

**STUDY REPORT ON  
SUB-REGIONAL TRADE AND TRANSIT  
COOPERATION IN MONGOLIAN TRADE  
CORRIDORS**

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## 1. Background of the Study

The Sub-region of East and North East Asia (ENEA), though having only six countries<sup>1</sup>, plays a leading economic role in Asia and in the World. Mongolia is the only landlocked country in the sub-region of ENEA. After the collapse of the Soviet-era Council for Mutual Economic Assistance (COMECON) in 1991, Mongolia transitioned itself to a global trade framework through the accession to the WTO. Despite its transition to open market economy, Mongolia faces a number of bottlenecks and barriers in the international trade process and investment, especially because of its geographical disadvantage and its narrow industry spectrum. Mongolia's trade competitiveness is greatly affected by higher cost and longer time in the movement of goods. The country ranks 159 out of 183 in terms of 'Trading Across Borders'<sup>2</sup> and 141 out of 155 in 'Logistics Performance Index.'<sup>3</sup> Time for import and export for Mongolia is generally twice more than China; while time to export and import in China is 21 and 24 days respectively, it is 46 and 47 days in Mongolia. In the case of cost for export and import, the gap is even wider; with cost to export and import for China is US\$500 and US\$545 respectively while corresponding costs in Mongolia are US\$2,131 and US\$2,742.

Facilitating trade and transit in major trade corridors in Mongolia through close cooperation with its neighboring countries can significantly improve trade efficiency and competitiveness of Mongolia; it can facilitate transforming Mongolia from being "land-locked" to "land-linked." Although the current volume of transit is insignificant, the potential of Mongolian being a transit country is rather high. Analysts estimate that revenue from freight transit between Europe and Asia exceeded \$50 billion in 2007 and could reach \$80 billion in 2015 if current increases in cargo turnover continue. However sea-shipping companies earned nearly all this revenue, since 98% of transit cargo is transported between the EU and the Asia Pacific by sea through the Suez Canal.<sup>4</sup> Mongolian corridors have good potential to be developed into efficient transit corridors linking Europe to Asia and the Pacific.

In addition, trade and transit facilitation can open-up tremendous opportunities for Mongolia to develop its nascent export industries, particularly cashmere and wool products as well as meat products and facilitate faster clearance of crucial import products such as food and pharmaceuticals. However, for this goal to be materialized, close collaboration ties with its neighboring China and Russian Federation are essential, because most of Mongolian trade cargos need to move through trade corridors in the territories of these two countries. It is noteworthy that such collaboration would benefit not only Mongolia but also China and Russian Federation. By developing Mongolian trade corridors, China and Russian Federation can potentially benefit by leveraging them

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<sup>1</sup> China, Democratic People's Republic of Korea, Japan, Mongolia, Republic of Korea and Russian Federation

<sup>2</sup> Doing Business 2012, World Bank

<sup>3</sup> Logistics Performance Index, 2010, World Bank

<sup>4</sup> The EurAsEC Transport Corridors, Munich Personal RePEc Archive, 2009

as their regional trade and transit corridors for efficient movement of their trade goods between them as well as to Europe.

In due note of the above background, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) conducted the study with the goal of facilitating subregional trade and transit among Mongolia, China and Russian Federation by identifying at and behind the border bottlenecks for trade on major trade corridors between Mongolia and China, and Mongolia and Russian Federation, and developing practical recommendations and strategic action plans for improvement, and building capacity among stakeholders to undertake corrective measures

## 2. Study Approach Taken

For effective conduct of the analysis, assurance of relevance of the study outcome and sustainability of study result, the study was designed and implemented by adopting the following approaches.

### 2.1 Analysis Method: Cross-border BPA

The primary method taken to analyze Mongolian trade corridors was the Business Process Analysis (BPA). Using the BPA Guide<sup>5</sup> developed by ESCAP, in-depth cross-border BPA on Mongolian trade corridors was conducted. Usually, BPA is conducted at national level. However, for this study, BPA was done cross-border to properly identify trade and transit issues of a Land-Locked Developing Country (LLDC) since it is necessary that analysis should be made not only on corridors in LLDC's territory, but also on corridors in the territories of its neighboring transit countries. Figure 1 shows the two corridors selected for the study, one through China and the other through the Russian Federation.

The analysis was done in two main steps. First, Analysis was carried out on Mongolian corridors by conducting the BPAs on five major trade and transit products, interviewing the major stakeholders and collecting information from previous studies and various statistics. The five trade and transit products selected for BPA are listed in Table 1.

**Table 1. Target trade and transit products of BPA**

Product	Process	Origin	Destination	Parties Interviewed
Cashmere	export	Mongolia	China	Customs, Railway Authority,
Cement	import	China	Mongolia	Port office, Inspection and
Meat	export	Mongolia	Russian Fed.	Quarantine Agency, Trader,
Flour	import	Russian Fed.	Mongolia	Freight Forwarder, Commerce
Used car	Transit*	Japan/ROK	Mongolia	Bureau and other regulatory bodies

\* Transit via China

<sup>5</sup> See [http://www.unescap.org/unnext/tools/business\\_process.asp](http://www.unescap.org/unnext/tools/business_process.asp) for details.

**Figure 1. Target Mongolian corridors for the BPA study**



- \* Black line (█): Corridors in Mongolian territory
- Blue line (■ ■ ■): Corridors in Russian territory
- Red line (● ● ●): Corridors in Chinese territory

In this step, individual trade and regulatory process and ICT level of the main stakeholders in the Mongolian corridors by country have been analyzed. Also, trade statistics, policies, regulation, status of logistics infrastructure, major transit depot and border posts have been reviewed for the general understanding of the Mongolian trade corridors. The cross-border BPA provided specific information on time, cost and required documents, across the border from the exporting country to importing county. It helped assessing the current status of Mongolian trade corridors accurately, especially those issues which could be distorted when assessed through only one country.

The second step focused on identifying the main impediments in the corridors on the basis of the information from the first step and deriving practical recommendations for resolving the impediments. The issues and bottlenecks were listed and explained with examples by categories. The recommendations were divided into three categories; National level measures, bilateral and sub-regional cooperative arrangement and international, regional and sub-regional assistance.

## 2.2 Team of Experts from Stakeholder Countries

Cross-border BPA was conducted by a team of experts from multiple countries. Instead of depending on a single expert from one country, the study formed a team of experts

(consultants) from Mongolia, China and Russian Federation. For the BPA on Mongolian corridors in Chinese territory, the Chinese expert conducted the analysis; by the same token, the Russian expert conducted the analysis on Mongolian corridors in Russian territory. This arrangement was to facilitate access to relevant stakeholders and overcoming language gaps in collecting and analyzing data.

## 2.3 Study Verification

The study went through multiple steps of stakeholder verification process to ensure the relevance, correctness and practicality of study findings. The study went through three major verification steps.

**Table 2. Stakeholder verification process of the Study**

Step	Activity	Timeline	Purpose
1	Stakeholder Meeting	May 2011	To fine-tune the scope of the study and set detailed study implementation plan with the participation of key stakeholders
2	Interim Review	Aug. 2011	To review the findings of the study for identifying gaps and coordinate the individual works of multiple consultants
3	High-level Stakeholder Workshop	Oct. 2011	To verify the findings of the study by stakeholders at decision-making level and reach a consensus on practical recommendations

The findings of the study are structured in three main parts: analysis of Mongolian trade corridors, issues and challenges and recommendations.

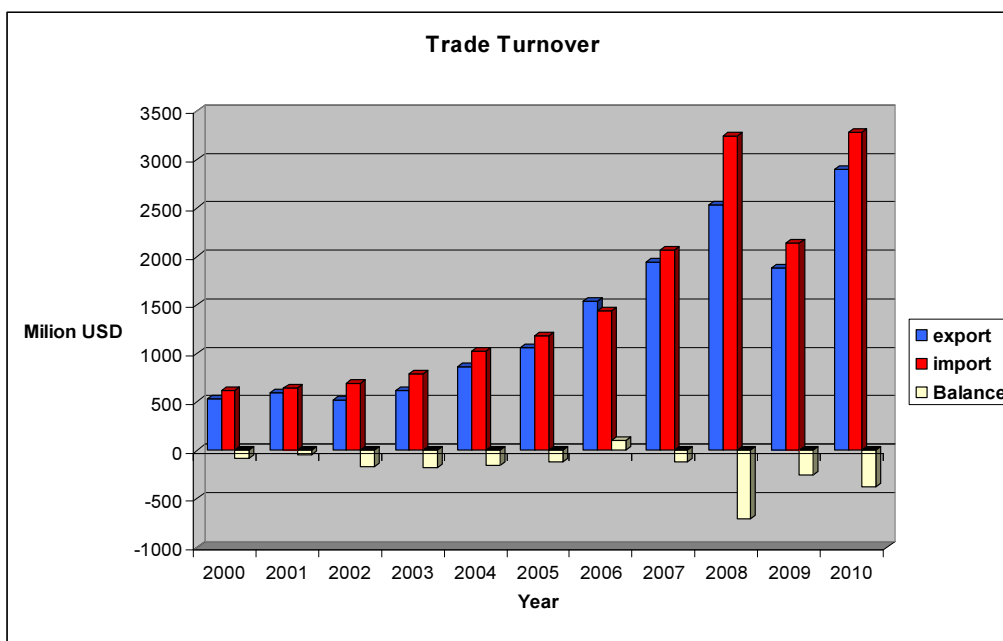
### 3. Analysis of Mongolian Trade Corridors

#### 3.1 Trade Environment

##### 3.1.1 Trade Status and Statistics

Mongolia has enjoyed remarkable growth rates in recent years. The average GDP growth rate from 2003 to 2009 was around 8.4%<sup>6</sup>, excluding year 2009. The Mongolian trade also reveals consistent growth pattern as shown in Figure 2.

**Figure 2. Mongolian trade turnover from 2000 to 2010<sup>7</sup>**



In the decade following WTO accession, total trade has grown four-fold, from US\$919.8 million to US\$4.1 billion in 2007. There has been a dramatic shift in the structure and pattern of trade. In 1989, Mongolian exports consisted of mineral products (42 percent), other raw materials (20.4 percent), food products (8 percent) and manufactured consumer goods (18 percent). In recent years, copper concentrate, gold and other minerals and cashmere products have accounted for more than 90 percent of exports. The mining sector, current driving force of Mongolia's economy, accounts for around 30 percent of GDP and 78 percent of export income, but it accounts for less than 5 percent of total employment (many employees are foreigners). With the decline of agriculture and industry, services have become a key sector in the Mongolian economy employing half the work force in 2007. This trend shows that Mongolian trade and industry ecological system became vulnerable with narrow diversity of industries.

<sup>6</sup> International Monetary Fund (IMF) - World Economic Outlook October 2010

<sup>7</sup> Monthly Bulletin of Statistics – National Statistics Office of Mongolia

According to the statistics of the Mongolian Customs General Administration (MCGA), Mongolia exported goods to 68 countries in 2010 and China took the biggest portion (84.4%). Out of the total export to China, minerals such as iron ores (10%), copper ores (31.3%), zinc ores (5.5%) and coal (35.5%) took more than 82.3%. Russia and China took the most of Mongolia's import volume, 32.7% and 29.9% respectively. However, import from Russian Federation was almost covered by petroleum products. And, for the remaining countries, motor products came as a first to be exported to Mongolia.

Considering Mongolia's vast area and sparse population density, railway seems an adequate mode for long-distance cargo transportation. Nonetheless, note should be taken on the fact that large volume of cargoes are transshipped to truck from train at the border of Mongolia. The present condition of its railway system also demands more investment to improve transport time and services. Heavy dependency on the railway is also related to poor road condition of Mongolia. As more roads are being paved, the volume of road transportation is expected to increase.

### **3.1.2 Trade related Policies and Regulations**

Mongolia still has many trade-related regulations including the permission of trade business for specific products. To engage in the trade business of specific products in Mongolia, the government organization's approval/permission is needed. For some products, the approval is temporarily issued to the trading companies, and for specific products, the specific quantity's approval is issued to certain companies. Even though these processes have the same nature, they are redundantly executed with different names and operational processes, depending on different government organizations. Mongolia needs to improve its legal systems dramatically, given the latest trade trend.

Mongolia has also initiated some legally enabling environment for trade promotion. One is the legal environment for establishing a free zone. The "Law of Mongolia on the Free Zone" was adopted in 2002, and the "Law on the Legal Status of Zamyn-Uud Free Economic Zone" was adopted in 2003 respectively. Resolution No.17 on the Development of the Zamyn-Uud Free Economic Zone was adopted in 2004 by the Parliament of Mongolia. The Law on the Legal Status of the "Zamyn-Uud" FEZ envisages to develop the zone with three major sections: industrial, commercial, and tourism entertainment. The Free Zone Committee was established in accordance with decree 37 of the Mongolian Government on 4 Feb 2009. The Free Zone Committee is a government organization administered by the First Deputy Premier of Mongolia with the function of facilitating the successful establishment and operation of the Free Zones.

Mongolia is the only WTO member that is not yet part of any Regional Trade Agreement (RTA). Currently, there is a negotiation ongoing with Japan on an EPA (Economic Partnership Agreement), targeting the signatory of the EPA in 2012. Korea and Mongolia agreed to launch a joint feasibility study on a possible Korea-Mongolia FTA in October 2008. China, also a signatory of WTO, has a tariff concession with 41 countries, but not with Mongolia. In May 2010, China has initiated feasibility studies for a free

trade agreement (FTA) with Mongolia to further strengthen bilateral trade ties between the two nations. During the visit to Russia, Mongolian President Tsakhiagiin Elbegdorj discussed with Russian President Dmitry Medvedev in Moscow about a potential Free Trade Agreement in May 2011.

The tariff rate on major Mongolian export items imposed by China are 12% for agricultural product and 7% for others. Russia, a non-WTO member, imposes high tariffs on Mongolian products; 22% for agricultural product, 25% for textile and 38% for leather. Korea also charges high tariff on Mongolian products; 62% for agricultural product, 3-5% for minerals, 40% for beef and 13% for textile.

Mongolia has also established multiple institutional mechanisms for trade and transport facilitation. National Committee on Trade and Transport Facilitation of Mongolian Government (NCTTF) was established by Mongolian Government Resolution No. 245 of Oct 11, 2006. NCTTF is the main government body controlling all the major trade and transportation policy issues, including the coordination of the implementation of the National Program; “Transit Mongolia,” which aims to support and develop a transit, transportation and logistics sector in Mongolia taking advantage of the country’s geographical location. Another private sector led mechanism is the Transport and Logistics Council established under the auspices of the MNCCI, with the aim of improving collaboration and providing a forum for the private sector to provide inputs into the trade logistics and transportation discussions. The most recent initiative is the establishment of the Mongolian National Single Window (MNSW) Steering Committee. Established based on the Mongolian Single Electronic Window Implementation Master Plan, the MNSW Steering Committee shall be represented by all the major stakeholders at the high-level management from both public and private sectors and is to conduct its delegated tasks and activities under the guidance of the government Cabinet.

### **3.1.3 Trade related Processes and Regulatory Agencies**

#### *Customs Clearance Process*

The MCGA is in charge of handling import, export and transit clearance process in Mongolia. Mongolia’s import clearance process largely goes through three steps: (1) item’s arrival in the Mongolian clearance area, (2) Manifest and clearance declaration and clearance approval and (3) item transfer to importer. Depending on the place of clearance declaration, it can be either border clearance or inland clearance. In case of the bulk cargo by truck, only border clearance is allowed. The Mongolian government implemented an automated clearance system called CAIS.<sup>8</sup> Its Risk Management System categorizes cargos into low risk cargo, medium risk cargo and high risk cargo, and conduct Customs inspections accordingly.

All the products carried out from the Mongolian tariff area must go through the export clearance declaration. This declaration form must be submitted to the competent customs

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<sup>8</sup> CAIS: Customs Administration Information System

office that controls the loading place for the product's packing and export shipping. If items are in accordance with the declaration, the export customs declaration acceptance letter will be issued and the cargoes will be carried out from the customs area. In general, the export declaration and the declaration acceptance are done through CAIS.

In Mongolia, transit process is either transiting the border without binding to the import tariff, other penalties or commerce policies, or refunding the paid tariff after paying the tariff by import clearance procedures and doing the export clearance in the rail transport. In the railway transit transport, the forwarder submits the rail B/L to the customs office of the arrival area and then the customs office cross check the received the manifest in the CAIS and items. When the Manifest is approved by customs officer, the goods are transported to the customs office of the expected border transit area through rail. Then, customs officer cross check the items and manifest again and the forwarder can transit the products across the border. Due to improvement of road transport infrastructure development and the increasing volume of transit cargo, the transit transport by road is also expected to increase.

#### Quarantine, Inspection and Standard

The General Agency for Specialized Inspection (GASI) is responsible for monitoring the arrival and departure of chemical, physical and biological items that may harm the health and natural environment. The GASI engages in the inspection of food, cosmetics, daily goods, medical supplies, biological products, drinkable water and plant-related product in export and import processes. Based on the result of the inspection, the GASI issues more than 28 kinds of licenses and certificates, including the Sanitary Certificate For Meat and Meat Products. Application of certificate and issuance process of GASI is processed manually.

Mongolia Agency for Standardization and Metrology (MASM) issues conformity certificate required for the border transit of specific products appointed by laws on Standardization and quality certification. According to the Law of Quarantine for Transmitting Animal, Plant-derived Raw Material by Mongolian border 222 act of Government (2005), it is prescribed that the corresponding company should submit a conformity certificate to the customs office when the specific items and service transmits the Mongolian border for people's benefits, health, environment and the national safety guarantee. MASM collects the item list subject to the standard and conformity rules from each related authorities and then make a decision on the issuance of conformity certificate. 364 items now correspond to the issuance of conformity certificate. The number of items tends to be constantly reduced from 1,300 items in 1995.

