

# Mongolian Economy

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## Privatization

Privatization towards a fairer distribution of wealth

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## War in Ukraine: Adverse impact on the Mongolian economy

A mere cartridge case is hurtful to us?



Cartoon by A. Amarsaikhan

# MONGOLIAN ECONOMY

## 11 ЖИЛ





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That’s the adventure.”

— Adventurer, Naomi Uemura

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## Privatization

# Privatization towards a fairer distribution of wealth

*Due to a number of complications such as conflicts of interest, the privatization of the rest of the state-owned enterprises failed to materialize.*



All previous Governments of Mongolia had a traditional practice of putting privatization of state-owned enterprises on their agenda and making a list of such enterprises. However, even though the Mongolian Stock Exchange has always been on top of that list for as long as we can remember, it is still entirely owned by the state. It wouldn't be incorrect to say that there is no other case of stock exchanges being fully owned by the state around the world, but only in Mongolia. This indeed might be one of the factors that are slowing down the development of our capital market.

Historically, the Mongolian Stock Exchange was created for the purpose of privatization of state property and for the development of the capital market in 1991. There is quite a lot of evidence indicating that the privatization of 1990 was unquestionably corrupt and some of the factories and

companies were privatized unfairly. Moreover, some analysts suggest that if the privatization was done fair and square, Mongolia's economy would have been in better shape than is today. Since the first wave of privatization, the Mongolian Stock Exchange has been in hibernation for quite some time. As part of the "State Productivity Recovery", state-owned enterprises will be turned into public companies, and commercial banks are expected to release their IPO details. Hence, I would urge everyone to pay careful attention to the above process so that we could avoid making the same mistakes and we don't need to cry over spilled milk again.

During the period from 2010 to 2012, the Government of the Prime Minister S.Batbold strived to carry out then privatization of state-owned properties as a lever to develop the capital market but it was held up and it didn't happen. Then, during ►

► 2015-2016, the Government of Mongolia now led by Ch. Saikhanbileg approved resolutions regarding the privatization and restructuring of the state property and made a list of 15 state-owned enterprises for that purpose. Among state-owned enterprises that were on that list, Mongol Post JSC was the only company whose 34 percent of shares owned by the state were traded publicly through the Mongolian Stock Exchange and successfully raised 6.2 billion MNT. Due to a number of complications such as conflicts of interest, the privatization of the rest of the state-owned enterprises failed to materialize. It's widely believed that the political influence in state-owned enterprises is relatively significant. Member of Parliament, Kh. Bulgantuya once said, "Bribery and corruption are committed through three channels. One of them is the looting of state-owned enterprises. Therefore, in the first stage, we will reduce stealing and corruption by enabling public participation and the monitoring of state-owned enterprises."

Based on the above, it seems that privatization of state property is an issue that politicians cannot agree on. In fact, the events after the privatization of 1990 are one of the clear examples of contradictory actions and words of our former governments on how to privatize state-owned enterprises to improve their operations. International best practices have shown that converting state-owned enterprises into public companies with public participation and monitoring tend to increase the key financial indicators of those companies. To name a few examples of such companies, we have Aluminum Corporation of China Limited (Chalco), Air China Limited, Gazprom PJSC of the Russian Federation, and Japan Post Co., Ltd.

Consequently, at the turn of 2022, most of the state-owned enterprises, in Mongolia, were operating without profits or even worse with a loss and the government was getting bigger and bigger. Under the "New Recovery Policy", the Prime Minister of Mongolia L.Oyun-Erdene and his Government plan to make state-owned enterprises into public companies. Consequently, around 25 entities such as the Mongolia Telecom Company JSC, Information Communications Network LLC, National Information Technology Park SOE, Mongolian National Reinsurance JSC, and road maintenance companies are expected to be privatized through the Mongolian Stock Exchange between 2022 and 2023.

