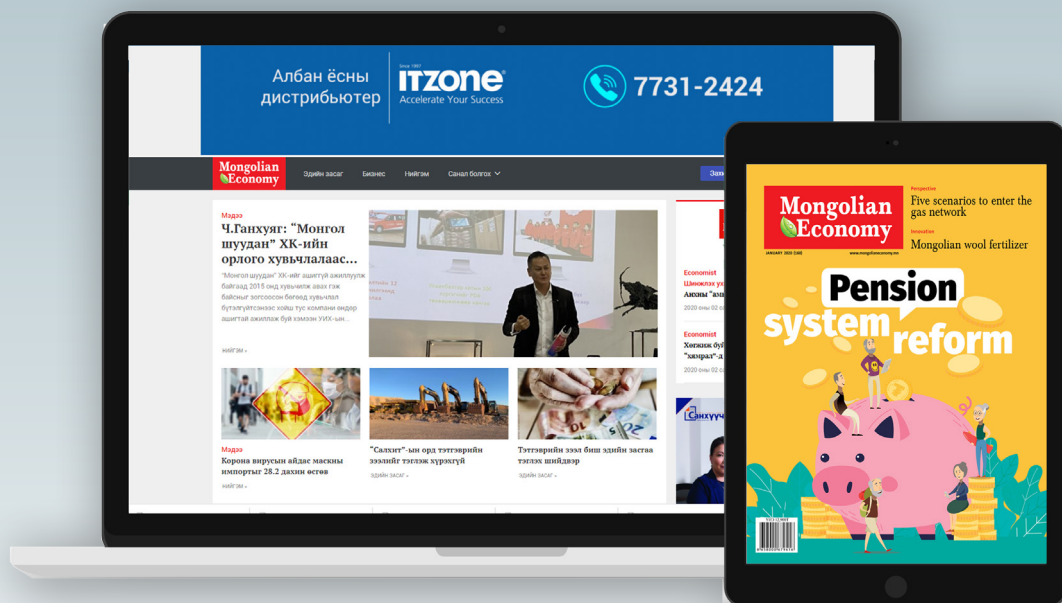


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Policy

Development network

Infrastructure, especially the density and accessibility of the transportation network, is one of the drivers of economic growth. So where is Mongolia headed? Compared to other countries, Mongolia was ranked 103 out of 140 in terms of infrastructure in the Global Competitiveness Report of 2018. Over the last few years, Mongolia has been experiencing the positive economic impacts of infrastructure development. The credit goes to the Ministry of Road and Transport Development (MRTD) which has been putting tremendous effort into achieving infrastructure projects, expanding international cooperation and adopting international standards.

Currently, the projects of the AH-3 and AH-4 routes of Asian Highway Network are being implemented with an aim to improve regional transportation. Sandagdorj Batbold, the State Secretary of MRTD pointed out they are exploring opportunities to connect these routes to the highway network of member states of the Shanghai Cooperation Organization

The Ministry of Road and Transport Development has been putting more weight on expanding foreign relations and boosting the economy

(SCO) in the south and to Russian and European road network in the north. Forty-three percent of the world population lives in the SCO region hence the two routes have the potential to accelerate foreign trade, international freight and economic cooperation. Mongolia, a country that was only connected to China and Russia by railroads, is about to become a bridge connecting Asia and Europe. In the scope of this, the MRTD has entered into four agreements with China and three agreements with Russia.

Furthermore, due to the active role in international cooperation in the transportation sector, Mongolia set up a joint venture with South Korea to provide maritime transport services. If Mongolia starts exporting minerals overseas, this joint venture would take over the shipment of goods by sea. Therefore,

the Government of Mongolia signed the Inter-Governmental Agreement on Transit and Freight Transportation to Sea and Back through Chinese Territories.

With regard to air transport, Mongolia has been closely cooperating with other countries and successfully accomplishing large scale projects. Sixty years after the construction of the first airport in 1957, Mongolia's second airport was built. The government of Mongolia adopted an air transport liberalization policy which opens the door to fair competition in the sector by allowing both foreign and national airlines to enter the market.

The MRTD is a unique ministry in terms of its role in the private sector. Due to the numerous infrastructure projects, around 371 business entities





- have obtained a license on building and maintaining roads and road construction. At the moment, 100 of those entities are actively participating in construction projects and creating new jobs. For instance, around 6,500 new jobs were created in 2019.

Following the expansion of international relations, Mongolia was faced with a need for adopting international standards. Thus, the MRTD is working on opening the first solar-powered charging station in Mongolia. Today there are six to eight charging stations to promote the use of electric vehicles in Ulaanbaatar. The MRTD intends to use only electric or gas-powered public transportations in the near future. The Ministry is encouraging the use of environmentally-friendly transportation methods by building hiking and biking trails. Last year, South Korea invested in

the construction of a vehicle recycling center called Mongol Auto Recycle Park LLC.

To further expand international cooperation, meet international standards and carry out infrastructure projects, the MRTD has been providing training to improve the skills and knowledge of their staff such as the establishment of an aviation training school. The achievements of the infrastructure network such as the first freeway, new international airport, profitable civil aviation sector, 360 vessels flying the Mongolian flag, railway transporting 28.1 million tonnes of exports are a clear indication of growing development network of Mongolia. ■

The Ministry is about to establish an aviation training school to contribute to the air transport sector

Policymaker

B.Enkh-Amgalan: Several economically significant infrastructure projects are underway



The Mongolian Economy magazine spoke with B.Enkh-Amgalan, the Minister for the Road and Transport Development, about major development projects and policies implemented by the Ministry in the last four years.

-How would you evaluate the policies and projects implemented by the Ministry of the Road and Transport Development in the past?

-In the past, the Ministry of Road and Transport Development (MRTD) proposed amendments to the law relevant to the transport sector and various infrastructure projects. To mention a few examples, in total 1,917.5 km paved road and 2,427 meters of bridge were built with an aim to connect 17 provinces,

95 soums and five ports of entry with the capital city in the last four years. It is a remarkable achievement that the length of the paved road has reached 7,227.5 km which constitutes 48.4 percent of the highway network.

Furthermore, we relaunched the railway projects which did not meet their goals the first time. For instance, it has been a year since the MRTD has started the construction of the 414.6 km railway that links the Tavan Tolgoi coal mine located in Tsogttsetsii Soum of Umnugovi Province with the Zuunbayan Station of Ulaanbaatar Railway JVC. This railway will give us an opportunity to make use of the mineral deposits of strategic importance within a 30 meters radius including Tsagaan Suvarga, Kharmagtai and ►

► Manlai mines. The MRTD has been placing the utmost importance to this railway project as it might lead to an increase in the mineral export volume and economic development of those regions. Moreover, I am honored to announce that the construction of a 27 km railway of oil refinery has been completed.