#### Certificate of Origin

Certificate of Origin (C/O) issued by Mongolian National Chamber of Commerce and Industry (MNCCI) is largely divided into two types; general C/O and GSP(preferential) C/O. Mongolia is a GSP tariff beneficiary country of EU and Mongolian exporters can export with no tariff to any country of EU. Mongolian exporters can apply for the C/O through Internet (<http://portal.mongolchamber.mn>) and then receive the Certificate of

Origin (C/O) upon the physical submission of the original documents at the MNCCI C/O office. The Internet system for requesting for the C/O issuance only has the function of entering the application and uploading the attached files. The MNCCI does not periodically share or report C/O issuance information to another government organization, but on an annual basis, publishes and distributes the statistics-relevant booklet including the number of issuing companies and the number of issued C/Os. For the payment of fees via bank, the staff of the Chamber of Commerce and Industry can confirm the payment status via Internet banking system, but the systems between the bank and the MNCCI are not linked together.

#### *Other Approval/Permission Processes and Authorities*

To engage in the trading of certain products, such as farming equipment, livestock, gun, alcohol, tobacco, etc., traders should obtain permission from relevant authorities. In addition to obtaining permission for trade business, when they actually import or export products, traders should obtain licenses or certificates issued by the corresponding departments within relevant ministries or authorities. They are managed by their own process depending on each authority's nature of business and system environment. For example, traders should obtain the Certificate on License of CITES from the Ministry of Environment to export endangered specific of wild animals and plants.

#### **3.1.4 e-Business Readiness of Trade Sector**

Mongolia has invested significantly to the development of ICT infrastructure in the past 5 years, including the completion of an optic fiber cable construction over the total of 12,015 km connecting 21 Aimags and 161 Soums to Ulaanbaatar, the capital of Mongolia. However, according to the International Telecommunications Union (ITU), Mongolia is ranked 95th for ICT Development Index (IDI) & ICT Price Basket and ICT Development Index (IDI) out of 159 countries of the world, which indicates that Mongolia requires constant enhancement.

An analysis of Mongolian e-Government status is shown in Annex 1. The websites were classified into Government to Consumer (G2C), Government to Business (G2B), and Government to Government (G2G) and categorized into one of three steps of e-Government Implementation Process (publication, communication and online public service). Most of Mongolian government websites are still in the step of publication for information dissemination.

Though Mongolian trading companies have been highly interested in the use of Internet, the Mongolian marketing-related websites have provided only basic information. The "Mongoliatrade", an official Mongolian trade site operated by Mongolian government, has provided only white book level information on Mongolia, even without any information on the Mongolian trading companies or the major products.

Mongolia has high percentage of telegraphic transfer for the trade settlement. Trading companies have done the oversea settlement process by Internet banking. But, because they cannot make remittance without the electronic certificate, more thorough preparation

for the transaction security such as the PKI-based security system and the compatibility enhancement scheme for certification item is necessary.

For Customs clearance, export and import clearance application and approval processes have been processed electronically through the CAIS after the customs administration modernization project. However, the MCGA still requires traders to submit supplementary documents in paper.

With respect to the logistics sector, rail transport occupies the highest portion of Mongolian cargo transport. The ICT level of Ulaanbaatar (UB) Railway is high, and it has its own information processing systems implemented by Russian Railway company, such as the Web based “Magnifer” wagon tracking system, “ATMC-ТКАС” financial and wagon processing system, “TMC-Нартык” application based transport processing system and “Vip-Net” transport and trade document exchange system for import from Russian railway. Russian railway agents use “АСУ-Станций” information system in Selenge border point that gives wagon information coming to Mongolian railway on time.

Only a few government agencies have online licensing system. One is the drug import permission of the Ministry of Health (MOH), and another case is issuing of License for the import, export, cross-border transport, use, trade and disposal of toxic and hazardous chemicals of the Ministry of Nature, Environment and Tourism. Since 2006, the MOH has operated the Licemedi, the license registration system for the medical equipment and machinery, drug and psychotropic medication export and import. Currently, the Licemedi has been used not only by MOH but also by Aimags, GASI, health-related authorities, medicine supplier and medicine registration authority. But, the Licemedi doesn't support other subsequent processes.

### **3.1.5 Bilateral and Sub-regional Cooperative Arrangement**

Existing bilateral framework relating to Mongolian trade and transit transportation is as below;

- Transit agreement with the Russian Federation (1991)
- Transit agreement with China (1991)
- Road transport agreement with China (June, 1991)
- Road transport agreement with the Russian Federation (February, 1996)

#### **Bilateral Cooperative Arrangement with China**

For Transit access to seaports, Mongolia has signed a trade agreement with China in 1992 to use three Chinese ports. They are Tianjin (Xingang), Qingdao and QunghuangDao ports. The Ulaanbaatar – Xingang route is the main route being used by Mongolian sea exports to markets in overseas.

Collaboration of two countries began with the central governments' agreement on 7 September 1993. In 2006, China and Mongolia agreed to harmonize the manifest of two Customs during a trade and transit convention among Asian countries including Russia,

Mongolia and China. In 2009, pilot run of harmonized manifest for road transportation started between Zamyn Ude and Erenhot border side. In June 2010, following the previous agreements, new agreement on exchanging trade information, statistics, exporting countries' market price information and smuggling cases, promotion on IPR and exchange of customs officers, including training in the Shanghai Customs Institute, was signed by deputy minister of Ministry of Finance of China and Director General of MCGA. According to the latest MOU signed by two customs in June 2011, the use of harmonized manifest will be expanded to Gashuun Sukhait border city (Gants Mod in Chinese border) from 15 Nov 2011

In April 2006, the railway authority of Mongolia and China signed a bilateral agreement to improve freight forwarding between the two countries as well as to reduce transit tariff. The Chinese authorities promised to resolve the common problems of customs delays at Erlian Hot for coal trains while Mongolia agreed to cut tariffs on all transit freight by 30% to 50%. An MOU was signed between the Ministry of Roads, Transport, Construction and Urban Development of Mongolia and the People's Government of Tianjin, during the official visit of former Prime Minister S.Bayar, April 2010. Within the framework of the MOU, a working group was established between Mongolian and Chinese sides. The Representative Office of Ulaanbaatar City in Tianjin was established on October 14 2009.

#### *Bilateral Cooperative Arrangement with Russian Federation*

Transit agreement between Mongolian and the Russian Federation was signed in 1991. Another road transport agreement between Mongolia and Russia in 1996 was done, allowing mutual movement of trucks and good between two countries.

In 1995, Mongolian and Russian customs signed agreements on;

- (1) Exchange of information
- (2) Facilitation of human resource exchange (including the training of Mongolian officer in Russia)

Based on the agreement, a number of training programs for Mongolian customs officer were provided. In 2007, a Joint Working Group was established between two Customs to harmonize the statistic standard to be exchanged. MCGA and Russian Customs have been exchanging hard copy books of trade statistics every year. In 2010, the current Director General of MCGA visited Russian Customs headquarter in Moscow and discussed about the current issues and signed an MOU on the exchange of statistics and other information in every 3 months in electronic way and exchange of smuggling cases. Deputy DG of Russian Customs visited Mongolia in Feb 2011 and in return, MCGA and Russian Customs had a meeting at Irkutsk and agreed to exchange x-ray film in May 2011. Currently, there is a monthly meeting between the border customs offices of Mongolia and Russia. If there is a potential high risk cargo arrives, both parties can request for the information on the cargo to each other.

#### *Sub-regional cooperative arrangement*

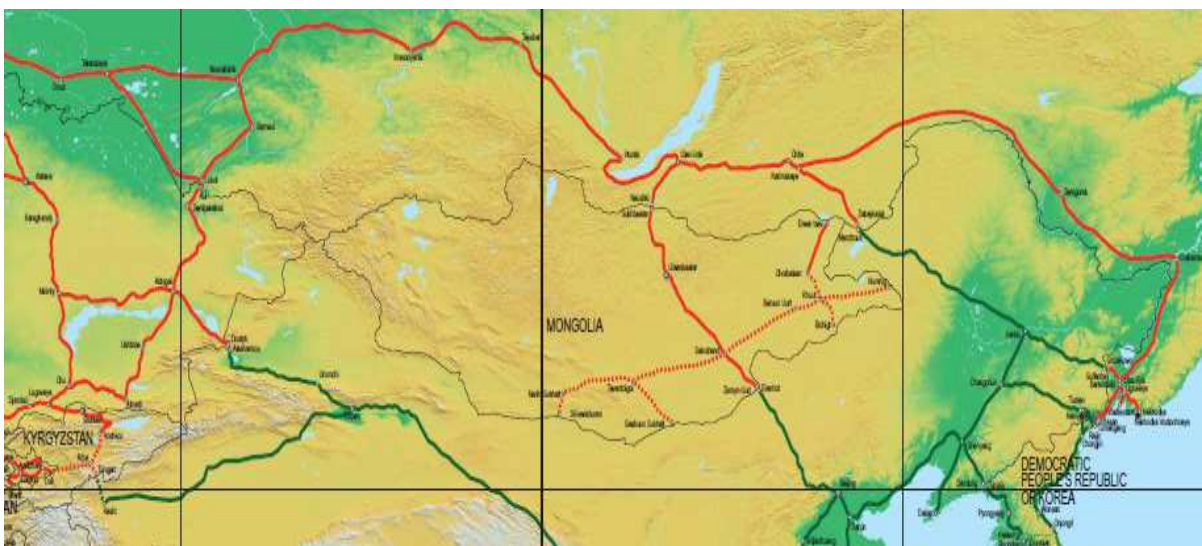
Mongolia has been negotiating a draft transit framework agreement among China, Mongolia and the Russia Federation with UNCTAD acting as facilitator since 1997. A series of negotiations have been held. Both countries impose several local transit costs including security cost and customs deposit to Mongolian export and import transit transportation. The agreement is expected to provide a legal framework for efficient transit systems to and through Mongolia.

### 3.2 Mongolian Trade and Transit Corridors

The concept of Trade Corridor has existed from the early history of mankind. Trade and Transit Corridor (TTC) is a widespread terms with different interpretation of its scope and definition. In this report, TTC is interpreted as covering not only “physical” transport infrastructure such as railways, roads and ports but also “non-physical” factors such as government policies, laws and regulations and transport services affecting the movement of trade goods; it encompasses products, services, and information moving through economies along geographic routes in accordance with trade and administrative processes.

Two major land transport routes linking Asia and Europe are the Trans-Siberian Corridor and the New Euro-Asia Corridor. The railway of Trans-Siberian corridor consists of three tribunues at the east side. Main railway runs 9,288Km from Moscow to Vladivostok. The second route is the Trans-Manchurian route which branches off from the Trans-Siberian railway at Tarskaya to Beijing (or reach to port of Dalian or Tianjin) which is about 2,687km. The third route is the Trans-Mongolian route which branches off from Ulan-Ude and heads to Ulaanbaatar before making its way southeast to Beijing (and even to Tianjin). This Trans-Mongolian route serves as a backbone of Mongolian Trade and Transit transportation (See Figure 3). Through this route, a single track rail was built from Sukhbaatar to Zamyn-Uud via Ulaanbaatar which carries from high value and bulky items such as food, chemicals, minerals, electrics, animal hides and cashmere to international transit product such as crude oil, timber and machineries. The another route linking Asia-Europe, the New Euro-Asia Corridor runs through from Europe through Russia, Kazakhstan to Xinjiang and Lianyungang of China.

**Figure 3. Mongolian trade and Transit Corridors**



(Source: United Nations, map of Trans-Asian Railway Network)

### **3.2.1. Railway**

Mongolian Railway comprises of two separate railways. First is 1,110 km long trunk line of the Trans-Mongolian, running between Russian Federation and China through Ulaanbaatar, capital city of Mongolia, and the second one is 239 km long north-east railway line called Bayan Tumen. Railway is the most important transportation mode for Mongolian traders, but reputation on Mongolia railway among users is quite negative with much dissatisfaction and many complaints, due to poor service resulting from lack of investment on infrastructure and facilities. Logistics service providers complain delay of railway cargoes at Zamyn-Uud railway station due to the lack of wagons, which results in long queue of cargoes at Erlian Hot train station as well as long queue of cargoes to be loaded at Qingdao railway station.

Mongolian Railways normally haul well over 10 million tons of freight per year, roughly half of which is oil and timber in transit between Russia and China (but with a gauge change at the border with China) and the remainder being coal from the mines to power stations in Ulaanbaatar. The high transit tariff encouraged Russia and China to switch most of the transit freight to a longer, but for them less costly, alternative route via Manchuria that avoided Mongolia altogether. Two new markets have developed in the past decade. The first for the export of coal and copper from newly discovered (or rediscovered) deposits near the border with China, and the second for the export of iron and other mineral ores to Russia.

### **3.2.2 Road Network**

Mongolia has a road network of about 49,250 km, connecting 21 major cities and towns as well as 160 smaller villages. The network comprises (i) 11,063 km of about 30 state roads that connect Ulaanbaatar with aimag centers, major towns and border crossings; and (ii) 38,187 km of local roads that link aimag centers with smaller villages. Only 12% of the roads (1,670 km) are paved, 13% (1,800 km) are gravel, and the remaining roads are earth tracks. Mongolia's road network lags far behind that of other countries, including its neighbors. Road density (0.03 km per km<sup>2</sup>) and the share of paved roads (3.4%) in Mongolia are both close to the lower end of the countries in the world. Moreover, most of the road network is deteriorating and a large proportion remains impassable during the rainy or winter seasons due to inadequate maintenance.

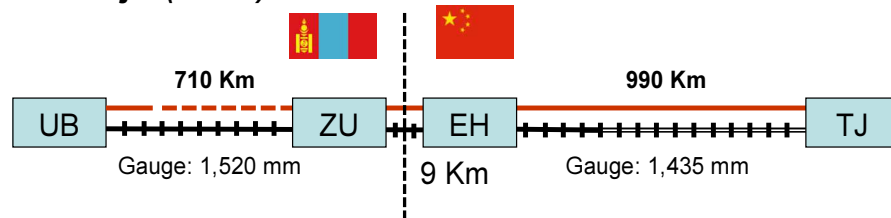
At present only one paved road leads to a border post, the road from Ulaanbaatar to the northern Russian border, Altanbulag (345km). The road to the southern Chinese border at Zamyn Uud is under construction. One third of the road from Ulaanbaatar to Choyr (280km) is well paved while the last to Zamyn Uud (428km) is almost earth track. Only 11.9 per cent (1,317.6km) of a millennium road, a major horizontal transport axis of Mongolia starting from the west Russian border, Ulaanbaishint to Sumber, the east Chinese border through Ulaanbaatar (11,063km), is paved.

The Asia Development Bank made a Report and Recommendations to the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Regional Road Development Project. The goal of the Project is to promote regional cooperation and sustainable economic growth in Mongolia. The purpose is to increase the efficiency and safety of domestic and international transit traffic between the PRC and Russia through Mongolia's north-south road transport corridor.

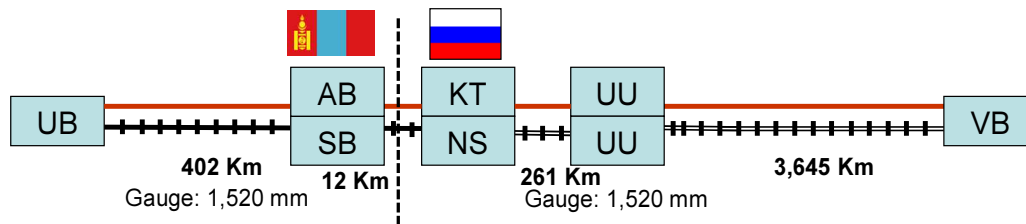
The Intergovernmental Agreement on the Asian Highway Network was signed by China, Mongolia and Russia together with other 23 Asian countries at the 60th session of the ESCAP Commission at Shanghai, China, in April 2004.

**Figure 4. Summary of Mongolian trade and Transit Routes**

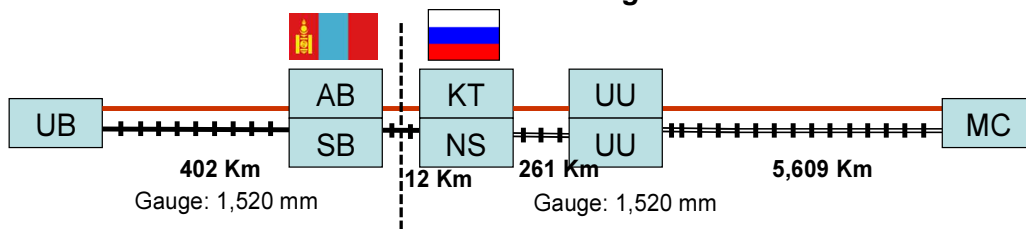
**Route No. 1: Tianjin (China) to Ulaanbaatar Corridor**



**Route No. 2-1: Vladivostok to Ulan Ude - Altanbulag -UlaanBaatar Corridor**



**Route No. 2-2: Moscow to Ulan Ude - Altanbulag -UlaanBaatar Corridor**



UB: UlaanBaatar, ZU: Zamin Uud, EH: Eren Hot, TJ: Tianjin  
AB: Altanbulag, SB: Sukhbataar, KT: Kyahta, NS: Naushki, UU: Ulan Ude, VB: Vladivostok, MC: Moscow

### 3.2.3. Routes between Mongolia and China

#### Rail

From Tianjin Port, a multi-track line of around 137 km goes to Beijing, and then an additional 501 km of double track line goes to Jining via Datong. It continues to Erlian Hot via a single-track line of 338km. At the border between China and Mongolia, transshipment is needed because of a gauge difference. Railroad tracks in Mongolia are

broad gauge, i.e. 1520mm, while Chinese rail lines use the standard gauge of 1435mm. However, both standard and broad gauge rails are available at the border area between Erlian Hot and Zamyn Uud.

### Road

Paved roads including the Tianjin-Beijing Expressway are available between Tianjin and Jining. The Chinese government is upgrading the Beijing-Erlian-hot section to expressway standards. Roads on the Mongolian side (1,026km) are in poor condition. With the exception of the Ulaanbaatar-Altanbulag section (345km) where a motorway is available, most of the Mongolian sections are unpaved.

