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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Mongolia: Prospects For Economic Development

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
April 1971

INTELLIGENCE MEMORANDUM

Mongolia:
Prospects For Economic Development

Introduction

1. Mongolia's Fourth Five-Year Plan (1966-70) witnessed many failures and few successes. The plan had two major setbacks -- acute losses of livestock and serious shortages of grain and fodder. Moreover, these agricultural setbacks marred the performance of Mongolia's small industrial sector which depends heavily on agricultural raw materials. Substantial Soviet aid was necessary to insure the stability of the economy; Mongolia -- because of its strategic location between Communist China and the USSR -- is the largest Soviet aid recipient on a per capita basis in the entire world.

2. This memorandum examines the performance of the Mongolian economy since 1965 and the measures taken to improve its stability and to stimulate its growth. It then evaluates the effects of Soviet participation in the economy. Finally, it assesses the prospects for development during the Fifth Five-Year Plan (1971-75).

Discussion

Bac' ground

3. The Mongolian economy, historically based on livestock, is only now beginning to enter the modern industrial age. The harsh climate, the sparse population -- 1.3 million people on 600,000 square

Note: This memorandum was prepared by the Office of Economic Research and coordinated within CIA.

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miles of territory -- and the apparent lack of high-grade mineral deposits limit the scale and direction of economic development. Investment requirements are substantial even to expand needed support activities such as the raising of fodder crops for the livestock herd. Apparently in recognition of these constraints, the Soviet-sponsored development program has centered on changing the nomadic livestock economy into an economy with a more sedentary ranch-type agriculture and a small industrial base for processing animal products and producing fuels and building materials.

4. At the beginning of the Fourth Five-Year Plan (1966-70), agriculture was still by far the primary sector of the economy (see Table 1).^{*} There were 20 times as many livestock as people, and the processing of animal raw materials accounted for more than 50% of gross industrial production. The processed animal products not only satisfied the demands of the domestic economy but also accounted for more than 60% of export earnings. The "support-type" industries accounted for about one-third of gross industrial production. Of these, the electric power and the coal industries were the more important, followed by the small construction materials industry.

5. Out of the more than 4 billion tugriks^{**} of planned investment in the economy in 1966-70, agriculture and industry were to receive approximately equal shares (see Table 2). For agriculture, the plan stressed investment in the construction of animal enclosures, feed plants, and irrigation projects. Industrial investment plans emphasized the processing of animal products in order to increase export earnings by shipping processed products rather than live animals and the construction of electric power, building materials, and other "support-type" industries at the industrial production centers, Darhan and Choybalsan.

^{*} Official statistics released by the Mongolian government are used in the text and tables of this memorandum. They are believed to provide reasonably good indicators of general orders of magnitude and trends in the economy.

^{**} At the commercial rate, 4 tugriks equal US \$1.

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Table 1
Mongolia: Selected Economic Indicators

	Unit	1965	1970	
			Plan	Actual
Agriculture				
Livestock	Million head	23.8	25-26	22.5
Grain	Thousand metric tons	354	N.A.	327
Industry				
Gross industrial production	Billion tugriks	1.0	1.75-1.84	1.6
Electric power	Million kilowatt hours	242	430-460	428
Coal	Thousand metric tons	997	2,000-2,050	1,998
Cement	Thousand metric tons	--	100-130	96
Bricks	Million pieces	43.6	110-130	43.1
Lumber	Thousand cubic meters	186	430-450	386
Wool	Thousand metric tons	7.9	12-13	9.7
Leather footwear	Million pairs	1.4	2.0 -2.1	1.6
Processed meat	Thousand metric tons	18.8	55-62	34.9

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Table 2

Mongolia: Capital Investment in the National Economy

							Million Tugriks	
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	Actual Cumulative Total, 1966-70	Planned Cumulative Total, 1966-70
<i>Total capital investment</i>	815	846	1,018	1,195	1,240	1,007	5,306	4,150-4,250
Of which:								
Industry	300	199	277	484	381	198 a/	1,539 a/	1,080-1,100
Agriculture	110	114	233	233	334	464	1,378	1,230-1,250
Housing and social services	255	356	229	160	131	N.A.	876 b/	410-420
Transportation and communications	54	86	150	168	114	N.A.	518 b/	490-500

a. Planned investment for 1970.

b. Cumulative total for 1966-69.

