

# ***Helping Mongolia out of Poverty: Analyzing Social Challenges and Public Policy***

**Chengxin Qian<sup>1,a,\*</sup>**

<sup>1</sup>*Nanjing Foreign Language School, Nanjing, 210008, China*  
*a. qian.chengxin@outlook.com*

*\*corresponding author*

**Abstract:** Mongolia's challenging geography and historical development obstacles position it on the fringes of economic advancement. This paper presents a thorough analysis of its unique social, cultural, and economic hurdles, proposing visionary strategies for poverty alleviation and sustainable growth. The first section advocates a shift towards value-added industrialization, addressing the sparse population by exploring rural-to-urban migration and urging the dismantling of gender-based divisions while fostering rural entrepreneurship. The second part highlights leveraging indigenous cultural attributes and uplifting rural assembly industries to achieve balanced regional development. However, it cautions against unintended consequences like protectionism and urban-rural disparities. The third segment uncovers fundamental impediments rooted in Mongolia's self-sufficient, myopic nomadic culture, underscoring the need for education to reshape outdated mindsets. Moreover, the abrupt transition from nomadism to socialism and Western ideals has left a fragmented cultural identity, posing an identity challenge. This paper emphasizes the enduring influence of culture on socio-economic progress and underscores the significance of cultural preservation to steer Mongolia towards prosperity and global equity.

**Keywords:** Mongolia, industrialization, nomadic culture, poverty, public policy

## **1. Introduction**

Mongolia is an underdeveloped, landlocked country with a sparsely distributed population, of which 30% still adhere to nomadic practices. Despite its abundance in natural resources, Mongolia remains a lower-middle-income country, with a total GDP of 4,946.8 billion dollars, ranking beyond the 100th position in the global context[1]. According to the official national poverty threshold, it is estimated that in 2020, approximately 27.8% of Mongolia's population, equivalent to 903,400 individuals, are living below the poverty line[1]. A significant proportion, specifically 14.4 percent, of the population in Mongolia falls under the category of "near-poor," which renders them susceptible to falling into poverty when confronted with adverse events such as unemployment, natural disasters, and illness. Even minor setbacks can push these individuals into poverty. A consumption shock of only 10% and 20% could result in a significant escalation of poverty rates by 6.5% and 14.3% respectively. Particularly in rural regions, a 20% reduction in per-capita household consumption would translate to a poverty surge of 16.9 percentage points, reaching 47.4%. Additionally, a noteworthy 18 percent of the population in Mongolia resides in slums, and nearly 10 percent of children under 5 years of age face malnutrition challenges[2]. All the aforementioned

evidence serves to highlight the ongoing challenge of poverty faced by Mongolia in the present days. Although Mongolia has experienced economic growth recently, with a GDP growth rate of 4.8% in 2022 according to the World Bank, the future of its economic and social development remains constrained by its outdated traditional culture and development pattern.

## **2. Part 1: the complex terrain of industrialization**

Industrialization serves as the key pathway for countries to break free from poverty and ascend from low-income to middle- or high-income status. Low-income countries' primary source of economy is raw material assembly, using economic strategies like financial repression. The industrialization process involves the production of 'parts' like car seats and tires when marching towards ranks of middle-income countries. The processing of raw material by human capital is a value-added process, so making parts contributes more to the economy than assembly. The development of a nation toward high-income countries involves more progressive value-add process--the creation of domestic products, scientific innovations, and advanced marketing strategies, while reallocating capital and resources to more efficient sectors. Optimal development entails engaging in economic activities with the highest added value, thereby achieving prosperity through a step-by-step approach [3].