With regard to the air transport sector, under the discount loan from the Government of Japan, the new Ulaanbaatar international airport with the capacity for three million passengers to travel through was built in Khushig Valley in the Tuv Province. In short, in the transport sector, the MRTD has successfully implemented several economically significant infrastructure projects which produced remarkable results.

-Did the Parliament approve the key amendments to the laws regarding the transport sector? How would you assess the impact of the amendments in the sector?

-Over the past years, the MRTD has been working on a series of amendments to the law in the transport sector. For instance, the amendments proposed by the MRTD to the Highway Law were approved by Parliament. First of all, I would like to mention the impacts of the revised law and its corresponding procedures on the road transport. Under the revised law, the guarantee period of road repair by a contractor is set to be three years. Following the adoption of this provision, the quality of services provided by the contractors has improved.

Moreover, the Procedure for Revenue Accumulation and Distribution of the Road Fund has recently been enforced. According to this procedure, 20 percent of the excise tax imposed on imported vehicles, tolls, fines for violations of Traffic Law or Highway Law, transit charges and a certain amount of the tax which is imposed on gasoline and diesel fuel will be deposited into the road fund. As a result, the MRTD will have a financial capacity to perform routine maintenance and repair of highway networks.

In addition, to ensure a better regulatory environment, the MRTD has introduced the draft of the Law on Road Transport and Law on Maritime Transport. Besides, in the next few months, the Parliament is expected to approve the revised Civil Aviation Law and Law on Railway Transport proposed by the MRTD.

-Compared to other sectors, the transport sector requires massive investments. Do you

think there are sufficient funds in the budget for allocation to the transport sector?

-You are right. The projects implemented in the transport sector indeed require massive investments. In the previous years, we were able to secure the necessary funding mainly through foreign loans and aids and investments from the government and private companies. For instance, the government investment, foreign loans and aid to the transport sector between 2016-2019 amounted to 2.3 trillion MNT. To break it down, the government spending amounted to 459.2 billion MNT, foreign loans and aid amounted to 1.7 trillion MNT and the loan from the Development Bank was 106.2 billion MNT. Due to the government budget constraints, the MRTD will strive to attract more investments from the private sector in the future.

-Could you share any information regarding the progress of the ongoing projects including the project to connect all 21 provinces with the capital city?

-In Mongolia, 57.8 percent of goods and 65 percent of people use roads as a means of transportation. In 2020, the Ministry is working on the implementation of 123 projects such as the construction and repair of 1,902.79 km paved road and 1,373.62 meters iron-concrete composite bridge at 27 locations owing to the investments from the government, private companies and foreign institutions. Among these projects, the 520.5 km paved road and 762.9 meters of iron-concrete composite bridge are expected to be completed this year.

Formerly, the Ministry was focused on reducing the cost as much as possible, but now the Ministry began putting more weight on the quality and duration. In other words, we are aiming to build all roads in accordance with international standards. Thereby, to connect the new Chinggis Khaan International Airport with Ulaanbaatar, a 32.2 km freeway which meets international road standards with three lanes in each direction was opened last year.

Furthermore, to improve access to highway network and reduce heavy traffic, the construction of the Traffic Police overpass, 250.2 meters long ►

In total 1,917.5 km paved road and 2,427 meters of bridge were built with an aim to connect 17 provinces, 95 soums and five ports of entry with the capital city in the last four years

- Yarmag Bridge, 321 meters long Tuul River Bridge, 289.4 meters long iron concrete composite Songolon Bridge and the repair of existing bridges were performed in short time and opened in 2019.

The busiest routes in the AH-3 of Asian Highway Network, the 204.11 km long Ulaanbaatar-Darkhan route and 20.9 km long Ulaanbaatar-Nalaikh route are under repair and extension. Also, in order to connect western regions with the capital city, the construction of 67 km road in Tosontsengel-Uliastai route and 126.7 km road in Bayankhongor-Altai route are in progress. The above projects officially started in 2019 under the loan agreement signed with investor organizations. It is important to mention that the MRTD is pulling all the stops to complete all ongoing projects by the end of 2020.

-You are one of the people who initiated the policy to liberalize civil air transport. Could you provide us with information on the policy progress?

-Mongolia has signed an aviation agreement with more than 40 countries and Agreement between the

European Community and the Government of Mongolia on certain aspects of air services. Under the agreements, Mongolian airlines are permitted to fly to 95 cities and have the possibility of flying to more than 100 cities upon request. Moreover, Mongolia has signed codeshare agreements with 15 countries to allow customers to book flights under

Under the aviation agreements, Mongolian airlines are permitted to fly to 95 cities and have the possibility of flying to more than 100 cities upon request

one carrier's code. Currently, MIAT State-Owned Joint Stock Company is providing flights under three foreign airline codes to five destinations and planning to further increase the number of destinations to 52. At the moment, there are four Mongolian airlines and six foreign airlines offering international flights to 17 and to six destinations respectively in Mongolia.

Liberalization means to ensure fair competition. Hence, we need to put the necessary regulation in place to allow airlines to enter the air transport sector freely and prevent the formation of monopolies. When foreign airlines started providing flights from Ulaanbaatar to Seoul, Hong Kong and Busan, the ticket prices dropped by 20-32 percent. On the other hand, it is important to be a little bit cautious of opening the market as it might hurt or even push local airlines out of business. Hence, we need to strengthen

the competitiveness of national airlines before fully opening the market to big international players.

-Could you tell us about the big projects in the rail transport that are going to be implemented in 2020? Also, how would you define the policy of the rail transport sector?

-Several large scale construction projects that carry historical significance are under implementation. In the past, the MRTD aimed at carrying out construction projects that could boost the mining sector. The rail infrastructure projects are highly costly and time consuming. Within the scope of the new oil refinery, the MRTD was able to complete a 27 km long railway construction project by exploiting its internal resources to the fullest extent.

We are making good progress on the construction of the 414.6 km railway on the Tavantolgoi-Zuunbayan route. Moreover, we are planning to finish the railway project in Tavantolgoi-Gashuunsukhait route and start the construction of a railroad on the Zuunbayan-Khangai route. Under these projects, Mongolia will be able to export minerals from the Gobi region and have access to sea ports by crossing China. By exporting minerals to other countries, Mongolia will benefit financially.

