

## Comments on the ISP Technical Notes No. 3 & 4

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**TITLE :** **Technical reports on Mongolia Economy**

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**COUNTRY :** *MONGOLIA*

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### A. Technical Report No.3

Papers are well written, very instructive, and the topics addressed are policy relevant. In the Technical Report No.3, authors examine the impact of FDI in exported coal and railway sectors on the Mongolian economy, in a context where the road system creates bottleneck problems, in addition to high environmental impact in terms of pollution.

It seems to us that the two scenarios are very well conceived. In the benchmark Business as Usual scenario, authors do not use just a theoretical steady state path, but they mimic an economic trend that have been forecasted seriously and which is opposable with the GDP growth projections in the IMF Article IV 2017.

For the second scenario; authors approximate the increase in FDI using investment amount in the Feasibility Study of the railway.

It is also interesting to realize that this have been modelled in a way that the FDI in these concerned sectors would not generate productive capital until 2021 in which the new railway and other new capital become fully operational.

We think that the essential of technical precautions and operations necessary to conduct this modelling exercise have been respected by the research team.

It can also be assumed that the positive results in terms of macroeconomic impacts are consistent with the return on investment, given that the inflows of foreign direct investment into the economy were derived from the feasibility study.

However, as far as bottleneck problems caused by the road systems have been noticed, we would ask the authors to know: what is their view concerning the possibility to introduce Congestion Effects in the specifications of the model? These specifications could be activated in the BaU scenario along with other characteristics already considered, and therefore released in the counterfactual scenario.

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## B. Technical Report No.4

In the Technical Report No.4, authors especially examine the impact of switching from the truck service to the railway service on the amount of Greenhouse Gas (GHG) emissions produced by the economy.

Once again, we think that the adjustments and adaptations that have been made to the model and the social accounting matrix are appropriate.

At the end of the day, authors find that Building the railway service to transport the export coal commodity has an insignificant positive effect on the economy and reduces the emission. However, increasing export coal production, has a significant positive impact on the economy while increasing the emission slightly. And due to the Dutch disease effect, the production of other sectors decreases so that the overall emission increases by 1%.

So, some questions that come to mind are: is there any policy response authors could simulate to further mitigate the Dutch disease effect?

Is there an official ceiling Mongolia should comply with, concerning the emission of Greenhouse Gas?

It would be interesting for the team to elaborate a little bit in Mongolia commitments and policy on Greenhouse Gas issues.

Also, as we are dealing here with environment issues, one can ask the question to know what the deforestation impacts are, following the construction of railway.

In terms of modelling, has the team envisioned to determine the optimal volume of coal production and export, so that, even after the counterfactual shock, the overall emission of Greenhouse Gas remains under the appropriate ceiling Mongolia should comply with?

Apart from the current WP format, a publication with more reduced size of the papers, as policy briefs to the attention of top policymakers, should be considered.