### Main Border Post

Zamyn-Uud is located near Mongolia's southern border with China. The city of Zamyn-Uud has a population of 10,000 inhabitants, and is very much dependent upon the commercial activity generated by the neighboring city of Erenhot in China. The Government of Mongolia employs over 700 people to manage and operate the Mongolian Railway in Zamin-Uud. In Zamyn-Uud, the railway is very important as it: i) handles goods and products being transported from Russia to China (10 million tons by 2010), ii) facilitates direct cross-border trade with China, and iii) has a container loading and unloading facility to overcome the difference in rail gauge of the Mongolian and Chinese railway systems.

The city of Erenhot serves as a major trading center for Zamyn-Uud and the rest of Mongolia. Erenhot is the largest of a dozen of ports along the China-Mongolia border, where the trade volume accounts for 70 percent of that between the two countries. The railway from Ulaanbaatar to Tianjin (Ulaanbaatar-Zamyn Uud- Erenhot-Tianjin) is so far the shortest distance from Ulaanbaatar to costal port. The railway which opened in year 1956 has been the main transportation between the two countries, as the express road between Ulaanbaatar and Zamyn Uud has not been yet constructed. The goods transported by truck in China should be reloaded in either Erenhot or Zamyn Uud. The flow of visitors has grown substantially, and the city plans major development in the area.

One potential corridor through China is Rajin to Ulaanbaatar route. A road network of 2,500 km is also expected to perform as a transcontinental corridor which extends from Far Eastern Asia via Central Asia to Europe. The Prime Minister of Mongolia has expressed a strong will to utilize the port of Democratic People's Republic of Korea for mineral export in June 2011.

All railway sections in China and the Democratic People's Republic of Korea in this route are of non-electrified, standard gauge, single-track railway. Currently no rail tracks exist in Mongolian territory. The total railway length from Rajin to Sumber at the Mongolian border with China is 1,213km. The Mongolian government has a strong will to improve the Sumber-Ulaanbaishint section in particular as a major horizontal transport axis of Mongolia, as a long-term plan to develop the so called 'Millennium Road'.

ESCAP has also classified this section as a part of the Asian Highway's North-East Asian section.

### 3.2.4 Routes between Mongolia and Russia

#### Rail

Mongolian railway has the same rail gauge size (1,520mm) with Russian railway, so the transshipment of container at the border station is not necessary. The train from Ulaanbaatar to Russia runs single track line through Sukhbaatar, the northern Russian border station, and Naushki, the first Russian city across the Mongolian-Russian border, arrives at Ulan Ude, the cross railway section of Trans-Siberian Railway and Mongolian railway. Depending on the destination, the cargo takes the west track to Moscow or east track to Vladivostok from Ulan Ude station. The Trans-Siberian Railway provides transportation up to 1 million containers or 100 million tons per year including the 200 thousand international transit containers from Asian-Pacific region to Europe and Central Asia.

International container block train 'Mongolian vector' is an alternative to the sea variant of containers transport between Western Europe and Mongolia. The distance of the route is about 7,293 km. On the 15th of March the train arrived to the terminal station Duisburg (Germany), having passed 9,827 km with all reloading and customs operations for 14 days 5 hours. The train runs across the railways of China, Mongolia, Russia, Belarus, Poland and Germany on the whole route and delivers the cargo 2.5 times quicker than over the sea.

The transportation by the train 'Mongolian vector' has several advantages:

- Time of cargo delivery from EU to Ulaanbaatar (or China) makes about 12 ~14 days, it is two times faster than by sea (30-40 days);
- Through rates let reduce transport costs;
- There is set date for train departure; it is the 10th, 20th and the 30th of every month;
- Storing at the container terminal of containers which arrive from Western Europe till train departure is free of charge.



#### Road

The road from Ulaanbaatar to the northern Russian Border city, Altanbulag (345km) is relatively well paved compared to the roads to other border posts. Then from Altanbulag, road is connected to Trans-Siberian Trunk Highway through Khahta and Ulan Ude (about 220 km). Mongolian Government entered into road transport agreement with the Russian Federation in February 1996, allowing Mongolian vehicles to travel to the Far East. But because of less economic benefit in road transportation to the Far East, considering that

most of its export commodities are minerals, road transportation is mostly used at and around border areas.

#### Main Border Post

There are two main gateways to Russia in Mongolia. Altanbulag is located on Mongolia's northern border with Russia. The city of Altanbulag has a population of approximately 4,000 residents and is connected to the city of Ulaanbaatar by 400 kilometers with a two-lane highway. The highway is in relatively good condition but requires upgrading and maintenance in some areas. Sukhbaatar, a city of about 30,000 residents, is located 20 kilometers south of Altanbulag, with an existing inter-urban transportation service linking the two cities. Sukhbaatar train station is the exclusive Mongolian rail gateway to and from Russia.

Within Siberian Russia, the city of Ulan Ude, with a population of one million is 270 kilometers from the north of Altanbulag. In close proximity to Ulan Ude is the city of Naushki, which serves as a transshipment point for Mongolian goods destined to Europe.

#### **Trans-Siberian Railway (TRANSSIB)**

The Trans-Siberian railway is the powerful double track, completely electrified, its extent about 10 thousand km. International transport corridors developing on the base of TRANSSIB are included in UN/ESCAP projects as a priority route between Europe and Asia. The international value of the TRANSSIB as the shortest land bridge between Europe and Asia Pacific countries is growing fast, and the further development of cargo transportation by TRANSSIB, including transcontinental, opens the widest prospects for economy of Russia. The Russian railways have the big unused potential for development economic relations between Europe and Asian-Pacific region.

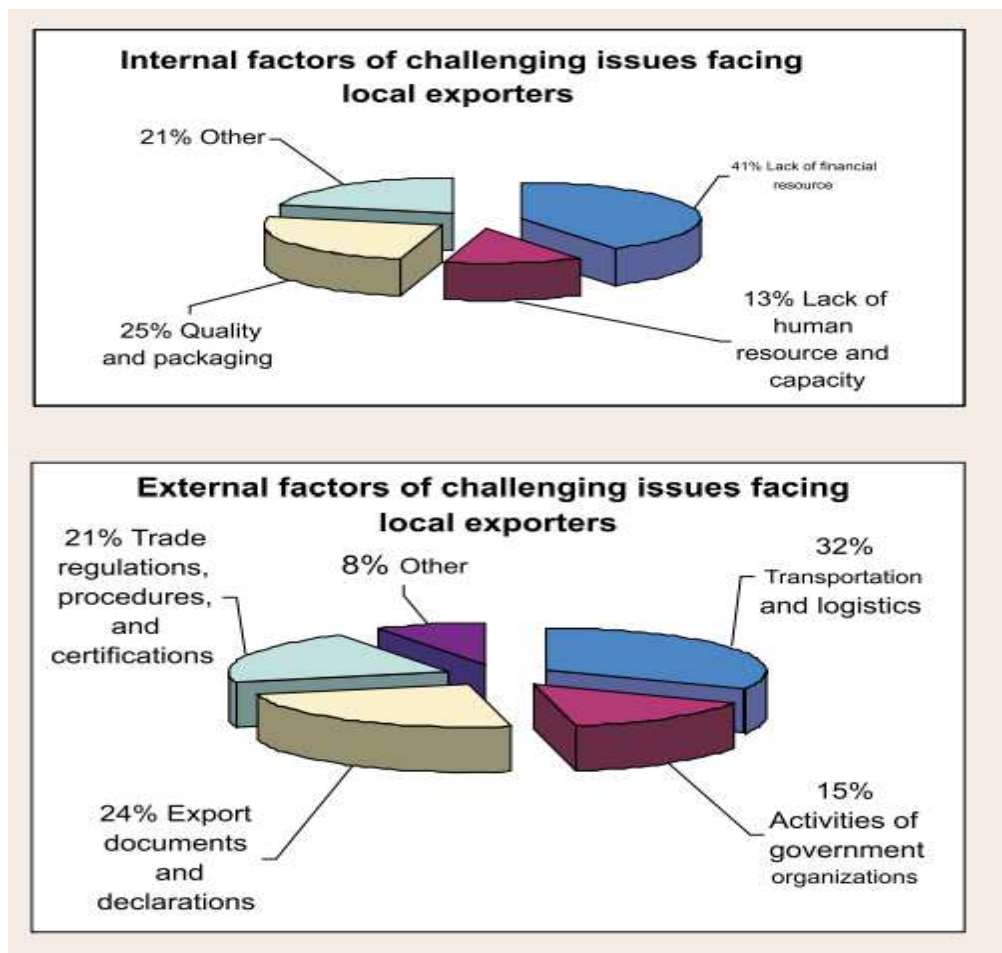
TRANSSIB has an exit in the east to the network of railways of Korea, China and Mongolia, and in the west — to European countries. It provides economic relations between Asia-Pacific region, Europe and Central Asia.



## 4. Major Issues and Challenges

Figure 5 shows the major impediments for exporters in Mongolia studied by MNCCI. Though a number of processes have been simplified in recent years since 2007, a lot of issues regarding trade regulation, certification, transportation, documentation and small administrative fee still remain.

**Figure 5. Factors of challenging issues facing Mongolian exporters**



### 4.1 Corridors in Mongolian Territory

#### 4.1.1 Customs

Trifling but complicated process such as stamping on the trade documents exist at the border. Requirements for the submission of same kind of documents such as corporate registration certification exist. In addition, even though the new customs system fully utilizing internet has been introduced, MCGA still requires all the documents in paper.

There is no post audit, green lane service for Authorized Economic Operator (AEO) for traders in customs clearance, which are strongly recommended by the World Customs

Organization (WCO). Tariff must be paid in advance to finish the clearance process which is a burden to traders. And duplication of inspection process of cargoes with other agency is also another burden to traders. SMEs are reported to have trouble with lack of enough knowledge and experience in Customs regulation.

#### **4.1.2 Other Ministries and Government Agencies**

Duplication of mandates across agencies exists such as inspection of goods from Customs, GASI and MASM. And most of process is being done by means of paper documents. According to the BPA result, failure to recognize certificate from foreign agencies is one of the major bottlenecks in the trade flow in the Mongolian trade corridors. There was a strong request from processing industry of Mongolia to reintroduce export tax on raw materials. Main reason is that the export of raw materials raises the price of raw materials in Mongolian market which is weakening the fragile Mongolian processing industry.

#### **4.1.3 Legal and Regulatory Framework**

Some of necessary legislative framework is missing in Mongolia, including e-Signature and e-Document law, integrated trade law governing all trade related law, legislative background for trade data and information sharing among the authorities and unclear provisions in the law such as penalty articles on importing old cars.

#### **4.1.4 Transit Procedures and Documentation**

From the interview with a number of traders in the subregion, it was clear that not many of them are aware of the Mongolian route or they failed to get adequate information to make use of Mongolian trade corridors as a transit route. Though the Government of Mongolian has initiated 'Transit Mongolia' program, the progress is very slow and not many of the measures has been meet its mid-term goal.

Mongolian corridor has a comparative advantage over 2 other corridors (TSR and Kazakhstan corridor) with the shortest distance between China, Russia and EU market. Despite such advantage, Mongolia earned 4.6 times less (transit revenue – US\$ 86 million) than what Kazakhstan earned (US\$ 394 million) in 2006.

#### **4.1.5 Transport Infrastructures and Logistics Service**

There are not enough international standard Terminals and warehouses at the border and major depots (too old and not enough capacity of the facilities) as well as lack of refrigeration facilities and containers. Lack of the refrigeration facility causes seasonal restrictions on the agricultural sector business. The development of Free Economic Zones could be the main solution for the issues.

Road density (0.03 km per km<sup>2</sup>) and the share of paved roads (3.4%) in Mongolia are both close to the lower end of the countries in the world. Moreover, most of the road network is deteriorating and a large proportion remains impassable during the rainy or winter seasons due to inadequate maintenance.

Though the railway is the most important transportation mode for Mongolian traders, it has a poor reputation due to lack of investment on infrastructure and facilities. Even the logistics service providers in Qingdao ports blame the delay of railway cargoes at Zamyn-Uud railway station due to the lack of wagons resulting long queue of cargoes at Erlian Hot train station and incurring the same long queue of cargoes to be loaded at Qingdao railway station. Though the Ministry of Transportation and railway authority are planning improvement, the issue of overcrowded cargoes at the Zamyn-Uud border post is expected to remain. Though Mongolian forwarders demand alternative options such as a block train service using their own wagons, the UB railway is not responsive to such request.

Mongolia and Russia are parties to the TIR, but limited number of TIR cases were reported only from Russian Customs with exporting goods to Mongolia. There is no TIR accredited company in Mongolia. In general, the TIR is mainly used only for very long-distance and high-value shipments that are carried by operators from outside the Region. Since China is not a member of TIR Convention, use of TIR over the Mongolian trade corridors is not attractive.

#### **4.1.6 Other Issues**

Information on trade regulations, process and opportunities in Mongolia as well as that of the other countries has not been properly transferred to trade community from public sectors. It is pointed out that Mongolian government has not been successful in promoting Mongolian product to the world market.

Uncertainty prevailing over Mongolian trade corridors could be the biggest obstacle to be overcome for the facilitation of the Mongolian trade corridors. Major freighter forwarder in the sub-region point out that such issues as lack of integrated information, possible high cost from irregular schedule, unclear administration and regulations at the border crossing have discouraged them from considering Mongolian trade corridors as an alternative.

There are number of complaints raised concerning the claims over the foreign trading partners such as damage to cargos and delay of cargo delivery. Regardless of existence of the Mongolian National Arbitration Court, Mongolian SMEs and forwarders are apparently not aware of how to solve their troubles or are afraid of going to the Arbitration Court.

## **4.2 Corridors in Chinese Territory**

### **4.2.1 Issues in Bi-lateral Dialogue between Mongolia and China**

Bilateral communication is an important mechanism for cooperation between two countries. A key in bilateral communication is improving efficiency of a dialogue and generating practical impact on development of trade. Although there have been many dialogues, benefit from communication is still not reaped.

First, China-Mongolia bilateral dialogues are mainly held at operational level, such as port office, local entry-exit inspection and quarantine bureau, local Customs and so on. Though useful for discussing and dealing with specific problems, current low-level dialogues may not be effective when it comes to the point of bilateral policies coordination between two countries.

Second, more practical short-term objectives are sometimes neglected in the bilateral communication. Bilateral cooperation needs experiences over certain period of time to reach to its maturity level. Starting with the implementation of small-scale practical pilot projects may be a good choice.

#### **4.2.2 Lack of Coordination and Joint Administration**

Bi-lateral trade environment can be improved by joint endeavor of Chinese and Mongolian governments. The BPA study has revealed that some procedures, such as inspection, manifest pre-declaration, can be improved if they are jointly supervised by both governments, while they have not reached to readiness for such joint administration.

To reach to the implementation of a joint administration, capacity and technology gaps between two governments need to be narrowed. Documents and procedures, such as inspection report, are also in need of mutual recognition and harmonization for joint administration. Though there are two economic cooperation area and border trade area at China Mongolia border, both of them are located only in Chinese side, while the Zamyn Uud Free Trade Area on Mongolian side is still under construction.

There are mainly 3 types of trade between China and Mongolia: general trade (export and import of final product), processing trade and small scale border trade (travel trade). Different trade types should have different procedures and administration. For example, the small-scale border trade, though it has a huge transaction volume, is not properly reckoned and does not develop into normative trade practice.

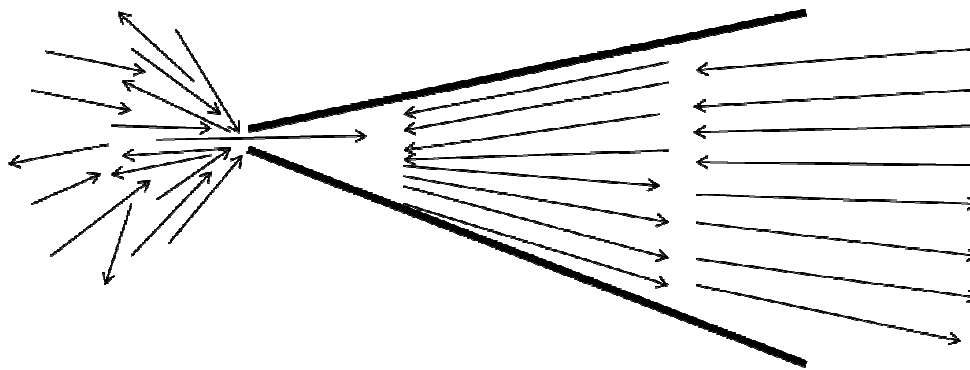
#### **4.2.3 Gaps in physical infrastructure at border crossings**

The physical infrastructures of Erenhot carries main functions needed from port, such as providing joint-administration services, logistics services, warehouse storage, etc. In total, there are 8 new road port-channels (4 in 4 out), 5 logistics parks, 12 special markets, “green channel “of export agricultural products for fast-clearance, reloading warehouse for dangerous products, etc. in Erenhot. Moreover, the relevant city infrastructure, such as industry water plants, electric power plant and new city developing area, has gradually

built up. On the other hand, physical infrastructure on Mongolian side is still developing in a limited way, making it difficult to implement bilateral projects.

The trumpet-like gaps in physical infrastructure at border crossings, as illustrated in Figure 6, cause bottlenecks at the border. In Zamyn Uud, there is only one port channel for goods exiting and entering by road. New opening port channels of Erenhot are only four channels, half of the capacity planned.

**Figure 6. Gaps in Physical Infrastructure at Border Crossings**



#### **4.2.4 Other Gaps**

Though there are a few China-Mongolia joint-pilot projects for exchange of information to facilitation trade procedures, they mainly use paper to share information. Most Chinese government agencies have implemented electronic information processing systems while limited number of Mongolian government agencies started to adopt electronic systems. There is a gap in implementing a bi-lateral electronic trade information exchange project. For example, Chinese importer must submit three Mongolian documents to AQSIQ in paper form. The efficiency will be improved if there will be inspection information exchange and on-line data cross-checking between Chinese and Mongolian inspection and quarantine agencies in the future.

International regulations and best practices can provide a useful framework for bilateral cooperation. However, it is not easy to adopt those regulations and practices at practical level. Both China and Mongolia have huge territories, composed of different provinces with different status and development level. It is difficult to apply same regulations to different situations and environment.

