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WORKING PARTY ON THE ACCESSION OF MONGOLIA

Information on Main Service Sectors of Mongolia

The information hereunder has been submitted by the Government of Mongolia for circulation to the members of the Working Party.

Banking Sector

The Banking Law of Mongolia which was adopted by the Parliament in 1991 is the basic legal act for the establishment of a two-tier banking system comprising the central bank ("Mongolbank") and commercial banks.

The supreme banking authority is Mongolbank. As the central bank, Mongolbank is responsible for monetary policy in the country, supervision of overall commercial banking activity, management of foreign exchange reserves.

Mongolbank sets up reserve requirements for commercial banks as the main monetary instruments and organizes clearing settlements between commercial banks. As a banker to the commercial banking system, Mongolbank extends loans to commercial banks. Mongolbank controls the money supply and provides tight monetary policy.

The Banking Law provides for the following main banking services to be supplied by a commercial bank:

- acceptance of deposits;
- lending;
- guarantees;
- international payments;
- purchase, sale of foreign currency;
- issue, purchase and sale of securities;
- safe custody of valuables.

The Law requires a commercial bank to have a minimum capital of 400 mln tugriks (the existing rate is 1 US\$=410 tugriks) and this requirement also applies to foreign banks to be operated in Mongolia.

The Government, at the recommendation of Mongolbank, decides on the opening of representative offices or the establishment of branches of foreign banks.

Foreign banks operating within the territory of Mongolia are subject to the Banking Law and other relevant laws unless international treaties to which Mongolia is signatory stipulate otherwise.

The Banking Law provides for the establishment of a commercial bank with foreign interest and for the operation of a wholly foreign-owned bank. Commercial banks may carry on general banking services or be specialized in specific operations. They must obtain a licence from Mongolbank to handle international payments, to purchase or sell foreign currency.

As far as specific measures related to banking services are concerned, the Banking Law does not specify any limitations on the number of services, total value of transactions or any discriminatory treatment to the operations of foreign banks in Mongolia.

There are some foreign invested companies which perform financial consultancy activities, including analysis, investment and portfolio research and advice.

Communications Sector

Telecommunications in Mongolia are outdated and ineffective, constituting a major impediment to foreign trade and investment.

There is only one State-owned Mongolian Telecommunication Company (MTC) which provides telecommunication services, including broadcasting and postal services.

Currently, there is no communications act in Mongolia. The Bill of Communications has been formulated and submitted to the Government for consideration subject to further submission to Parliament for approval and adoption. The expected enactment time is 1995. According to the draft Act and the existing rules adopted by the Minister for Infrastructure Development, the sector is opened for free competition.

A comprehensive programme to upgrade telecommunication services is under implementation with assistance from Japan, AsDB, and France.

The Government objectives for the development of the sector are to develop an effective and efficient sector to support economic development, rehabilitate and automate the basic telecommunications network, improve the density and quality of telecommunications service, extend the coverage of basic telephone services in urban and rural areas, etc.

The Government plans to increase telephone density from about four exchange lines per hundred people in 1992 to more than five exchange lines per hundred people by the year 2000. The emphasis, however, will be on upgrading the existing network rather than on expansion. To achieve these objectives, the Government is proposing major sector reforms and the main policies being pursued to improve management and regulation of the sector are: (a) adopting a telecommunications law; (b) separating postal and broadcasting functions from MTC; (c) restructuring and privatizing MTC; (d) establishing a partnership between MTC and a foreign company; (e) attracting greater private-sector participation to mobilize additional financial, technical and human resources for sector development; and (f) introducing competition in basic and value-added services in the longer term.

The Foreign Investment Law provides for incentives for foreign investors in this area, namely foreign invested venture in basic telecommunications shall be granted tax exemptions in the first ten years and 50 per cent tax relief in the following five years.

Transport Sector

Mongolia is a large but sparsely populated country, landlocked between Russia and China.

Mongolia's transport infrastructure which consists of railways, roads and airways is seriously inadequate in relation to the vastness of the territory and the demand for transport services. The current transport network focuses on the three largest cities containing most of the industrial activity and on two border cities.

Mongolian Railways carries some 70 per cent of the country's freight and about 30 per cent of passenger traffic and serves as a link to Russia, China and through them to other countries. On the other hand, it connects Mongolia's three largest cities and the bulk of its transport is the movement of domestic coal for the power plants in the capital city, which provide about two-thirds of the country's energy for industrial operations and for heating. The railway network is about 1,900 km. and all the main and branch lines are single tracks.