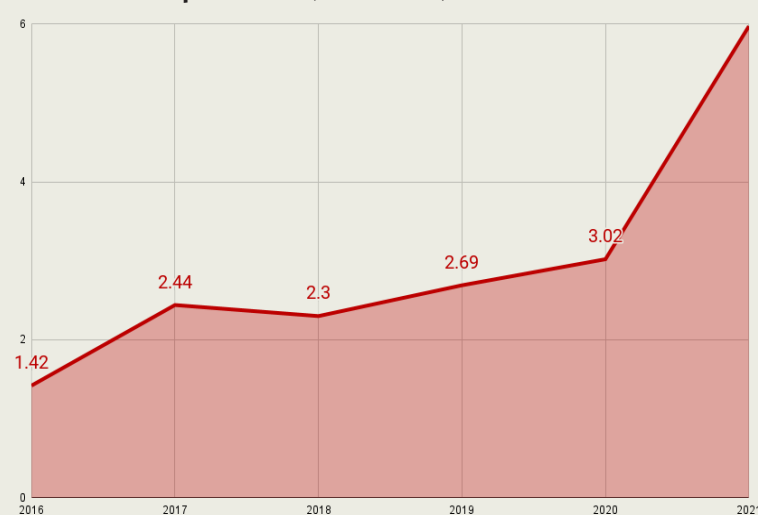
However, we must approach the issue in stages based on careful research. The Government should

categorize the existing state-owned enterprises and make a detailed plan of what percentage of its shares must be transferred to the public and in which order they should be listed on the stock exchange. It's worth noting that if the authorities start listing poorly performing companies on a stock exchange, it could pose a risk of hindering our long-awaited reform of privatization of the state-owned enterprises. Thus, professionals in the financial industry are warning that the shares of renowned companies with a long history of steady operations must be offered first to the public. The 25 companies that were included on the list are unlikely to attract public and investors' attention. Many have no idea about road maintenance companies operating in Mongolia. As a result, the "Public Proficiency Recovery" that will be implemented under the "New recovery policy" has a high risk of getting bogged down right from the start.

Almost per tradition, the Mongolian Stock Exchange is still at the top of the list of companies that will be publicly available from 2022 to 2023. That is just about right, as Mongolia transitioned from equal to a fair distribution of wealth in 1990. The spirit of democracy lies in moving toward the fair distribution of wealth. The mechanism that allows fair distribution is the capital market. Hence, to bring good results, we must begin with converting the Mongolian Stock Exchange into a public company and accelerate the progress on its operational transparency. At the moment, the equity market capitalization of the

**Under the "New Recovery Policy", around 25 entities such as the Mongolia Telecom Company JSC, Information Communications Network LLC, National Information Technology Park SOE, and Mongolian National Reinsurance JSC are expected to be privatized between 2022 and 2023.**

**Stock market capitalization (trillion MNT)**



Source: MSE

**The privatization of the stock exchange has a tremendous impact on the future development of our capital market. Moreover, it should have higher listing requirements as it trades shares of companies with high market capitalization.**

► Mongolian Stock Exchange is around 4.9 trillion USD. Also, in September of 2021, the Mongolian Stock Exchange was added to the FTSE Russell's Watch List. This could play an important part in attracting global professional investors to our country. In fact, Mongolia has already started the required preparation for reclassification to Frontier market status and thereby officially move on from the Watch List.

By offering the shares of the Mongolian Stock Exchange to the public, it will make it possible to simultaneously carry out clearing operations like any other international stock exchange. In addition to that, it will become a lot easier for startups, and small and medium enterprises to issue their bonds on the stock exchange. At this stage, another state-owned company performs clearing services for the stock exchange trading. That reduces the competitiveness of our stock exchange. According to international standards, clearing services tend to be a huge source of income for stock exchanges which in turn gives them the opportunity to lower their trading fees. In other words, trading fees, the current source of income, could be lowered and liquidity could be improved through in-house clearing services.

The CEO of the Mongolian Stock Exchange, Kh.Altai emphasized that offering the shares of the stock exchange to the public will help to expand the scope of our capital market, simplify the

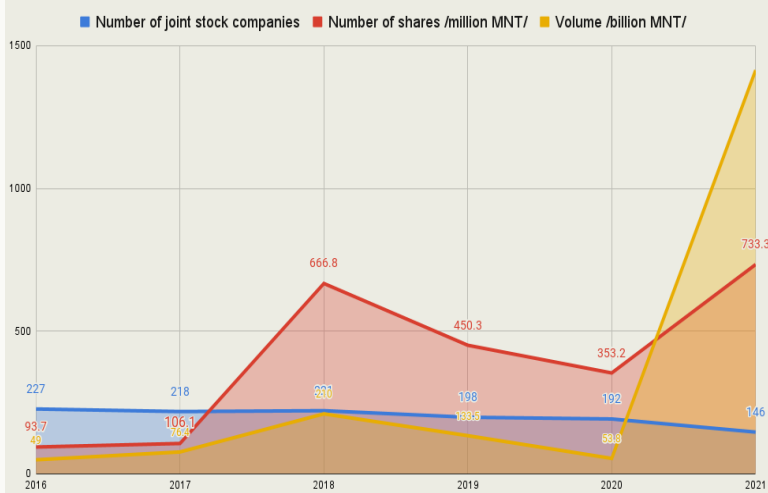
process of attracting investments and encourage good governance. Unless Parliament makes any sudden decisions, the Mongolian Stock Exchange is expected to become a publicly-traded company by June 30, 2023. Meanwhile, the Minister of Finance B. Javkhlan announced, "The Cabinet meeting will be held, within the second quarter of 2022, to discuss and determine the value of the Mongolian Stock Exchange. After that, the process of initial public offering will take place."

