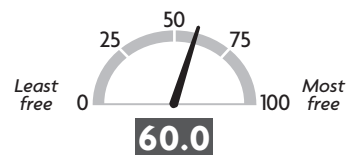


MONGOLIA

Economic Freedom Score



World Rank: **88**

Regional Rank: **15**

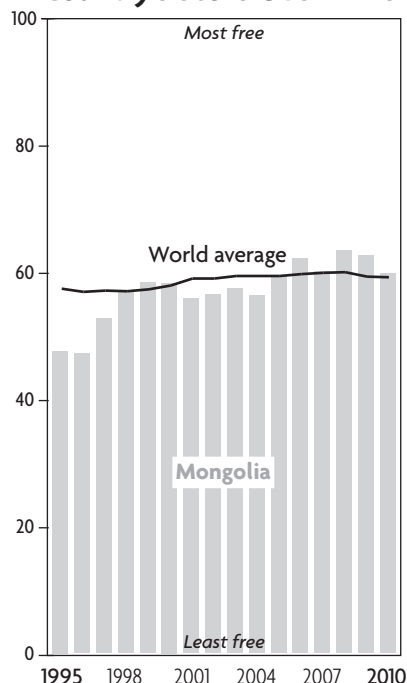
Mongolia's economic freedom score is 60.0, making its economy the 88th freest in the 2010 *Index*. Its overall score is 2.8 points lower than last year, reflecting reduced scores for monetary freedom, investment freedom, and government spending. Mongolia is ranked 15th out of 41 countries in the Asia-Pacific region, and its overall score is above the global and regional averages.

The Mongolian economy continues to benefit from relatively high levels of fiscal freedom, business freedom, and trade freedom, and the overall entrepreneurial environment supports private-sector development. The top income and corporate tax rates are competitive. Tariff barriers are moderate, although non-tariff restrictions undermine overall trade freedom. Commercial registration and licensing are efficient, and the flexibility of the labor market has increased.

Despite some progress in privatization, the government remains significantly involved in the economy and has passed legislation that reinforces its involvement in strategic sectors like mining. The government has tried to control the budget deficit, but government spending has been on the rise. The weak judicial system remains vulnerable to corruption.

BACKGROUND: Mongolia emerged from the shadow of the former Soviet Union with the adoption of a multi-party system and a new constitution in 1990. The electorate is split fairly evenly between the Communist Mongolian People's Revolutionary Party and the Democratic Party. Democratic Party candidate and former Prime Minister Tsakhiagiin Elbegdorj won the 2009 presidential election. Mongolia is a primary transportation conduit for trade between Russia and China, which together account for 40 percent of its foreign direct investment. Trade is tilted heavily toward China; two-way trade with China increased by 43 percent in 2007 to \$2.08 billion, accounting for 52 percent of Mongolia's total trade. Livestock herding employs a majority of the population, but mining attracts the largest portion of foreign direct investment.

Country's Score Over Time



Quick Facts

Population: 2.6 million

GDP (PPP): \$9.4 billion

8.9% growth in 2008

8.7% 5-year compound annual growth

\$3,566 per capita

Unemployment: 2.8%

Inflation (CPI): 26.8%

FDI Inflow: \$683 million

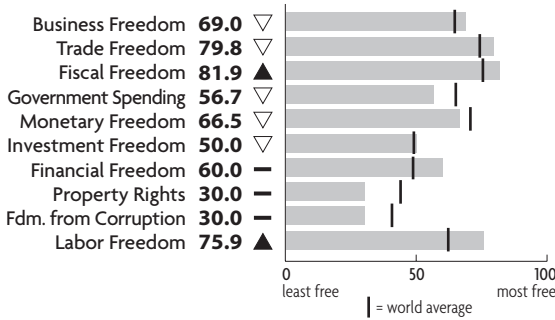
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

MONGOLIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 69

The overall freedom to conduct a business is relatively well protected under Mongolia's regulatory environment. Starting a business takes an average of 13 days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 218 days. Bankruptcy can be lengthy and burdensome.

TRADE FREEDOM — 79.8

Mongolia's weighted average tariff rate was 5.1 percent in 2008. Liberalization is progressing, but some import and export restrictions, restrictions in services markets, import and export taxes, weak enforcement of intellectual property rights, and inconsistent, inefficient, and corrupt customs implementation add to the cost of trade. Ten points were deducted from Mongolia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 81.9

Mongolia has a low income tax rate and a moderate corporate tax rate. The individual income tax rate is a flat 10 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT), an excise tax on alcohol and vehicles, and a dividend tax. In the most recent year, overall tax revenue as a percentage of GDP was 33.0 percent.

GOVERNMENT SPENDING — 56.7

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 38.0 percent of GDP.

MONETARY FREEDOM — 66.5

Inflation has jumped, averaging 20.2 percent between 2006 and 2008, but price increases moderated in 2009. Although most price controls and many subsidies have been phased out, the government influences prices through the public sector or through regulation, sometimes intervenes in the market to stabilize commodity prices, and still controls air fares and fuel prices. Five points were deducted from Mongolia's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 50

Foreign capital and domestic capital are legally equal.

Investment is not screened. Foreign investment is subject to additional regulations or restrictions in activities involving petroleum extraction and strategic mineral deposits. The regulatory framework supporting investment is still developing, and regulations and investment-related laws are changed frequently. Rules may be inconsistently applied or misunderstood. Non-transparent bureaucracy can be prone to corruption, and contract enforcement is inconsistent. Residents and non-residents may hold foreign exchange accounts, subject to minimal restrictions. There are no restrictions on payments and transfers. Most credit and loan operations must be registered with the central bank. Foreign investors may lease but not own land.

FINANCIAL FREEDOM — 60

Restructuring of the banking sector has improved private-sector access to financing. The government imposes few restraints on the flow of capital, and foreign investors tap domestic capital markets freely. The banking sector's total assets are equivalent to over 80 percent of GDP. There are 16 private commercial banks, 10 of which are foreign-owned. State ownership of banks has been reduced. There are about 72 smaller, largely unregulated non-bank lending institutions. The government is refining insurance regulation. Capital markets are not fully developed. The stock market was set up to facilitate privatization of state-owned enterprises but now functions as a regular exchange. During the recent global financial turmoil, non-performing loans jumped to over 10 percent of the total in early 2009. The parliament approved a \$389 million bailout package for troubled banks, and the fourth-largest bank has been taken over by the government.

PROPERTY RIGHTS — 30

The enforcement of laws protecting private property is weak. Judges generally do not respect contracts and regularly ignore their provisions in their rulings. The legal system does recognize the concept of collateralized assets. There is no mortgage law. Pirated optical media are readily available and subject to spotty enforcement.

FREEDOM FROM CORRUPTION — 30

Corruption is perceived as widespread. Mongolia ranks 102nd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. The law provides criminal penalties for official corruption, which is perceived to be a serious and continuing problem at all levels of government, particularly within the police, judiciary, and customs service. Corruption-related arrests and convictions are rare, and allegations of public-sector corruption include cases involving cabinet-level officials.

LABOR FREEDOM — 75.9

Mongolia's labor regulations are relatively flexible. The non-salary cost of employing a worker remains moderate, and dismissing an employee is costless. Regulations on work hours are not flexible.