-The Government of Mongolia has a revenue derived from leasing national flags to cargo ships. Our readers know that your long-term goal is to own a cargo ship flying the Mongolian national flag. What is necessary to turn that goal into a reality?

-The revised Maritime Law of Mongolia was referred to the Government and has been submitted to the Parliament. A Mongolian national has the right to own a vessel and engage in marine activities. On the other hand, there is a need to lay the foundation of the maritime transport sector by providing maritime education and training in Mongolia. In the future, we will eventually need a crew to start providing maritime transport services with a vessel owned by Mongolia.

In other words, Mongolia will have an opportunity to export mineral commodities to other countries through sea ports of our two neighboring countries and even via Italy, North and South Korea. It will certainly boost foreign trade and accelerate the economic growth of Mongolia. I am delighted to share that the delegates from Mongolia are discussing the use of the Genoa port with Italian authorities. ■



The first freeway was built within three years and was opened in July 2019

Road

Path to Accelerated Growth

The area from the city of Ulaanbaatar to Sergelen Soum of Tuv Province was an empty space until the construction of the new Chinggis Khaan International Airport began in 2015 in Khushig Valley. To create the best-connected airport, the first freeway was built which runs 32.2 km en route to the Yarmag Bureau, Aitsiin Davaa, Bridge of Turgen, Bukhugiin Khutul and Khushig Valley. The freeway project took three years and was officially opened in July 2019. This eventually led to the emergence of small businesses along the road and an increase in the price of land. Without a doubt, the freeway has not only improved the appearance but also improved the competitiveness of Ulaanbaatar. This is indeed a clear example of accelerated infrastructure development which took place over the last ten years.

Let's take a look into the past. The size of the paved highway network was 1,250 km in 1992 and

reached 2,830 km in 2009. To further improve the highway network, the Government of Mongolia invested 925.1 billion MNT to infrastructure projects by issuing international government bonds in 2013. Owing to this investment, the paved road has been extended by 580 km each year. Furthermore, only nine out of 21 provinces were connected to Ulaanbaatar hence this year the authorities are planning to connect all provinces with paved roads.

In fact, not only rail transport but also road transport is driving the economic growth of Mongolia. For instance, in 2019, exports to China accounted for 89.1 percent of total exports from Mongolia of which ►

In 2019, exports to China accounted for 89.1 percent of total exports from Mongolia of which 44 percent of these exports were transported via road



The 114.2 km road en route from Tosontsengel to Uliastai linking Zavkhan Province with central regions was opened.

- 44 percent of these exports were transported via road. In 2019, the mining sector generated 3.2 trillion MNT which is equivalent to 24.8 percent of the government revenue. As well as the coal, the minerals which are expropriated at Oyu Tolgoi mine such as gold, copper concentrate, zink and oil are transported to other countries via road.

This year, the coal export is expected to reach 42 million tonnes and generate revenue of 1.5 trillion MNT. To achieve the export target, the government and businesses have jointly invested in the 578.5 km road project on three routes. The first 58.5 km long route will be from the 21st square of the South Buir in Dornod Province to Toson-Uul and Bayankhosuu Stations. The second 32 km road will run from the Tavantolgoi to Baruunnaran in Khankhongor Soum of Umnugobi Province and will be connected to the 270 km road to the border crossing of Tsagaandel Mountain. At this stage, to build the third 250 km long route from Tavantolgoi to Gashuunsukhait, the project team is conducting the necessary research and preparing the construction plan.

The Government also imposes an excise tax on vehicles which generates a significant portion of the government revenue. This year, the government agencies are aiming to generate 264.4 billion MNT in revenue through an excise tax on imported vehicles. The amount is equivalent to 36.4 percent of total investment to road infrastructure in 2020. According to the National Statistics Office of Mongolia, in 2019, 69,472 vehicles were exported and 35 percent were

hybrid vehicles.

The agricultural sector used to fall behind from other sectors. Due to improved access to the highway network, the herders and manufacturers can deliver their goods faster and cheaper to consumers in Ulaanbaatar. As 41.6 percent of tourists enter Mongolia through land borders, we have been experiencing growth in the tourism sector. The tourism sector, one of the sources of government revenue, generates around half-billion MNT in a year and accounts for three to four percent of GDP in Mongolia. Moreover, domestic travel has increased since more provinces were integrated into the paved highway network. According to the Mongolian Tourism Organization, one-third of the population traveled domestically between 2016 to 2017. Under the Project of Mongolia-Russia-China Economic Corridor, the highway transit corridor, the AH-4 route, was built. As a result, the ambulance service time was cut which made Khovd as a province with the lowest infant mortality rate in Mongolia and student transport was shortened within Khovd Province.

In short, the efficient road infrastructure is improving living standards, driving economic growth and international cooperation. The ADB Senior Transport Specialist for East Asia Masahiro Nishimura emphasized the importance of investments, not only in regards to the construction of roads but also to its maintenance, repair and renewal; creating opportunities to enter both domestic and foreign markets; and regional integration. ■

INFOGRAPHIC

The length of the paved road **7227.5** km constitutes for **48.4** percent of the highway network

2016	506 km, 634.7 m	2018	383.72 km, 202.4 m
2017	441.59 km 489.8 m	2019	748.5 km, 896.3 m

Freight transport

2018
42.03 million
tonnes



2019
40.85 million
tonnes

Total freight volume of which transported via road
68975.68 thousand tonnes **40848.75** thousand tonnes

Passenger transport

2018
193 million
passengers



2019. I-XII
168.44 million
passengers

Number of passengers per km
7157.86 million passengers **2925.09** million passengers transported via road

Revenue

2018
695.86 million MNT



2019
796.06 million MNT

In 2019, **2003.05** billion MNT in the government budget derived from the transport sector
796.06 billion MNT derived from the road transport sector

Source: MRTD

Deputy Minister

L.Khaltar: The export policy should be in line with road, rail and maritime transport policies



Mongolian Economy magazine spoke with L.Khaltar, the Deputy Minister for Road and Transport Development, about the road and transport development policy and cooperation with the private sector.

-What are the key challenges faced by the Ministry of Road and Transport Development at the moment?

-Currently, our team of 130 people at the Ministry of Road and Transport Development (Hereinafter MRTD) is putting their heads together to implement the policy and decisions for advancing the transport sector. It is a privilege to say that we have achieved more than we failed.

