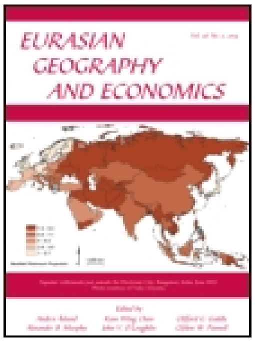


Eurasian Geography and Economics

ISSN: 1538-7216 (Print) 1938-2863 (Online) Journal homepage: http://rsa.tandfonline.com/loi/rege20

Patterns of Foreign Direct Investment in Mongolia, 1990-2003: A Research Note

Mehmet Demirbag , Ekrem Tatoglu & Adiya Oyungerel

To cite this article: Mehmet Demirbag , Ekrem Tatoglu & Adiya Oyungerel (2005) Patterns of Foreign Direct Investment in Mongolia, 1990-2003: A Research Note, Eurasian Geography and Economics, 46:4, 306-318

To link to this article: https://doi.org/10.2747/1538-7216.46.4.306

Published online: 15 May 2013.

Patterns of Foreign Direct Investment in Mongolia, 1990–2003: A Research Note

Mehmet Demirbag, Ekrem Tatoglu, and Adiya Oyungerel[1]

Abstract: This paper delineates the pattern and structure of foreign direct investment (FDI) in a land-locked transition economy, Mongolia, situated strategically between Russia and China. The assessment is based on publications of major international financial institutions, official statistical publications of the Mongolian Government, and a unique dataset of 1,035 FDI firms based on a database compiled by the Mongolian office of the World Bank. A structured analysis of the dataset and government statistical publications makes it possible to ascertain patterns with respect to FDI country origin, sectoral composition, mode of entry, firm capitalization, composition of foreign and local partners, entry date, and location of the investment (core versus periphery). *Journal of Economic Literature*, Classification Numbers: E60, F21, P33. 5 figures, 3 tables, 34 references. Key words: FDI, emerging markets, Mongolia, joint ventures, wholly owned subsidiaries.

INTRODUCTION

Foreign direct investment (FDI) plays a critical role in bridging wealthy and poor economies and in transferring capital, knowledge, ideas, and value systems across borders and nations. The expectation that FDI will benefit a given local economy has motivated many national governments to offer attractive incentives for foreign investors. As most emerging-market countries, the Newly Independent States of the former Soviet bloc have recently entered the intense competition to attract FDI to accelerate their transitions toward market-based economies. Multinational enterprises (MNEs) become directly involved in this process through their investment activities in former socialist economies. Therefore, building and sustaining a comprehensive business-friendly climate becomes a critical challenge for these countries (e.g., Demirbag et al., 1998; Meyer, 2002, 2004).

Mongolia presents an interesting example as one of the poorest transition economies, largely isolated from external sources of financial and human capital,[2] and with virtually no historical experience of capitalism (Anderson et al., 2000). It does, however, have an advantageous location between the two large emerging markets of China and the Russian Federation, and possesses extensive and largely untapped mineral resources (e.g., copper, coal, molybdenum, tin, tungsten, and gold). As in other post-communist transition economies, Mongolia for more than a decade has been in the process of radical transformation and has

[1]Respectively, Lecturer in Strategic Management, University of Sheffield, Management School, Sheffield, S1 4DT, United Kingdom; Associate Professor of International Business, Bahcesehir University, Faculty of Business Administration, Istanbul, Turkey; and National Consultant, P.O.B. 46/59, Ulaanbaatar, Mongolia (MBA, University of Sheffield).

[2]Almost half of the population is engaged in agriculture, predominantly herding.

Eurasian Geography and Economics, 2005, **46**, No. 4, pp. 306-318.

taken significant steps to build a market-based economic structure. Mongolian authorities state that their goal is to establish a private sector–led, export-oriented economy that will support rapid economic growth. They believe that FDI will play a vital role in facilitating such a transformation, and in achieving a more sustainable pattern of economic growth. To this end, the Government has undertaken a series of political and economic reforms designed to promote FDI. A central aspect of this policy is the mass privatization of state-owned enterprises.

Despite the growing importance of FDI to plans for Mongolia's development, little if any empirical analysis of trends and patterns of foreign direct investment in Mongolia has been undertaken. This research note begins the process of filling that gap. First, we summarize the basic features of the legal, economic, and institutional framework in Mongolia—the environment within which FDI takes place. We then review overall patterns and structure of FDI in the country. This is followed by an analysis of a unique dataset detailing trends in the formation of foreign capital–based companies since institutional, legal, and economic reforms were introduced in the early 1990s.

REFORMS AND THE INSTITUTIONAL ENVIRONMENT

Overview

From the 1920s until the late 1980s Mongolia was closely tied to the former Soviet Union (FSU), modeling its political and economic systems after the USSR's state socialism and command economy (Cheng, 2003). Traditionally, the Mongolian economy depended primarily on agriculture, which during the 1990s accounted for nearly two-fifths of GDP, before declining perceptibly after 1999 (Fig. 1). Conversely, during this same period, and particularly after 1999, the tertiary sector (dominated by wholesale and retail trade as well as transport and communications) has been an engine of economic growth, now accounting for nearly three-fifths of GDP. The share of the secondary sector, which consists of manufacturing, mining, and construction, has fallen gradually but steadily during the transition from roughly 30 percent of total GDP in 1993 (UNIDO, 2002).

