likely to slow Mongolia's future growth. Mongolia needs even higher growth to catch up.

Mongolia clearly has the potential to become a "new Asian tiger" with sustained economic growth in the 10 percent yearly range, because all its problems are manageable. The government leaders I spoke with seemed receptive to new ideas to both solve the existing problems and take advantage of the opportunities they have. The Mongolians are now largely masters of their own destiny for the first time in six centuries and seem up to the challenge.

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