The legal frameworks are foundation for bilateral cooperation. Intellectual properties of product, technology and so on need to be protected. The lack of mutual recognition of certificate or test facilities from foreign agencies is one of the major bottlenecks in the Mongolian trade corridors. Bilateral or sub-regional collaboration of inspection and quarantine agencies is highly needed.

For the transit of Mongolian goods in Tianjin port, there are only three forwarder agencies which have the qualification to apply for wagons. Most of the Chinese forwarders have to use one of the three specified forwarder. Therefore, the time to finish applying for wagons is very long. It also affects the efficiency of transport by railway.

In Tianjin port, there are four container yards in total. Every yard belongs to different logistics companies. The forwarder must load the goods from different yards and then deliver to the same railway station for transit, which causes serious inefficiency. It's necessary to develop container yard for Mongolian goods in Tianjin port.

## **4.3 Corridors in Russian Territory**

### **4.3.1 Trans-Siberian Railway (Transsib)**

The Trans-Siberian Railway (Transsib) is the powerful double track, completely electrified, extending over 10,000 km. The technical power of Transsib allows covering volumes of cargo transportation up to 100 million tons per year, including the international transit of containers at the capacity of 200,000 containers from Asian-Pacific region to Europe and Central Asia.

Railway links between the EU and East Asia via Mongolia and Russia have, in the past, served as economically viable trade routes. While rail transport takes less than half of the time it takes for sea routes, which requires travel time of 30 to 40 days, traders rather find sea routes as a preferred option. Issues making Transsib a less preferred option include insufficient capacity to coordinate international multimodal transportation, irregularity of delivery services, safety concerns such as losses or damages of cargo, and high tariffs and complex Customs procedures. To facilitate use of Transsib, it is necessary to simplify registration procedures, increase its competitiveness as an international multimodal transportation system, expand marketing activity and improve communications between State structures and private sector.

### **4.3.2 Border Crossings: Kyahta and Naushki**

Kyahta is the Russian border point across the Mongolian border point of Altanbulag, accommodating trade by road between Russian Federation and Mongolia. Due to the strong limitation defined by the Custom Code of the Customs Union, goods for the private use are subject to customs duty. Currently, there are many infringements related to export of goods. Customs officers enforce these infringements with aggressive checking of Mongolian individuals carrying goods for commercial purposes through the border, resulting in queues and delays at the customs points.

There is an agreement between Customs of Russia and Mongolia on information exchange. Based on the agreement, X-Ray pictures have been provided by Kyahta Customs to Mongolian customs on a pilot basis. The capacity output of the Kyahta border point is exceeded by 20 % which causes delays for clearance.

Another major Russian border point is Naushki station, whose counterpart being Sukhbaatar station on Mongolian side, linking trade between two countries by rail. Currently, the border crossing point Naushki is under the transfer of ownership from the Federal Customs Service to the Federal Agency of the State Border Facilities of the Russian Federation. The Agency has yet to provide technical function of the border crossing point. The point lacks inspectoral complex, causing big delays in cargo transportation and execution of customs procedures.

Export of timber makes a big share of export turnover between two countries, making issues related to the timber transportation and check important. There is a bottleneck in the timber export. The Naushki border point at the moment can provide space for detrainning only 3 wagons at the same time. To check the wagon with timber, it is necessary to roll the timber from the wagon for checking conformity to standards. It takes much time and causes big delay.

In case of any infringements, the custom officer arrests the cargo and notifies the representative of exporter to come for settlement by post. The representative does not often receive the letters in time because of notification by post. While cargo is kept on the warehouse of the temporary storage for a long time, it causes additional cost and sometimes even physical deterioration of the goods. Even if the forwarder or representative of exporter receives the customs notification on time, it may take a few days to arrive at warehouses because of the 200 km distance form Naushki to Ulan-Ude.

In Naushki, other issues identified include;

- No technical conditions and tools for checking the petroleum product, causing cases of violation with customs taxes performance and payment.
- Limited capacity for detrainning and control, which creates a bottleneck in clearance process while limiting the turnover of this border point.
- No cranes for 40-foot containers loading, which necessitate transshipment of cargo from 40 foot to 2 by 20 foot containers at Mongolian border points.
- No X-Ray in Naushki border point that increases the time of custom control
- Need for further technical and physical control over a border zone between Naushki and Sukhbaatar to avoid cases with smuggling.

#### **4.3.3 Bilateral and Sub-regional cooperative arrangement**

Though Customs of two countries keep relatively good relationship and have made some progress in certain areas such as harmonized Manifest, information exchange between them is limited to statistics and smuggling cases so far. In addition, customs collaboration lacks substantial long term work plan. There has not been much dialogues between inspection/quarantine agencies of two countries, especially at headquarter level. Restrictions such as quota and other non-tariff barriers, for example sales area and Russian quarantine certificate requirements, on Mongolian products still exist. Legal framework for efficient transit systems to and through Mongolia does not exist among Mongolia, China and Russia.

## 4.4 Summary

The summary of the issues and challenges are listed as below;

Area	Issues and bottlenecks
Customs	<ul style="list-style-type: none"> <li>- Trifling but complicated process such as stamping on the trade documents</li> <li>- High Inspection cost and time, requirements for paper documents</li> <li>- Tariff payment in advance to finish the import/export declaration is required</li> <li>- Not enough knowledge and experience of SME traders on customs regulation</li> <li>- No post audit process, No Authorized Economic Operator programme</li> </ul>
Other Regulatory Authorities	<ul style="list-style-type: none"> <li>- Duplication of mandates across agencies</li> <li>- Most of process is being done by means of paper documents</li> <li>- Not enough equipments, facilities and experts</li> <li>- No mutual recognition of certificates with foreign agencies.</li> <li>- Gaps with international standard</li> <li>- Issues on export tax on raw materials</li> <li>- Not enough knowledge and experience of SME traders on trade regulations</li> </ul>
Legal and Regulatory Framework	<ul style="list-style-type: none"> <li>- No e-Signature, e-Document law and Single Window law</li> <li>- No integrated trade law governing all trade related law</li> <li>- No legislative background for trade data and information sharing among the authorities</li> <li>- Unclear provisions in the law</li> </ul>
Transit Procedures and Documentation	<ul style="list-style-type: none"> <li>- The Mongolian route is not well known to the traders and forwarders in the Sub-region</li> <li>- No transparent cargo status along the Mongolian Corridors</li> <li>- No TIR Convention of China</li> <li>- Not many actions taken regardless of existing Transit policy</li> </ul>
Transport Infrastructures and Logistics Service	<ul style="list-style-type: none"> <li>- Not enough border gates (road), shortage of wagon, transshipment facilities and warehouses causes bottleneck at the border post</li> <li>- Not enough paved road and railway networks</li> <li>- Not enough international standard Terminals at the border (too old and not enough capacity of the facilities)</li> <li>- No progress on the launch and facilitation of Free Economic Zone</li> <li>- Lack of investment on Rail transportation</li> <li>- Monopoly of railway business and not enough coordination</li> <li>- No TIR accredited company in Mongolia</li> </ul>
ICT Application and Automation of Information Flow	<ul style="list-style-type: none"> <li>- Not enough online communication between public and private sectors</li> <li>- Not enough investment of ICT facilities</li> <li>- Individual level ICT capacity building is required to Mongolian agencies</li> <li>- No Single Window System</li> <li>- Low ICT level of SME enterprises</li> </ul>
Bilateral cooperative arrangement between Mongolia and China	<ul style="list-style-type: none"> <li>- Customs of two countries are keeping relatively good relationship and having some progress such as harmonized manifest</li> <li>- Cross Border information exchange is limited to statistics and smuggling cases</li> <li>- Both customs collaboration does not have pragmatic, substantial collaborative work plan</li> <li>- There has been not much dialogues between inspection/quarantine agencies (especially at headquarter level)</li> </ul>
Bilateral cooperative arrangement between Mongolia and	<ul style="list-style-type: none"> <li>- There used to be an alliance in the trade policy and regulations, but the tie is getting loose</li> <li>- Cross Border information exchange is limited to statistics and smuggling cases</li> <li>- Restrictions such as quota and other non-tariff barriers (sales area and Russian quarantine certificate requirements) on Mongolian products still exist</li> </ul>

Russia	
Sub-regional Agreement	<ul style="list-style-type: none"> <li>- Legal framework for efficient transit systems to and through Mongolia should be agreed among Mongolia, China and Russia</li> <li>- Mongolia has no FTA or RTA</li> </ul>

## 5. Recommendations

Through the BPA on Mongolian corridors covering Chinese, Mongolian and Russian territories, a number of bottlenecks and impediments have been identified, including discrepant trade and transit policy and regulations, gaps in economic development level, overlapping mandates on cross border procedures and prevalence of paper-based trade processes. Recommendations are drawn in a way to improve those identified bottlenecks.

Recommendations are presented at three different levels. First level involves efforts to be made at national level among three countries, with specific focus on Mongolia. Second level elaborates recommended collective actions for bi-lateral and subregional collaboration. Lastly, necessary assistance by international organizations and donor agencies are proposed. At the end of the Chapter, recommended actions are summarized in a matrix under the category of priority and implementation feasibility.

### 5.1 Recommendations for Mongolian Stakeholders

#### 5.1.1 Simplification of Administrative Process by Customs

Regardless of MCGA's proactive lead in trade facilitation, MCGA is questioned on its sincerity. It is necessary for Customs to actively review and introduce the latest risk and quality management trend to enable manufacturers and trading companies to receive the certification for the suitability of specifications and technical rules in the manufacturing process in advance, not in the course of importer/exporter permission, contract or customs clearance. For example, although Mongolian traders are in favor of doing in-land import declaration, MCGA is not allowing in-land transit transportation of un-declared cargoes by road. Another practice of Customs is checking seal and stamp on trade documents every time. Active utilization of Risk Management and adoption of Credit-Rating system can bring high flexibility on MCGA's administrative process such as green lane declaration<sup>9</sup> (fast track), pre-arrival examination, ex post-claim of tariff and ex post-assessment (audit) on trade declaration to the traders with good credit record. Introduction of AEO (Authorized Economic Operator), elimination of mandate customs broker on customs clearance and reduction of fees for inspection can also be considered.

#### 5.1.2 Domestic Integrated Border Control through Coordination

Currently, there are four agencies at the border post of Mongolia. They are Mongolian customs office, GASI, Immigration office and Border security. For the effective border control, it is necessary to streamline the process and enhance the information flow among those agencies. To avoid the discrepancy and duplication of work process while preventing forgery of documents, measures can include an integrated inspection process of goods at the border post by Mongolian customs and GASI and introduction of

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<sup>9</sup> Mongolian customs had introduced Risk Management System, and a low level risk cargoes usually takes 5 to 10 minutes for clearance

electronic information sharing system allowing the agencies to share relevant information with the implementation of the Mongolian Single Electronic Window system.

### **5.1.3 Sanitary and Phyto-sanitary standard of agricultural industry – Capacity building on GASI**

Mongolia's current institutional capacity to ensure that exports meet Sanitary and Phyto-sanitary standards (SPS) is very limited. On food, for instance, Mongolia has 605 standards, of which only half conform to international standards<sup>10</sup>. For example, one of a major challenge to the meat trade is that processing of meat does not adhere to international standard for registration of animal origin, their health care and veterinary examination in Mongolia. In order to demonstrate that a Mongolian product or service is in conformance to specific requirements, the GASI must establish and maintain documented procedures to control, calibrate and maintain inspection, measuring, and testing equipment. Identification and tractability of products and services, control of quality database, training for specialist and industry to meet international standards are recommended actions to the GASI. With improvement, Mongolian meat and other agricultural products can cultivate further export markets in other countries such as Japan and Korea as well as increase of mutton exports to the Arab countries.

### **5.1.4 Policy on Export Tax – balanced promotion of raw material industry and processing industry**

In the past, Mongolian government imposed export tax for the economic development especially cashmere processing industry, which was abolished in 2009 to shift the production of raw cashmere from quantity-based to qualify-based one. It has discouraged local herders to produce and provide high quality raw cashmere to the market because of little difference in market price between the high and low quality raw cashmeres. There are rising voices from local cashmere processing industry for reintroducing export tax on raw cashmere with a concern that Chinese importers are cornering and hoarding most of high quality raw cashmeres in the Mongolian market, threatening Mongolian cashmere industry. An additional research for the balanced and sustainable development of raw material industry and processing industry deem necessary.

### **5.1.5 Railway Policy – Attract investment with flexible operation of railway service**

Some measures to strengthen service quality and bring more investment on railway sector, such as competitive environment allowing multiple railway service providers, are strongly recommended. It can include allowing multiple railway operators at the same railway track and traders to charter the locomotives or to use its own wagons to the locomotive of UB Railway. It has not been easy for both public and private sectors to acquire railway cargo statistics in Mongolia. Railway Authority should manage the database on railway cargo, and the related statistics should be open for public use.

### **5.1.6 Cross Border Dispute Resolution – Promotion of Arbitration Court**

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<sup>10</sup> TRADE POLICY AND HUMAN DEVELOPMENT IN MONGOLIA, UNDP 2009

Mongolian government needs to promote and facilitate foreign trade dispute arbitration body (Arbitration Court of the Mongolia National Chamber of Commerce and Industry) to protect Mongolian stakeholders from the trade dispute through a collaborative process together with China and Russian government.

#### **5.1.7 Free Economic Zone (Free Trade Zone)**

Traders face difficulties in keeping and transshipping their cargoes at the border side. There are not enough terminal spaces and facilities, including warehouses and transshipment devices. Establishing the “Altanbulag” and “Zamyn-Uud” FEZ will undoubtedly play an important role in developing trade relations along corridors. These places are located at the border ports with China and Russian Federation along the Asian Highway (AH-3) and international railway, which can be quite attractive to investors. In reality, investment and installation of infrastructure are getting delayed. While Mongolian FEZs are losing interests, huge investment has been witnessed at Chinese border side. Further research and investment should be conducted for the facilitation of the FEZs at Mongolian borders.

#### **5.1.8 Facilitation of Communication between Government and Private sectors**

According to the United Nations e-Government survey, Mongolian e-government was ranked 53<sup>rd</sup>, which is higher than Chinese e-government’s rank of 72<sup>nd</sup>. But, in reality, the usage of e-government systems has not been well facilitated in most of the agencies. The operation of trade related government agencies’ websites is not much user-oriented. The usage of the website should be increased by providing useful information such as detailed statistics, concise and clear explanation of regulation with examples and user friendly interactive communication channels to trade.

#### **5.1.9 Investment on ICT of the Agencies**

In spite of the importance of properly managing industry standard and quarantine of imported good, GASI and MASM are relatively less equipped and trained in equipments and information systems, compared to their counterparts in China and Russian Federation. In particular, level of ICT application, which can enhance the internal work process as well as external service, is quite low in both agencies. GASI has high expectation on the development of Mongolian Single Electronic Window (MNSW ) as a momentum to enhance the ICT level of the agency<sup>11</sup>. However, the effectiveness of MNSW will be relatively lower if the ICT level of individual agencies connected to MNSW is limited. The MNSW has its own limits and can’t support the management of internal process and database of the agencies. It is highly recommended to establish the short and long term ICT plan in each individual agency (especially GASI and MASM) and put high priority on securing the budget for the successful implementation of the plan.

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<sup>11</sup> MNSW Implementation Master Plan 2010

#### **5.1.10 Mongolian Single Electronic Window and Legislation on Information Sharing and Privacy Protection**

Among all the systems of trade-related government agencies, only the CAIS of MCGA and Chemical Management System of Ministry of Nature, Environment and Tourism can deliver electronic certificate documents each other. Some stakeholders such as MOH, MNCCI and UB railway has online system that can receive the applications from traders. The development of Mongolian Single Electronic Window can be the key for the facilitation of the Information Sharing. But, some agencies possessing trade and transportation information and data may decline request from other agencies to share the information and data. To facilitate sharing of trade information and data, legislative enforcement is necessary. Privacy protection measures should be also included and highlighted in the related laws in alliance with regional and international regulations.

### **5.2 Recommendations for Chinese Stakeholders**

Chinese railway authorities and companies should do their best to stabilize the train schedule between Tianjin and Erenhot. The block train service with strict service level agreement could be a way to solve the issue. The qualification for application of wagon should be open to the market. Pilot projects can be taken to reduce the transportation of blank wagon from Mongolia.

Border management authorities of China may need to do process reengineering to reduce the number of documents for administrative purpose and also adopt a new process of inter-agency documents such as delivering the electronic quantity certificate of AQSIQ to Customs directly.

Chinese trading communities are dealing complicated trade procedures due to different trading models and multi-level management of several administrations. The introduction of a Single Window connecting all the government agencies would solve most of the issues and facilitate trading through a single entry point provided to the traders and their agencies.

Most of goods coming through Tianjin to Mongolia require multi-modal transport. Thus, if there is a terminal for Mongolia, it can conveniently connect the special yard, ocean terminals and railway stations. All the procedures can then be covered in a single place in a short period.

### **5.3 Recommendations for Russian Stakeholders**

Russian Customs is recommended to do a business analysis and reengineering of process to increase the efficiency of customs process and improve service quality. A joint effort for the reform of process with Chinese and Mongolian Customs will be a better option by leveraging multi-lateral cooperation.

Monopoly in the transportation of Vladivostok may decrease the competitiveness of whole trade community in the subregion. Monopoly may not directly result in inefficiency or high cost. However, the situation in Vladivostok can be improved by bringing transportation sector into more competitive environment.

For a newly entered meat import business, it is almost impossible to get a quota from the Ministry of Agriculture of the Russian Federation because the quota is distributed according to the meat importing records. The measure to lower the barrier for a new business is required. And also if meat export quota of Russian government for Mongolia is increased, 80 to 120 USD per ton of unessential expense could be saved from every auction for extra quota.

The Russian customs and regulatory authorities are encouraged to develop or enhance its paperless trading information system infrastructure.

