



# Technical Assistance Report

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Project Number: 48267-001  
Policy and Advisory Technical Assistance (PATA)  
December 2014

## Mongolia: Building Trade Policy Capacity: Formulating an International Trade Policy

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 2 December 2014)

|               |   |              |
|---------------|---|--------------|
| Currency unit | – | togrog (MNT) |
| MNT1.00       | = | \$0.00053    |
| \$1.00        | = | MNT1,879.00  |

## ABBREVIATIONS

|       |   |  |
|-------|---|--|
| ADB   | – | Asian Development Bank                     |
| CAREC | – | Central Asia Regional Economic Cooperation |
| FTA   | – | free trade agreement                       |
| ITP   | – | international trade policy                 |
| Mol   | – | Ministry of Industry                       |
| TA    | – | technical assistance                       |
| WTO   | – | World Trade Organization                   |

## NOTE

In this report, "\$" refers to US dollars.

|                         |  |
|-------------------------|--|
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## POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

|   |   |  |  |
|---|---|--|--|
| <b>1. Basic Data</b>  |   | <b>Project Number: 48267-001</b>       |  |
| <b>Project Name</b>   | Building Trade Policy Capacity: Formulating an International Trade Policy | <b>Department /Division</b>            | EARD/EAPF  |
| <b>Country Borrower</b>   | Mongolia<br>N/A   | <b>Executing Agency</b>                | Ministry of Foreign Affairs and Economic Cooperation |
| <b>2. Sector</b>  |   | <b>ADB Financing (\$ million)</b>      |  |
| ✓ Industry and trade  | Trade and services  |  | 0.50   |
|   |   | <b>Total</b>                           | <b>0.50</b>  |
| <b>3. Strategic Agenda</b>  |   | <b>Climate Change Information</b>      |  |
| Inclusive economic growth (IEG)   | Pillar 1: Economic opportunities, including jobs, created and expanded    | Climate Change impact on the Project   | Low  |
| <b>4. Drivers of Change</b>   |   | <b>Gender Equity and Mainstreaming</b> |  |
| Governance and capacity development (GCD)   | Institutional systems and political economy                               | No gender elements (NGE)               | ✓  |
| <b>5. Poverty Targeting</b>   |   | <b>Location Impact</b>                 |  |
| Project directly targets poverty  | No  | Nation-wide                            | High   |
| <b>6. TA Category:</b>  | B   |  |  |
| <b>7. Safeguard Categorization</b>  | Not Applicable  |  |  |
| <b>8. Financing</b>   |   |  |  |
| <b>Modality and Sources</b>   |   | <b>Amount (\$ million)</b>             |  |
| <b>ADB</b>  |   | <b>0.50</b>                            |  |
| Sovereign Policy and advisory technical assistance: Technical Assistance Special Fund |   | 0.50                                   |  |
| <b>Cofinancing</b>  |   | <b>0.00</b>                            |  |
| None  |   | 0.00                                   |  |
| <b>Counterpart</b>  |   | <b>0.00</b>                            |  |
| None  |   | 0.00                                   |  |
| <b>Total</b>  |   | <b>0.50</b>                            |  |
| <b>9. Effective Development Cooperation</b>   |   |  |  |
| Use of country procurement systems  |   | Yes                                    |  |
| Use of country public financial management systems                                    |   | Yes                                    |  |

## I. INTRODUCTION

1. To utilize its mineral-driven trade expansion for development, Mongolia has acceded to the World Trade Organization (WTO) (1997), and negotiated several trade and investment arrangements with various trading partners. The objective is to facilitate economic diversification, increase employment, and improve overall household purchasing power. Yet, despite these efforts to integrate itself into the global economy, Mongolia still faces trade impediments.

2. A key constraint is the absence of a national trade policy. Without a trade policy framework, frequent shifts in government policies and priorities have caused confusion for Mongolia's trading partners.<sup>1</sup> Responsibility for trade-related policies has been frequently reassigned from one government agency to another, most recently in October 2014. This lack of institutional stability and policy clarity not only makes planning difficult for traders, but also has negative impacts on bureaucratic capacity (staff retention rates in government agencies responsible for trade policy management have decreased because of frequent reassignment of this function from one ministry to another, inhibiting career development). The difficulty with staff retention was cited as a reason why little action was taken in response to a recommendation to design a trade policy, emanating from Asian Development Bank (ADB) technical assistance (TA) to support the WTO trade policy review process.<sup>2</sup> Mongolia's comprehensive national development strategy, adopted by Parliament in early 2008, identifies two strategic objectives to create a favorable foreign trade environment, but if they are to be realized, these aspirations require further elaboration.<sup>3</sup>

3. Mongolia recognizes these issues and, in response, seeks to design a trade policy for parliamentary ratification. The intent is to add stability, develop capacity, and enshrine a long-term view that will reduce the trade deficit and catalyze trade diversification and expansion. In April 2014, the Ministry of Economic Development presented ADB with a draft TA concept note seeking support for designing an international trade policy (ITP). The 2–4 June 2014 TA reconnaissance mission to Ulaanbaatar reviewed, discussed, and revised the TA proposal together with the Ministry of Economic Development.<sup>4</sup> The mission also consulted with other stakeholders and possible contributors. A memorandum of understanding secured the government's concurrence with the impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference. The TA is included in ADB's country operations business plan for Mongolia, 2014–2016.<sup>5</sup> The design and monitoring framework is in Appendix 1.<sup>6</sup>

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<sup>1</sup> World Trade Organization. 2014. Trade Policy Review: Mongolia. 24 and 26 September. Concluding remarks by the chairperson. Geneva.