Following the collapse of the USSR and the end of Soviet economic assistance[3] in the early 1990s, Mongolia experienced a painful economic transition. The country experienced a deep recession, with real GDP falling to its lowest level ($0.52 billion, or $236 per capita) in 1993. Following a series of reforms instituted by four successive Democratic Union Coalition governments (opposed in parliament by the Mongolian People's Revolutionary Party), the country experienced a modest (if irregular) recovery. Growth accelerated in the mid-1990s (Fig. 2) after reforms began to take hold and low world prices copper and cashmere prices were overcome, reaching 5.5 per cent in 2003 (e.g., see USAID, 2001; Mongolia, 2002; ADB, 2004a).[4] By that year GDP had risen to $1.2 billion and per capita GDP to $480

---

[3]Following the withdrawal of Soviet economic assistance, Mongolia had to rely to a large extent on development assistance from international financial institutions, as well as that available through bilateral agreements. Initially, most development assistance interventions were directed toward overcoming the deep economic recession, the import of essential goods and services, and improving the country's balance of payments (Government of Mongolia, 2003).

[4]The World Bank Group, however, estimates Mongolia's GDP growth at 4.7 percent (Mongolia Data Profile, 2005). Other factors facilitating more rapid economic growth since 1997 included recovery of the agricultural sector from drought, range fires, and severe winter storms as well as expansion of the services sector.

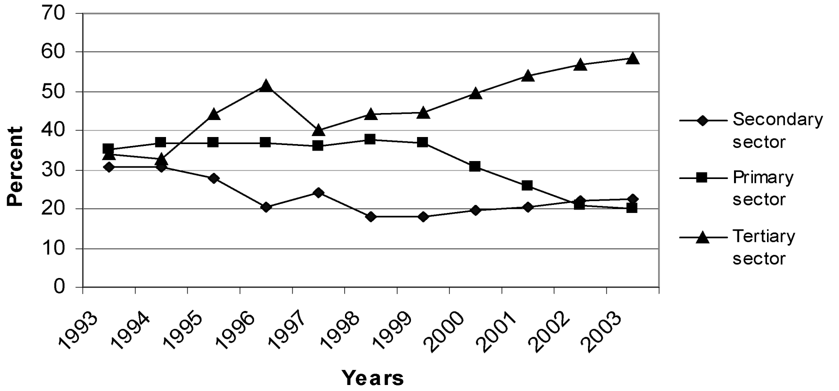


Fig. 1. Composition of economic output by major economic sectors, in percent of GDP at current prices. *Source:* Compiled by authors from IMF (1999, p. 37; 2002, p. 36) and ADB (2004b, p. 212).

(World Bank, 2004), sufficient by this measure elevate Mongolia above the ranks of the world's poorest countries.[5]

Although Mongolia's economic recovery has been less dramatic than in the best-performing countries in Central and Eastern Europe (e.g., the Czech Republic and Poland), its relative growth performance during the transition in general has been better than the Commonwealth of Independent States (CIS), as well as the poorer performers of Central and Eastern Europe (Fig. 2). A recent IMF survey has highlighted several economic and non-economic factors that facilitated the relatively smooth transition and moderate economic growth. First, unlike other transition economies, which embarked upon transition with a considerable degree of over-industrialization, Mongolia had a quite large agricultural sector (e.g., see Cheng, 2003). Thus Mongolia, unlike Russia, did not confront any major problem in terms of large-scale dislocation of redundant industrial workers.[6]

The key reason for the country's better-than-expected performance is, however, the early adoption of appropriate adjustment policies and market-based reforms promoting sustainable growth. The Mongolian authorities promptly established an open currency exchange at the very outset of transition. Moreover, the Government worked diligently at macroeconomic stabilization in order to contain inflation and external account imbalances. These measures created a basis for a rapid expansion of trade and investment with little negative effect on short-term macroeconomic stability.[7] We now turn to a more detailed examination of economic reforms, focusing on measures designed to create a favorable environment for FDI.

---

[5]Levels from $100 to $250 per capita are typical of several countries of Africa and a few in Asia (Nepal, Bhutan, Cambodia, Tajikistan).

[6]The problems of massive layoffs of factory workers, however, now looms for Mongolia's textile and apparel industries, as a global system assigning quotas for purchases for textiles and garments from individual countries ended on January 1, 2005. The new quota-free environment is expected to produced major shifts in the world garment industry, shifting the advantage to lowest-cost, highest-volume producers (e.g., China) (see Brooke, 2004).

[7]Despite these achievements and progress, some serious challenges remain. As in many transition economies, income inequality has widened, as has the urban-rural gap in access to basic social services. It is estimated that 36 percent of the population live below the poverty line (ADB, 2004a).

