

## **The Mongol Messenger**

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### **Interview with Professor Grzegorz W. Kolodko Director of TIGER institute ([www.tiger.edu.pl](http://www.tiger.edu.pl)), former (1994-7 and 2002-3) Deputy Premier and Finance Minister of Poland**

- How similar are the current economic challenges faced by Mongolia to those that were faced by the East European countries?

All of these countries are going through a complex process of structural reforms and are involved in long lasting, gradual transformation from centrally planned socialist economy to a capitalist market economy. Hence, there are plenty of similarities. Yet – considering the level of development, social structure, culture, geopolitical position, etc. – there is also a lot of significant differences.

- Are there any challenges that are different or unique in Mongolia?

Quite many. Mongolia relies mostly on traditional agriculture sector, hence the development of this part of economy is crucial for overall economic performance. The country is unique also from the perspective of relative meaning of future tourism development for economic expansion. The infrastructure upgrading issue is indeed very unique for Mongolia. One is managing differently economic policy in a country almost void of paved roads with a very sparse population than for instance in Slovenia, a country with similar population, yet 75 times smaller area and about 10 times higher GDP per capita. From the institution-building viewpoint, Mongolia is more like a post-Soviet economy than as an East Central European one. The legacy matters. Hence, in Mongolia there are two challenges, which must be addressed simultaneously: first, a specific postsocialist transition to a market system; second, managing the growth through capital accumulation and improvement of its allocative efficiency typical for a less developed country.

- Is there a proven formula for the transformation of postsocialist economies?

No, there is not a such. Policy of “one size fits all”, along the line suggested by so-called Washington Consensus in the 1990s, happened to be ill-advised. Most of the postsocialist countries have paid dearly for the ensuing mismanagement, especially due to the negligence of gradual – taking into account the specific, national factors – process of institutional building. From the bird eyes view, one may claim that the core of transformation is stabilization, liberalization, institution-building and privatization, or – in short – SLIP. However, each country has plenty of specific factors which must be taken into account while designing two indispensable policies: first, this is the policy of systemic change, making the new economic and political system; and second, this is the development policy. Only a few countries was capable to manage both policies in a firm way. The best

example here is China and Poland. However, in my country not during all 16 years of transition sound policy was taking place. There were severe policy mistakes during initial shocks without therapy, in 1989-93, and again at the turn of the 1990s, while the economy was overcooled and the rate of GDP growth was brought down to almost stagnating 0,2% in last quarter of 2001. The good years were 1994-97, when we implemented "Strategy for Poland" (with average rate of GDP growth 6,4% per capita) and in 2002-03, when Poland became ready to join the European Union and in the first quarter of 2004 was growing again by 7,0%.

- What is your opinion about the current economic policies of Mongolia today?

In general terms, it is a reasonable policy, aiming for consolidation of the market reforms and strengthening financial stabilization while gradually opening up the economy for international competition. Mongolia is a great country in terms of land but very small as the size of the economy is concerned. Thus it must depend to a growing extent on interacting with the outside world, absorbing the inward foreign direct investments. They mean not only an additional capital – which you are lacking and need so badly for the co-financing of building the new capacity and stimulating the growth – but they imply too the transfer of technology as well as managerial and marketing skills. On all of these fields the progress is clearly visible.

- The economy of Mongolia grew by 10.6% in 2004? Do you think this was by good luck or good policy? Is this type of growth sustainable?

Both. "Good luck" is nothing wrong in an economic policy. As the Polish proverb goes, "a smart one has a good luck". However, such fast, two-digit rate of growth is not sustainable.

- The Asian Development Bank predicts that the growth will be around 7% for the next 3 years and the budget deficit will remain below 3.5% of GDP. Do you agree with these forecasts?

There is no reason to disagree. Mongolia does have the potential for sustaining for much longer than just 3 years the rate of GDP growth hovering between 6-7% per year, while enjoying at the same time a financial stability, that is manageable fiscal deficit and low and predictable inflation. I am positive that this country has the ability to double GDP level during each of following decades. It calls for annual rate of growth of 7,2% for 10 subsequent years. In Poland, under my stewardship, we did have such a rate of growth, but unfortunately it was not sustained due to the mistakes of my predecessors and successors. For a sound success the policy must be good not from time to time but indeed in the very long-run.