Currently, Mongolia is struggling with the transition from low-income to middle-income country. Mongolia's pivotal industries, such as mining, predominantly engage in low value-added processes. The nomadic lifestyle, while culturally significant, lacks the systematic organization required for efficient production and achieving economies of scale. On the contrary, Inner Mongolia experienced a shift as historically nomadic Mongols transitioned from their traditional way of life to establishing permanent residences due to the collectivization of their pastoral economy during the Mao era[4]. Subsequently, Inner Mongolia embraced China's reform and opening-up policies, establishing special economic zones, undertaking industrialization, and reforming its economy. A compelling illustration is Mengniu Dairy, which continuously adds value through innovative marketing and leveraging Inner Mongolia's abundant livestock and grassland resources. This strategy has elevated the value of these resources and propelled Mengniu Dairy to become one of China's and even the world's largest dairy companies[5]. The company has generated substantial local employment, facilitated the development of the dairy supply chain, and bolstered dairy exports, contributing positively to the economic growth and social development of Inner Mongolia. As evidenced by Inner Mongolia's per capita GDP of approximately US\$14,343 in nominal terms in 2022, three times that of Mongolia, industrialization has proven to be a resounding success in elevating economic prosperity[6].

In order to promote industries that make parts or even own products, sufficient high-quality labor should participate in production. Yet, owing to Mongolia's tumultuous and fragmented history, its population remains notably limited. Roughly standing at 3.2 million individuals, Mongolia's populace significantly contrasts with the populations of highly developed and economically advanced nations like the United States, Japan, and the majority of European countries, which often exceed tens of millions[7]. And due to the sparse distribution of population during its nomadic history, there were few concentrated labor force except in the only major city in Mongolia-- the capital Ulaanbaatar-- which is home to half of the population [8]. This kind of demographic condition is unfavorable for mass production because labor force is essential to early development and industrialization.

If the population of the rural area can migrate to the cities, the gathered labor force can participate in industrialized production, moving from basic agriculture assembly to industry producing components and even products, thus adding value to Mongolia's rich natural resources and contributing to the development of the cities. The development in urban will attract more

population who want higher income and it can also lead to the economic development and urbanization of the surrounding rural areas[9]. Seattle, a developed city in the United States, serves as an example of urban-rural development synergy. Fueled by tech giants like Microsoft and Amazon, the city's technological advancements have stimulated diverse industries and services. This growth has increased demand for resources from surrounding rural areas, driving economic activities there. The city's success has attracted a skilled workforce, fostering migration to both urban and rural regions, thus enhancing rural economies and infrastructure[10]. Furthermore, given the heavy dependence of rural income on the marginal output of rural labor force, even a slight decrease in rural labor due to migration to urban would lead to an increased marginal output, consequently boosting rural income. With appropriate policy encouragement, migration to urban area should not be a difficult process, since physical mobility is significant in the traditional nomadic society[11]. However, the current trend of urbanization in Mongolia is not promising. Throughout history, the pastoral Mongol Empire of the 13th century was constructed through territorial expansion, prioritizing geographical reach over raising population density or creating permanent urban settlements[12]. Between 2011 and 2014, a significant rural-to-urban migration rate was observed, aligning with the occurrence of the severe summer-winter dzud in 2009-2010 across the Mongolian Plateau. This natural disaster led to the loss of 8.5 million livestock, equivalent to 20% of the national herd[13]. However, due to the recent economic downturn in Mongolia triggered by a significant decline in natural resource prices, there was a notable trend of former urban residents, particularly those employed in the mining sector, returning to rural pastoral regions after 2015[14]. This reflects the fact that urban development currently relies heavily on resource trade, which is not sustainable and attractive enough for rural population to migrate. This causes the tough problem of an egg and a chicken: If the urban economy is underdeveloped, then people will not migrate to the urban; and if the urban is lack of labor force, it will be difficult to promote urban industrialization and economic development.