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Outcome of the Plan

6. The economy fared poorly during the Fourth Plan. In the first part of the period, the agricultural sector suffered from unfavorable weather, inefficiencies in management of collectives, and delays in construction projects. These problems reduced the expected flow of raw materials to industry. Growth in gross industrial production, which was to average 11.0%-12.5% annually, actually amounted to 9%. Agricultural production in 1970 was even less than it had been in 1965. Official indexes of the gross value of production are as follows:

<u>Year</u>	<u>Gross Industrial Production</u>	<u>Gross Agricultural Production</u>	<u>Gross Social Production</u> ^{a/}
1965	100	100	100
1966	107	84	102
1967	118	89	111
1968	127	69	109
1969	141	88	118
1970	155	N.A.	123

a. Gross social production is the sum of the values of all goods produced in the economy. Services are not included.

7. The plan did have one major area of success -- the capital investment goal was not only achieved but overfulfilled. The USSR and its East European allies were largely responsible for its success, having provided about one-half of the funds. As Table 2 shows, agricultural construction was sluggish at the beginning of the plan but accelerated quickly after the mid-plan setbacks. Industrial investment, on the other hand, increased rapidly during the initial years of the plan and declined upon completion of the major industrial projects. Also, the regime probably realized that further expansion of industry was not needed until the flow of agricultural and other materials could be more firmly established.

8. Mongolia has endeavored to establish permanent settlements as a replacement for the nomadic tent villages and to provide communications facilities linking the growing urban centers. The

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investment data in Table 2 indicate that this effort received an important share of the available developmental resources. Housing construction was greatest at the beginning of the plan and then began to decline as the larger projects at Darhan, Ulan Baator, and Choybalsan were being finished. Construction of roads was continued, the telephone network was enlarged, and in 1968 a television station at Ulan Baator was completed.

Agricultural Performance

9. Of the setbacks suffered by agriculture, the livestock losses were the most severe. As Table 3 shows, problems began to develop at the beginning of the plan. The livestock herd had been decreasing since 1965, but the decline accelerated during the winter of 1967-68 when temperatures dropped to 50-60 degrees below zero. While extremely severe weather was the prime factor in these heavy losses, the Mongolians have noted that mismanagement -- including lagging construction of heated shelters and inadequate veterinary services for controlling disease -- contributed to livestock losses in every year of the plan. Although some recovery was made, the herd size in 1970 was still more than a million less than when the plan began.

10. Serious setbacks in grain and fodder production also occurred because of droughts in 1966, 1968, and 1969. Grain production in 1969 was at the lowest level since Mongolia first began planting wheat in the late 1950s. Emergency deliveries of animal feed during and after the 1967-68 winter were required from the USSR, and Mongolia had to import Soviet wheat in 1970. With the more favorable weather conditions in the last year of the plan, grain production increased substantially, but was still below the level of 1965.

11. The problems in agriculture led the regime to step up investment in livestock shelters, fodder-processing plants, and irrigation projects. As part of its collectivization program, Mongolia had undertaken the task of creating a ranch-type livestock base. Enclosures were set up to prevent the herds from wandering loose on the steppes, and heated shelters provided protection against the harsh winters. Construction accelerated from 2,850

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Table 3

Mongolia: Key Agricultural Indicators

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Livestock (million head)	<u>23.8</u>	<u>22.6</u>	<u>22.4</u>	<u>20.8</u>	<u>21.4</u>	<u>22.5</u>
Of which:						
Sheep	13.8	13.1	13.1	12.1	12.6	N.A.
Cattle	2.1	2.1	2.0	2.0	2.0	N.A.
Goats	4.8	4.4	4.3	3.8	3.9	N.A.
Horses	2.4	2.4	2.3	2.2	2.2	N.A.
Grain (thousand metric tons)	<u>354</u>	<u>297</u>	<u>360</u>	<u>216</u>	<u>132</u>	<u>327</u>
Of which:						
Wheat	320	253	316	188	114	N.A.
Barley	9	11	12	6	4	N.A.
Oats	21	31	31	21	13	N.A.

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shelters in 1967, before the killing winter, to 6,000 in 1968, to about 7,000 in 1969, but dropped to less than 6,000 in 1970. At the end of the plan, about one-half of the livestock were provided with heated shelters.

12. The enclosure of livestock increased the need for fodder and feed. All of the 15 feed plants envisioned in the plan were completed, and total capacity increased to at least 120,000 tons. Despite the increased capacity, only 50,000 tons of mixed feed were produced in 1970 because of inadequate supplies of raw materials. Construction of wells was also stepped up in order to improve grain and fodder yields. By 1970, more than 2,500 wells were constructed for irrigation purposes as well as for watering livestock. In general, the Communist program for restructuring agriculture often involves large investment costs which have no immediate pay-off in larger output.