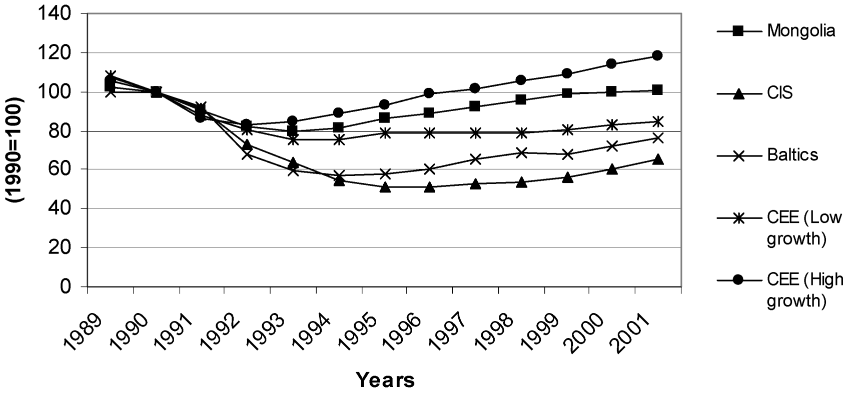


Fig. 2. Comparative GDP performance in transition economies, 1990–2001 (1990 = 100; compiled from Cheng, 2003, p. 19).

Legal and Institutional Environment for FDI

Reflecting the priority accorded efforts to increase foreign investment in Mongolia's economy, one of the first reforms undertaken at the outset of transition was the adoption, in 1991, of the Law on Foreign Investment. The Law subsequently was amended in 1993, 2001, and 2002, to further liberalize provisions for foreign ownership, particularly in the mining sector, by abolishing restrictions on profit remittances, granting exemptions from customs duties and sales taxes, and providing opportunities for limited tax holidays (FIFTA, 2002).[8]

The Foreign Investment and Foreign Trade Agency (FIFTA) is the government body responsible for promoting investment activity (FIFTA, 2002). FIFTA seeks to function as a focal point on all matters related to foreign investment, providing information on investment opportunities and assistance to investors in obtaining all the necessary clearances and approvals required to begin commercial operations in Mongolia.[9] FIFTA established a Mongolian Investment Promotion Center to provide a full range of services, including the promotion of the investments overall, supplying information on the legal and business climate, assistance in forging partnerships, provision of consultancy services, and support in project implementation (FIFTA, 2002).

One of the major impediments to FDI is the rudimentary state of judicial and legal institutions.[10] Although a number of foreign investors are prepared to take risks entering the Mongolian market, many view the legal system as unreliable (Morgan et al., 2001). Given rapid development and changes in the economic environment, laws have had to be amended

---

[8]The latest amendments in 2002 were designed to create a more favorable and competitive climate in the nation's priority sectors, and included lifting the export tax on gold, reducing value-added taxes on imported goods, improving the procedure for registration of operations (one of major complaints of both foreign and domestic investors), and new provisions supporting ownership rights and stability of investments. The latter is to be guaranteed by a freeze on existing tax regulations and the maintenance of tax exemptions for a period of 10–15 years.

[9]Despite the efforts of FIFTA to present its services as a "one-stop" approach, some investors have expressed the opinion that it has done little to promote FDI and smooth the registration procedure (see UNIDO, 2002).

[10]Among the problems noted by foreign investors are cumbersome procedures and bureaucratic delays, as well as corruption (e.g., bribery).

frequently basis.[11] This has led to a profusion of conflicting laws that often lack implementation guidelines.

In addition, the drafting of legislation often proceeds without consultation with the private sector. In an attempt to facilitate a dialogue, formal government–private sector consultations have now been initiated by the Mongolian Chamber of Commerce and Industry. The objective is to build a forum for discussion and jointly managing challenges. Although these consultations provide a forum for identifying problems, they are criticized for not offering solutions to those problems (UNIDO, 2002).

Privatization

Another central element of the economic and political reforms supporting FDI is the privatization of state-owned companies. During the early stages of privatization in 1991–1994, the sudden and chaotic dismantling of the state procurement system and rushed application of a half-prepared program of voucher privatization almost led to a collapse of the manufacturing sector (UNIDO, 2002). The most serious shortcomings of this phase were: (1) adequate safeguards were not in place to ensure good corporate governance, particularly controls on the actions of company executives; and (2) hurried issuance of vouchers was not followed by rapid consolidation of ownership because of the absence of effective arrangements for share consolidation (mutual funds), unlike in the Czech Republic and Slovakia (World Bank, 2002).

Having learned the bitter lessons of the previous phase, Mongolian authorities have proceeded more carefully in recent years. The Privatization Guidelines for 2001–2004 were instituted as the major Government policy document guiding the intensification of privatization through the attraction of strategic foreign investors in priority sectors of the national economy. The overall policy objective is to accelerate privatization and increase private-sector participation, thus boosting inward FDI and improving economic productivity (SPC, 2001).