We had been receiving complaints from citizens towards the MRTD. Therefore, I would like to put emphasis on the following statement. At the time when I was appointed as a Minister two years ago, I addressed the lack of a “cohesive transport policy” in the sector. Thereby, to address the aforementioned complaints, the Government of Mongolia decided to

take up not only a cohesive transport policy but an integrated national policy. Thus Vision-2050 a long term national development policy document was formulated.

-Could you elaborate on the transport policy provided by Vision-2050 development policy?

-The development policy of the transport sector until 2050 is included in Vision-2050. It covers all aspects of the transport sector including the achievement of open market policies in air transportation. In terms of air transportation, we have placed greater emphasis on international rather than domestic flights due to the lack of a cohesive transport policy up until now. Furthermore, Vision-2050 provides a clear rail transport policy. In Mongolia, the railway is concentrated across the central regions but dispersed in the east and west which leads to regional development disparities. The only way to close the gap is by building a railway in those regions which will further spur the development of road transport sector.

-An excellent plan is not a guarantee for success. What obstacles do you think the MRTD might face in accomplishing the transport policy?

-From a political point of view, I hope that the policy legacy remains in place. I mean all political parties must continue the implementation of the development policy with all

The only way to close regional development disparities is by building a railway in those regions which will further spur the development of road transport sector

means possible.

-Could you tell us more about other policies in the transport sector?

-The Government of Mongolia approved a series of projects for the air transport sector in 2019. The Air Transport Compulsory Service Program designed

► to provide civil flights to isolated or rural areas can be mentioned as one example. The Government initiated this project as it was not feasible to connect all isolated and rural areas with railway or paved road. A better solution would be to provide low-cost flights with smaller planes to Altai Soum of Tuv Province than building a railway or paved road from scratch. In terms of maritime transport, Mongolia has revenue derived from renting the national flag to vessels despite it being a landlocked country. I strongly believe that the export policy should be in line with maritime, rail and road transport policies. For instance, Mongolia could create a joint venture company with another country to enable coal exports overseas. As a result, Mongolia can have access to international markets which will lead to new possibilities. Maybe in the future, there will be many sea captains with Mongolian nationality.

-It is well known that the MRTD quite often cooperates with the private sector. What policies does the MRTD follow in cooperating with businesses?

-All policy documents and decisions made by the MRTD are directed in cooperating with the private sector. For instance, at this moment air transport liberalization is a hot topic. The public perceives liberalization as merely a chance to lower ticket prices but it is more than that. The liberalization will lead to fair competition. National and foreign aviation companies have to meet the same requirements to provide their services and compete with each other to attract customers. Korean Air, a Korean aviation company, began providing flights between Ulaanbaatar and Seoul, the busiest passenger route. Following fierce competition, the price of tickets dropped slightly. However, it is important to clarify that the underlying goal for liberalization is not lowering prices but increasing access to flights and improving quality of services. I believe that the government should define a policy and businesses should be the main driving forces behind sectoral growth.

-Would you mind introducing recent projects or programmes implemented by the MRTD?

-In the last few years, the Government of Mongolia made bold decisions such as entering into a concession agreement concerning the operation of the new Chinggis Khaan International Airport. Under this agreement, the new airport will be open to both

locals and foreigners by the summer of 2020. An airport is a reflection of the economic development, culture and hospitality of a given country. Thus, we have been heavily invested in the new Ulaanbaatar international airport project. Furthermore, a freeway was built to facilitate the connectivity of this new airport.

Another project that should be mentioned here is the road project in the Nalaikh route. In 2018, the Prime Minister U.Khurelsukh instructed the MRTD to complete the construction of the road by 2019. To achieve that goal, the MRTD, Capital City Department of Road Development, Chinese contractor and Mongolian subcontractors worked day and night. The Minister for Road and Transport Development B.Enkh-Amgalan paid careful attention to the progress and results of the project, and even the Prime Minister used to visit to check the progress himself.

People were patient and endured driving for almost six months on a dirt road. This shows how united we are. The Nalaikh intercity road was officially opened in November 2019.

-Do you have any other upcoming projects similar to the road project en route to Nalaikh?

-The foremost important project is the road project en route to Darkhan which is the busiest route in Mongolia. Due to the increase in traffic, we had to reconstruct and improve the quality of the road on this route. The Minister B.Enkh-Amgalan is the head of the Darkhan road project thus he has been meeting with representatives of the Asian Development Bank and the European Bank for Reconstruction and Development. Unfortunately, Chinese workers are no longer able to enter Mongolia due to the COVID-19 lockdowns. It is indeed holding the project back. However, we have to strive to complete the infrastructure projects as soon as possible and should not focus on setbacks.

-Do you think that you will manage to open the road in 2020?

-It is hard to give a definitive answer in the midst of the pandemic. I would say the project will depend on the decisions of the authorities. ■

The Government of Mongolia made bold decisions such as entering into a concession agreement concerning the operation of the new Chinggis Khaan International Airport



Railway

Transit route to progress

In nomadic Mongolia, the only available means of transportation were cattle carts, camels and horses until the first train ran across the country around 80 years ago. Last year, the Ulaanbaatar Railway JVC celebrated its 70th anniversary which reminded Mongolians of the progress the country has made over the last several years. From 1990, foreign trade began increasing and so did the number of freight and passengers. Following the souring demand, the role of rail transport in the economy became larger. Today, the Mongolian railway connects Asia

with Europe. During the Soviet era, the railway only connected China with the Soviet Union. Therefore, in order to meet the required international standards, the authorities faced a challenge to adopt the latest technology in the rail transport sector.

The Euro-Asia rail transport linkage is more valuable than mineral resources for Mongolia.

The future is in our hands. On average, the railway has a capacity of transporting 25 million tonnes a year. In 2019, the Ulaanbaatar Railway transported 28.1 million tonnes of cargo utilizing its internal resources and through effective management. However, the domestic rail transport market is rather limited. Hence the only way to stay in the business is to make the most out of the international transportation network.

To be part of the international railway network, Mongolia will inevitably need cooperation and support from China and Russia. In 2014, both President Xi Jinping and Vladimir Putin had visited Mongolia several times which brought the discussion over the railroad project to the next level. During their visits, the Ministry of Road and Transport Development signed four agreements with China and three agreements with Russia and also signed the corresponding memorandum of understandings and protocols. For instance, the Government of Mongolia signed an Intergovernmental Agreement on the Access to and from the Sea and Transit Transportation through Chinese Territory. Nevertheless, none of these agreements have been put into practice. As a matter of fact, the three countries have not implemented any large scale projects due to certain political reasons since the transition to a market economy.