<sup>2</sup> ADB. 2002. *Technical Assistance to Mongolia for Trade Policy Review*. Manila (TA 3934-MON). As noted in the September 2008 country assistance program evaluation, capacity limitations (caused largely by high rates of staff turnover in the civil service) and reluctance to pursue integration proactively with the People's Republic of China and Russia inhibited Mongolia's follow-through on TA recommendations.

<sup>3</sup> State Great Hural (Parliament) of Mongolia. 2008. Endorsement of the Millennium Development Goals-Based Comprehensive National Development Strategy of Mongolia. Resolution endorsing the strategy dated 12 February. Section 5.1.6., Strategic objectives of foreign trade policy, states two objectives: (i) increase rationally the variety and quantity of export products, and (ii) expand and improve the variety and quantity of import products in line with the long-term trends of economic development.

<sup>4</sup> Following a consolidation of government agency functions enacted December 2014, the trade-related functions of the abolished Ministry of Economic Development have been transferred to the Ministry of Industry.

<sup>5</sup> ADB. 2014. *Country Operations Business Plan: Mongolia, 2014–2016*. Manila.

<sup>6</sup> The TA first appeared in the business opportunities section of ADB's website on 28 August 2014.

4. The TA will reinforce ADB's interim country partnership strategy for Mongolia in two ways.<sup>7</sup> The strategy supports private sector development and regional cooperation, and emphasizes the importance of employment creation and support for agribusiness and small and medium-sized enterprises.<sup>8</sup> The TA will increase the transparency and continuity of Mongolia's trade regime. This will improve the business climate for domestic firms and potential investors. In addition, because of Mongolia's dependence on its direct neighbors for transit trade, a stable trade policy can stimulate more substantive regional cooperation in the longer term. This can complement associated Central Asia Regional Economic Cooperation (CAREC) Program trade policy initiatives.

5. The government and other stakeholders recognize the need for a stable ITP environment for traders and regulators, and for improved development partner coordination (the European Union, German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, the United Nations Development Programme, and the World Bank are supporting various aspects of trade-related capacity and policy development for Mongolia). The TA is in line with several other ADB initiatives to support Mongolia's efforts to capture the gains from trade. A recently approved regional TA focusing in part on facilitating trade for landlocked developing member countries may generate outputs that feed into implementation of this TA.<sup>9</sup> This changed domestic environment inspires confidence that the TA, building and expanding as it does on earlier TA outputs, will generate the increased stability and predictability Mongolia needs to expand trade and improve competitiveness.<sup>10</sup>

## II. ISSUES

6. Trade is the primary driver of growth for Mongolia. Yet raw minerals dominate exports—an unstable, unreliable, and unpredictable source of long-term revenue. The government recognizes the need to diversify exports and promote exports of higher value-added products. Exports benefit from low applied duties (via Generalized System of Preferences and zero-duty most-favored nation), reflecting the lack of diversification of exports.<sup>11</sup> Some exports with the potential to grow are confronted by higher-than-average tariffs and nontariff barriers to access foreign markets.

7. Seeking more preferential access for its nonmineral exports, Mongolia has explored negotiating directly with trade partners to obtain more favorable conditions. In June 2012, Mongolia launched its first-ever free trade agreement negotiations with Japan to conclude an economic partnership agreement.<sup>12</sup> The government expects to conclude the agreement in early 2015. No other WTO-compliant free trade agreements (FTAs) are in progress with major trading partners. Yet deeper regional integration via FTAs (possibly focused on Northeast Asia, where

<sup>7</sup> ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

<sup>8</sup> Agriculture is increasingly the main contributor to growth and employs more people than any other sector of the economy. Agriculture accounted for 17.5% of gross domestic product and 30% of overall employment in 2013, but agriculture-related outputs currently make up just 8.6% of total merchandise exports. Mongolia is aiming to increase nonmineral exports to 20% of total exports. An ITP must support the development of export markets, especially in the People's Republic of China, and in Japan and the Republic of Korea.

<sup>9</sup> ADB. 2014. *Technical Assistance for Facilitating Trade for Fragile and Landlocked States in the Post-Bali Institutional Environment*. Manila (TA 8655-REG).

<sup>10</sup> ADB. 2012. CAREC 2020. Manila. The CAREC program's strategic framework focuses on two distinct but complementary objectives: expanding trade, and improving competitiveness.