In the early years of the present century, Mongolian authorities have focused on the privatization of the so-called "most valued companies" (MVCs)[12] through transparent, credible international tenders designed to attract strategic foreign investors. It is hoped that this phase of privatization will produce an inflow of foreign capital providing the basis for long-term growth, improved economic efficiency, improved service quality, and reduced costs of service delivery (SPC, 2001).

PATTERNS AND STRUCTURE OF FDI

Data Sources and Methods

Our assessment of the structure and pattern of FDI in Mongolia utilizes multiple data sources, including: (1) publications of major international financial institutions (e.g., United Nations Industrial Development Organization [UNIDO], the World Bank, International Monetary Fund, Asian Development Bank); (2) official statistical publications of the Mongolian Government and related reports on government actions, policies, and initiatives; and (3) an unpublished database of the Mongolian office of the World Bank in Ulaanbaatar,

---

[11]For example, the Economic Entity and Organization Law, a major corporate tax law, was amended 15 times during 1993–2002 (UNIDO, 2002).

[12]Most MVCs are engaged in banking and financial services, insurance, oil and gas distribution, civil aviation, and the cashmere processing industry.

which includes a list of 1300 FDI firms operating in the country. This database provides information about the country of origin, mode of entry, amount of capital and its distribution among foreign and local partners, total number and composition of foreign and local partners, entry date, and location of the investment. From the original list of 1,300 FDI firms, a new dataset was compiled because of the lack of specific and/or reliable information on certain entries. This new database included 1,035 FDI firms and constitutes the sampling frame of the present study.[13]

Foreign capital has flowed into Mongolia from countries throughout the world. Before examining sources of FDI at the level of individual countries, we first aggregated them into a set of seven broad country groupings, drawing upon the concept of cultural dimensions developed by Hofstede (1993)—Anglo American, Latin, Germanic, Nordic, Confucian–South Asian, Post-Communist, and Middle Eastern. The largest country cluster, which consists of nearly 63 per cent of the sample, is Confucian–South Asian (Table 1) and included foreign investors predominantly from Japan, China, and South Korea. Given the historical, social, and economic ties and similarities, the Post-communist country cluster represented the second-largest category of foreign investors, constituting 20 per cent of the sample.

In terms of entry mode, FDI firms were broadly classified into two categories according to the proportion of foreign equity shareholding.[14] FDI firms with a foreign equity stake equal to or exceeding 95 percent were considered wholly-owned subsidiaries (WOS), whereas those with a lower foreign equity stake were labeled joint ventures (JV) (see Table 1). The latter entry mode dominated, accounting for 67.5 percent of the firms in the sample. In terms of the number of partners, nearly 76 per cent of the full sample of FDI firms had one or two partners with the remainder having more than two partners.

The entry dates of the FDI firms were classified according to three distinct time periods believed to reflect significant economic and political changes in the country. The first period, 1990–1995 corresponds to the initial stages of reforms following the fall of Iron Curtain. During this period, the country was heavily dependent on foreign aid to establish the foundations of a market economy. The second period, 1996–2000, is a time of economic recovery from the initial shock of the transition and anemic economic growth. In the third period, 2001–2003, the country experienced perturbations in its economic reform program stemming largely from the Asian financial crisis and global economic decline. The majority of FDI firms (72 percent) were established in the second period of economic recovery.[15]

Finally, In terms of the location of investment, a core-periphery pattern appears to be in evidence. A great majority of foreign investors (88.4 percent) established subsidiaries in the capital city of Ulaanbaatar.

Trends in FDI Inflows

Flows of FDI into Mongolia exhibited slow but steady growth from almost nothing in 1990 to about 54 million $US in 1996, reflecting the efforts of the Government to attract

[13]Given the large sample size and standardized data gathering and handling methods used by the Bank, we believe that the database adequately represents the overall population of 3,072 FDI firms recorded by the Mongolian Government in 2003 (FIFTA, 2004).

[14]In addition to equity modes of foreign direct investment, non-equity modes of FDI exist for ventures designed to serve domestic markets; these involve contractual agreements, such as licensing and franchising, and are not covered in the present analysis.

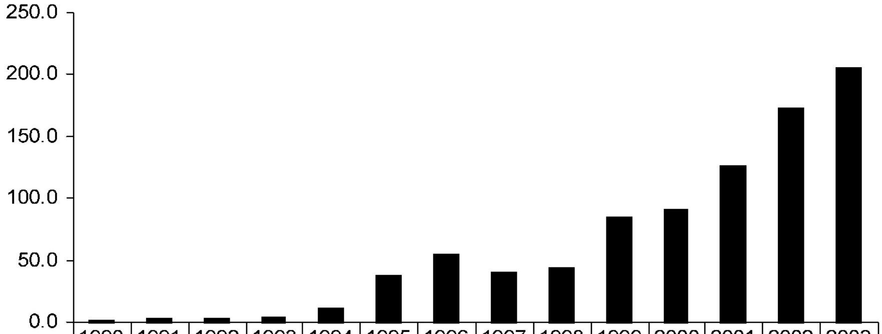
[15]As noted above, since late 2002 the economy has regained a moderate rate of growth, as the intensification of privatization has led to a surge in FDI inflows.