Despite the setbacks, the Ulaanbaatar Railway is exploiting its internal resources and attracting investments to start the ball rolling without waiting for other countries to take action. The development strategies for the Ulaanbaatar Railway until 2030, which is being implemented, had set a goal to raise the transportation of goods to 53.6 million tonnes in a year. In 2019, a record high of 28.1 million tonnes of goods were transported via rail. Furthermore, since 2016, the number of train tracks crossing Mongolian borders increased threefold, reaching a total of 1,450 tracks. This shows how much effort is being put by Ulaanbaatar Railway to achieve its goal.

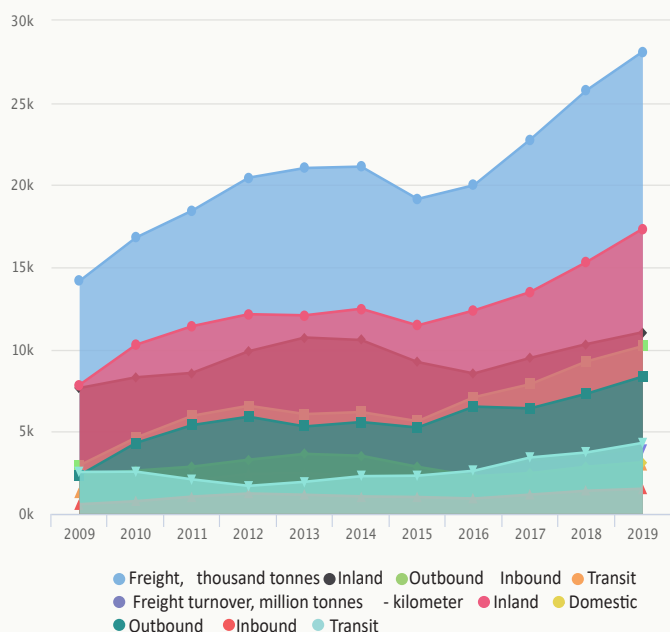
Experts had been proposing various plans on accelerating the development of the rail transport sector. The most feasible plan was the creation of “Ж” (a letter from the Cyrillic script) shaped railway network. The “Ж” shaped railway network with a dual gauge, will allow Russian and Chinese trains to enter and exit Mongolian territory without changing the wheelsets. This means the routes to the north will be a broad-gauge railway and to the south will be a narrow-gauge railway. The railroad on the horizontal axis will have four rails that can be used by both narrow and broad-gauge trains. Moreover, the MRTD is planning to build several freight stations along the railway. A famous example of a dual gauge railway is the Torne River Railway Bridge between Haparanda, Sweden and Tornio, Finland.

For Mongolia, a railway transportation network that could serve as the fastest and cheapest international trade route can become a large source of foreign currency, boost the economy and improve living standards. ■

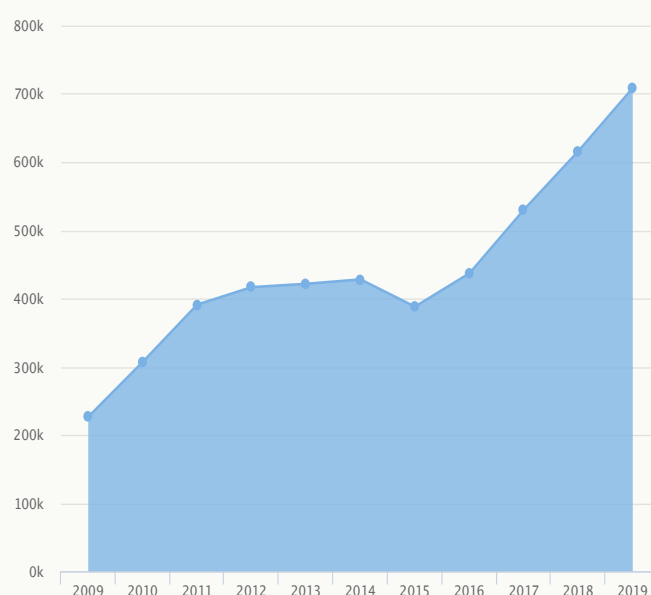
The “Ж” shaped railroad network with a dual gauge, will allow Russian and Chinese trains to enter and exit Mongolian territory without changing the wheelsets

INFOGRAPHIC

Freight transport 2009- 2019



Transport revenue, million MNT



Freight Transport

2018

25.7 million
tonnes



2019

28.1 million
tonnes

Passenger Transport

2.57 million
passengers



2.95 million
passengers

Revenue

616 million MNT



708.6 million MNT

Source: MRTD

Railway

D.Jigjidnyamaa: Ulaanbaatar Railway JVC has set a record in freight transit

Mongolian Economy spoke with D.Jigjidnyamaa, the Chairman of Ulaanbaatar Railway JVC, about the past achievements, current challenges and future plans of the Ulaanbaatar Railway JVC.

-What are the main accomplishments of Ulaanbaatar Railway JVC in 2019?

-Ulaanbaatar Railway aims at ensuring the safety and security of passengers and freight via the railway network in Mongolia. I am delighted to announce that in 2019, the 70th anniversary of the Ulaanbaatar Railway, the rate of freight being transported reached a record high. In the last three and a half years, Ulaanbaatar Railway has been experiencing a workload surge. For instance, we were able to transport 28.1 million tonnes of cargo via rail. Typically, an average of 25 million tonnes of cargo is transported in a year. Moreover, this year the railway freight transport reached over 60 thousand tonnes in a day which was between 30-35 thousand tonnes in 2016. In 2019, the load went up by 5.1 percent, freight volume by 5.8 percent and freight turnover by 9.7 percent compared to the previous year.

Over the past years, as Europe-Asia and Russia-China bilateral trade have been expanding steadily, so did the railway freight volume. Ulaanbaatar Railway seized all available opportunities to transport freight via rail. For example, the number of transit freight trains crossing Mongolia has grown dramatically reaching 1,450 in 2019. This is a 15 percent increase since 2016 and has led to an increase in foreign currency flow into the Mongolian economy. To keep up the good work, Ulaanbaatar Railway will strive to increase the number of transit freight trains to two thousand.



Furthermore, Ulaanbaatar Railway was involved in major construction projects. Under the oil refinery construction project in Altanshiree Soum of Dornogovi Province, a high-quality 27 km railway was built in a short time. For that reason, the excellence of the team of Ulaanbaatar Railway has been recognized by authorities. Thus, Ulaanbaatar Railway got a chance to participate in the construction of a 410 km railway en route from Zuunbayan to Tavantolgoi.