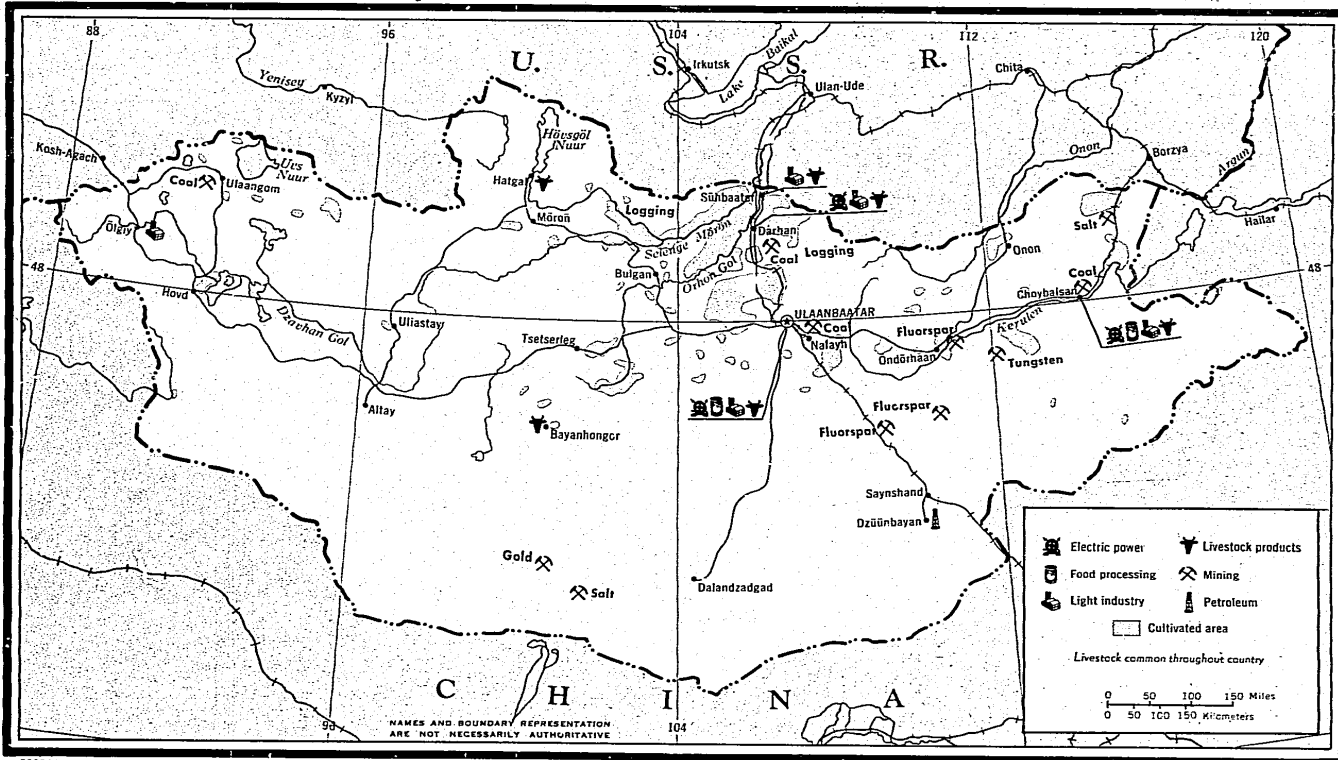
Industrial Performance

13. Animal processing is the largest industrial activity in Mongolia, and the shortfalls in industrial production came primarily in this sector. The production of leather footwear and processed meat is indicative of how performance in the sector fell behind plan (see Table 1). Nevertheless, production of processed meat almost doubled during the five-year period. With the completion of Mongolia's largest meat-processing plant at Ulan Baator in 1968, exports of processed meat replaced exports of live animals.

14. Industries not dependent on agricultural raw materials were largely successful in achieving their goals. Electric power production reached almost 430 million kilowatt hours in 1970 on the basis of new capacity constructed by the USSR and Poland. Much of the increased output came from two new plants in Ulan Baator and Choybalsan. The thermal powerplant No. 3 in Ulan Baator was constructed as part of a system to distribute electricity throughout the north-central portion of Mongolia. Electric power lines were constructed along the Trans-Mongolian railroad from Ulan Baator to Suhe Baatar near the Soviet border. This, Mongolia's economic heartland (see the map), now will be

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Mongolia: Economic Activity



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provided with more electric power for coal mining, animal husbandry, and timber production. The Choybalsan plant will provide electric power for the new and rapidly growing eastern industrial area.