Table 1. Characteristics of the World Bank Sample of 1035 FDI Firms

Characteristic	*N*	Percent
Entry mode		
Wholly owned subsidiary	336	32.5
Joint venture	699	67.5
Broad country of origin		
Anglo-American	81	7.8
Germanic	64	6.2
Nordic	2	0.2
Latin	6	0.6
Confucian–South Asian	655	63.3
Post-communist	214	20.7
Middle Eastern	13	1.3
Number of partners		
One	292	28.1
Two	502	48.6
Three	118	11.4
Four	62	6.0
More than four	61	5.9
Time period of formation		
1990–1995	150	14.5
1996–2000	746	72.1
2001–2003	139	13.4
Capitalization		
≤$500,000	864	83.5
$500,001–$1,000,000	65	6.3
$1,000,001–$4,000,000	62	6.0
Over $4,000,000	44	4.3
Location of investment		
Capital city	915	88.4
Countryside	120	11.6
Total	1,035	100.0

foreign investment and the accompanying technology, managerial know-how, and organizational culture (Fig. 3). FDI flows accelerated again in 1998 and subsequent years commensurate with the Government's attempts to deepen the reform of the economic and institutional environment. By 2003, cumulative FDI inflows had exceeded the $US1 billion mark (FIFTA, 2004), an amount equaling Mongolia's nominal GDP.

Sectoral Breakdown. In Figure 4, FDI inflows for 1990–2003 are disaggregated by economic sector. The leading recipients of FDI have been mining and oil, public catering and



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
■ FDI Inflow	1.0	2.1	1.9	3.4	11.2	37.0	54.0	40.0	44.0	84.0	90.6	126.0	172.5	205.2

Fig. 3. Annual FDI inflows, 1990–2003 (in million $US). *Source*: Compiled by the authors from FIFTA, (2004, p. 3).

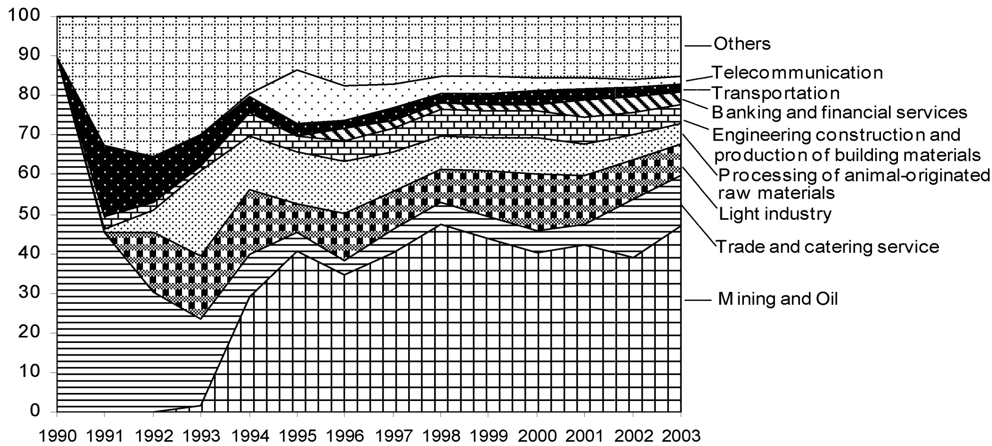


Fig. 4. Distribution of FDI inflows by economic sector (percent of total). *Source*: Compiled by the authors from FIFTA (2004, p. 4).

trade, banking and financial services, processing of animal products (e.g., cashmere as well as meat and poultry production), and light industry (including processing of plant-derived food products and the textile and garment industry). The high share received by mining reflects the country's mineral wealth and increasing international interest in it. Mongolia has large reserves of copper (reputedly enough for another 60 years at current rates of production; Arnold, 2004, p. 164), as well as fluorspar, gold, iron, zinc, silver, lead, coal, and petroleum. In 2000, the mining and quarrying sector accounted for 8.5 percent of Mongolia's GDP and mineral products some 40 percent of its export revenues (Tse, 2001). However, despite rich reserves, past economic mismanagement and a lack of infrastructure have hindered their exploitation. The government has been successful in promoting foreign investment and participation in exploration, exploitation, and processing of minerals (e.g., Brooke, 2003a, 2003b), a development in no small part linked to the large potential export market in