-Ulaanbaatar Railway will play a crucial role in the strategic partnership with our neighboring countries particularly in the accomplishment of the China-Mongolia-Russia Economic Corridor. How does Ulaanbaatar Railway development policy and goals align with it?

-Currently, Ulaanbaatar Railway JVC is implementing its comprehensive development program until 2030. This plan is not only about ►

Since 2016, Ulaanbaatar Railway JVC gave a 10 percent pay raise for three consecutive years

► the adoption, expansion and renewal of existing technologies but also covers various aspects of railway transportation including financing sources for large-scale projects and tariffs between senders, receivers and transporters.

The initial stage of the development program has been achieved. In regard to the rail traffic control system, we deployed direct traffic control via radio. This way, Ulaanbaatar Railway can ensure that only one train is authorized on any given piece of track at the time. Moreover, it increases the railway capacity by 20-30 percent. To increase the capacity further, we have carried out a repair of the main 36.2 km railway and an extension of the Sukhbaatar and Rashaant Stations.

In anticipation of growth in exports and imports via railway and transit freight volume, Ulaanbaatar Railway has purchased eight locomotives manufactured at the Bryansk Engineering Plant in Russia. We intend to increase the freight volume via rail to 53.6 million tonnes, the speed of the passenger train by 1.4 times and the number of passengers to three million in 2030.

In the future, it is necessary to improve the underlying infrastructure. For instance, to increase the speed limit of heavy vehicles we need to improve the load capacity. Ulaanbaatar Railway is exploiting its internal resources, improving the internal structure and taking up the most optimal management solution to enhance the capacity of the railway.

-How active Mongolia and our neighboring countries are in implementing the China-Mongolia-Russia Economic Corridor initiative?

-Honestly, the least active among the three countries is Mongolia. I want to pull all stops to turn this initiative into reality. In fact, Russia and China have taken certain steps with regard to implementation of the initiative. The National Development and Reform Commission of China classified the express train routes to Russia and Europe into three. The trains from the western region transports goods through Kazakhstan, from the eastern region through Russia and from the central region through Mongolia. This led to an increase in freight transit.

-Freight transportation has been soaring up

but how about passenger transportation?

-The huge issue that needs to be addressed by the Government of Mongolia is the price of tickets which currently does not cover the cost of passenger transportation. Therefore, it has been a tough challenge to attract investments to improve existing technology and equipment. Every year, Ulaanbaatar Railway incurs 30 billion MNT in a loss. The profits from freight transportation are only used to cover the loss incurred due to the passenger transportation which is not sustainable in the long run. We hope that the Government will take decisive action such as gradually raising the prices or providing a subsidy.

According to the latest survey, it was revealed that Ulaanbaatar Railway can meet the costs by raising prices by 10 to 15 percent each year until 2025. If we can cover the costs, we will have a chance to raise service standards and renew our technology and equipment.

In addition, Ulaanbaatar Railway is bearing losses in coal export transportation in order to deliver coal to power plants so they could supply electricity and heat to Mongolian citizens. Once again, the profits from freight transportation are used to make up for these losses.

-Ulaanbaatar Railway JSC is one of the largest companies with around 15 thousand workers. Could you share information on your HR policy?

-In recent years, Mongolia has been experiencing an increasing levels of brain drain. Quite a lot of people are moving to South Korea to work and make money. For that reason, it is important to retain knowledgeable and skilled workers in the country. However, we are failing to do so due to the cap on salaries. Ulaanbaatar Railway is putting efforts in strengthening the social protection for its employees.

Our employees have a heavy workload hence we focus on social protection by ensuring children's education, kindergarten enrollment, work safety and health of our employees. Since 2016, Ulaanbaatar Railway JVC gave 10 percent pay raise for three consecutive years. ■

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Civil aviation



The first cargo aircraft in Mongolia, July 2019.

Beyond liberalization

Let's take a look at the development of civil aviation in Mongolia. MIAT Mongolian Airlines began providing international flight services with Tu-154 aircraft leased from the Soviet Union in 1987. It was a historically significant event for the Mongolian air transport sector. Following the expansion of international cooperation, Mongolia opened its consulates to Beijing, Moscow and Irkutsk. As a result, MIAT Mongolian Airlines faced a challenge to meet international standards in providing air transport services to both domestic and foreign passengers.

In 1993, MIAT Mongolian Airlines officially became a state-owned joint-stock company. The role of air transport is critical for foreign trade and for entering the global market since Mongolia is a landlocked country with limited rail transport capacity. Therefore, it is necessary to ensure the reliability and accountability of the agencies responsible for defining

air transport policy, implementation and management.

The delegates from the Ministry of Road and Transport Development and executives of the MIAT plan to liberalize air transport but in a gradual manner. The rationale is to open the market to foreign airlines after ensuring the competitiveness of the national airlines. Namsraijav Ganbold, the Vice President of Flight and Technical Operations of MIAT, stated that in 2014, MIAT incurred 50 billion MNT in a loss. For that reason, the board drew a new operational strategy which successfully increased profits to 50 billion MNT in 2017.

It is common practice to set prices in accordance with labor and fuel costs. In the International Air Transport Association's statistics, the jet fuel cost of Chinggis Khan International Airport was above the global average by 39 percent or 237 USD. To illustrate, one tonne of jet fuel costs 1,062 USD in Mongolia, 647 USD in Europe and 656 USD in the ►

- United States. In fact, the fuel cost constitutes 35 percent of direct costs and 24 percent of total costs incurred by MIAT Airlines. The experts suggest that Mongolia will have a chance to break the industry-crippling jet fuel monopoly by encouraging fair competition in the air transport sector.

The airport is the flesh and blood of the air transport sector. The Chinggis Khaan International Airport (formerly Buyant Ukhua Airport) was built in 1957. Only 60 years later, the construction of the new international airport was completed. The new airport meets the necessary international standards thanks to the support and cooperation of Japan and South Korea. The Director-General of the Civil Aviation

Authority of Mongolia L.Byambasuren announced that they intend to open a flight academy in order to prepare the workforce for the aviation industry.