<sup>11</sup> World Bank. 2008. <http://info.worldbank.org/etools/wti/docs/wti2008/brief129.pdf>

<sup>12</sup> Ratification anticipated in the first half of 2015. Possible provisions include lowering the 38.5% customs duty on the import of Mongolian meat and the 11% tax on Mongolian cashmere. These could foster economic diversification and increase agriculture exports.

Mongolia's trade dependence has increased to 82%)<sup>13</sup> could lead to tariff cuts and a lifting of nontariff trade barriers.<sup>14</sup> To this end, Mongolia has established a working group to consider the merits of negotiating an FTA with the Eurasian Economic Union's Customs Union (comprising Belarus, Kazakhstan, and Russia).

8. The government has pursued other non-FTA trade-related arrangements. In September 2013, it concluded an Agreement on Transparency in Matters Related to International Trade and Investment with the United States. A complement to the Trade and Investment Framework Agreement signed in 2004, the United States–Mongolia Transparency Agreement applies to matters relating to international trade and investment, and includes joint commitments to provide opportunities for public comment on proposed laws and regulations, and to publish final laws and regulations in English. This publication commitment should make it easier for foreign enterprises to do business in Mongolia. Additional commitments address dispute resolution and the application of discipline on bribery and corruption.<sup>15</sup>

9. An international trade policy framework will provide Mongolia and its trading partners with greater predictability, transparency, and stability in conducting – and diversifying the scope of – international trade. A well-conceived, far-reaching ITP can help liberalize markets even as it builds confidence and creates predictability for key trading partners. At the very least, even a less ambitious ITP can create conditions for future liberalization by promoting a more predictable business climate.

10. A more predictable trade policy environment will contribute to conditions needed to increase trade and will complement actions taken in other areas to stimulate trade. For example, Mongolia's efforts to adopt international product standards aim to increase the number of national product standards that are identical to international standards.<sup>16</sup> An ITP that targets diversification of the existing export mix will acknowledge the need to address barriers to agricultural exports, such as difficulty complying with international sanitary and phyto-sanitary regulations. This will promote its efforts to upgrade its standards.

11. The WTO Trade Facilitation Agreement highlights the need to support developing countries in their efforts to capture gains from trade. A coherent ITP can promote trade facilitation by identifying priority areas for trade development. Mongolia is committed to ratifying and implementing the WTO Trade Facilitation Agreement. In July 2014, the government notified its Category A commitments on trade facilitation. To implement the agreement, the government will rely largely on support from development partners. To match needs with development support, it needs to update its Trade Facilitation Needs Assessment, produced initially in 2009. The TA will underpin initial implementation of any trade facilitation measures by ensuring they are enshrined in the ITP.

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<sup>13</sup> M. Kawai. 2013. Financing Development Cooperation in Northeast Asia. *ADB Working Paper 407*. Tokyo: Asian Development Bank Institute.

<http://www.adbi.org/working-paper/2013/02/15/5521.financing.dev.cooperation.northeast.asia/>

<sup>14</sup> Asian Development Bank Institute (ADBI). 2014. Development via Regional Integration, Mongolia's Chance for a Prosperous Future. *Asia Pathways*. <http://www.asiathways-adbi.org/2014/04/development-via-regional-integration-mongolias-chance-for-a-prosperous-future/>

<sup>15</sup> US Trade Representative. 2013. <http://www.ustr.gov/about-us/press-office/press-releases/2013/september/united-states-mongolia-sign-transparency-agreeme>

<sup>16</sup> Currently, 42% of Mongolia's 6,067 product standards are identical to international standards.

### III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE

#### A. Impact and Outcome

12. The impact will be increased capacity to consolidate trade opportunities and promote trade diversification and competitiveness of the nonmineral sector. By 2018, Parliament will adopt an ITP and institutional arrangements for formulating trade policy and regulating international trade will be clarified, contributing to a 10% increase in trade volume and value over 2013 baselines (to be established by the consultants). The outcome will be a stable and predictable trade policy environment that enables Mongolia to conclude mutually beneficial FTAs with its major trading partners. Activities associated with FTA negotiations will promote more effective public-private dialogue and build institutional capacity of staff responsible for negotiating and implementing FTAs. By 2016, staff retention rates in key trade regulatory agencies will be increased, the performance of CAREC Corridor 4 will have improved, and the frequency of trade negotiator training programs will have increased.

#### B. Methodology and Key Activities

13. The TA will develop a series of policy, legal, and market assessments; recommendations to strengthen the institutional capacity for trade policy formulation and associated trade facilitation initiatives; and an analysis of the impact of principal trading partners acceding to WTO. The TA will deliver the following outputs:

- (i) an assessment of the legal framework and institutional arrangements for regulating international trade;
- (ii) a comparison of the motivation of countries to adopt an ITP, with benefits stemming from ITP adoption identified;
- (iii) assessments of the impact of trade liberalization on the food processing industry, and of trade challenges and opportunities (including access to broader international markets with Mongolia's principal trading partners), and a workshop to develop good practice in negotiating trade agreements conducted; and
- (iv) draft ITP prepared, supported by (a) policy simulation and modeling analysis; (b) updated recommendations to enhance institutional capacity in support of trade policy formulation, implementation of WTO commitments, and the conduct of trade negotiations; and (c) a validation seminar.