## **5.4 Recommendations for Bilateral and Sub-regional Cooperation**

### **5.4.1 Cross Border Cooperation with Foreign Agencies – Development of Trust and Cooperation**

MCGA has been leading collaboration with its Chinese and Russian counterparts. Recent project on the harmonization of Manifest document between Chinese and Mongolian customs should be highly regarded as a good practice to stimulate other agencies of Mongolia as well as other countries. Based on relationship and trust with its counterparts, MCGA needs to seek further substantial progress. Cooperation of the agencies across the border between Mongolia and China and Mongolia and Russia could be a key solution to minimize such time-consuming and costly cases.

Main cooperation areas can include;

- Bilateral Promotion of trade (e.g. operation of joint website, seminar or training on other side's laws and regulations)
- Facilitation of Special Modes of Trade (taking the features of the trade in certain port into account , e.g. develop processing trade and tour trade in Erenhot)
- Harmonization of data and documents
- Recognition of certificates of foreign agencies
- Exchange of e-documents and data (e.g. Manifest, Risk Management and B2B documents)
- Exchange of Customs Human Resource
- Development of Joint Risk Management Measures and operation of fast track
- Feasibility study on Joint border control

For successful cooperation with significant outcomes, regular bilateral conference or meetings between the headquarters as well as border agencies are crucial. High-level officials can discuss about the strategic trading partnership, while senior level officials can work on the policies and targets of the cooperation. Mongolian agencies may get support from international bodies such as UNESCAP or UNDP to facilitate organizing

bilateral or sub-regional conferences and cooperative mechanism with China and Russian Federation. Staff exchange and joint training program between Mongolia and foreign agencies will also help facilitating the partnership as well as capacity building of officers/agencies. One possible approach is to use the Greater Tumen Initiative, which already created mechanism for sub-regional cooperation.

Utilization of international convention such as TIR is also highly recommended since it will bring benefits to all the countries across the Mongolian corridors improving the efficiency of logistics, simplifying customs procedures, lowering the cost of traders and enhancing sub-regional trade competitiveness as a whole.

#### **5.4.2 Customs to Escalate Current Cooperation by Establishing a Common Vision and a Roadmap**

Customs of China, Mongolia and Russia should leverage the current cooperation measures by strengthening the working groups and sharing the common vision. Working group needs to share the road map and identify the key performance index for the effective delivery of collaborative outcomes.

The following actions are recommended;

- Establish common visions and roadmap for mutual cooperation
- Expansion of current uniform manifest pilot project
- Prepare for the additional pilot projects of exchanging electronic trade documents and information starting from manifest and cargo tracking (customs clearance status) information
- Joint training and seminar
- Revitalize officer exchange programme
- Bilateral promotion of trade (e.g. operation of joint web site, seminar or training on other side's laws and regulations)
- Development of Joint Risk Management Measures and operation of fast track(green lane)

#### **5.4.3 Quarantine and Inspection Agency to Bridge the Gaps and Lay a Foundation for Cooperation**

The cooperation level of the quarantine and inspection bodies should be upgraded to higher level on a regular basis. Mutual recognition of certificates can be a long term goal of the collaboration. Phased approach is duly recommended as a preferred implementation method. Some of the easy and possible approach is to develop functionality in its website where foreign agencies can cross check the contents of the certificates submitted by traders for inspection and identify their authenticity. Recommended actions for the collaboration of Quarantine and Inspection agencies in the corridors are as follows:

- Enter into bilateral (sub-regional) framework for mutual cooperation

- Establish working groups for the development of comprehensive action plans and its execution
- Initiate the joint training on officers and officer exchange programme
- Develop the certificate validation system on websites
- Prepare for pilot projects including the mutual recognition of certificates and testing facilities

#### **5.4.4 Railway Authority to Secure Railway Service Level**

Forwarders in the sub-region pointed out that the irregular and uncertain transportation schedule in the corridor discourages them from selecting the Mongolian Corridor as an alternative transportation pass to ocean route. Because of such uncertainty in Mongolian trade corridors, traders and forwarders hesitate to add this route in their global supply chain management. Transit fee is relatively higher than domestic train fee. The transit fee should be lowered to attract traders in the sub-region to the Mongolian Corridors. Railway authorities and railway companies should come to an agreement on extension of the number of block train service, measures (such as service level agreement) to secure regular train schedule and lowering transit fee.

#### **5.4.5 Immigration office to Improve Mobility of People**

Not much of a bottleneck issues were identified, but exchange of passenger list (or driver list) with neighboring countries' immigration and customs office will help increasing the service level of receiving authorities as well as controlling the unlawful immigrant and smuggling.

#### **5.4.6 Sub-Regional Private and Public Partnership Cooperation and Cargo Visibility Pilot Project**

From the perspective of traders in recent business circumstances, visibility of cargo is one of the most important factors in a selection of transportation route. Visibility is about the scheduling and traceability of the cargoes and its documents. Visibility for Mongolian Corridors is also meaningful solution for the enhancement of service level of the each administration. Currently, limited number of public sectors in the Mongolian Corridors are providing tracing service to traders or sharing of information over open network. The development of integrated visibility of cargo over the Mongolian Corridors can be a good touchstone for a Sub-Regional Private and Public Partnership Cooperation.

The following steps are recommended.

- Feasibility study on the Sub-regional cargo visibility development
- Data Harmonization and standardization of related information technology
- Development of individual stakeholders' cargo and document tracing system
- Domestic Cargo Visibility Pilot projects
- Pilot project on Mongolian trade corridor cross-border cargo visibility

For those stakeholders who have already implemented or are in possession of tracing information in the region, such as Chinese customs and MCGA, they may enter into bilateral discussion on data harmonization of cargo tracking information to be exchanged. Once each agency has information on cargoes in its own system, then a Single Electronic Window can be an ideal system to consolidate and deliver integrated cargo tracking information as well as e-documents exchange among the stakeholders.

Another cooperation area is facilitating transit transportation in the corridors by adopting and facilitating TIR convention. For Mongolia and Russia, the usage of TIR has been quite limited until now. Participation of Chinese government in the convention will accelerate the use of TIR carnet not only from China, Mongolia, Russia but also from other countries in the Subregion such as Republic of Korea and Japan.

## **5.5 Recommendations for International Assistance**

For the facilitation of the Mongolian trade corridors, coordination of stakeholders, harmonization of different voices and development of social overhead capital can be the role of international organization and donor agencies. The areas to be supported by international organizations and donor agencies for the facilitation of Mongolia corridors are summarized as follows:

Feasibility Study on integrated border control, mutual recognition of testing facilities and certification, development of certificates and database management system, Mongolian corridors cargo tracking and e-document exchange project, and effective government policy for the flexible operation of railway service

Capacity Building and Training to fill the gaps between Mongolian stakeholders and agencies of its neighboring countries, including simplification of administrative process such as AEO, post-audit or pre-arrival examination for MCGA, and development of facilities and equipments as well as implementation of ICT in trade related agencies (especially GASI)

Facilitation of dialogue by establish Sub-Regional Private Public Partnership Dialogue to facilitate cooperation among sub-regional stakeholders

Promotion of Mongolian trade corridors by developing Mongolian corridor transportation service, promoting Mongolian corridors to the major traders in the sub-region and developing key performance index to assess the output of cross-border collaboration

Infrastructure development by establishing National Single Window System in Mongolia, developing Certificates and DB management system of GASI and MASM, constructing Asian Highway in the Mongolian territory, expanding trans Mongolia railway, and developing and facilitating border Free Economic Zones and Terminals, warehouses and transshipment facilities

International bodies are encouraged to develop and coordinate a Mongolian Trade Corridor Forum or ENEA (East and North East Asia) Private Public Partnership Dialogues for Paperless Trade. Such a dialogue platform can be participated by trade related government agencies, paperless trade service providers as well as major manufacturers, distributors and logistics service provider in the Subregion. The existing China-Korea Private-Public Partnership Dialogue for Paperless Trade is one example of successful bi-lateral dialogue platform with actual implementation of trade facilitation measures such as a joint cargo tracking project, which can be possibly developed into a Subregional one with membership expansion.

## 5.6 Summary of Recommendations

### 1. National level Recommendations

#### 1.1 Mongolia

No	Recommendation	Description (Sub- Category)	Stake- holders	Cost <sup>12</sup>	Difficul- ty <sup>13</sup>	Priority
1	Simplification of Administrative Process	Allow In-Land road transportation	MCGA	Low	Middle	High
		Minimize/reduce documents, fees and Process in Clearance	MCGA	Low	Middle	High
		Implement pre-arrival examination	MCGA	Low	High	Middle
		Introduction of AEO	MCGA	Middle	High	Middle
		Elimination of mandate customs broker	MCGA	Low	Middle	High
		Introduce ex post facto process (post-audit)	MCGA	Low	High	High
		A bar-code system	MCGA, MNCCI	High	High	Middle
		Facilitating customs clearance at Tianjin port	MCGA	High	High	Middle
2	Sanitary and Phyto-sanitary standard of agricultural industry	Capacity building	GASI	High	High	High
		Promotion of international standard	Ministry of agriculture , GASI	Middle	Low	Middle
		Complement facilities and equipments	GASI, MASM	High	Middle	Middle
3	Investment on facilities, equipments and ICT system	Development of certificates and DB management system	GASI, MASM	High	High	High
		Implementation of Mongolian Single Electronic	MSEW Steering	High	High	High

<sup>12</sup> Criteria for Cost is as follows; low: the measure can be adoptable by changing a related policy or regulation, middle: budget for the measure will be affordable by the related government authorities, high: the budget may need a support from donor agencies or international bodies

<sup>13</sup> Criteria for Difficulty is as follows; low: the measure does not require high level experience nor much follow ups actions, middle: high level experience as well as some follow up actions are required, high: can't afford the measure domestically or a lot of follow up actions are required(or serious resistance is expected)

4	Information Sharing and privacy protection	Legislation for the information sharing and privacy protection Introduce competitive environment	Window Committee MSEW Steering Committee Railway Authority	Low	Low	High
5	Flexible operation of railway service	Allow 3 <sup>rd</sup> party wagons Management of railway statistics	Railway Authority Railway Authority	Low	Low	High
6	Integrated border control	Domestic integrated border control	MCGA, GASI	Middle	High	High
7	Others	Cross border dispute resolution	MNCCI	Low	Low	Middle
		Facilitation of Free Economic Zone	Free Zone Committee	High	High	High

## 1.2 China

1	Improvements of railway service	Secure the train schedule	Railway Authority	Low	High	High
2	Simplification of customs process	Process reengineering to minimize/reduce documents and Process in clearance	Customs	Middle	High	High
3	Investment on ICT system	Implementation of National Single Window in China	All (China)	High	High	High
4	Terminal for Mongolian trade	Independent terminal for Mongolian trade in Tianjin	Tianjin Municipal	High	High	High

## 1.3 Russia

1	Process reform of Customs process	Process reengineering to minimize/reduce documents and process in clearance and enhance the service level	Customs	Middle	High	High
2	Competitive environment for transportation service	Introduction of competitive environment for railway forwarding service at Vladivostok	Russian Railway	Low	High	High
3	Barrier to the Quota for meat import	Lower the barrier to enter the meat import business in Russia Increase quota for Mongolia	Ministry of Agriculture	Low	Middle	Low
4	Investment on ICT system	Implementation of National Single Window in Russia	All (Russia)	High	High	High

## 2. Bilateral / Sub-regional Cooperation

No	Recommendation	Description (Sub- Category)	Stake-holders	Cost	Difficulty	Priority
1	Escalate the current cooperation by	Set up Common Vision and Road Map Expand the pilot manifest	Customs	Low	High	High
				Low	Low	Middle

	establishing a common vision and a roadmap	projects				
		Exchange manifest and other customs information		Middle	Middle	Middle
		Joint training and seminar		High	Middle	High
		Officer exchange programme		Middle	Middle	Low
		Bilateral promotion of trade		Middle	Middle	Low
		Simplify the border process		Low	High	High
		Enter into Bilateral Framework		Low	Middle	High
		Establish working group		Low	Low	High
2	Bridge the gaps and lay a foundation	Joint training and seminar	Quarantine and Inspection Agency	Middle	Middle	Middle
		Officer exchange programme		Middle	Middle	Low
		Certificate validation over the web		Middle	Middle	High
		Recognition of testing facilities and certification		Middle	High	High
3	Securing the railway service	Secure the train schedule	Railway Authority	Low	High	High
		Lower the rates for railway freight forwarding		Low	Middle	Middle
4	Improve mobility of people	e-Passenger List Pilot Project (Exchange of passenger list)	Immigration office and Customs	Middle	Middle	Low
5	Sub-Regional Private and Public Partnership Cooperation	Facilitation of TIR (Transit)	ALL	Middle	High	High
		Cargo Visibility and e-Document Pilot Project	All	High	High	High

### 3. International (Sub-Regional) Assistance

No	Category	Sub-Category	Mongolian Trade Corridor Stakeholder
		Integrated Border Control	MCGA, GASI
		Recognition of testing facilities and certification	China, Mongolia and Russian Inspection and Quarantine agency
1	Feasibility Study	Development of certificates and database management system	GASI
		ENEASub-regional) cargo tracking and e-document exchange project	All (China, Korea Japan, Mongolia and Russia)
		Effectuated government policy for the flexible operation of railway service	Railway Authority
2	Capacity Building and Training	Simplification of Administrative Process	MCGA

		Sanitary and Phyto-sanitary standard and testing	GASI
3	Facilitation of the Dialogue	ENEASub-regional Private Public Partnership Dialogue	All (China, Korea Japan, Mongolia and Russia)
		ENEASub-regional Cargo Visibility and e-Document Pilot Project	All (China, Korea Japan, Mongolia and Russia)
		Mongolian Single Electronic Window	MSEW Steering Committee
4	Infrastructure Development	Development of certificates and DB management system	GASI, MASM
		Facilitation of Free Economic Zone	FEZ committee
		Construction of Asian High Way 3 and other Road	Ministry of Transportation
		Extension of Railway Network	Ministry of Transportation

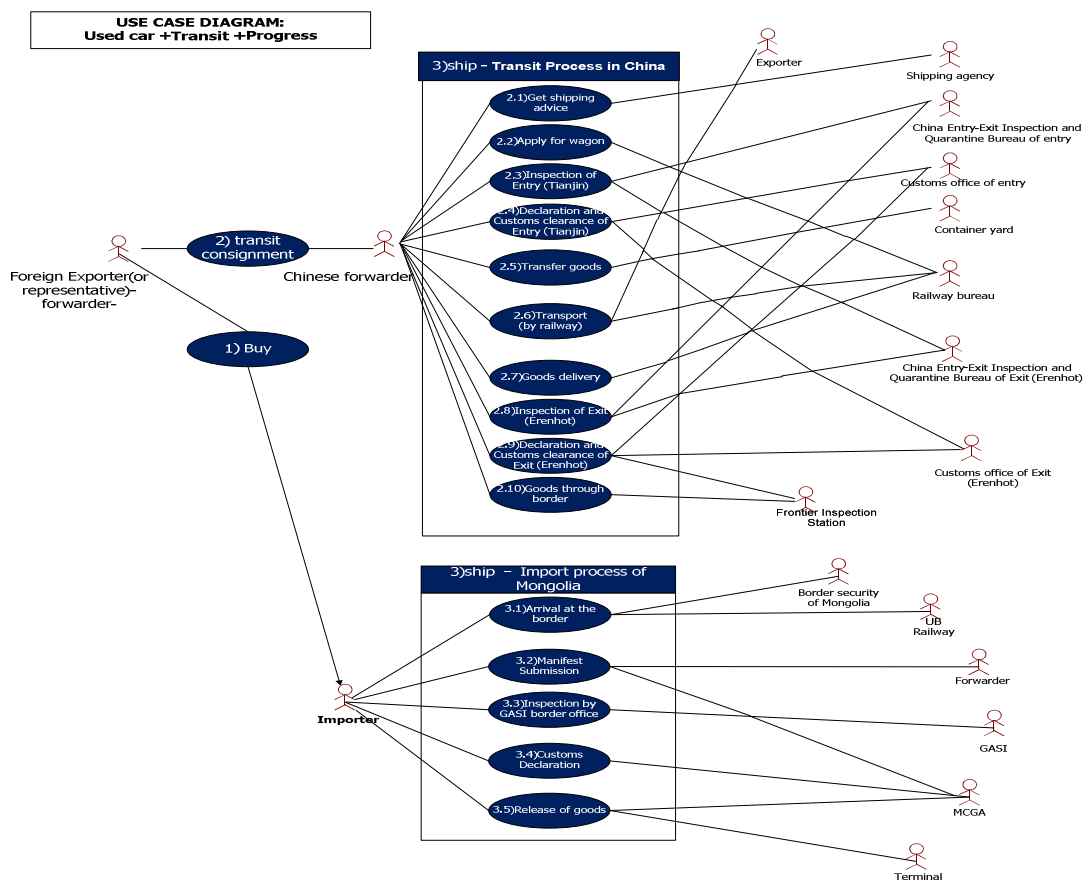
## Annex. A Case of Cross-Border BPA in Mongolian Corridors: Mongolia's Import of Used Car through China

### A.1 Study Overview

This study case, one of the six cross-border BPAs in the Study, covers Mongolia's trade with third countries via China as a transit country. Most of Mongolia's trade with third countries via China is done through Tianjin Port. In this BPA, import of used cars from Republic of Korea through Tianjin Port was studied. The most popular item is used car coming from Japan and Korea in the transit trade through Tianjin port between Mongolia and other foreign countries, accounting for more than half of the total transactions. Other main transit goods through Tianjin Port are commodities.

