

Article

# THE IMPACT OF THE COVID-19 PANDEMIC ON THE FOREIGN TRADE DEFICIT OF MONGOLIA

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**Abstract:** There is a notable absence of comprehensive research on the development of foreign trade in Mongolia, which encompasses its challenges, economic and trade connections with neighboring countries, as well as the legal framework of foreign trade. This clearly indicates a significant demand for such information. Hence, it is imperative to investigate the impact of the financial crisis and the recent global pandemic caused by COVID-19 on trade. This entails examining the modifications and structure of trade, scrutinizing the legal protocols governing trade policies, as well as evaluating the present state of foreign trade and the prevailing concerns. Our country's foreign trade predominantly relies on China, which is currently our largest trade partner. In fact, 90% of our total exports come from this partnership. Mongolia's National Security Policy, specifically Article 3.2.5.3, prohibits one country's products from having excessive dominance in the country's imports. This regulation poses a significant challenge to Mongolia's economy at present.

It has become clear from the Covid-19 outbreak in Wuhan, China, that excessive dependence on China can have negative effects on both foreign trade and national security. The aim was to prevent the spread of the virus in light of the heightened preparedness across the country. However, this resulted in restrictions on the import and export of goods from China during the quarantine period, which caused a significant shortage of food and other essential items. As of 2020, due to the Covid-19 pandemic, Mongolia's economic situation has worsened, and many sectors' operations have started to malfunction. The effect on the foreign trade sector can be seen from the decrease in the total turnover of foreign trade. Therefore, the basis for conducting this research is how these factors have affected Mongolia's foreign trade security, the measures to be taken to reduce the negative impact, and the legal framework as a result of these factors.

Various research techniques were employed in this study, including sociological document analysis, focus group interviews, and questionnaires.

The economic and social indicators of 2020 and comparing them to those of the previous year, 2019

In the context of macroeconomics:

Trade, services, and tourism sectors, which are GDP components, are still risky. Unfortunately, in 2020, GDP decreased by 5.3% compared to 2019. This decline in economic growth has affected several sectors, such as mining and quarrying, construction, wholesale and retail trade, vehicle maintenance, transportation and warehousing activities, and other service activities.

In 2019-2020, the velocity of money, which measures the ratio of nominal GDP to the total money supply, decreased from 1.83 to 1.67 despite an increase in the total money supply. This can be attributed to a decline in the number of loans, a decrease in entrepreneurs' income, and a slowdown in the circulation of money.

Should the current strict quarantine measures persist, there is a potential for a rise in unemployment rates and a decrease in consumer spending and demand. It could lead to a weakening of economic activity, resulting in a further contraction of GDP due to reduced volumes of sales and purchases. On the other hand, suppose the health-related costs of the pandemic increase while discounts and exemptions for citizens and enterprises remain unchanged. In that case, decreased budget revenues and increased expenses are possible.

It is concerning that Mongolia's foreign trade heavily relies on one country, posing a threat to national security in the economic sector. The current state of our country's export is dominated by mineral products with few added-value types and unprocessed products, thus causing an imbalance in foreign trade structure and hindering economic development.

**Keywords:** COVID-19; pandemic; crisis management; foreign trade deficit, national safety

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## 1. Introduction

### Concept of Mongolia's foreign trade security

According to Article 5, Section 5.4 of the Mongolian Constitution, the government is responsible for regulating the economy to promote national economic security, support various types of businesses, and foster social development for the population.

Also, according to Article 3, Section 3.4 of the Law on National Security, economic security constitutes a critical aspect of National Security. It encompasses the ability of the economic structure to sustain itself by utilizing internal resources, catering to the populace's needs, reinforcing independence, possessing economic potential, and upholding the country's viability for a specific duration subject to requisite circumstances.

### Mongolia's foreign trade policy to ensure national security

Chapter 1 of 3 of Mongolia's National Security Concept (approved by Parliament Resolution No. 48 of 2010) states that ensuring economic security requires creating a multi-pillared and rational economic structure and implementing a balanced investment policy. The policy also stresses the need for a rational approach to energy, mineral resources, foreign trade, and integration matters to ensure the sector's security.

## 2. Materials and Methods

A study was conducted to compare and analyze the laws and policy documents related to overcoming COVID-19 pandemic issued by the Mongolian National Assembly, government, ministries, and related agencies. Various research techniques were employed in this study, including sociological document analysis, focus group interviews, and questionnaires. Statistical analysis was performed using the statistical program IBM SPSS Statistics 25. Frequency distributions, reliability analyses, and regression analyses were conducted.

## 3. Limitations

This research has several limitations, such as the following: i) While compiling comprehensive statistical data on Mongolia's foreign trade, we encountered some information about national security. Therefore, it conducted a comparative study of the numerical data regarding Mongolia's foreign trade deficit as released by the National Statistics Committee and the Ministry of Foreign Affairs. ii) Mongolia is a country with a large land area

but a low population density. As for administrative units, it consists of 21 provinces comprising 330 regions (soums, also called districts). Such features of the country made it difficult to thoroughly examine how the Covid-19 outbreak impacted the business operations of local industry professionals and small to medium-sized enterprises. Due to constraints in time, finances, and human resources, only 5 provinces and the city of Ulaanbaatar were included in the study, which utilized focus group interviews and questionnaires. iii) To refine our research, we conducted surveys from individuals with expertise in economics, foreign trade, and extensive experience in small and medium-sized businesses.

#### 4. Conclusions

Mongolia's foreign trade performance is adversely affected by the absence of legal incentives that encourage the consumption of domestic products and services and the lack of a cohesive government policy, ministry, and agency responsible for addressing this issue. The Covid-19 pandemic has caused a slowdown in border ports and domestic production, resulting in a decline in exports. In this situation, to ensure our nation's security, it is necessary to correctly define the goals and objectives of our foreign policy and maintain a unified and continuous foreign policy that looks to the future as much as possible.

Developed countries are currently prioritizing economic stability while battling the COVID-19 pandemic, but the Mongolian government is solely focused on fighting the outbreak. Unfortunately, this approach has led to a standstill in the country's entire economy, including foreign trade, resulting in a crisis. The root cause of this crisis is the government's failure to implement a flexible policy for developing national production in tandem with the foreign market during the pandemic.

The logistics industry in Mongolia is a crucial part of both the economy and daily life for the entire population of the country. Mineral wealth and mining serve as the primary driving force of our nation's economy. The success of Mongolia's mineral exports on the global market heavily relies on the country's logistics capabilities. Despite the cross-border transport and logistics system's impressive productivity, it serves as the foundation for trade growth, and Mongolia has yet to fully maximize the potential of this sector. In light of the challenges that Mongolia is expected to face in foreign trade, particularly due to the ongoing Covid-19 pandemic, a unified logistics center can play a crucial role in improving the transportation chain network. By consolidating the cargo flow in one location, this facility can optimize container usage and minimize the amount of collected cargo, thereby facilitating smoother operations.

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