14. Associated activities will support Mongolia's capacity to pursue an efficient trade policy and negotiate preferential arrangements to complement the country's economic development. In addition, the TA will promote industry associations and the private sector, so that their products get better access to international markets. As appropriate, and with the consent of Mongolian authorities, consultant deliverables will be refined and published as knowledge products (e.g., policy-based briefs, written case studies assessing international experience, and knowledge showcases for senior decision makers).

15. Key assumptions include (i) demonstrated government commitment to adopt and implement an ITP, (ii) well-managed interagency cooperation and coordination, and (iii) sufficient allocation of resources to retain trained staff. Among the risks identified are (i) more restrictive trade practices undermine policy implementation, and (ii) institutional assignment of trade policy responsibilities remains unsettled.



### **C. Cost and Financing**

16. The TA is estimated to cost \$550,000, of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of translation and interpretation support; venues for training, seminars, and conferences; domestic transportation; and other in-kind contributions.

### **D. Implementation Arrangements**

17. The Ministry of Industry (Mol) will execute, administer, and implement the TA in close collaboration with the Public Management, Financial Sector, and Regional Cooperation Division of ADB's East Asia Department (the TA supervising unit) and ADB's Mongolia Resident Mission. Mol will ensure that all other relevant stakeholders are involved in the required consultations and TA implementation.

18. The Public Management, Financial Sector, and Regional Cooperation Division and ADB's resident mission in Mongolia will (i) maintain regular contact with Mol and consultants to ensure that work proceeds according to the agreed schedules, and (ii) participate in TA-funded workshops to ensure that stakeholder views and concerns are adequately addressed in consultant deliverables. Peer review of consultant deliverables by ADB's Economic Research and Regional Cooperation Department may be sought to ensure soundness and objectivity.

19. The TA will be implemented from 1 January 2014 to 30 June 2016. A consulting firm will be recruited to assemble a team of experts as described in the outline terms of reference for consultants (Appendix 3) to carry out the proposed studies. A total of 15 person-months of international and 20 person-months of national consultant inputs will be required to provide policy and advisory services under the TA. ADB will engage the consultants in accordance with its *Guidelines on the Use of Consultants* (2013, as amended from time to time). The firm will be selected using quality- and cost-based selection procedures (90:10). To ensure that the firm has sufficient experience, full technical proposals will be sought. If, however, market conditions suggest that the low value of the contract in combination with requiring a full technical proposal presents a disincentive to otherwise interested and qualified bidders, simplified technical proposals may be accepted. The TA proceeds will be disbursed in line with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

20. Mol will provide all counterpart facilities and support required by the consultants. It will organize an interim consultative workshop and a final dissemination workshop. The workshops will help ensure broad dissemination of TA outputs. All consultant deliverables will be submitted in Mongolian and English and posted on ADB's website once they are accepted by ADB.

## **IV. THE PRESIDENT'S DECISION**

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of Mongolia for Building Trade Policy Capacity: Formulating an International Trade Policy, and hereby reports this action to the Board.

## DESIGN AND MONITORING FRAMEWORK

| <b>Design Summary</b>   | <b>Performance Targets and Indicators with Baselines<sup>a</sup></b>   | <b>Data Sources and Reporting Mechanisms</b>   | <b>Assumptions and Risks</b>   |
|---|--|--|--|
| <p><b>Impact</b><br/>Increased capacity to consolidate trade opportunities and promote trade diversification and competitiveness of the nonmining sector</p>                            | <p><b>By 2018</b><br/>Parliament adopts an ITP</p> <p>Institutional arrangements for formulating trade policy and regulating international trade clarified</p> <p>Nonmining-related trade volume and value increased by (10%) over 2013 baselines (to be established under output 1)</p>   | <p>Parliamentary records<br/>Government resolutions and directives<br/>WTO trade policy reviews<br/>UNCTAD trade data.<br/>World Bank Doing Business, services trade restrictions index, and logistics performance index reports<br/>MCGA annual reports</p> | <p><b>Assumptions</b><br/>The government is committed to adopting and implementing an ITP.<br/>High-quality consultants are recruited.<br/>Mol manages interagency cooperation and coordination effectively.</p> <p><b>Risk</b><br/>More restrictive trade practices undermine policy.</p> |
| <p><b>Outcome</b><br/>A stable and predictable trade policy environment that enables Mongolia to conclude mutually beneficial free trade agreements with its major trading partners</p> | <p><b>By 2016</b><br/>Staff retention rates in key trade-related agencies increased</p> <p>Performance of CAREC Corridor 4 (as measured by CPMM-generated TFIs) improved.<br/>Frequency of trade negotiator training programs increased.<br/>New trade agreement negotiations launched with other major trading partners<br/>Single-window facility for Mongolia under development</p> | <p>Mol, MCGA, GASl, and other relevant agency staffing statistics.<br/>CPMM and TRS data</p> <p>TA review missions<br/>Government press releases</p>   | <p><b>Assumptions</b><br/>The government is willing to allocate resources sufficient to retain trained staff.<br/>The government is committed to concluding trade agreements with other major trading partners.</p> <p><b>Risk</b><br/>Staff turnover continues at a high rate.</p>        |
| <p><b>Outputs</b><br/>1. The legal framework and institutional arrangements for regulating international trade assessed</p>   | <p><b>By July 2015</b><br/>Trade Policy Review legal framework assessment updated<sup>b</sup><br/>Baseline monitoring indicators established, institutional landscape reviewed, functions and responsibilities elaborated</p> <p>Recommendations formulated for stabilizing institutional arrangements and developing institutional capacity</p>                                       | <p>Consultant reports</p> <p>TA review missions</p>  | <p><b>Assumption</b><br/>Recommendations are endorsed and implemented.</p> <p><b>Risk</b><br/>Political paralysis produces inaction.<br/>Institutional instability persists.</p>   |
| <p>2. The motivation of</p>   | <p><b>By October 2015</b></p>  | <p>Consultant reports</p>  | <p><b>Assumption</b></p>   |