It is a common practice for some countries to closely cooperate with stock exchanges in advanced economies and make them key strategic investors in order to develop their capital market and take their stock exchanges to the global level. We could follow in their footsteps but it's crucial to set the optimal ratio of shares owned by the state and/or strategic investors in advance. In the past, D. Bayarsaikhan, the Chairman of the Financial Regulatory Commission, made such a suggestion and said "The shares of the stock exchange shouldn't be entirely offered to the public, but instead should also be offered to professional investors."

The privatization of the stock exchange has a tremendous impact on the future development of our capital market. Moreover, it should have higher listing requirements as it trades shares of companies with high market capitalization. The reason behind that is the growing criticism of poor governance structures, operations, financial reports, and transparency of companies listed in the stock exchange. Hence, it is essential to raise the requirements for companies listed on the Mongolian Stock Exchange and clearly establish how to expand the capital market within what period of time and how to protect the rights and interests of their investors. During the Mongolia Economic Forum, the Resident Representative of the European Bank for Reconstruction and Development in Mongolia, Hannes Takach stressed the importance of protection for small shareholders and good corporate governance of listed companies in the stock market.

Stock exchanges are buyers and sellers of bonds and a marketplace that connects brokers and dealers. The marketplace must sell high-quality products that could meet the necessary standards and requirements. On the other hand, the private sector has a great interest in raising money from the stock market. If they intend to list their companies, it is logical to expect them to improve their corporate governance. ■

### Securities trading (2016-2021)



Source: MSE



## Transportation block

# The transportation sector in a landlocked country without a comprehensive policy



Expansion work of the Zamiin-Uud border point has been postponed indefinitely

**Mongolia is aiming to export 36.5 million tons of coal in 2022. However, as of April 2022, only 2,607.8 thousand tons of coal have been loaded for export.**

### The border points will be re-activated?

We can forget about dreaming of rapid development unless we first enhance our capacity at border points. China keeps imposing restrictions based on inadequate execution on infection security and disinfection at the Mongolian border points. Particularly, Foreign Secretary B. Battsetseg called Wang Yi, the Secretary of State of the People's Republic of China, on the 8th of April to inform him that the Sekhe and Laoemyao borders are almost ready to be opened at short notice. Wang Yi, the Secretary of State, emphasized that 92 cases of covid-19 infections have occurred among the drivers who are transporting coal through the Gashuunsukhait border point, and the Mongolian side should continue to improve the infection security at the border points and it will be the main condition to smooth transportation of coal. In other words, the transport and logistics blockage is basically related to the weak capacity of the borders and infection security regime not due to the Chinese side restrictions. L.Oyun-Erdene, the Prime Minister, while working at the Zamiin-Uud border point in 2021, put an end to the incoherent works of the organizations operating at the border points, and gave

the border point personnel 30 days to improve the infection security and disinfection, rotate borderline inspectors, and improve their operations. If no positive results are observed, then the officials were warned to be expelled from their positions. However, the situation at the border points has not improved much since that time.

D. Battur, the Secretary of the National Border Council, stated that "As part of the New Recovery Policy, we have initiated projects and programs that require a total of MNT 26 trillion in investment and financing. Although certain parts of the state budget haven't been approved yet for the year, the extension projects at the Zamiin-Uud and Gashuunsukhait border points will proceed. Most of the border points' reconstruction projects are long-term projects and programs financed by soft loans from the Asian Development Bank or the People's Republic of China."