In the transit process, Chinese stakeholders mainly participate as third parties, only dealing with arrangement of transport and inspection. The steps shown in Figure A1 describe the whole process of the business transaction, including consignment, shipping advice notification, application for wagon, inspection, customs clearance, transfer goods, transport by railway, prepare to receive, inspection (Erenhot), customs clearance (Erenhot) and border crossing. In this study, analysis of contracting process and shipping in Republic of Korea was not conducted

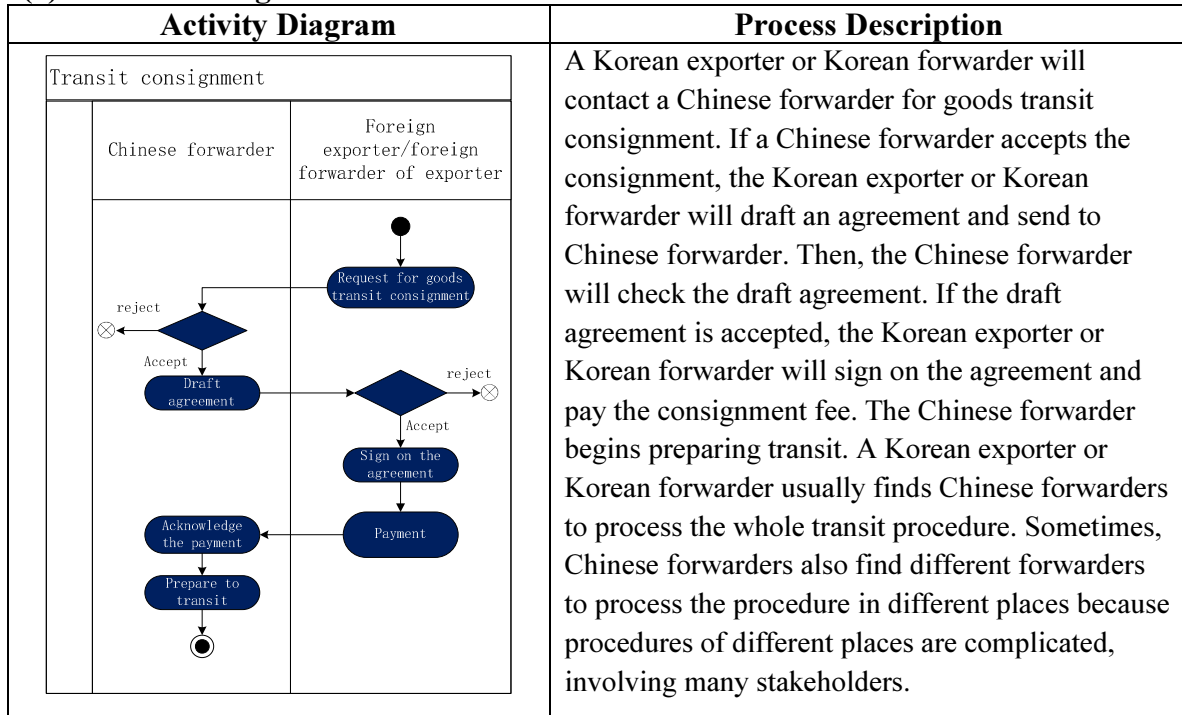
**Figure A1. Use Case Diagram of Used Car Transit through Tianjin Port**



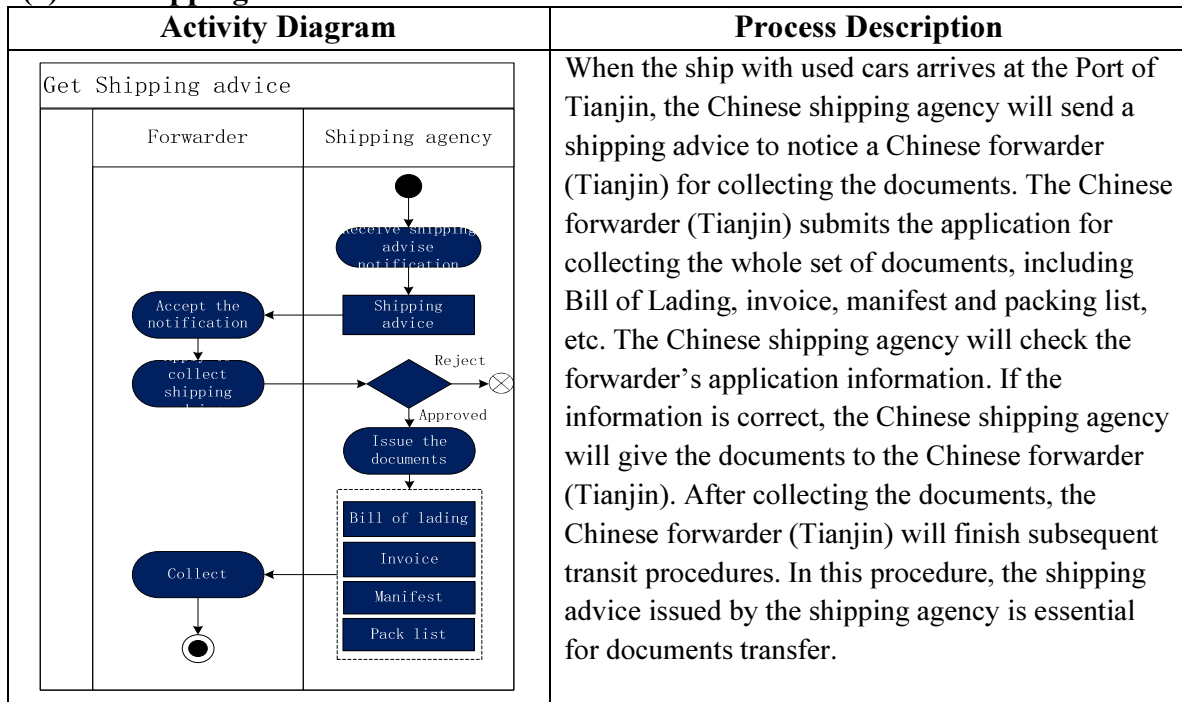
## A.2 Process Analysis

### A.2.1 Transit Process in China

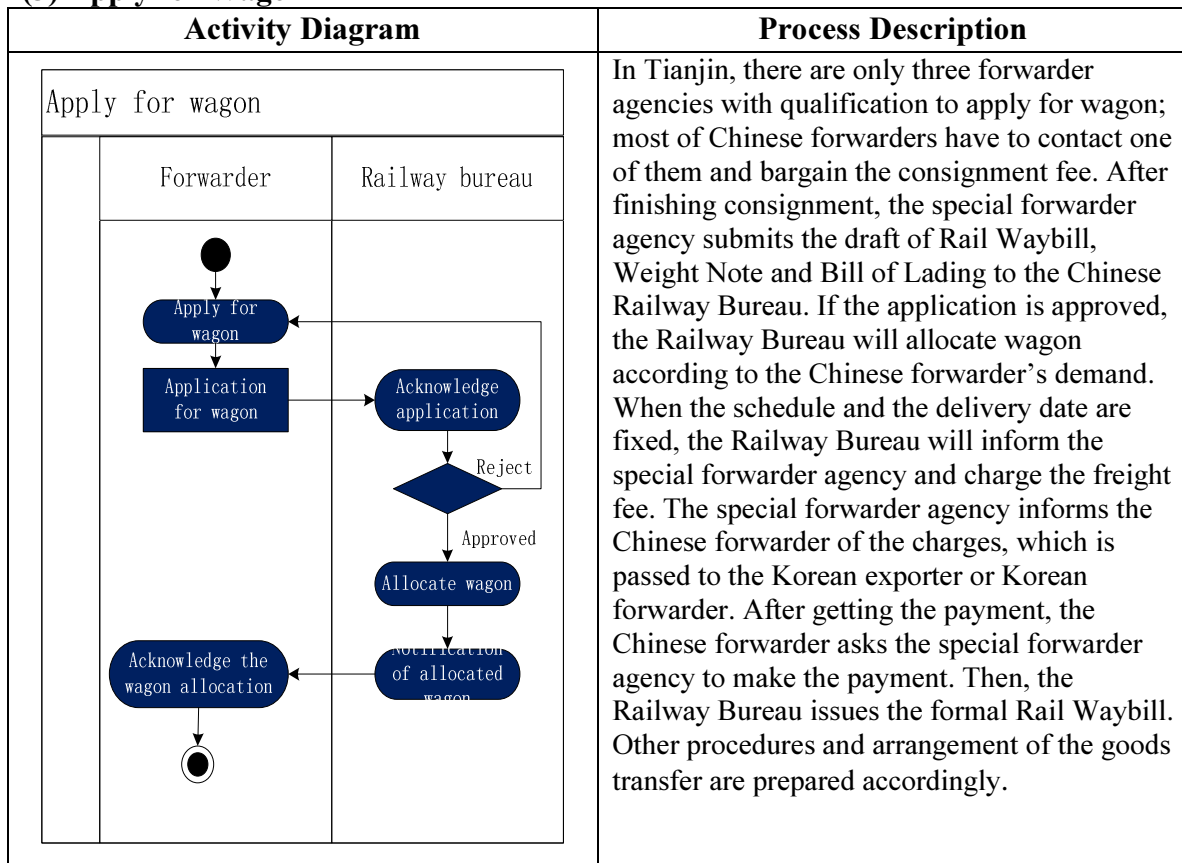
#### (1) Transit Consignment



#### (2) Get Shipping Advice



### (3) Apply for Wagon



In this process, the Rail Waybill (WB) is the most important document, which is not only the proof of transportation commitment between Railway Bureau and the Chinese forwarder, but also one of the key documents for Customs declaration. Rail WB has one original and one copy. The original one will be transferred along with goods by the Railway Bureau until arriving at the destination. The Railway Bureau will inform the consignee of the arrival for Customs clearance and acquisition of the goods.

During the transportation, the WB will be signed or sealed by passing stations or Customs every time. The copy is held by the Chinese forwarder to prove the commitment of the Railway Bureau. The Chinese forwarder has the right to instruct the Railway Bureau to suspend the transportation or change the consignee with the copy. Rail WB is a receipt of goods transportation. It cannot stand for the title of goods.

#### Box A1: Railway of China

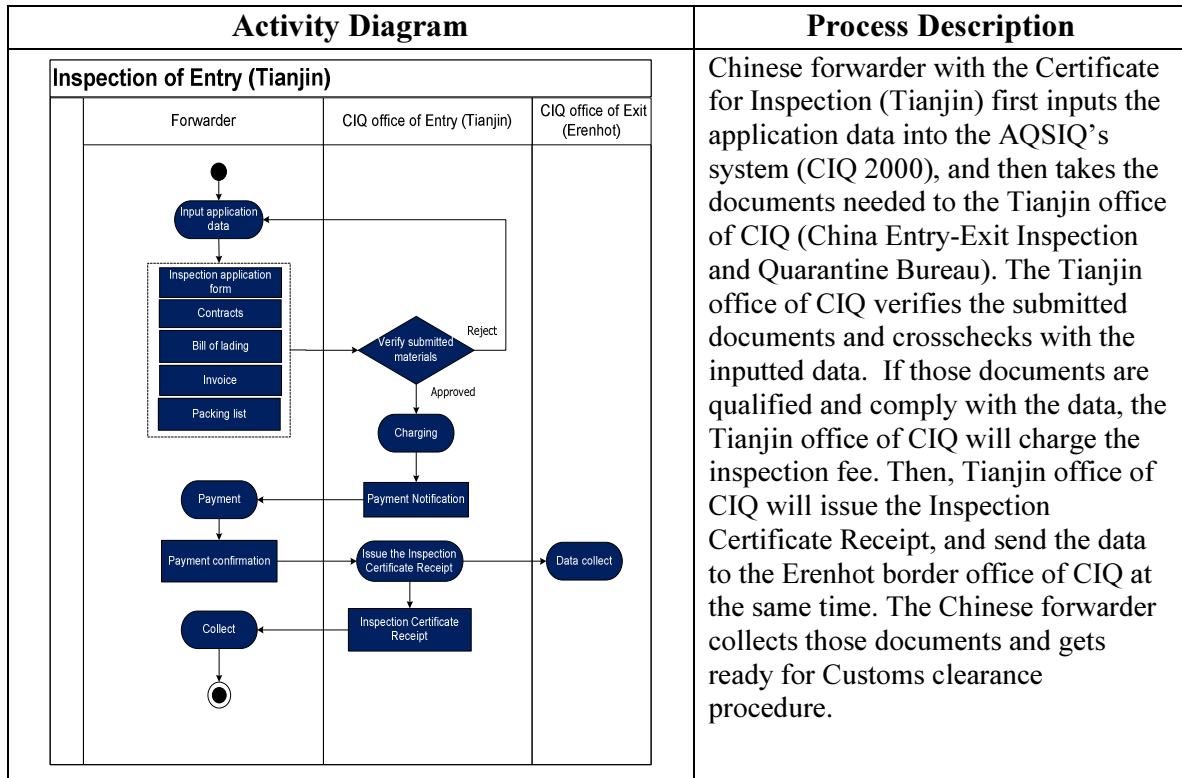
There are more than 60 main railways in china. About four railways are connected with foreign countries, including Beijing to Moscow, Beijing-Ulan Bator-Moscow, Beijing-Pyongyang, Beijing-Hanoi. The Ji-Er Railway, connecting Jini to Erenhot, is Chinese domestic part of the Beijing-Ulaanbaatar-Moscow railways. The transportation volume of Ji-Er railway is about 12 million tons every year, accounting for more than 70 percent of the volume of trade between china and Mongolia.

In China, the Minister of Railways of The People's Republic of China is the only one railway carrier for transportation of bulk cargo. There are 3 managing levels: the Minister of Railways of The People's Republic of China, the railway bureaus and the railway stations. There are 18 railway bureaus in China. The Erenhot railway station belongs to Hohhot Railway Bureau. Transportation capacity of Erenhot follows the instruction of Hohhot Railway Bureau.

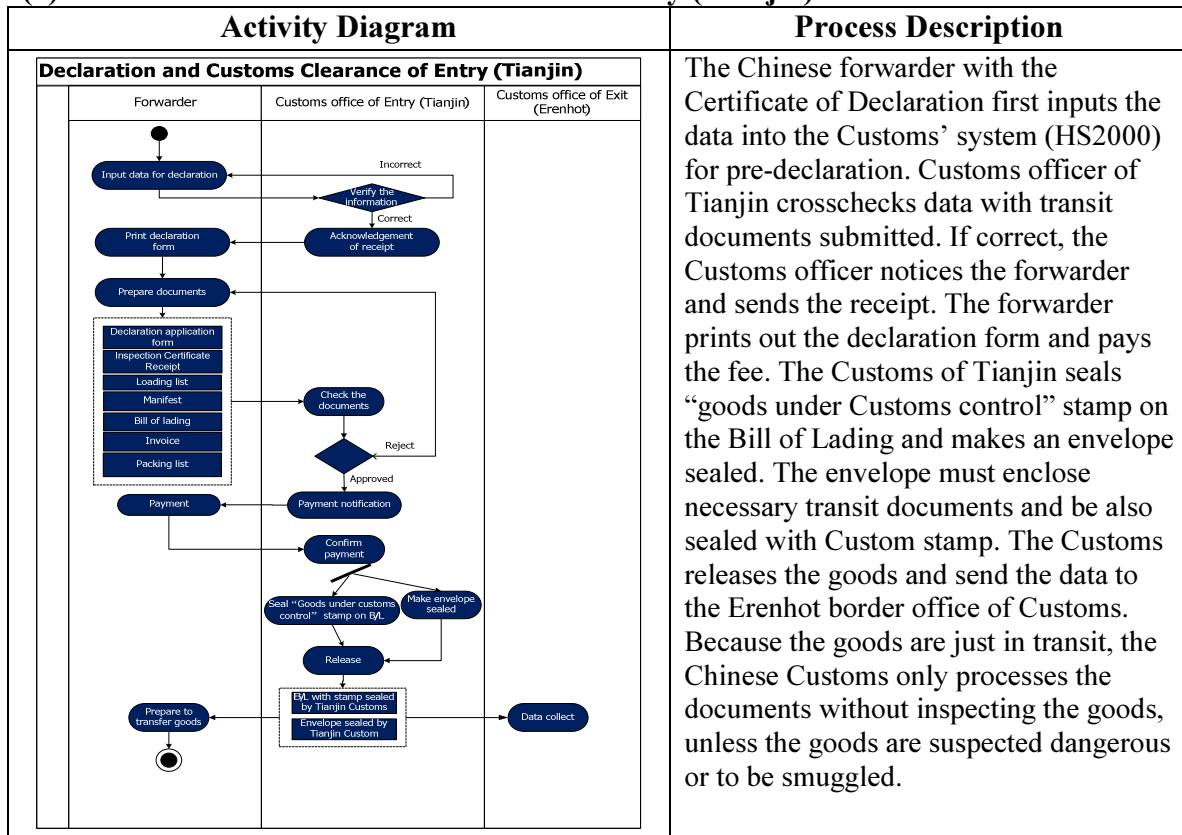
As for the bulk cargo, the Chinese forwarder must apply for wagon to Railway Bureau in advance. Usually, the feedback for wagon and delivery date need about 10 days. For containers, there are special block container trains for transportation of containers. The China Railway Container Transportation Co., Ltd (CRCT) operates exclusively those block container trains. The block container trains have the fixed time, line and charges. For example, there are 4 block container trains per day from Tianjin to Erenhot.