| <b>Design Summary</b>   | <b>Performance Targets and Indicators with Baselines<sup>a</sup></b>  | <b>Data Sources and Reporting Mechanisms</b>   | <b>Assumptions and Risks</b>  |
|---|---|--|---|
| countries to adopt an ITP compared and the benefits identified  | <p>Costs and benefits accruing to economies that have adopted an ITP identified</p> <p>Extent to which economies have revised international trade policies adopted, and motivations for the revisions examined</p> <p>Extent to which economies have abandoned international trade policies analyzed, and motivations for the abandonment identified</p>          | TA review missions   | <p>Benefits realized by other economies that have adopted an ITP can be replicated in the Mongolian context.</p> <p><b>Risk</b><br/>Lessons from the experience of other economies have little meaning or application in the Mongolian context.</p> |
| 3. The impact of trade liberalization on the food processing industry, and trade challenges and opportunities presented assessed; a workshop to develop good practices in negotiating trade agreements conducted  | <p><b>By December 2015</b><br/>Mongolia: Trade Policy Review, Annex 4 updated<sup>b</sup></p> <p>Recommendations developed on whether Mongolia should adopt a regional or bilateral approach to negotiating trade agreements with its principal trading partners</p> <p>Priority issues identified for inclusion in a regional (or bilateral) trade agreement</p> | <p>Consultant reports</p> <p>TA review missions</p> <p>Trade agreement negotiation capacity-development workshop</p>   | <p><b>Assumption</b><br/>There is sufficient basis for concluding trade agreements with principal trading partners.</p> <p><b>Risk</b><br/>Principal trading partners prove too inflexible on matters of greatest importance to Mongolia.</p>       |
| 4. Draft ITP prepared, supported by (i) policy simulation and modeling analysis; (ii) updated recommendations to enhance institutional capacity in support of trade policy formulation, implementation of WTO commitments, and the conduct of trade negotiations; and (iii) a validation seminar  | <p><b>By April 2016</b><br/>Policy reform recommendations for expanding trade and increasing Mongolia's economic competitiveness completed</p> <p>Policy modeling and simulation results summarized</p> <p>Policy implementation monitoring mechanism designed</p>  | <p>Consultant reports</p> <p>TA review missions</p> <p>Validation seminar</p>  | <p><b>Assumption</b><br/>Mol finds the draft policy document acceptable.</p>  |
| <p><b>Activities with Milestones</b></p> <p><b>1. Assessment of the legal framework and institutional arrangements regulating international trade</b></p> <p>1.1 Inception report and concept note delivered to ADB and Mol (end of month 1 following issuance of the NTP)</p> <p>1.2 Baseline trade value and volumes (using 2013 data) established (month 2 following issuance of the NTP)</p> <p>1.3 Phase 1 interim report delivered to ADB and Mol (month 3 following issuance of the NTP)</p> |   | <p><b>Inputs</b></p> <p><b>ADB Technical Assistance Special Fund (TASF-V): \$0.5 million</b></p> <p>Note: The government will provide counterpart support in</p> |   |