15. Coal production in 1970 reached about 2 million metric tons, double the output of 1965. The Nalayha (near Ulan Baator), Sharyn Gol (near Darhan), and Aduuchulum (near Choybalsan) open pit coal mines are the largest producers and have an annual capacity of 600,000, 1,000,000, and 200,000 metric tons, respectively. All these mines were developed with Soviet assistance and are the primary suppliers to the three major industrial centers. Since the coal is a low-quality lignite, none is exported. The coal is used primarily in the electric power central heating plants* and, to a lesser extent, as a home heating fuel.

16. As for other mining activity, Mongolia has reserves of tungsten, gold, and fluorspar, but no data are published on production or reserves. Geological surveys are continuing with assistance from CEMA allies. Even if significant deposits are located, much work would be necessary to make exploitation economically feasible, especially in upgrading the transportation system. A large part of Mongolia has forbidding climate and terrain with little else than dirt roads connecting small villages. The only railroads connect the three major cities with the USSR and Communist China (see the map).

17. The construction materials industry had mixed results during the plan. Lumber output more than doubled, yet failed to meet plan goals. Production of bricks registered no increase. Mongolia's first cement plant was put into operation in 1967 and output grew steadily to the minimum 1970 target level.

Foreign Assistance to Capital Construction

18. The USSR was by far the prime foreign contributor to Mongolia's capital investment program,

** The electric power central heating plants supply both electric power and heat to local facilities and electric power to more distant consumers.*

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extending a credit in 1965 of \$550 million for projects under the Fourth Plan. In addition, the USSR later agreed to finance emergency deliveries of food and fodder during and after the disastrous 1967-68 winter and to underwrite a stepped-up agricultural construction program. It is believed that the emergency deliveries at least were provided as grants-in-aid. The USSR's East European allies provided an estimated total of \$60 million in economic assistance during the plan period, probably at Soviet prompting. Mongolia received only one other substantial credit, a \$7 million extension from Yugoslavia after the visit by President Tito in 1968.

19. Much of the Soviet and East European aid was channeled into the development of Darhan and Choybalsan and into agricultural construction. The development of Darhan began during the Third Five-Year Plan (1961-65). Many of the projects were left incomplete, however, and construction activity was extended into the Fourth Plan. Mongolia's first cement plant, built with Czechoslovakian assistance, began operation in Darhan in 1967. Plants for processing animal products and producing building materials were also constructed. The development of Choybalsan in Mongolia's eastern region has been an ambitious undertaking of the Fourth Five-Year Plan, and construction activity has progressed at a rapid pace. An electric power central heating plant has been put into operation, and many small-scale animal-processing plants and construction materials plants have been completed. Choybalsan, because of its accessibility to the Trans-Siberian Railroad, will become a major export center of processed animal products.

20. Mongolia's foreign trade reflects the availability of Soviet credit assistance. Mongolian imports, especially machinery and equipment, have been growing at a rapid pace since 1965 while exports have declined. The unbalanced growth in trade has resulted in a \$500 million deficit during 1966-69. For the most part, deliveries under the 1965 Soviet credit generated most of the deficit and accounted for the rise in machinery and equipment imports, as shown in Table 4. Mongolia's internal economic difficulties also added to the size of the deficit. Agricultural exports, which account for more than

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Table 4
Mongolia: Trade with the USSR a/

	Million US \$				
	1965	1966	1967	1968	1969
<i>Total imports</i>	126.8	158.0	186.4	193.9	196.2
Food and beverages	19.3	18.3	21.8	16.0	25.4
Crude materials	1.2	1.8	2.0	1.8	2.1
Fuels	10.0	8.6	9.8	10.2	11.6
Chemicals	3.8	4.8	4.0	4.0	3.9
Manufactured goods	32.4	39.9	42.5	40.6	34.4
Machinery and equip- ment	57.8	81.8	102.8	117.3	113.7
Residual	2.3	2.7	3.5	3.9	5.2
<i>Total exports</i>	61.9	62.3	62.1	53.1	52.8
Food and beverages	27.5	28.4	29.6	21.1	19.9
Crude materials	32.2	31.6	30.7	29.6	29.1
Fuels	--	--	--	--	--
Chemicals	--	--	--	--	--
Manufactured goods	1.7	2.1	1.2	1.8	2.6
Machinery and equip- ment	--	--	--	--	--
Residual	0.4	0.2	0.6	0.5	1.1

a. Because of rounding, components may not add to the totals shown.