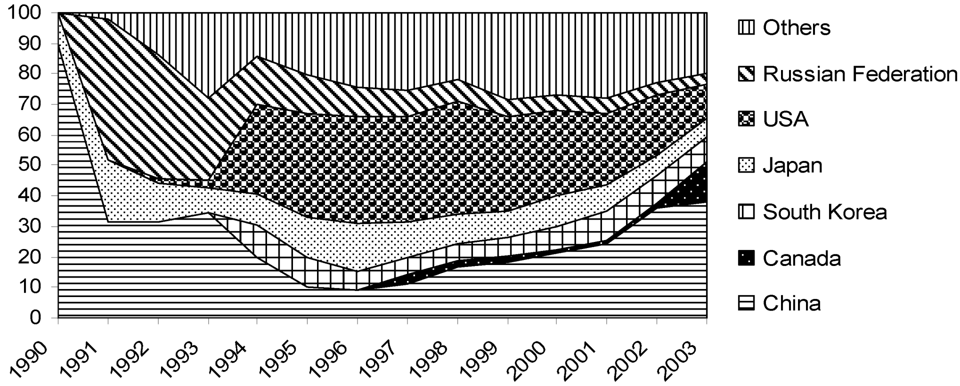


Fig. 5. Distribution of FDI inflows by country of origin (percent). *Source*: Compiled by the authors from FIFTA (2004, p. 5).

neighboring China. FIFTA (2002) has identified the mining and agricultural sectors as priority sectors for foreign investment.

Increasing FDI inflows into the banking and financial services sector has largely coincided with the implementation of Mongolia's mass privatization program. More specifically, the Government re-launched its stalled privatization program in 2002 with the sale of a 76 percent stake of the country's largest commercial bank, the Trade and Development Bank of Mongolia, to a Swiss-U.S. consortium, as followed by a similar privatization of another large state-owned (Ag/XAAN) bank to a Japanese investor in 2003 (Brooke and Byanbasuren, 2003).

Origin-Country Breakdown. As noted previously, Mongolia has attracted FDI from across the world. On an individual-country basis, China is the leading investor accounting for nearly 38 percent of total FDI in 2003, followed by Canada (13 percent), the United States (11.4 percent), South Korea (8.1 percent), Japan (6 percent), and Russia (3.3 percent) (Fig. 5). Our World Bank dataset also indicates that China is the leading investor in terms of FDI company formation. Chinese investments were mainly concentrated in companies in the mining/exploration, trade and public catering, services, construction, and light industrial sectors. Chinese corporations also have a keen interest in land privatization, which has raised serious concerns in the public (see Arnold, 2004).[16]

Canadian investors traditionally have been quite active in geological surveying and mining. The dataset indicates that 17 of the total of 23 Canadian companies active in Mongolia operate in these sectors. Canadian FDI increased from \$6 million in 2002 to \$120 million in 2003.[17]

Mode of Entry. As noted above, equity modes of FDI in the Mongolian economy consist of joint ventures (JVs) and wholly-owned subsidiaries (WOSs). Decisions regarding

[16]Business enterprises involving foreign participation may lease land for a period of 60 years, with provision for an extension beyond this period of 40 years (Investment Policy Statement of Mongolia, Ulaanbaatar, 2002, p. 9). Public concerns stem from a traditional wariness about Chinese intentions and apprehensions that sizable numbers of Chinese may move to Mongolia to work in enterprises established with Chinese investment.

[17]Prominent among the Canadian companies are Ivanhoe Mines, which has taken a leading role in the exploration and development of the Turquoise Hill (Oyu Tolgoi) copper-gold deposit, believed to be the world's largest copper deposits (see Tse, 2003, Brooke, 2004a, 2004b).

Table 2. FDI Firms by Entry Mode and Broad Country of Origin

Country group	Joint ventures		Wholly owned subsidiaries		Total	
	N	Percent	*N*	Percent	Total	Percent
Anglo-American	44	6.4	37	11.0	81	7.8
Germanic	44	6.4	20	6.0	64	6.2
Nordic	2	0.1	—	—	2	0.0
Latin	3	0.1	3	1.8	6	0.1
Confucian-S. Asian	435	62.3	220	65.5	655	63.3
Post-Communist	168	24.2	46	13.7	214	20.7
Middle Eastern	3	0.1	10	3.0	13	1.3
Total		699		336	1,035	
Overall percentage		67.5		32.5		100

level of ownership in the host-country subsidiary are critical for a foreign investor, as the wrong choice may threaten the survival of the investing firm (Tatoglu et al., 2003). This subsection of the paper examines the extent to which the entry mode choice of foreign investors varies with some other key dimensions of FDI in Mongolia (country origin of foreign investors, time period of FDI firm formation, and initial capitalization).

Table 2 charts the relationship between the entry mode of FDI firms and country of origin (aggregated into the broad country groups presented in Table 1), a phenomenon that has not yet been sufficiently explained in any general sense (e.g., see Erramilli, 1996). Table 2 indicates that among the two modes of equity FDI, there are twice as many joint ventures as wholly owned subsidiaries. It also suggests that firms from post-communist and East/South Asian countries are more inclined than Anglo-American (U.S. and UK) firms to establish joint ventures vis-à-vis wholly owned subsidiaries—in other words, they appear to be more comfortable with a "partnership" role, rather than assuming a commanding position.[18]

Historical ties between the host country and the home country of MNEs appears to have played a role in MNEs' decision with respect to a particular ownership mode in their affiliates. In the case of Mongolia, several joint ventures and joint stock companies were established with the USSR as early as 1924 and in other Soviet bloc countries from the 1970s, within the framework of the Council for Mutual Economic Assistance (CMEA; Sanders 1987).[19] For many years these ventures provided an important channel for foreign direct investment, technology transfer, and training of Mongolian personnel. Although many of

[18]The extant literature differentiates two historical models of capitalism: (1) The Anglo-Saxon model, which is market-oriented and characterized by strong shareholder value orientation; and (2) Continental European and Japanese models that are characterized by the logic of cooperation and partnership, leading to close relationships between firms, banks, and other stakeholders (Mayrhofer, 2004). These differences in institutional and cultural contexts may explain why U.S. and UK MNEs preferred higher levels of ownership in their affiliates than their Japanese and European counterparts (Lecraw, 1984; Pan, 1997; Makino and Beamish, 1998; Chadee and Qiu, 2001).