Therefore, in order to develop the urban economy, a more practical way is to make good use of urban human resources and optimize the structure of economic development. The government should encourage entrepreneurship, thereby promoting industrial upgrading and technological innovation. Enterprises play a central role in a country's economic development. Nevertheless, Mongolia faces the challenge of a relatively feeble entrepreneurial culture with a limited number of private companies, because nomadic cultures are characterized by self-sufficiency and do not prefer making high-risk, high-return investments like entrepreneurship[15]. Moreover, Mongolians have a long history of animal husbandry and are backward in higher education, so they do not have the talent and resource foundation to develop high-tech industries. The top ten largest enterprises in the country predominantly comprising state-owned mining companies and banks, which reflects the lack of strong private businesses.

To foster the emergence of competitive enterprises capable of manufacturing components and proprietary products, the government should proactively promote entrepreneurship among the Mongolian populace while being mindful of the country's cultural characteristics. This endeavor can be achieved by tapping into the motivational factors underpinning entrepreneurship, primarily derived from the need for achievement theory and self-efficacy[16]. Hence, individuals require both verbal and emotional encouragement, to the point where persuasive increases in perceived self-efficacy motivate them to exert sufficient effort to achieve success. However, Majid Aramand's 2013 case study of women entrepreneurs in Mongolia found that the government did not provide moral or material incentives to entrepreneurs. On the other hand, Mongolia's nomadic culture has a strong sense of family and collectivity, so many entrepreneurs embark on their businesses because they have been encouraged by their families and want to serve others[17]. Affiliation, which is emphasized in Mongolian culture, is also an important motivation for entrepreneurship[18].

Therefore, the government of Mongolia should actively encourage the social atmosphere of entrepreneurship, provide funds for entrepreneurship, and develop family entrepreneurship by utilizing the sense of family unity and the deep collective bond of Mongolian people.

In addition, as a nomadic people, Mongolia suffers from gender inequality that prevents women from finding employment and giving their entrepreneurial talents and strengths a full display. The traditional gender structure of nomadic people is that men are usually responsible for traditional activities such as animal husbandry and hunting, while women are responsible for the daily affairs of the family and the pastoral community, and the social status of men is higher than that of women [19]. Later Mongolia went through socialist reforms and nowadays it is moving towards a democratic system where men and women are basically equal in education and even women are more educated than men[20]. However, women are still at a disadvantage in employment. Based on the labor force survey, the engagement of females in Mongolia's labor force has consistently hovered between 53% and 56%, showing minimal progress over the past ten years. In comparison, male's labor participation rate reached 69.5 percent in 2018[21]. The average monthly wage income that female workers can earn is 16 percent lower than wage of the male in 2019, and they are more likely to be in the minority in management roles or senior positions[20]. Furthermore, it is noteworthy that women allocate significant amounts of time to unpaid household duties. In rural areas, on average, women dedicate 33 hours to such tasks in the past week, whereas their male counterparts spend only 18 hours on household chores[6].

Despite the fact that only 20% of entrepreneurs were female in trade, and only 25% in industry[22], many studies have shown that women's motivation to start a business is higher than men's, especially in countries with gender inequality[23,24]. And women in leadership roles are more conducive to democratic and transparent institutions. Addressing the underrepresentation of women in the business sphere might necessitate the implementation of affirmative action initiatives, gender-targeted objectives, or quotas. Such measures can facilitate enhanced female access to business opportunities and leadership positions, thereby working towards the eradication of deeply ingrained gender-based labor disparities. The government ought to broaden the reach of these programs, either through collaborative program delivery with private enterprises or by extending support to women's networks capable of facilitating mentorship, recruitment, and career advancement avenues for women[25]. Overall, government should give financial support to new entrepreneurs. They should also identify and protect promising companies in key industries by increasing tariffs and subsidizing specific entities.

### **3. Part 2: policy implementation and unintended consequence**

Considering the nomadic population and the rural situation, the government could not be too forceful, and should be careful in pursuing industrialization. Mongolia has a long history and a nomadic culture rooted in the society. The sudden transition to urban lifestyles, coupled with daily socio-economic difficulties and the influence of Western ways of living in urban settings, is likely to have adverse implications for both individual and national health[26]. Therefore, the government should go overboard slowly, starting with industrialization reforms to improve the quality of life in the cities. Nomads should not be forced to settle in the cities but should be given choices. When the cities become more livable, people will naturally choose to live in the cities, bringing labor and demand to the cities and completing urbanization naturally.