**Figure A2. Sample Rail Waybill**

**(4) Inspection of Entry (Tianjin)**



##### (5) Declaration and Customs Clearance of Entry (Tianjin)



## (6) Transfer Goods

Activity Diagram	Process Description
<p><b>Transfer Goods</b></p> <pre> graph TD     subgraph Forwarder         Start(( )) --&gt; A[Apply to transfer goods to the train]         A --&gt; B[Bill of lading Envelope sealed by Custom]         B --&gt; C[Contain to yard]         C --&gt; D[Road transportation]         D --&gt; E[Prepare transportation]         E --&gt; End(( ))     end     subgraph Yard         B --&gt; F{ }         F -- Reject --&gt; A         F -- Approved --&gt; G[Prepare transport notice to collect the container]         G --&gt; H[weight]         H --&gt; I{ }         I -- Refuse --&gt; D         I -- Accept --&gt; J[Issue weight note]         J --&gt; K[Weight note]         K --&gt; E     end         </pre>	<p>The forwarder applies for transferring goods from the yard of port to the railway station. The yard supervisors in the container yard will check the documents submitted by the forwarder, especially the Bill of Lading sealed by Customs. If the documents are approved, the yard supervisors will organize the vehicles and give notice to the forwarder for collecting the goods. Before releasing the goods, the yard supervisors will weigh the goods. If the weight is the same as the documents, the yard supervisors will issue the Weight Note and release the goods. Otherwise, the forwarder must change for road transportation. After getting the weight list, the forwarder begins transferring the goods from the yard to the railway station. There are four container yards in Tianjin port in total. Every yard belongs to different logistics company. The forwarder must load the goods from different yards and then deliver to the same railway station, which affects efficiency seriously.</p>

## (7) Transport (by Railway)

Activity Diagram	Process Description
<p><b>Transport (by railway)</b></p> <pre> graph TD     subgraph Forwarder         Start(( )) --&gt; A[Apply to ship goods]         A --&gt; B[Weight note Draft rail waybill Bill of lading]         B --&gt; C[Request for Freight Charge]         C --&gt; D[Acknowledge of Freight Charge Payment]         D --&gt; E[Load the goods accordingly to rail waybill]         E --&gt; F[Cargo delivery]         F --&gt; G[Road transportation]     end     subgraph Exporter         C --&gt; H[Acknowledge of Request for Freight Charge]         H --&gt; I[Freight Charge Payment]         I --&gt; D     end     subgraph RailwayBureau[Railway Bureau]         B --&gt; J{ }         J -- Reject --&gt; A         J -- Accept --&gt; K[Notification of Delivery date and request for freight charge]         K --&gt; L[Issue rail waybill]         L --&gt; M[Rail waybill]         M --&gt; N[Cargo checking]         N --&gt; O{ }         O -- refuse --&gt; G         O -- accept --&gt; P[Seal on rail waybill]         P --&gt; Q[Load on Wagon]         Q --&gt; R[Take cargo to border]         R --&gt; End(( ))     end         </pre>	<p>On the designated date, the forwarder delivers the goods to the Railway Station. If the goods are same as those specified in the Rail Waybill, the Railway Bureau seals the Rail Waybill and loads the goods on the wagon. Then, the Railway Bureau takes the goods to border.</p>

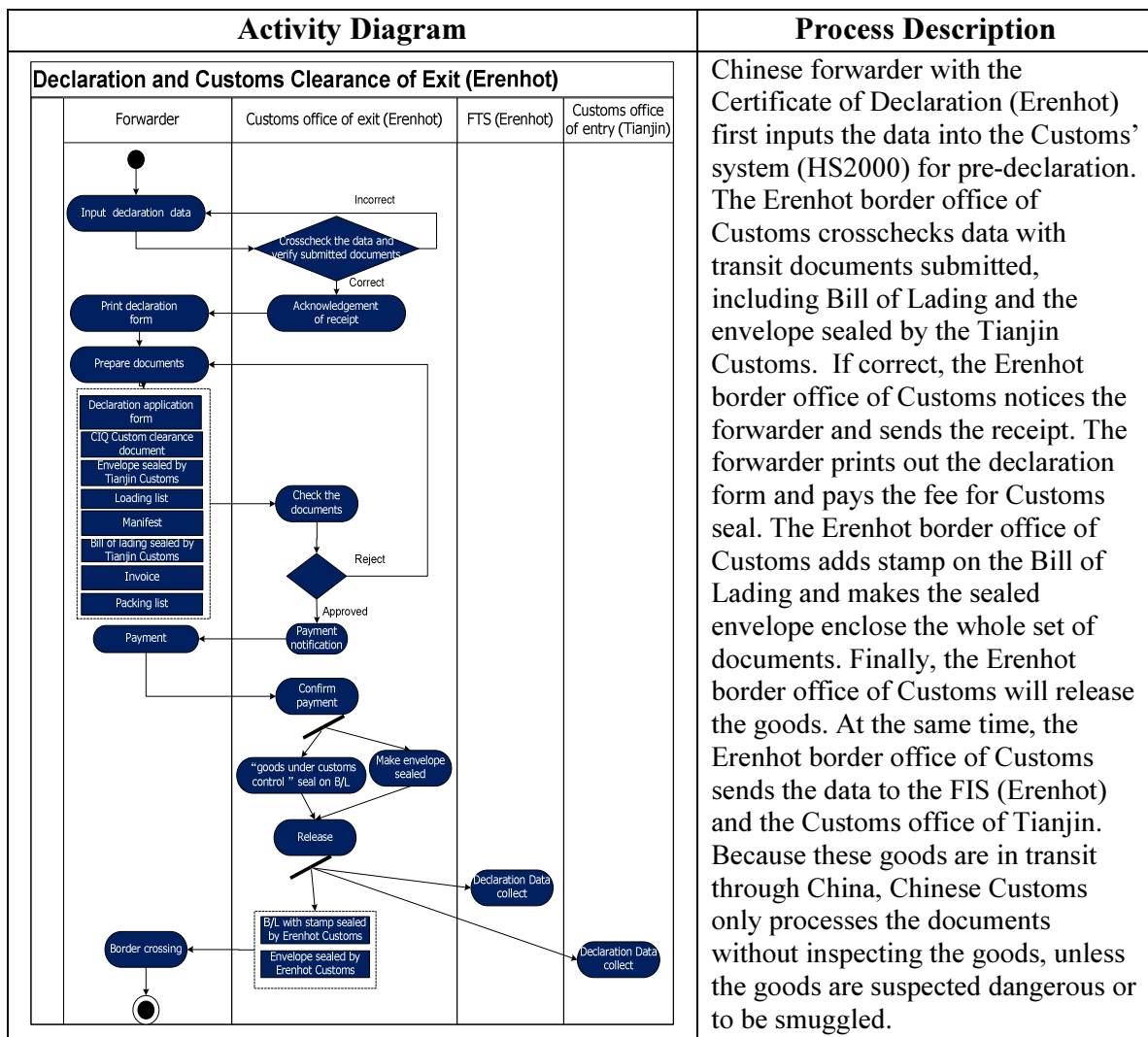
## (8) Goods Delivery

Activity Diagram	Process Description
<div data-bbox="282 247 847 888"> <p>Goods Delivery</p> <pre> graph TD     subgraph Forwarder         P2R([Prepare to receive]) --&gt; RW[Rail waybill]         RW --&gt; CAG([Collect the goods])         CAG --&gt; End(( ))     end     subgraph Railway_bureau [Railway bureau]         Start(( )) --&gt; AN([arrival notification])         AN --&gt; P2R         AN --&gt; CD([Check the document])         CD --&gt; D{ }         D -- Rejec --&gt; End         D -- Accept --&gt; AGC([Agree to collect goods])         AGC --&gt; CAG     end         </pre> </div>	<p>When the goods arrive at Erenhot, the Railway Bureau will send the notice to the Chinese forwarder (Erenhot). The Chinese forwarder (Erenhot) will submit the Railway Bill transferred by Chinese forwarder (Tianjin) for collecting goods. The rail in Mongolia is different from the rail in China, requiring gauge change. When delivering to the border, the Chinese forwarder has to unload the goods and reload to Mongolia train. The gauge change cannot begin until there is an empty wagon in Mongolia, which often results in delay and long queue on border of Chinese side.</p>

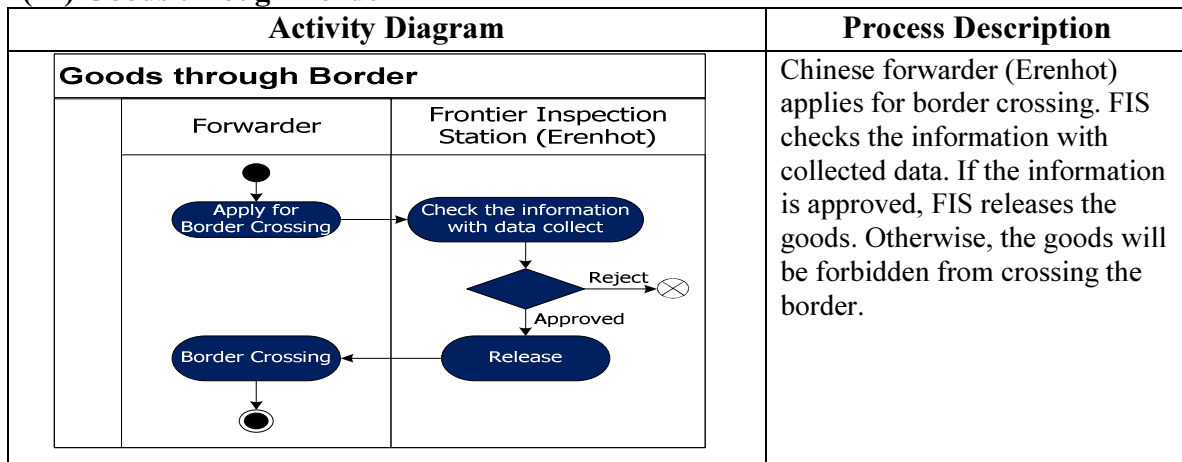
#### (9) Inspection of Exit (Erenhot)

Activity Diagram	Process Description
<div data-bbox="246 1056 985 1774"> <p>Inspection of Exit (Erenhot)</p> <pre> graph TD     subgraph Forwarder         Start(( )) --&gt; IAD([Input application data])         IAD --&gt; D1[ ]         subgraph D1 [ ]             ICR[Inspection certificate receipt]             IAF[Inspection application form]             C[Contracts]             BL[Bill of lading]             I[Invoice]             PL[Packing list]         end         D1 --&gt; CD[Crosscheck the data and verify submitted materials]         CD -- Unqualified --&gt; IAD         CD -- Qualified --&gt; CH([Charging])         CH --&gt; PN[Payment Notification]         PN --&gt; P([Payment])         P --&gt; PC[Payment confirmation]         PC --&gt; ICCD[Issue the CIQ Custom clearance document]         ICCD --&gt; D2[Data collect]         D2 --&gt; C[Collect]         C --&gt; End(( ))     end     subgraph CIQ_office_of_Exit [CIQ office of Exit (Erenhot)]         CD         CH         PN         ICCD     end     subgraph CIQ_office_of_Entry [CIQ office of Entry (Tianjin)]         D2     end         </pre> </div>	<p>Chinese forwarder with the Certificate for Inspection (Erenhot) submits the inspection certificate receipt to the Erenhot border office of CIQ. The Erenhot border office of CIQ crosschecks the documents with the data sent by Tianjin office of CIQ. If the information is correct, the Erenhot office of CIQ issues the CIQ Customs Clearance Document. At the same time, the Erenhot office of CIQ also sends the data to the Tianjin office of CIQ. The Chinese forwarder (Erenhot) collects the documents and prepare for declaration.</p>

#### (10) Declaration and Custom Clearance of Exit (Erenhot)

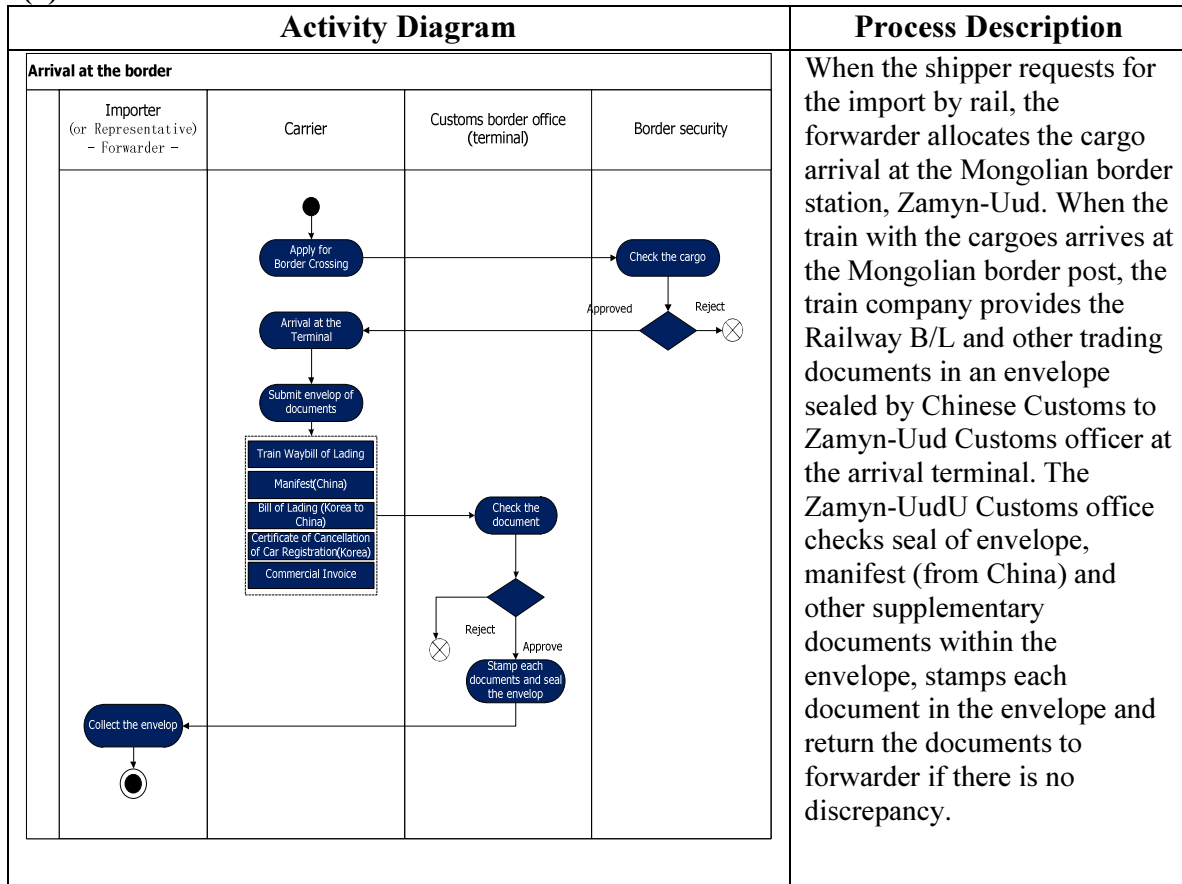


### (11) Goods through Border

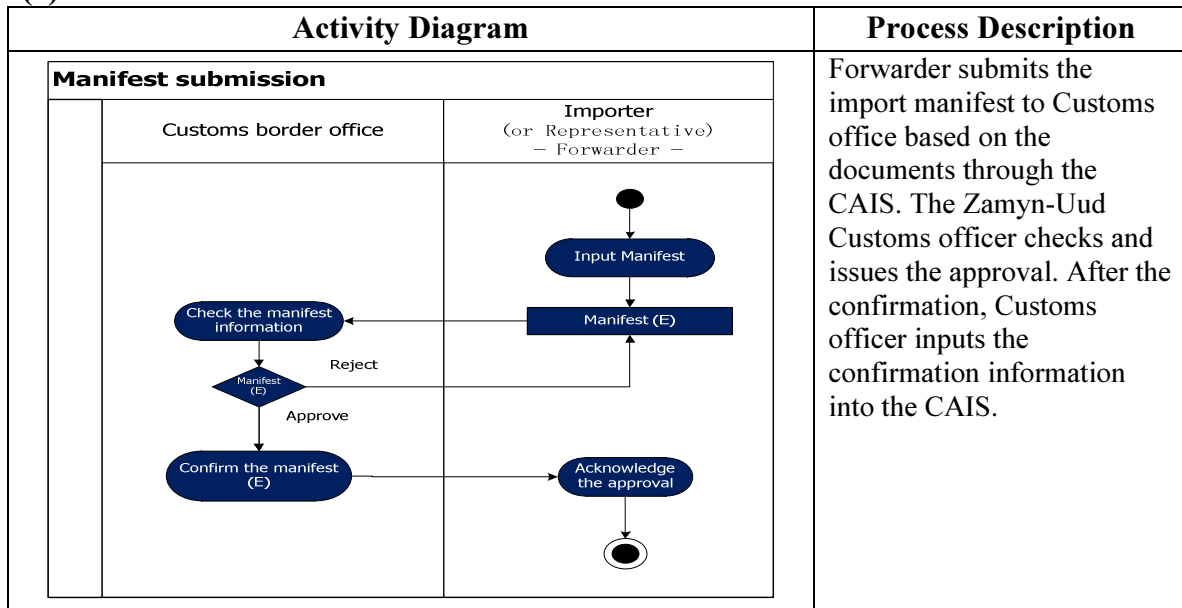


### A.2.2 Import Process in Mongolia

## (1) Arrival at the Border



## (2) Manifest submission



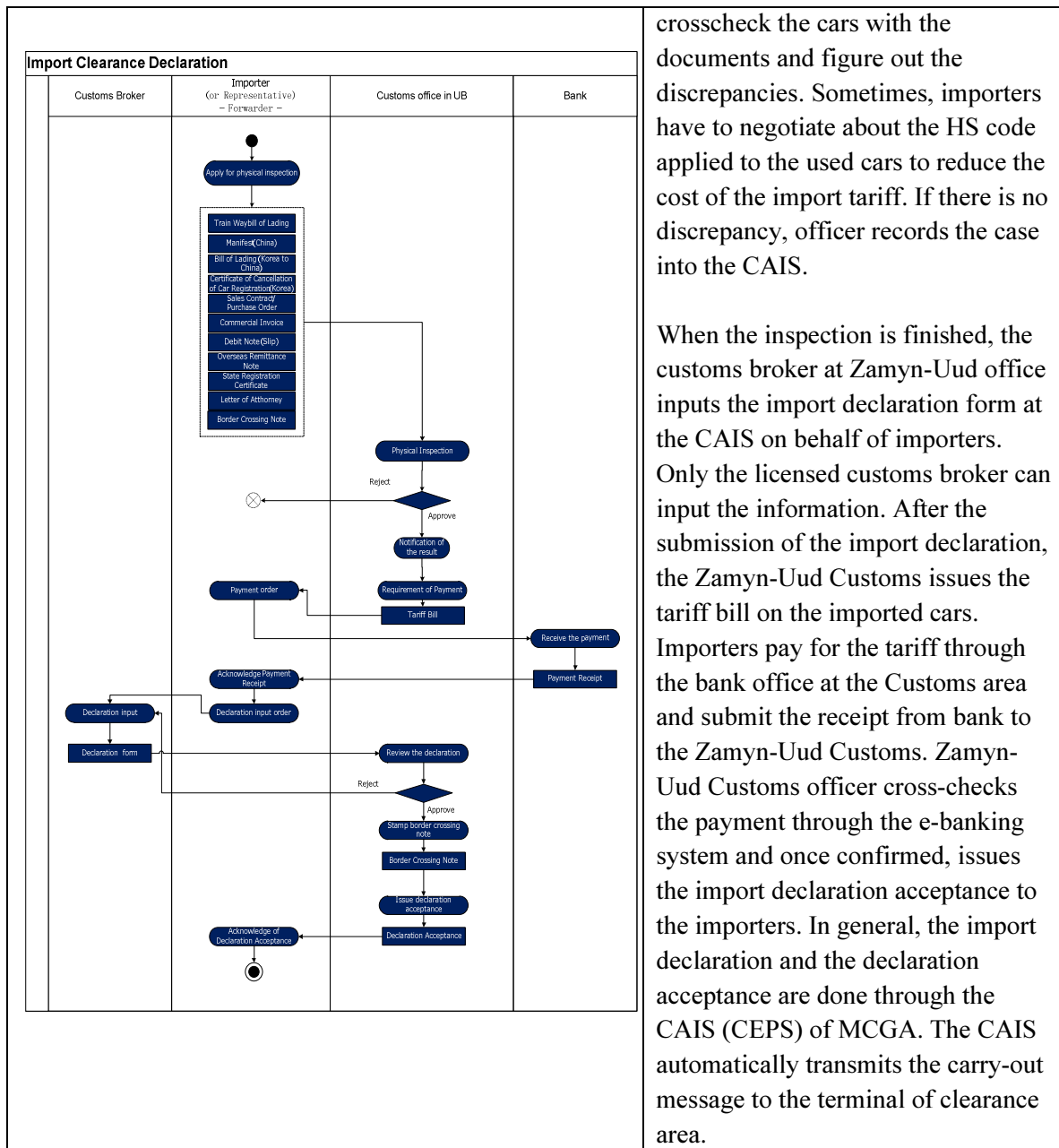
### (3) Inspection by GASI Office<sup>14</sup>