Mongolian citizens are eagerly awaiting the opening of the new Chinggis Khaan International Airport which will make Mongolian sky busy as a bee. Higher economic growth and deeper foreign relations are likely to lead to more passengers and new entrants in the air travel market. According to a tourist survey conducted in 2018, tourists were least satisfied with the air and road transport of Mongolia. We hope that the Government of Mongolia will address the complaints by ensuring fair competition in the sector which will benefit the Mongolian economy. ■

Freight Transport

2018

5.8 thousand tonnes



2019

5.73 thousand tonnes

Passenger Transport

1.42 million passengers



1.62 million passengers

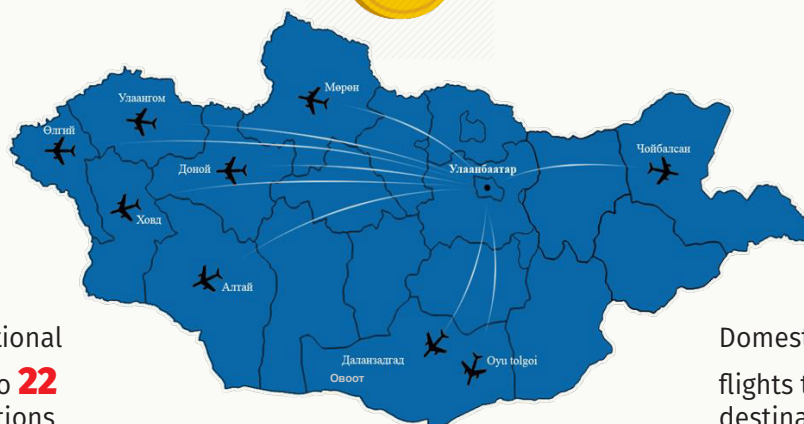
Revenue

442.3 million MNT



498.2 million MNT

International flights to **22** destinations



Domestic flights to **12** destinations

Source: MRTD

Road transport

The engines of economic development

According to the Global Competitiveness Report of the World Economic Forum, in terms of competitiveness, Mongolia was ranked 99th whereas China and Russia, the two neighboring countries, were ranked 28th and 43rd respectively in 2018. It is worth noting that Mongolia was ranked 110th in terms of infrastructure. This means there is still lots of room for improving infrastructure if Mongolia intends to accelerate economic cooperation, foreign trade and regional integration.

Over the last few years, the Government of Mongolia has been placing utmost importance towards advancing international cooperation and improving transport connectivity for regional integration. Within this framework, the Government of Mongolia signed an agreement with several countries including Germany, Poland, Hungary and Slovakia to improve transportation to and from Mongolia. Mongolia has entered into a bilateral transit and transportation agreement with approximately 16 countries. This laid the groundwork for expanding the Mongolian highway network to Europe and Central Asia opening up possibilities of transporting goods directly to Europe.

In addition, to improve transportation between China and Mongolia, the protocol on the implementation of the Agreement between the Governments of China and Mongolia on international road transport was renewed. As a result, the exports from Mongolia can be delivered directly to any location in China. In 2019, the weight of Mongolian exports was 40.9 million tonnes which is slightly lower than the weight of exports in 2018. Despite that, the revenue derived from exports went up from 696 to 796 million MNT owing to the efforts of the Ministry of Road and Transport Development (MRTD) on enhancing international cooperation and boosting economic growth in 2019.

Furthermore, under the China-Mongolia-Russia Economic Corridor initiative, the MRTD is working on two highway network corridor projects. The AH-3 of the Asian Highway Network (Ulan-Ude–Kyakhta/Altanbulag–Darkhan–Ulaanbaatar–Sainshand–Zamyn-Uud/Erenhot–Beijing–Tianjin) and AH-4 (Novosibirsk–Barnaul–Gorno-Altaysk–Tashanta/

Ulaanbaishint–Khovd–Yarantai/Tashkent–Urumqi–Kahsgar–Khunjerab). These routes will serve as a transit corridor passing through Mongolian territory and will be actively used for regional trade. At the moment, the authorities are exploring possibilities of connecting the AH-3 and AH-4 routes to the highway network of member states of the Shanghai Cooperation Organization in the south and to the Russian and European highway network in the north.

In the past, Mongolia did not have a cohesive transport policy. To solve this problem, the Parliament approved the national policy for the transport sector that was proposed by the MRTD. Moreover, the authorities of the MRTD submitted the amendments to the Law on Road Transport to the Parliament with an aim to adopt international standards. For instance, the revised Law on Road Transport bans imports of salvaged vehicles.

Within the scope of the highway project to connect 21 provinces with paved roads, 95 soums will be linked to the highway network as well. To reduce regional disparities for inclusive growth, the MRTD officially announced that they will connect the remaining 225 soums and settlements. This will require the construction of 14,299 km of road and heavy investments from the Government. The MRTD is scouting for cheaper options yet suitable to the Mongolian climate for low-traffic volume routes with the help of the Japan International Cooperation Agency. This measure is expected to reduce the burden on the government budget.

Also, the MRTD is taking a lead in building logistics centers and in improving domestic transportation. Last year, the MRTD set up the logistics centers in provinces such as Zavkhan, Uvs, Bayan-Ulgii, Dornogovi, Bayankhongor, Bulgan, Khovd and Tuv provinces. Soon, the Ministry is planning to open a transport hub in Khanbogd and Tsogtsetsii Soum of Umnugovi Province. To achieve a long-term policy, we need to adopt a policy directed towards human development in order to prepare the next generation who will carry the policy legacy. Therefore, the MRTD is discussing the possibilities of starting online classes and training on transport and logistics with the delegates from Russia and China. ■

111 916.7 km

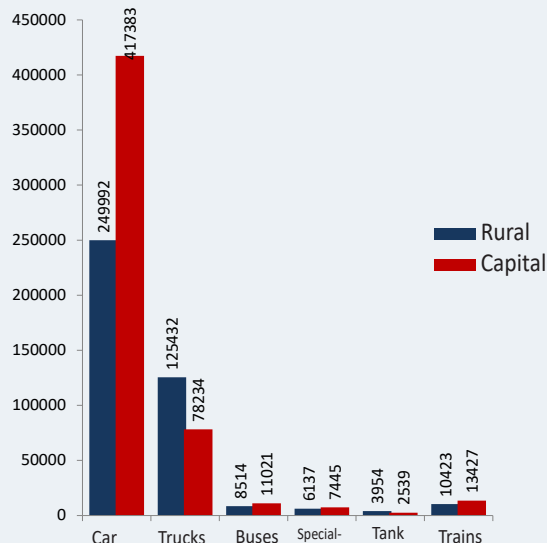
14 918.7 km



Total length of the paved road is **7227.5 km** which constitutes for **48.4** percent of the highway network

2018 **297.5 km, 202.4 m**

2019 **748.5 km, 896.3 m**



Total number of vehicles **158224**

Cars **69472**

Motorcycles **39341**

Trucks **23050**

Bicycles **12220**

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Maritime Transport

Vast sea of possibilities



Geography is believed to affect the economy of a country. Globally, on average 90-95 percent of exported goods are transported via sea or ocean. Maritime transport is regarded as the cheapest option suitable for oversized or heavy commodities. Consequently, the shipment cost and time will heavily depend on how far the country is located from the sea or ocean. In fact, Mongolia is one of 49 landlocked countries in the world of which 32 of them are classified as poor or emerging countries. For instance, compared to our neighboring countries, Russia and China, the cost of shipment and logistics are higher at least by 30 percent in Mongolia.