[19]Among the more prominent of these JVs were Mongolbolgarmetal (with Bulgaria in the late 1970s), Mongolczekoslovakmetal (with then-Czechoslovakia in 1979), and the Erdenet mining and concentrating Combine, Mongolia's largest copper producer (with former Soviet Union in 1973; see Sanders, 1987).

Table 3. FDI Firms by Entry Mode and Period of Formation

Entry mode	1990–1995		1996–2000		2001–2003		Total	
	N	Percent	*N*	Percent	*N*	Percent	*N*	Percent
JVs	134	89.3	493	66.1	72	51.8	699	67.5
WOSs	16	10.7	253	33.9	67	48.2	336	32.5
Total	150		746		139		1,035	
Overall percentage	14.5		72.1		13.4			100

these joint ventures eventually reverted to sole Mongolian ownership, the legacy of past common commercial ties appears to have predisposed Russian and post-communist countries toward this mode of entry in the current period.

Notwithstanding the initially greater popularity of the JV mode of entry, as time has progressed there has been a much greater tendency by foreign investors to establish wholly owned subsidiaries (Table 3). The number of WOSs in the dataset more than quadrupled from 1990–1995, accounting for almost half (48.2) percent by the 2001–2003 period. We believe that this sharp acceleration in WOS formation can be explained by the Government's attempts to relax restrictions on foreign equity participation as well as the success of the transition thus far, which has mitigated the political and economic risks associated with the higher resource commitments entailed in WOS formation.

The majority of FDI firms in our data set are small firms (capitalization of US$500,000 or less), which accounted for 83 percent (864 of 1035 total) of all FDI firms in the sample. No clear relationship was ascertained between capitalization of FDI firms and choice of a particular mode of entry.

CONCLUSIONS

FDI activity has surged in Mongolia as a result of legal and institutional reforms undertaken in the early 1990s to promote foreign direct investment, both in terms of FDI inflows and in the number of FDI firms established. In terms of FDI country origin, China has emerged as the clear leader, followed by Canada, the United States, and South Korea. The minuscule contribution of Russia in Mongolian FDI (3.3 percent) provides an indication of the extent to which the former trade ties of the Soviet bloc have weakened since the disintegration of the USSR. Sectorally, the mineral resources sector (mining and petroleum extraction) has been the recipient of the lion's share of FDI, a not surprising development considering the country's mineral resource endowment, proximity to the major emerging market of China, and investor-friendly policies of the government. Differences in preference for particular modes of entry into the Mongolian market appear to reflect different historical models of capitalism prevailing in the various investor countries, as well as past familiarity with a particular mode (JVs between Mongolia and member countries of CMEA).

Although data of this nature are useful in producing a preliminary picture of the pattern and structure of FDI activity in Mongolia, a number of potential avenues beckon for further research. The strategic motivation driving foreign equity venture formation and the choice of market entry modes, including both equity and non-equity modes of investment, could be investigated by country of origin and economic sector of investment. Empirical work investigating the motivations of particular foreign and local partner firms concerning the establishment of JVs in Mongolia would be a valuable contribution.[20] Finally, examination of the factors influencing the level of foreign equity shareholding in FDI entries would provide useful insights.

REFERENCES

Anderson, J. H., Y. Lee, and P. Murrel, "Competition and Privatization Amidst Weak Institutions: Evidence from Mongolia," *Economic Inquiry*, **38**, 4:527-549, 2000.

Arnold, G., *Mongolia Profile*. Ipswich, UK:Walden Publishing, 2004.

ADB (Asian Development Bank), *Asian Development Outlook Report: Economic Trends and Prospect in Developing Asia*. Manila, Philippines: Asian Development Bank, ADB Online Publications, 2004a, 60-63.

ADB (Asian Development Bank), *Key Indicators of Developing Asian and Pacific Countries*. Manila, Philippines: Asian Development Bank, 2004b.

Brooke, J., "Mongolia Is Having a Mine Rush," *The New York Times*, October 3, 2003a, W1, W7.

Brooke, J., "Finding a Mother Lode in Mongolia," *The New York Times*, October 14, 2003b, W1, W7.

Brooke, J., "Down and Almost Out in Mongolia," *The New York Times*, December 29, 2004, C1, C2.

Brooke, J. and J. Byambasuren, "In Mongolia, a Tilt toward a Free Market," *The New York Times*, October 21, 2003, W1, W7.