| Design Summary  | Performance Targets and Indicators with Baselines <sup>a</sup> | Data Sources and Reporting Mechanisms | Assumptions and Risks  |
|---|--|---------------------------------------|--|
| <p><b>2. Comparative examination of motivations of other countries to adopt an ITP, and resulting benefits</b></p> <p>2.1 Phase 2 interim report delivered to ADB and MoI (month 6 following issuance of the NTP)</p> <p><b>3. The impact of trade liberalization on the food processing industry, and trade challenges and opportunities (including access to broader international markets with Mongolia's principal trading partners) assessed, and a workshop to develop good practice in negotiating trade agreements conducted</b></p> <p>3.1 Draft report delivered to ADB and MoI (month 8 following issuance of the NTP)</p> <p>3.2 Capacity-development workshop conducted on good practice in negotiating trade agreements, simulating negotiations with principal trading partners (month 8 following issuance of the NTP)</p> <p><b>4. Draft ITP, supported by (i) policy simulation and modeling analysis; (ii) updated recommendations to enhance institutional capacity in support of trade policy formulation, implementation of WTO commitments, and the conduct of trade negotiations; and (iii) a validation seminar</b></p> <p>4.1 Draft final report delivered to ADB and MoI (beginning of month 11 following issuance of the NTP)</p> <p>4.2 Validation seminar conducted (end of month 11 following issuance of the NTP)</p> <p>4.3 Final report (reflecting comments and feedback received at the validation seminar) delivered to ADB and MoI (month 12 following issuance of the NTP)</p> <p>4.4 Selected consultant deliverables identified and prepared for publication as knowledge products (e.g., policy-based briefs, written case studies assessing international experience, and knowledge showcases for senior decision makers) (month 12 following issuance of the NTP)</p> |  |                                       | <p>the form of translation and interpretation support, venues for training, seminars, and conferences, domestic transportation, and other in-kind contributions.</p> |

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CPMM = corridor performance measurement and monitoring, GASI = General Agency for Specialized Inspection, ITP = international trade policy, MCGA = Mongolia Customs General Administration, MoI = Ministry of Industry, NTP = notice to proceed, TA = technical assistance, TFI = trade facilitation indicator, TRS = time release study, UNCTAD = United Nations Conference on Trade and Development, WTO = World Trade Organization.

<sup>a</sup> Baselines to be established under Output 1.

<sup>b</sup> ADB. 2002. *Technical Assistance to Mongolia for Trade Policy Review*. Manila (TA 3934-MON). Final consultant report (Mongolia: Trade Policy Review) delivered September 2003.

Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

| <b>Item</b>                                | <b>Amount</b> |
|--|---------------|
| <b>Asian Development Bank<sup>a</sup></b>  |               |
| 1. Consultants                             |               |
| a. Remuneration and per diem               |               |
| i. International consultants               | 300.0         |
| ii. National consultants                   | 80.0          |
| b. International and local travel          | 40.0          |
| c. Reports and communications <sup>b</sup> | 10.0          |
| 2. Training, seminars, and conferences     | 20.0          |
| 3. Contingencies                           | 50.0          |
| <b>Total</b>                               | <b>500.0</b>  |

Note: The technical assistance (TA) is estimated to cost \$550,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of translation and interpretation support; venues for training, seminars, and conferences; domestic transportation; and other in-kind contributions. The value of the government contribution is estimated to account for 9.1% of the total TA cost.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

<sup>b</sup> Includes the cost of translating consultant reports into the Mongolian language.

Source: Asian Development Bank estimates.

## **OUTLINE TERMS OF REFERENCE FOR CONSULTANTS**

1. The technical assistance (TA) consultants will examine the following:
  - (i) sustainability of Mongolia's external trade positions in key commodity groupings by mapping key trends and features of exports and imports;
  - (ii) experience of other countries and regions in adopting an international trade policy (ITP);
  - (iii) current legal framework and institutional responsibilities governing and implementing Mongolia's external trade, including multilateral, regional, and bilateral trade relations and agreements; provisions that directly affect imports, exports, transit traffic, and issues of market access; institutional capacity to implement provisions of the World Trade Organization (WTO) commitments; and extent of compliance with current requirements;
  - (iv) policy and legal framework governing domestic and foreign investments and incentives that facilitate external trade, including the operation of special economic zones;
  - (v) benefits (e.g., improvements in market access) and consequences (e.g., increased competitive pressures) stemming from the accession of Mongolia's principal trading partners to the WTO;
  - (vi) Mongolia's response to trade policy priorities set forth in the updated Central Asia Regional Economic Cooperation (CAREC) Trade Policy Strategic Action Plan; and
  - (vii) potential to join regional trade and economic alliances (i.e., Association of Southeast Asian Nations Free Trade Area, Economic Partnership Agreement with Japan).
  
2. The consultants will implement and deliver the TA in a phased manner. The first phase will analyze the appropriateness of Mongolia's regulatory framework for increasing competitiveness, expanding trade, and attracting inward investment. The second phase will evaluate Mongolia's institutional structure and capacity for operationalizing the framework so that competitiveness is augmented, trade expanded, and inward investment increased. The third phase will scrutinize international trade policies adopted by other countries, to include an examination of the motivations for their adoption and subsequent benefits realized during policy implementation. The fourth phase will develop, test through simulation, and propose an ITP.