Will access to the sea open vast possibilities for Mongolia? Certainly, yes. According to the International Maritime Organization, Mongolia is ranked 75 out of 177 member states in terms of maritime trade. It indicates that Mongolia is getting close to the level of countries that have direct access to the sea. Furthermore, it can be said that to a certain extent Mongolia is making its contributions to the global economy by making use of maritime transport. Given these contributions, Mongolia now has the possibility of exporting coal cheaply and efficiently to other countries via ocean freight transport.

As mentioned previously, the most suitable shipping method for exporting large-sized items is maritime transport. Recently, Mongolia has established

a joint venture company with a South Korean company to provide maritime transport services. This means that the joint venture company could take over the shipment of coal via sea if Mongolia signs a deal on coal export with a third country. However, the coal will continue to be transported overland via rail through Russia and China to major ports. Fortunately, in 2018, the transit rail fees levied by Russia per train container were lowered by 52 percent and the duties on coal were lowered by 66.4 percent. Furthermore, owing to the Office of the President of Mongolia, the Tavan Tolgoi mine, Maritime Administration and the Fesco Transport Group which was incorporated in Russia are discussing the coal transport terminal construction project.

Without a doubt, Mongolia has an opportunity to benefit from maritime transport by exporting coal via ocean and sea. For this to become a reality, the construction of a railroad in the Tavantolgoi-Zuunbayan route is necessary for reducing the costs of domestic shipment via rail. Moreover, the coal preparation plant must be built in order to gain a competitive advantage by exporting refined coal with high caloric content. Currently, there are approximately 360 vessels from 30 countries that are flying the Mongolian national flag across the sea. The long term goal should be to export Mongolian commodities to the global market by ships owned by Mongolia and operated by Mongolian citizens. ■



Constellation

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OMEGA

OMEGA Boutique:
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Fashion

Popular Mongolian fashion brands

The traditional clothing which was formerly considered as rustic is the latest fashion trend in Mongolia. People were into European clothing but the circumstances have changed since the first Mongolian clothing brand Khairiin Khurim Brand was founded in 2006. Eventually, Iveel and Borgoljin, national clothing manufacturers, were established in 2017. The Mongolian top 10 brands that are producing clothing lines inspired by traditional garments are being recognized in domestic and international fashion markets.

This article will give you an idea of what is their focus, marketing strategy and business principles that helped position themselves in the market. Most businesses strive to deliver customer-centric services. We will take a look at the social media engagement of these brands. It is crucial to note that a customer's social media engagement may vary depending on the customer's profile. Therefore, the following chart should not be regarded as an indicator of the popularity and quality of their goods.

Top 10 Mongolian clothing brands (Social media engagement)

	Brand	Facebook	Instagram	Total	Year Est
1	Borgoljin	192,8k	28.2k	221k	2017
2	Iveel	201,1k	7.9k	209k	2017
3	Michel@Amazonka	83.3k	67.9k	151.2k	2013
4	WE Brand Mongolia	138,5k	16.8k	145.3k	2017
5	Esu MonteE	111.9k	6.6k	118.5k	2014
6	Khairiin Khurim	67,3k	33.8k	101.1k	2006
7	Ujin Mongolia	84,8k	3.7k	88.5k	2017
8	Mon Couture	77.4k	5.1k	82.5k	2015
9	O.Couture	74.1k	5.8k	79.9k	2014
10	Ariunaa Suri	69.9k	8.7k	78.3k	2012

Borgoljin Brand

Borgoljin, a company founded by two friends, were the highest in terms of social media engagement. The first product long-sleeved tees with embroidery of a queen were popular for teen girls. The Borgoljin brand focuses on offering lower prices to customers which became the key driver of their business.

Founder: B.Batchimeg, E.Sarantuya

Unit price: 55,000-300,000 MNT /on average/

Products: Casual and fashionable deel, long-sleeved shirts, blazers, coats, bomber jackets, T-shirts, vests and small accessories.

Brand distinction: Offering low priced casual outfits inspired by traditional clothing

Facebook: @Borgoljingo



Iveel Brand

The Iveel Brand which started with only five employees and three sewing machines, now has more than 100 employees.

In Mongolia, we have not only imported apparel but also reinvented traditional garments owing to Iveel Brand. The first collection won the hearts of customers and was sold out in no time.

Founder:

Z.Regzedmaa

Unit price: 75,000-350,000 MNT /on average/

Products: Wide range of deels, vests, dresses, coats and custom made clothes

Brand distinction:

Produces woman's clothing and accessories inspired by traditional fashion style

Facebook: @IveelBrand



WE Brand Mongolia

WE Brand mainly manufactures apparel for young women using high-quality materials. This brand is unique by using premium materials but not silk. The staff pointed out that the lower price is their competitive advantage in the fashion market.

Founder:

G.Delgersaikhan

Unit price: 58,000-400,000 MNT /on average/

Products: Deel, casual shirt, coats, suits and dress

Brand distinction:

Capable of meeting large scale demands by mass production

Facebook: @webrandmongolia



Ujin Mongolia

Ujin Mongolia posts photos of their tailor-made clothes and has a high engagement in social media. The brand receives around 30-70 orders in a month.

Founder: B.Enkhzaya

Unit

price: 185,000-520,000 MNT /on average/

Products: Matching couples deels, kids deel, cocktail dress, suits and vests inspired by European and Mongolian style

Brand distinction:

Chooses high-quality fabric

Facebook: @UJIN MONGOLIA



Mon Couture Brand

Mon Couture brand was founded by Kh.Batzaya, a man competing in the woman's fashion industry. He once beautifully said, "My creations can be seen as intellectual properties." This brand's one of a kind clothing patterns, embroideries and decorations are true reflections of the traditional eye-catching colorful costumes. Every month, Mon Couture offers around 50 to 60 new clothing styles to the public.

Founder: Kh.Batzaya

Unit price: 380,000-3,500,000 MNT /on average/

Products: Releases new seasonal collection

Brand distinction: Strives to create one of a kind clothing

Facebook: @MONCOUTURE