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Title: The Extensive Margin of International Trade: The Case of Mongolia.

Abstract

Using the Kehoe and Ruhl (2009) methodology, this paper investigates the impact of structural changes and trade liberalizations on the extensive margin of international trade in order to see if the so-called "extensive margin concepts" hold for the case of Mongolia. My findings support the hypothesis that changes in the environment such as structural reforms or trade liberalizations drive the extensive margin growth. I find significant growth in the extensive margin following the structural reforms (1997-2002), China's accession to the WTO (2001) and Mongolia's becoming eligible for European Union's (EU) Generalized System of Preferences (GSP+) and it is important. The new Kehoe and Ruhl's definition of the extensive margin, however, may incorporate some traded goods in small trade relationships, and thus the growth of the extensive margin may come from the growth of these goods. Hence, I decompose the Kehoe and Ruhl's extensive margin into three parts: zero traded, lightly traded and traded goods and show that the growth in trade comes from the growth of zero and lightly traded goods and not from the growth of traded goods.

Furthermore, from the analysis I conclude that policy measures taken by the government during 1997-2002 and trade liberalizations have had, overall, a positive effect on trade. I observe a growth in extensive margin and it is important. Following the structural changes and trade liberalizations Mongolian trade relationships have widened in terms of varieties and destinations. The composition of trade has changed.