### **A. Objective of the Mongolia International Trade Policy Engagement**

3. The engagement will focus in part on issues that (i) advance harmonization of national policy and regulatory regimes, (ii) support the growth of more regional trade and services as a means to facilitate trade integration between Mongolia and its major trading partners, (iii) identify activities that are necessary to enhance trade between Mongolia and its major trading partners, and (iv) encourage removal of lingering tariff and nontariff barriers. The resulting policy proposal must acknowledge the economic and political barriers, minimize costs, and maximize benefits of concluding free trade agreements between Mongolia and its major trading partners. Strengthening Mongolia's capacity to regulate international trade and conduct trade agreement negotiations, in conjunction with parallel TA in trade facilitation and investments in infrastructure development, will achieve the following objectives:
  - (i) facilitate trade flow within the subregion;
  - (ii) promote free movement of goods and factors of production;

- (iii) support the creation of a larger regional market and better access to intraregional and international markets; and
- (iv) enhance competitiveness of domestic participants, in particular private sector business.

4. At the same time, in formulating an ITP, the consultants will consider, examine, and reflect in the policy document the protection of Mongolian workers, the upholding of international labor standards, and protection of the environment.

## **B. Approach and Scope of the Services**

5. The consultant will be required to utilize appropriate quantitative and qualitative tools and methods (including product space analysis) to achieve the goals and objectives of the policy. The duties and responsibilities of the consultant include the following:

- (i) Conduct research on Mongolian trade development issues and prepare analytical reports on intraregional (CAREC, Northeast Asia) trade analysis as it relates to major issues of concern to Mongolia.
- (ii) Analyze trends, challenges, and prospects in regional trade through policy-oriented research on trade development between Mongolia and its major trading partners.
- (iii) Review and consider national and regional experiences of the process of trade liberalization, and identify specific actions that Mongolia may consider adopting.
- (iv) Conduct in-depth national and regional assessments on trade sector capacity and potential competitive advantages, including data collection, identification, and tracking of government and nongovernment barriers, and consultations with the private sector and other stakeholders.
- (v) Formulate proposals for strategies, policies, programs, and effective measures aimed at harmonizing national regimes and legislation with international standards and best practice in trade facilitation.
- (vi) Formulate proposals for national and regional (e.g., CAREC) policy on comprehensive and coordinated approaches to trade that entail improvements in infrastructure and provision of efficient and competitive transport infrastructure and services. This will include road, railway, and seaport infrastructure serving Mongolia's trade; information and communication technology; review and improvement of business process analyses in conducting international trade; and simplification and harmonization of customs and border procedures.

## **C. Methodology**

6. The consultant will undertake the following:

- (i) Submit to the Asian Development Bank (ADB) and the Ministry of Industry (Mol) a concept note on the policy including details about critical issues and the methodology proposed to conduct the policy modeling and simulation aspects of the assignment.
- (ii) Undertake field missions to Mongolia to collect relevant data and information; and hold discussions with officials, management, experts, and other stakeholders in trade, industry, and transport.
- (iii) Prepare and submit phase 1 and 2 draft reports for review by ADB and Mol.
- (iv) Conduct a capacity-development workshop on good practice in negotiating trade agreements based on an analysis of challenges and opportunities presented by the accession of principal trading partners to the WTO.

- (v) Prepare and submit to ADB and MoI a draft final report for review and comment, and a final report that incorporates comments on the draft final report.
- (vi) Provide a resource person and arrange the validation workshop to confirm the study findings.

#### **D. Reports, Deliverables, and Time Schedule**

7. The outputs of the TA will be a series of policy and legal assessments; recommendations to strengthen the institutional capacity for trade policy formulation and trade facilitation; an analysis of the impact of large trading partners acceding to WTO; a capacity-development workshop on conducting trade negotiations; and a validation seminar to present, discuss, and revise the team's preliminary findings and recommendations. The TA will examine the following:

- (i) sustainability of Mongolia's external trade positions in key commodity groupings, by mapping key trends and features of exports and imports;
  - (ii) experience of other countries and regions in adopting an ITP;
  - (iii) current legal framework and institutional responsibilities governing and implementing Mongolia's external trade, including multilateral, regional, and bilateral trade relations and agreements; provisions that directly affect imports, exports, transit traffic, and issues of market access; institutional capacity to implement provisions of WTO commitments; and extent of compliance with current requirements;
  - (iv) policy and legal framework governing domestic and foreign investments and incentives that facilitate external trade, including the operation of special economic zones;
  - (v) benefits (e.g., improvements in market access) and consequences (e.g., increased competitive pressures) stemming from the accession of Mongolia's principal trading partners to WTO;
  - (vi) Mongolia's response to trade policy priorities set forth in the updated CAREC Trade Policy Strategic Action Plan; and
  - (vii) prospects for joining regional trade and economic alliances (i.e., Association of Southeast Asian Nations Free Trade Area, Economic Partnership Agreement with Japan).
8. The assignment will be carried out over 12 months according to the following time frame:
- (i) 3 months to assess the legal framework and institutional arrangements (including capacity development needs) for Mongolia's international trade;
  - (ii) 3 months to conduct a comparative examination of other countries' reasons for adopting an ITP, and resulting benefits;
  - (iii) 2 months to assess trade challenges and opportunities presented by the People's Republic of China and Russia, and to conduct a workshop to build capacity for good practice in negotiating trade agreements; and
  - (iv) 4 months to draft and finalize the study report, including a draft ITP for Mongolia, supported by (a) policy simulation and modeling analysis; (b) updated recommendations to enhance institutional capacity in support of trade policy formulation, implementation of WTO commitments, and the conduct of trade negotiations; and (c) a validation seminar.
9. The consultant will submit an inception report and concept note to ADB and MoI not later than 1 month following issuance of the notice to proceed detailing the planned work program and an outline for the final report. ADB and MoI will evaluate the report. The consultant will