Mongolian Railways is a joint venture, initially between Mongolia and the former Soviet Union (now Russian Federation). It functions as a "quasi-independent department" under the Ministry of Infrastructure Development.

The urban transport focuses on the capital city of 630,000 inhabitants. Buses and trolley buses are the modes of transport for the majority of people.

The route network has twenty-six bus routes and seven trolley bus routes and urban passenger fleet totals about 430 buses and trolley buses.

The volume of cargo within the country is relatively small in quantity, and has a seasonal character and most of cargo is transported by trucks.

Until 1991, the public trucking industry consisted of forty-three large carriers. The carriers in capital handled a significant share of total intercity freight; carriers in the provinces provided both cargo hauling and passenger transport services. Currently, all trucking companies have been privatized.

The domestic road network is poor. There are only 1.3 thousand km. of paved roads out of a 42 thousand km. network.

Mongolia's capital has air connections with almost all provinces. International flights are carried out by the Mongolian air company to Moscow, Beijing, Khukh Hot (China), Irkutsk (Russia), Alma-Ata (Kazakhstan) and Nagoya (Japan).

The transport system was developed with ownership and control in the strict pattern of a centrally planned economy. Prior to 1991, all transport assets were owned by the State.

The strategy for the transport sector reflects its new market orientation. The Government intends to improve the efficiency of the sector and make it commercially oriented. Consistent with these goals, the Government has freed fuel prices and increased urban transport tariffs, thus eliminating government subsidies, privatized trucking companies etc.

Transport is crucial to Mongolia, both for internal and international movements and the development of this sector is one of the priority targets of the Government. It seeks and implements foreign assistance in transport infrastructure and also encourages foreign investment.

A foreign invested enterprise in such areas as roads, railways, air-cargo engineering, constructions shall enjoy ten years of tax exemption and 50 per cent tax relief in the following five-year period. There is no restriction on foreign commercial presence or limitation on foreign capital flow in this sector.

Tourism Sector

Prior to 1990, the main contingents of tourist visitors received by Mongolia came from the former Soviet Union and East European countries. Concurrently small package groups of Western tourists visited the country, following similar itineraries to those of the tourist visitors from the Eastern Block. Before 1989, there were about 5,000 pleasure visitors from Eastern Europe annually, mainly as part of barter trade agreements between COMECON countries.

Such barter trade agreements were terminated in 1990, and the number of tourists from Eastern Europe is now negligible.

Presently Mongolia receives its main contingents of pleasure tourists from East Asia (Japan, Chinese Taipei, Hong Kong, Republic of Korea), Western Europe (Germany, France, Italy, Holland, Scandinavia), the United States and Australia. About 10,000 such tourists visit Mongolia per year and the average stay is estimated at six nights. The tourist agencies in addition to excursions provide activities such as horse-riding, wildlife observation, fishing, etc.

Over 50 per cent of holiday tourist arrivals are concentrated in the months of June and August. Constrained by the short summer, tourism to Mongolia is evidently highly seasonal. Despite the substantial discounts during the October to April period, the number of holiday visitors during these harsh winter months is negligible.

Estimates of mode of arrival show that a significant proportion of tourists to Mongolia arrive by train, a high proportion of which would be in the transit tour category. Rounded mode of arrival figures show that over 70 per cent of tourists come by plane.

There are several hotels of more than 500 rooms which meet the requirements of foreign tourists in the capital and a new luxury hotel with 240 rooms and other facilities is under construction.

Although all provincial and district centres are provided with at least one hotel, the accommodation for tourists outside of the capital takes the form of tourists camps. They are more attractive for foreign visitors and comprise a number of traditional gers (tents).

Prior to 1990 the Foreign Tourist Corporation of Mongolia ("Juulchin") had a monopoly on travel arrangements for foreign visitors. Today a monopoly no longer exists, and a number of small private entities have emerged. The privatized "Juulchin" still controls about 50-60 per cent of tourist trade; however, the private sector is likely to make significant dents in the "Juulchin" market share.

The draft "Tourism Law" is being worked out and is supposed to be discussed by Parliament at the end of 1995.

According to existing regulations, the establishment of travel agencies, operators dealing with foreign tourism is subject to authorization by the Ministry of Trade and Industry with a view to ensuring the proper facilities and services for foreign tourists.