- As you know, Mongolia adopted a "shock therapy" method of economic reform. However, it has led to large scale poverty that we see today. Was it the right approach?

Definitely not. It was ill-advised policy which has been compromised everywhere, included Poland, where we had paid for this mismanagement, in 1989-93, much more than was unavoidable and we had accomplished much less than was feasible. There is

nothing like “shock therapy” in the postsocialism. Transformation is a long lasting, gradual process of institutional building and restructuring – as well as changing the political system and culture – and it does take time. Even in Poland, and other new members of the European Union, this process is not yet fully completed. It can be done better (as in China or Estonia) or worse (as in Russia or Albania), but never in a “shock” manner.

- As a leading expert of transition and development policy – what do you believe is the best method of reducing poverty in Mongolia?

I don't believe in “trickle-down” economy. Hence, to counteract poverty one needs both: sound and fast growth and fair income distribution policy. The latter is not possible – and will not happen! – without a comprehensive involvement of the government. Therefore, one should be very careful while downsizing the government. It must retire from many fields of economic activity, mainly through privatization and deregulation, but it must stay firmly involved in the policy of income distribution. To fight poverty, it is necessary to take care of government-led investment in human capital and infrastructure as well as in support of business climate, especially for small and medium, family based enterprises. To be sure, it can not be fought successfully, if there won't be equitable and fast economic growth. It is possible, yet it is difficult.

- Mongolia seems to diligently follow all the recommendations of the IMF and the World Bank? Will this be beneficial to the country in the long run? There have been a few examples in the developing countries where IMF recommendations have led to disastrous results, for example in Malaysia. Do you think there may be a similar situation in Mongolia?

I hope no. Do what I did while being twice in charge of the Poland's economy. I had listened to the IMF advise when they were right and I did not listen when they were wrong. And sometimes they are right, sometimes they are not. It depends, both on the nature of challenges and our knowledge how to tackle them but also on the conflicting interests.

- You have published several books and papers on globalisation and its implications. What does globalisation mean for Mongolia?

Due to growing interdependence of economic, trade and financial processes, the globalisation is at the same time a new, additional chance as well as a new additional threat, resulting from liberalisation and integration of the world economy. One can't get the former without the latter. Hence, the name of the game is the “mini-max” balance. How to maximize the chances and forthcoming gains, while at the same time minimize the new risks and costs? For Mongolia it means gradual, yet committed opening up for foreign trade and capital flow, while keeping the firm control over the precious natural resources, especially the land. Globalisation implies that Mongolia should sell her beauty – the steppes, desert, mountains, lakes, culture – through selling the tourist services, and not the assets. But try to depend on your own human capital with this endeavour. That should bring the prosperity for most of the nation in the long run.

- Mongolia is a small developing country, placed between two big powers, Russia and China. How can we take advantage of this geographical position?

In a very simple way! And somehow similar as we should in Poland, being between Germany and Russia. First, leave in the peace with both neighbours, and then bring as much as possible environment friendly investments and business opportunities from both these countries. And, one more time, sell them the beauty of Mongolia by charging properly for the tourist services. It is much more precious asset than copper or gold!

- Why did you decide to come to Mongolia? What have you liked about the country and what haven't you liked about it?

The nature is wonderful here! There aren't many places like this in the entire world. And I do know, since I have been to the places visiting already 120 countries. As for the landscape, something similar one may see in Eastern Africa or in Alaska, but it is not the same. And the people are special and so friendly. What I don't like it's lack of knowledge of foreign languages, even in the tourist industry. The other reason for my visit here are the professional aspects. So, I am glad that I have had a chance to have a close look into the matters of transformation and development, and discuss the relevant issues with a knowledgeable people.

- The Mongolian economists and policymakers have already learned a lot from your publications. Do you plan to write any articles/books related to Mongolia and its economy?

Not specifically about Mongolia, but while working of my next book – on development and stagnation at the era of globalization – for sure I will refer to the case of Mongolia. And I am sure it will be not about stagnation, but about sustainable development.