Chadee, D. and F. Qui, "Foreign Ownership of Equity Ventures in China: A Pooled Cross-Section-Time Series Analysis," *Journal of Business Research*, **52**, 2002, 123-133.

Cheng, K., "Growth and Recovery in Mongolia during Transition," *IMF Working Paper Series*, **3**, 217:1-27, 2003.

Demirbag, M., R. Gunes, and H. Mirza, "Political Risk Management: A Case Study of Turkish Companies in Central Asia and Russia," in H. Mirza, ed., *Global Competitive Strategies in the New World Economy*. London, UK: Edward Elgar, 1998, 283-309.

Erramilli, M. K., "Nationality and Subsidiary Ownership Patterns in Multinational Corporations," *Journal of International Business Studies*, **27**, 2:225-248, 1996.

FIFTA, *Investment Policy: Statement of Mongolia. Government Statement to the Investors' Forum.* Ulaanbaatar, Mongolia: Government of Mongolia, Foreign Investment and Foreign Trade Agency, 2002.

FIFTA, *FDI in Mongolia Review 2002, 2003. Report to the Government of Mongolia*. Ulaanbaatar, Mongolia: Foreign Investment and Foreign Trade Agency, 2004.

Hofstede, G., "Cultural Constraints in Management Theories," *Academy of Management Executive*, **7**, 1:81-94, 1993.

IMF (International Monetary Fund), *Country Report No. 99/4*. Washington, DC: International Monetary Fund, 1999.

IMF (International Monetary Fund), *Country Report No. 02/253*. Washington, DC: International Monetary Fund, 2002.

Lecraw, D. J., "Bargaining Power, Ownership, and Profitability of Transnational Corporations in Developing Countries," *Journal of International Business Studies*, **15**, 1:27-43, 1984.

Makino, S. and P. Beamish, "Performance and Survival of Joint Ventures with Non-conventional Joint Ventures," *Journal of International Business Studies*, **29**, 4:797-818, 1998.

Mayrhofer, U., "The Influence of National Origin and Uncertainty on the Choice between Cooperation and Merger-Acquisition: An Analysis of French and German Firms," *International Business Review*, **13**, 83-99, 2004.

---

[20]Information in the World Bank database did not make it possible to explicitly distinguish between FDI firms established to serve the domestic market vis-à-vis those geared toward exports. A particularly useful avenue of future research, should such data become available, would be to compare these two groups in terms of the key dimensions of our dataset.

Meyer, K., "Institutions, Transaction Costs, and Entry Mode Choice in Eastern Europe," *Journal of International Business Studies*, **32**, 2:357-367, 2001.

Meyer, K., "Perspectives on Multinational Enterprises in Emerging Economies," *Journal of International Business Studies*, **35**, 4:259-276, 2004.

"Mongolia," *CIA World Factbook* [http://www.odci.gov/cia/publications/factbook/geos/mg.html], accessed May 3, 2002.

"Mongolia Data Profile," World Bank Data Group [http://devdata.worldbank.org/external/], accessed February 25, 2005.

Morgan, M., Ts. Enkh-Amgalan, and W. Mako, *Mongolia: Manual for Action in the Private Sector (MAPS) Survey: Survey Results. USAID "Competitive Initiative" Project.* Ulaanbaatar, Mongolia: Nathan Associates/J. E. Austin Associates/World Bank, 2001.

Pan, Y., "The Formation of Japanese and US Equity Joint Ventures in China," *Strategic Management Journal*, **18**, 3:247-254, 1997.

Sanders, A. J. K., *Mongolia: Politics, Economics and Society.* Boulder, CO: Westview Press, 2001.

SPC (State Property Committee), *The Privatization Guidelines for 2001–2004. Policy Statement of the Government of Mongolia*. Ulaanbaatar, Mongolia: State Property Committee, 2001.

Tatoglu, E., K. W. Glaister, and F. Erdal, "Determinants of Foreign Ownership in Turkish Manufacturing," *Eastern European Economics*, **41**, 2:5-41, 2003.

Tse, P.-K., "The Mineral Industry of Mongolia," in *U.S. Geological Survey Minerals Yearbook—2000*, 2001 [http://minerals.usgs.gov/minerals/pubs/country/9319000.pdf].

UNIDO (United Nations Industrial Development Organization), *Mongolia: Industrial and Trade Development Policy Review. Report Prepared by UNIDO/UNDP to the Government of Mongolia*. Ulaanbaatar, Mongolia: MON/UNDP/UNIDO/ Trade Policy Review Project, 2002.

USAID (U.S. Agency for International Development), *Mongolia: Country Overview* [http://percentwww.usaid.gov/locations/asia_near_east/countries/mongolia.html], 2004.

World Bank, *Mongolia: Public Expenditure and Financial Management Review: Bridging the Public Expenditure Gap*. Washington, DC: The World Bank, Report No. 244399-MOG, 2002.

World Bank, "Mongolia at a Glance" [http://www.worldbank.org/data/countrydata/aag/mng_aag.pdf], 2004.