At the present stage, the development of nomadic herders and rural areas should be promoted along with the industrialization of cities[27]. Mongolia has high quality pasture resources and rich experience in animal husbandry. The government should organize assembly and utilize comparative advantage in trade to generate revenue for industrial construction. Nomadic animal husbandry is the most basic form of value added, but the country's transition to a more profitable form of value

addition should not abandon the basic advantages of assembly. It should invest in animal husbandry technology to improve production efficiency.

Measures of industrialization will bring about some unintended consequences, making the issues more complicated and tough. In protecting Mongolia's enterprises, the government will choose a selection of companies that they believe are worth investing in. The government will give subsidy, impose high tariffs and trade barrier. The chosen company may not perform well, but they will keep subsidizing the company next year for some political considerations to avoid disruption and inconsistency. This is the situation of moral hazard, where the government throws good money after bad money for sunk costs. Consequently, subsidized companies with strong bond with governments' support will grow dependency on subsidy. They are more likely to slack off because they feel more secure with the protection [28]. Since the state has limited capital available, investing in a subset of companies means putting non-subsidized companies at a disadvantage. A sense of insecurity will make those non-subsidized companies more attentive and work harder to run their businesses, making innovations, and keep improving to survive the fierce competition. Sometime, these non-subsidized companies will outperform subsidized companies which the government financial support is already tied to. Consequently, the state's capital is not allocated efficiently, which will hinder industrialization (for more value-added approach), innovation, and the economic growth. Therefore, the government should make smart choices to moderately protect potential companies.

In addition, government's policy providing economic incentives for migration from rural to urban will also bring some unintended social problems. First, even if increased urban wages and a surge in job opportunities entice a larger population to urban centers, factors such as path dependence, skill transfer ability, and social mobility play a crucial role, as not everyone can capitalize on the increased freedom and improved income that cities offer. Although Mongolia has profound history of physical mobility, its feudal culture determines its social immobility. New migrants from rural area do not have social network and interpersonal relationship to get employed in cities. Due to their lack of matching skills, numerous migrants did not secure urban employment; instead, they established settlements around the city and engaged in partial herding, which in turn led to issues like overgrazing in the vicinity of the city, along with pollution and additional socio-economic challenges in the suburban areas of the urban region[29]. Furthermore, the expanding population could exert future pressure on natural resources, such as groundwater, potentially surpassing sustainable limits[30], and the unbalance of population distribution will increase inequality between rural and urban areas [31], which may cause social instability. Instability, once again, can lead to the exacerbation of poverty. Therefore, the government should actively address the problem of water and air pollution, as well as overgrazing in rural and areas surrounding the city. A more curative and radical approach would be to promote education and improve its quality. In this way, the rural population would have the skills needed for work; the coordinated development of rural and urban areas would prevent the problem of overpopulation; and people will raise awareness of environmental protection through education. Deeper cultural and ideology backwardness should also be addressed through education, which will be discussed in the next part.

#### **4. Part 3: underlying challenges—culture and national identity**

Policy-maker should consider the influence of nomadic culture on development, bearing in mind that helping Mongolia out of poverty is not solely an economic issue. The above two sections suggest concrete measures to solve the social problems of industrialization, and the most important and thorough way to transform outdated thinking pattern of development is education. The most important characteristic of nomadic culture is self-sufficiency and short-term planning orientation. The idea of self-sufficiency contributes to a weak entrepreneurial climate, and the traits of nomadic cultures, which prioritize protection over construction, is not conducive to the innovation and



building new industries[15]. All these cultural factors--the traditional emphasis on collaboration in the pastoral economy rather than market-based mechanism--put Mongolia at a disadvantage in the wave of globalization [32]. Moreover, Mongolian public policy lacks consideration of long-term impacts, and the government's over-reliance on the mining industry and over-exploitation of resources has led to unsustainable economic development. Mongolia has a long history of strong relationship and connection with nature. People traditionally believe that they should not intervene in nature, so they resist the law of governing the environment. Without appropriate regulations, Mongolia has observed increased desertification and other severe environmental problems[33].