submit the interim phase 1 report 3 months and phase 2 report 6 months into the assignment. These reports will be evaluated by ADB and MoI, with revised versions incorporating comments to be included in the final report. The consultant will present the draft trade policy to ADB and MoI within 11 months following issuance of the notice to proceed; after incorporating ADB and MoI comments, the consultant will present the report to a validation seminar. The consultant will work with ADB and MoI to identify materials suitable for broader dissemination as knowledge products (e.g., policy-based briefs, written case studies assessing international experience, and knowledge showcases for senior decision makers) and revise the identified materials accordingly. Two hard copies and a soft copy of each deliverable should be submitted to ADB and MoI within the agreed period. ADB and MoI reserve the right to compel the consultant to revise and improve deliverables until they are satisfied that minimum quality standards are met.

## E. Qualifications

10. For this assignment, the consultant is expected to mobilize top-quality expertise, ideally from permanent staff. The consultant's proposal will include a detailed description of roles and responsibilities, as well as profiles of all team members. The team will be able to work in English, particularly in meetings involving stakeholders. All international consultants will have earned an advanced university degree, preferably a doctorate, in economics or development economics with an emphasis on international trade and trade facilitation issues, macroeconomics, or closely related areas. They will demonstrate at least 10 years of progressively responsible experience in applying the principles of trade-driven economic and social development, preferably in the context of Mongolia and Northeast Asia. Practical experience in regional integration and economic cooperation is sought, ideally gained through involvement in macroeconomic analysis, ITP formulation and negotiations, and infrastructure development policies as part of a broader trade expansion agenda. Clear ability in program implementation, research, and teaching, with a record of relevant publications, would be an asset. Fluency in written and spoken English is required. Knowledge of Mongolian is desirable.

11. **Team leader** (international, 8 person-months, intermittent). This position will be assigned to a permanent staff member of the consulting firm, with an advanced degree (doctorate or master's or equivalent qualification) in trade economics, and 15 years or more of experience in leading the formulation of an ITP. The team leader should be a trade economist, analyst, or negotiator; have an excellent knowledge of the Northeast Asian, Mongolian, and WTO context; and have led at least three complex studies of similar scope and duration. The team leader must have relevant experience in negotiating trade agreements between WTO member states; have strong regional trade understanding and experience; and have demonstrated through previous assignments the capacity to conduct trade agreement negotiations, convey that experience to others, engage in senior policy dialogue, and develop long-term vision and perspectives. The team leader will be responsible for ensuring the quality and punctual submission of all deliverables, for conducting a capacity-development workshop on good practice in negotiating trade agreements, and for presenting the outcome of the assignment at a validation workshop.

12. **Economic analyst in charge of trade data collection and strategy, and policy modeling and simulation** (international, 7 person-months, intermittent). The consultant will have an advanced degree (doctorate or master's or equivalent qualification) in economics or econometrics; at least 10 years' experience in the formulation and assessment of trade policies; and an excellent knowledge of trade data sources, mathematical tools (models), and software used for this type of work. The consultant will be responsible for (i) establishing baselines from which to assess the achievement of TA impact; (ii) developing and testing means to model and

simulate the impact of ITP implementation; (iii) identifying possible new markets that may emerge as a direct result of the ITP and any resulting free trade agreements, and using product space analysis, outlining Mongolia's potential comparative advantage attaching to a value chain in nonmining exports; and (iv) preparing an analytical report on the results of policy simulation and modeling. The consultant will work closely with the team leader to formulate the ITP. Experience will include work in Mongolia, although not exclusively. The consultant will have conducted at least three assignments similar to this one. Good knowledge of the Northeast Asian context is required.

13. **National consultants** (20 person-months). The consultant may propose additional positions to be staffed by national consultants. The final composition of the team will depend on a variety of factors such as the extent to which cross-sectoral issues can be addressed by team members with both sector-specific and other expertise and experience. The team is expected to include a legal and regulatory expert, an institutional development specialist, collective expertise on regional cooperation initiatives in which Mongolia participates, and an expert on developing policy implementation monitoring mechanisms. The consultant should demonstrate that the team, as a whole, has both the spread of expertise and experience required, and that it can operate as an integrated team.