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80% of Mongolia's exports to the USSR, fell in 1968-69 because of the severe losses to both livestock and grain crops. The agricultural setbacks also affected Mongolian imports of food products, which rose sharply after the droughts of 1966 and 1968. Because grain production was even less in 1969, imports of food products from the USSR probably increased further in 1970.

21. In sum, Soviet support has been and will continue to be crucial to the stability and development of the Mongolian economy. This assistance comes in several forms: substantial financial aid through long-term credits and outright grants; delivery of machinery and equipment for industrial and agricultural facilities; provision of construction teams by Soviet construction enterprises; technical assistance provided by Soviet specialists at construction sites, at operating plants, and probably even in government ministries; and technical training of students and workers in Mongolia and the USSR. For Mongolia, the Soviet economic aid is large -- at \$100 per capita per year, Mongolia receives more Soviet aid per person than any other country in the world. For the USSR, Mongolia plays a strategic role as a buffer between it and Communist China. The USSR has been willing to make its significant aid commitment in order to ensure Mongolia's continued military and political allegiance in the Sino-Soviet dispute.

The Fifth Five-Year Plan

22. Premier Tsedenbal in a speech of 11 February 1971 noted that creating conditions for more stable growth in agriculture will be the primary objective of the Fifth Five-Year Plan (1971-75).* Agriculture is allotted the largest share of capital investment resources, 35% of the total capital budget of 5.4 billion tugriks, compared with a 26% share in the preceding plan. The livestock herd is expected to grow by 11.2% to 25.1 million head in 1975.

23. In the attempt to strengthen the agricultural base, efforts will be centered on constructing heated livestock shelters and irrigation facilities and on expanding fodder output and reserves.

* *No details of the major five-year plan goals have been announced, except for the livestock herd.*

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The construction of shelters will continue throughout the new plan; about 21,000 shelters are to be built. The acreage devoted to fodder is to be expanded 1.8 times during the new plan, with production of all types of fodder expected to increase by 63% and fodder reserves by 30%. The achievement of the goals for fodder production will depend on Mongolia's ability to expand irrigation facilities. The plan calls for drilling more than 6,000 wells and irrigating more than 14 million hectares of pastures. With Soviet assistance, Mongolia will also set up three additional state farms as experimental research farms and will improve veterinary facilities for the livestock.

24. Expansion of industry will receive less attention during the new plan than it did in the past. Industry will account for less than one-fourth of total capital investment, compared with almost 30% during 1966-70. Raw materials, not capacity, is industry's problem in the short run. Nevertheless, some expansion will continue, with emphasis on enlarging the animal-processing industry around Choybalsan. The completion of this new industrial center will provide greater impetus to Mongolia's lagging export sector.

25. The success of the Fifth Plan depends heavily on Soviet economic assistance. Although no data on Soviet aid to Mongolia have been announced, an economic agreement was reached with the USSR in October 1970, and Premier Tsedenbal has stated that Soviet credit assistance will be greater than during the previous plan. Thus Mongolia's dependence on the USSR clearly continues, and self-sustained growth is a distant hope.

Conclusions

26. Mongolia has been slowly moving, with substantial Soviet aid, from an economy based on nomadic animal husbandry toward an economy based on ranch-type animal raising and a small industrial sector mainly engaged in the processing of livestock products. The Fourth Five-Year Plan (1966-70) had two major setbacks: heavy winter losses to the livestock herd in 1966 and 1968 and serious

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shortfalls in production of grain and fodder in 1968 and 1969 because of droughts. These losses adversely affected performance throughout the economy and substantially offset the large aid provided by the USSR. Thus during the Fourth Plan, only moderate gains were made in industrial production and none at all in agriculture. Exports fell behind schedule because of shortfalls in domestic production, and food and fodder imports had to be increased unexpectedly to meet shortages. Strong support by other Communist countries caused investment to exceed the plan goals.

27. The investment in livestock enclosures, irrigation works, and industrial facilities during the Fourth Plan brighten prospects for economic advances under the new Fifth Plan for 1971-75. The decision to make development of animal husbandry the basic objective of the Fifth Plan and thus to continue large agricultural investment allocations during the next five years should reduce even further the vulnerability of livestock and crops to unfavorable climatic conditions as well as lead to some improvement in veterinary and related services. Industrial investment will have lessened priority; the immediate problem in industry is raw materials not capacity. Soviet economic assistance, supplemented by smaller amounts from Eastern Europe, will play at least as important a role in the new plan as in the last. The per capita assistance needed to transform the sparse nomadic Mongolian population to a settled and planned way of life is proving amazingly high.

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