While a nomadic and traditional society based on husbandry may have cultural and historic value, it is not compatible with ending poverty in modern world[34]. Therefore, it is very important to expose people to more advanced ideas through education. Mongolia's literacy rate is close to 100 percent[35], but the low quality of education and lack of higher education can lead to a brain drain, which is not conducive to innovative development and the advancement of national thought.

From a nomadic people who once dominated the world, Mongolia has experienced decline, socialism, independence, democratization, and market-oriented reforms. Mongolia has followed the path of abrupt transition rather than the more gradual approach of Asian centrally-planned economies during transition like Vietnam and China[36]. Mongolian culture was invaded during the period of socialism under the influence of the Soviet Union. In 1941, the Mongolian government was pressured or persuaded by the USSR to adopt the Cyrillic alphabet and forsake the traditional Uighur script for written Mongolian, leading to a partial detachment from their cultural heritage [32]. Cultural change and invasion make it very difficult to strengthen the national and ethnic identity. What's worse, even though the government has initiated various reforms, such as industrial upgrading, universal education, and a long-term sustainable development strategy, it has paid little attention on cultural heritage and cultural reproduction that are conducive to nation's long-term development. For example, there are very few museums of Mongolian culture. The only ones that do exist are not well maintained, and the exhibits are not very distinctive or attractive to foreign tourists [32].

Mongolia is lack of promotion of a cohesive national culture and high-quality education, and a set of competing values has made the vision of development confusing. While the transition in Asian economies appears to be motivated primarily by economic and social considerations, which is planned by their ambitious people with incentives to revitalize their nation and thrive at the center of the world stage, Mongolia's sudden social changes mainly have been driven passively by external economic shocks[20]. The conflict between subsistence traditions and globalization, individualistic nomadic culture and hierarchical systems, and social collectivism and liberal democracy have all contributed to Mongolia's lack of a universal value - a strong national vision - that would have motivated generations of Mongolians to actively engage in the country's development. How to shape identity and national aspirations and strengthen social cohesion has become a thorny issue for the Government of Mongolia to address.

## 5. Conclusion

In conclusion, this paper has undertaken a comprehensive analysis of Mongolia's unique social, cultural, and economic challenges, providing insights into visionary policies for alleviating poverty and achieving sustainable development. The paradigm shift towards value-added industrialization emerges as a crucial pathway to economic prosperity, requiring the optimization of labor force distribution between rural and urban areas. To encourage urbanization, the government should focus on creating livable cities with enhanced employment opportunities, while simultaneously promoting entrepreneurship and dismantling gender-based divisions entrenched in traditional culture. Moreover, mindful policy formulation is essential to mitigate unintended consequences such as

over-dependence on subsidies and urban migration challenges. However, the transformation of Mongolia's economic landscape requires addressing deeper cultural hindrances. Nomadic culture's self-sufficiency and short-term orientation impede innovation and sustainable development, highlighting the significance of education in reshaping mindsets. Furthermore, the paper underscores the need for cultural preservation and the establishment of a unified national identity to guide Mongolia's development trajectory. As Mongolia navigates its path towards equitable development, policy-makers must recognize that poverty alleviation is not solely an economic endeavor but also a cultural and ideological transformation. As Mongolia continues its journey, policy reforms and investments in education will play a pivotal role in fostering a resilient economy and a united nation, thereby shaping a more promising and sustainable future for the country.

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