Opinion: Why Mongolia and North Dakota aren’t economic miracles

By Jerry Nickelsburg

Where does an economist who works in the Pacific Rim go on vacation? This summer, I chose Mongolia, and not only because it is remote and has beautiful glaciated mountains. I also chose it for its reputation for economic potential.

I went with some preconceptions. For one thing, I had read that ayrag, home-fermented horse milk, was widely consumed and not for the faint of heart. For another, I knew investors were high on the Mongolian economy, which has seen a tenfold increase in GDP since the fall of communism. The analysts are consistent: Mongolia is a great place to invest even though its GDP growth has slowed significantly since hitting double digits in 2014.

I arrived in the capital, Ulaanbaatar (UB), in early August. UB is a city of 1.4 million, half the population of the country, but it feels smaller. There are a few modern structures—like the famous blue taco, a high-rise hotel and office building that resembles its nickname. For the most part, however, this is a city of yurts (one-third of the people live in them) and old socialist-style buildings. In the center is the government palace complete with a giant statue of Chingas Kahn (for Mongolians—no hard g) and a massive square reminiscent of Tiananmen.

So where was the supposed economic dynamism hiding?

My search would continue, but first it was time for some climbing. The trip to the Altai Tavan Bogd Mountains began with a three-hour flight on Hunnu Airlines to Ölgii, which,

with 30,000 inhabitants, is the seventh largest city in Mongolia.

From Ölgii we traveled seven hours by Russian four-wheel drive over a maze of dirt tracks to the national park gate and then hiked into the mountains. Over the next nine days, thoughts on the Mongolian economy were drowned out by the mountains of western Mongolia, with its large glaciers, tundra, sweeping views, and snow fields.

In the Altai you feel you are about as far away from California, where I live, as possible. The region is home to nomadic Kazaks, and while they have some trappings of the Western world, they still work their herds on horseback and cut grass by hand with homemade scythes.

Once back in Ölgii I noticed that the stores had mostly Russian products. The people were poor, but not starving. I did find ayrag, the highly touted horse milk, in a little out-of-the-way shop, and it lived up to its reputation—strong with a sour and long-lasting aftertaste.

I also saw more clearly why this country, despite its dynamic economy reputation, didn't seem so promising on the ground. The problem lies in the engine of Mongolia's growth: extractive industries.

In boom times the few—the very few who work removing riches from the ground— accumulate wealth and share some of it by spending in the domestic economy. But mines and oil fields employ lots of capital and not many people. If a country is largely rural, as Mongolia is, most of it may be untouched.

When commodity prices fall, as they did in 2015 (coal and copper were off by more than 30 percent), that growth turns on a dime (hence the fall in the rate of Mongolia's GDP growth). While starkly clear in Mongolia and less so in Texas and Louisiana, the phenomenon is present in all three.

Much has been written on how countries can be cursed by an abundance of natural resources. What I saw in Mongolia confirmed that if the windfall gains from natural resources are not turned into the building blocks of a diversified economy, like education and infrastructure, the promise of mineral wealth will be squandered.

Mongolians I met didn't complain about this much. I was treated generously, and I appreciated how absent modern stresses were from life there. But the lack of economic opportunity has a deep human cost; many Mongolian youth are working abroad.

As my departing flight to Beijing ascended over the glass buildings and sheepskin yurts of UB, it occurred to me that Mongolia can teach us much about economic miracles. A North Dakota or Texas miracle may be real, but it may also be ephemeral.

Also, now that I know how to ride a Mongolian horse bareback, if Chingas Kahn and the Golden Horde ever ride again, I have a fallback to working as an economist.

This is the first Pacific Economist column from UCLA Anderson School of Management economist Jerry Nickelsburg. He may be reached at Jerry.Nickelsburg@Anderson.UCLA.edu or via Twitter @jnickelsburg.