Activity Diagram	Process Description
<p><b>Inspection by GASI border office</b></p> <pre> graph TD     subgraph Importer ["Importer (or Representative) - Forwarder -"]         Start(( )) --&gt; Prepare[Prepare documents]         Prepare --&gt; Documents[Train Waybill of Lading Manifest(China) Bill of Lading (Korea to China) Certificate of Cancellation of Car Registration(Korea) Sales Contract/ Purchase Order Commercial Invoice Debit Note (Slip) Overseas Remittance Note State Registration Certificate Letter of Attorney Border Crossing Note]         Documents --&gt; Apply[Apply for Inspection]         Apply --&gt; End(( ))     end      subgraph GASI ["GASI border office"]         Input[Input the application information into computer] --&gt; Check[Check the Document with cargo]         Check --&gt; Physical{Physical Inspection}         Physical -- Required --&gt; Inspect[Inspect cargo]         Inspect --&gt; MisconductFound{Misconduct found}         MisconductFound -- Misconduct found --&gt; RecordFound[Record a case to be filed]         RecordFound --&gt; Stamp[Stamp the Note]         Physical -- Not required --&gt; RecordNotFound[Record a case to be filed]         RecordNotFound --&gt; Stamp         Stamp --&gt; Acknowledge[Acknowledge to pass]         Acknowledge --&gt; End     end      Apply --&gt; Input     </pre>	<p>Importer or forwarder requests for the inspection on imported used car at GASI office in Zamyn-Uud. There are experts in the case of used car; GASI officer pays special attention on the Certificate issued by the Korean agencies and crosschecks the details of the car. When there is no discrepancy between the cars and documents, officer finishes the inspection and stamps on the note. If cars are quite old, GASI can fine importer some amount of penalty while the provision in the law is not clear, creating troubles with importers.</p> <p>The required documents are: Import Declaration, Sales Contract /Purchase Order, Debit Note (Slip), Overseas Remittance Note, Commercial Invoice, Railway Bill, Manifest (from China), Bill of Lading (from Korea to China), Certificate of Cancellation of Car Registration (from Korea), State Registration Certificate, Letter of Attorney, Entrance inspection note.</p>

### (4) Customs Declaration

Activity Diagram	Process Description
	<p>Before importers submit the import declaration to Customs, they have to request for the inspection of Customs officer. Just like the GASI, Customs also have specialists who have experiences and knowledge on cars. Importers have to pay for the inspection fee. The inspectors</p>

<sup>14</sup> According to the officer of GASI Head Quarter, inspection of the imported car at the border office is not necessary but in reality the inspection is being conducted



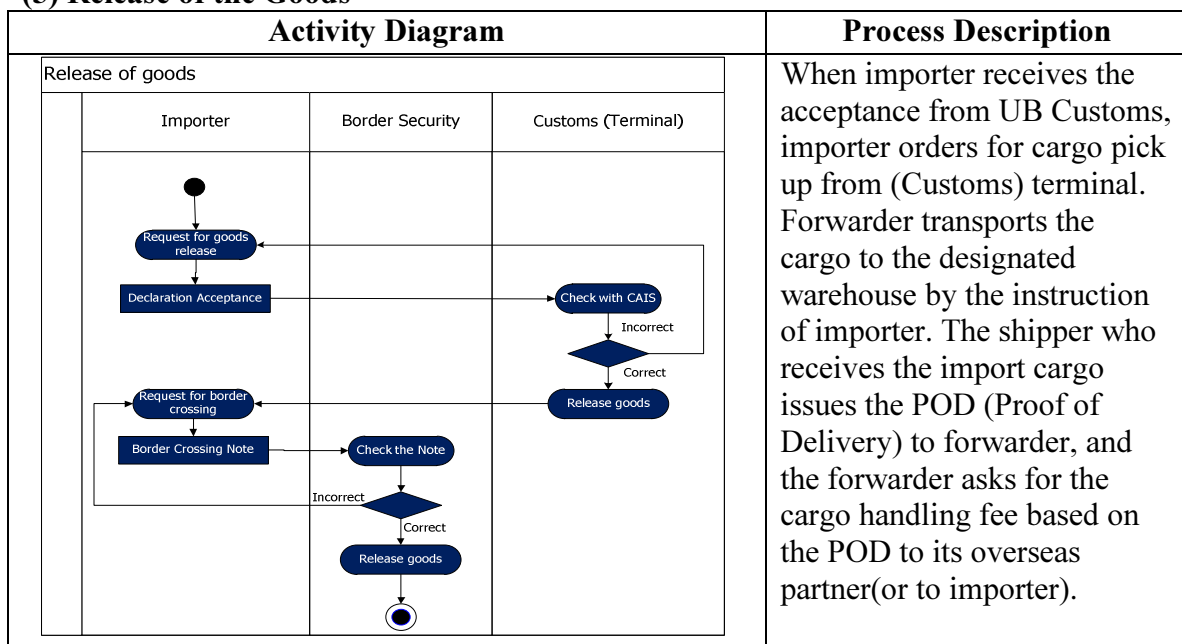
Required documents for the import declaration of used cars are;

- Import Declaration
- Sales Contract /Purchase Order
- Debit Note (Slip)
- Overseas Remittance Note
- Commercial Invoice
- Railway Bill, Manifest (from China)
- Bill of Lading (from Korea to China)
- Certificate of Cancellation of Car Registration (from Korea)
- State Registration Certificate

- Letter of Attorney
- Border Crossing Note

**Figure A3. Samples of Border Crossing Note and Harmonized Manifest**

### (5) Release of the Goods



## A.3 Findings from Process Analysis

### A.3.1 Documents Involved

The BPA reveals that a Mongolian importer has to go through four agencies with 18 documents at Zamyn Uud border. Six documents are required from overseas for import. The other eight documents are used for the import processing. The remaining four documents are only receipts. In China, the forwarder has to visit about eight agencies with 16 documents. One of them is used for cross-border, while 13 of them are used for the transit. The remaining two documents are only receipts.

**Table A1. Documents Involved in Used Car Import through Transit in China**

Category	Name of documents	Issuing Agency
<b>Cross Border Documents (6)</b>	Railway Bill	Chinese Railway Bureau
	Manifest	Ocean Carrier
	Bill of Lading (from Korea to China)	Ocean Carrier
	Certificate of Cancellation of Car Registration (from Korea)	Korea Vehicle Registration office
	Commercial Invoice	Korean Exporter
	Packing list	Korean Exporter
<b>Documents for Transit processing in China (13)</b>	Consignment agreement	Chinese Forwarder
	Shipping advice	Chinese Shipping Agency
	Application form for Inspection Payment Notification for inspection Inspection Certificate Receipt CIQ Customs Clearance Documents	CIQ office of Entry CIQ office of Exit
	Application form for Declaration Payment Notification for declaration Bill of lading Transit Envelope Sealed by Customs enclosed with Cross-Border documents for transit (Contract, Commercial Invoice, Packing list, Rail Waybill, Manifest)	Customs office of Entry Customs office of Exit
	Weight Note	Yard
	Rail Waybill Payment Notification for wagon and freight fee	Railway Bureau
	Payment Receipts for inspection	CIQ office of Entry and Exit
	Payment Receipts for declaration	Customs office of Entry and Exit
	Payment Receipts for wagon and freight fee	Railway Bureau
<b>Import documents (8)</b>	Debit Note (Slip) import payment	Bank
	Overseas Remittance Note	Bank
	State Registration Certificate	National Registration Agency
	Application for Inspection	Mongolia Importer
	Customs Import Declaration (E)	Customs Broker
	Application for Manifest Declaration(E)	Forwarder
	Tariff payment bill	Bank
	Letter of Attorney	Importer
<b>Receipts for import processing in Mongolia (4)</b>	Approval for Customs Import Declaration (E)	MCGA
	Approval for Manifest Declaration (E)	MCGA
	Note for border crossing	MCGA/GASI/Border Security
	Tariff payment receipt	Bank

### A.3.2 Cost Incurred

The cost of used car transit through China is CNY 4,512, about US\$ 714, in which official administrative costs account for 82%. The official administrative costs include the cost of inspection fee, Customs declaration fees, cost of applying for cargo wagon and transportation. The fare of railway transport is CNY 2,000, about US\$ 313.2, accounting for nearly half of the total cost.

**Table A2. Costs Incurred in Used Car Import through Transit in China**

	Institutions and Processes	Cost		
	Transit Process in China	Cost (RMB)	Cost (US\$)*	Ratio
Government Agencies	<b>China Entry-Exit Inspection and Quarantine Bureau</b>			
	Inspection of entry	150	23.5	3%
	Inspection of departure place	150	23.5	3%
	<b>Railway bureau</b>			
	Apply for wagon	50	7.8	1%
	Transport by railway	2,000	313.2	44%
	<b>Customs</b>			
	Customs clearance of entry	300	47.0	6%
	Customs clearance of departure place	300	47.0	6%
	<b>Container yard</b>			
	Transfer goods	216	41.2	6%
	Deliver charge	546	85.5	12%
Private Sector Operators	<b>Forwarder</b>			
	Charge for service	800	125.3	18%
	<b>Sub Total</b>	4,512	714	100%
	Import Process of Mongolia	Cost (MNT)	Cost (US\$)*	Ratio
Government Agencies	<b>GASI office</b>			
	Inspection (Fumigation)	3,000	2.4	23%
Private Sector Operators	<b>Customs Broker</b>			
	Customs declaration	10,000	8	77%
	<b>Sub Total</b>	13,000	10.4	100%
	<b>Total</b>		724.4	

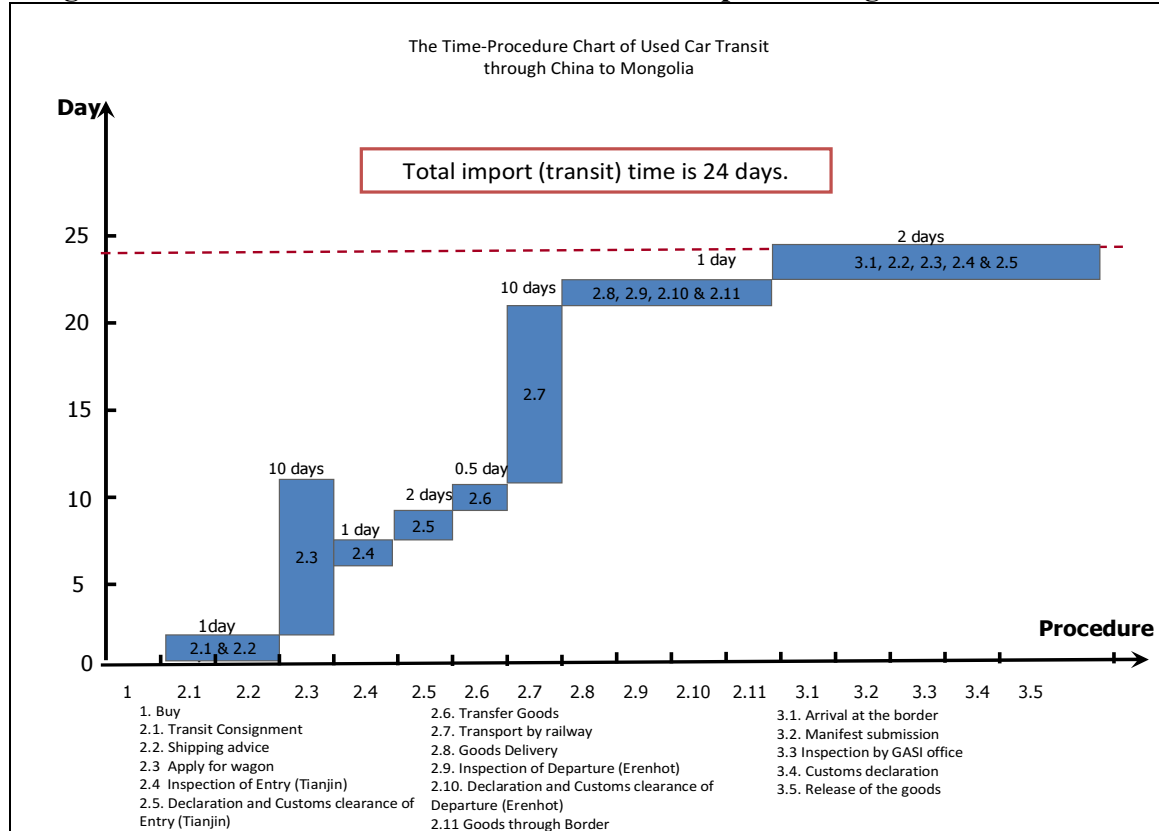
\*1USD ≈ 6.38RMB, 1USD ≈ 1,253MNT

### A.3.3 Time Spent

The average time required to import used car is 2 days in Mongolia and 22 days in China, which include such processes as obtaining all the documents, inland transport and handling, Customs clearance and inspections, and border crossing handling.

The forwarders in China take some proactive steps to undertake certain activities in parallel. For example, booking wagons together with inspection and Customs transit clearance would take only 10 days, while it could take up to 13.5 days if done separately.

**Figure A4. Time-Procedure Chart of Used Car Import through Transit in China**



## A.4 Implications and Recommendations

### A.4.1 Issues and Recommendations for Mongolian Stakeholders

(1) Duplication of mandates across agencies exists such as inspection of goods from Customs, GASI and MASM. Same documents are repeatedly requested. An example is a corporate registration certification, which is not a mandatory document in regulation. Business process reform needs be conducted before the development of a Single Window in Mongolia.

(2) Even though MCGA has introduced a web-based customs clearance system, traders are still required to submit trade documents in paper form, except import and export declaration. There is no post audit and pre-arrival examination service for traders in Customs clearance in Mongolia, which are strongly recommended by WCO.

(3) Use of Customs broker has been mandated by MCGA in Mongolia which is causing extra costs (US\$ 10 ~15 / transaction) for traders.

(4) Most Mongolian agencies do not operate integrated administrative system (e.g. online application and Data Base management system) and have difficulties in timely information exchange among offices (HQ, laboratories and border offices). It will be quite reasonable to consider developing a web-based agency system as part of Single Window project as well as development of internal system of individual agencies.

(5) Not enough international standard terminals and warehouses at the border and major depots. Existing ones are too old, have not enough capacity and lacks refrigeration facilities and containers. Lack of refrigeration facility also causes seasonal restrictions on agricultural sectors' business. Development and promotion of Free Economic Zones could be main solution.

(6) Though the railway is the most important transportation mode for Mongolian traders, insufficient capacity of Mongolia railway creates one of major impediments to the entire import and export process in Mongolia. Lack of investment on infrastructure and facilities has made their service dissatisfactory caused complaints from users. 14 days or more delay during peak season is common. Though the Ministry of Transportation and the Railway Authority are planning extension of railway network vertically across the Mongolia as well as adding the regional sub-branch networks from main track, it is expected that the issue of overcrowded cargoes at the Zamyn-Uud border post may not be solved.

(7) Though Mongolian forwarders are demanding alternative options, such as a block train service using their own wagons, the UB railway is not responsive to the request. In-land transit by road is not allowed in Mongolia. If it is allowed, it could ease current serious bottlenecks of cargoes at the border railway station.

#### **A.4.2 Issues and Recommendations for Chinese Stakeholders**

(1) In the process of “Apply for wagon” in Tianjin, there are only three forwarder agencies with qualification to apply for wagon. Most of the Chinese forwarders have to use one of those three specified forwarders. Therefore, it takes long time to complete applying for wagons, which also affects the efficiency of the process in “Transport by railway.”

(2) In Tianjin port, there are four container yards in total. Every yard belongs to different logistics companies. The forwarder must load the goods from different yards and deliver to the same railway station for transit, causing serious inefficiency. Developing a container yard for Mongolian goods in Tianjin port can improve the situation.

#### **A.4.3 Recommendations for Bi-lateral and Sub-regional Collaboration**

The lack of mutual recognition of certificate or test facilities from foreign agencies is one of the major bottlenecks in the Mongolian trade corridors. Bilateral or sub-regional collaboration of inspection and quarantine agencies is highly recommended.

Total days for importing used cars through China are currently 24 days. However, as shown in Figure A5, the number of days can be reduced to 9.5 days with the implementation of necessary improvement measures.

**Figure A5. Comparative As-Is and To-Be Time-Procedure Chart of Used Car Import through Transit in China**