### Transportation of coal

Mongolia is aiming to export 36.5 million tons of coal in 2022. However, as of April 2022, only 2,607.8 thousand tons of coal have been loaded for

**Experts state that there is a possibility to establish the training base and manage flights in Mongolia, and train pilots from other countries in Mongolia.**

▶ export compared to the 6,583.6 thousand tons of coal that have been sold. In this way, we are just repeating what happened last year. Mongolia had planned to export 28 million tons of coal in 2021, but not more than 15.9 million tons of coal were exported. This is a decrease of 45 percent decrease compared to 2020. Nevertheless, the Ministry reported that a 30 percent increase in world coal prices had positively influenced the state budget to the tune of USD 2.76 billion.

The authorities seem to make deliberately optimistic projections regarding coal exports, thereby raising suspicions that it is a way to plan higher budget expenditure but not spend the funds efficiently. As for the first four months of the year, compared to the same period of last year, it appears that output decreased by 20.8 percent, sales by 36.6 percent, and exports by 56.4 percent, respectively. The Shiveekhuren-Sekhe border points which are Mongolian second-largest coal export gateways haven't been operational since October last year due to the pandemic. As of April, 1,443.0 thousand tons of coal have been exported through Gashuunsukhait, 784.0 thousand tons of coal through Bulgan, 212.2 thousand tons through Khangai, and 168.8 thousand tons through Zamiin-Uud respectively. As of May 20, 300 to 400 trucks of coal pass through the border points daily, while 11,153 wagons making up 617 thousand tons were transported by railways, as of the first four months of the year.

Over 620 thousand tons of coal have been accumulated and then loaded from a minefield of Tavan-Tolgoi at the Choir station, and it has reached a level that is affecting the rights of local people who want to live in a healthy and safe environment. Also, truck drivers, who transport coal, informed us about encountering many billion tugriks of losses because the transportation from Tsogttsetsii to Choir has come to a standstill. Furthermore, projects, such as the 4.8 million tons of coal residing at the Tsagaan Khad's customs area that needs to be exported immediately, are still pending. The Ministry of Roads and Transportation explained that "it is not possible to provide more specific information other than that we are still working on the agreement with the People's Republic of China."

To release the blockages at the border points that have severely limited the export outflows as well as the country's revenue the increase in capacity of all the larger and smaller border points, has become the

most important issue that is holding back exports. As part of the "New Recovery Policy", the construction project to connect border points via a highway has started with the construction of 987 kilometers of highway that connects the Altanbulag and Zamiin-Uud border points. In the meantime construction to connect other border points such as Kangi, Tsagaandel, Burgastai, Tsagaannuur, Tes, Artsnuur, Khankh, Baga Ilenkhi, Zelter, Ulikhan, Khavirga, Sumber, Bayankhoshuu and Bichigt via roads is continuing and it will gradually improve the government's competitiveness in the region step by step.

Additionally, it is expected that the major historical construction developments in the railway sector are to begin in 2022. It is planned to build the 226.5 kilometers of road from Tavan Tolgoi to Gashuunsukhait, which has been in limbo for 14 years, will be put into operation this year, 226.9 kilometers of railway construction work from Zuunbayan to Khangai will be undertaken in 2022-2023, while 192 kilometers of a railway from Choibalsan to Khuut and 234.1 kilometers of a railway from Khuut to Bichigt will be undertaken in 2022-2024. A further 1,255 kilometers of a railway from Artssuuri to Nariinsukhait and Shiveekhuren should come online during 2022-2026. Finally, two projects to build 394 kilometers of a railway from Sainshand to Baruun-Urt to Khuut in 2024-2027, and to renovate about 238 kilometers of a railway from Ereentsav to Bayantumen in 2023-2026.

If all the above-mentioned railway projects are implemented by the due date, about 230 mineral deposits will be put into economic circulation, to create the right conditions to export 100 million tons of coal annually by railway, and furthermore, generate USD 5 to 6 billion towards the state budget.

### **Air transportation in need of fresh air**

There has been no significant progress in the aviation sector for the last 30 years. It has been talked about for many years that the MIAT state-owned joint-stock company will be privatized and listed on the stock exchange. If you look at the balance sheet, it is a company that works to pay off the loan payments for the airplanes. The Prime Minister instructed MIAT to reduce its ticket prices and improve its operations, but in response to that, it allowed its customers to pay for their tickets in installments. In other words, prices have not decreased. ▶



► Some experts believe that the government's treatment and preference for the MIAT Company have led to skyrocketing airfares. But the policy to provide opportunities for the civil aviation companies from other countries has been effective, as could be seen from the growing number of passengers each year. As part of his visit to Japan, B. Bat-Erdene, the Minister of the Nature, Environment, and Tourism, met K. Shibata, the CEO of the “ANA Holdings” company, and exchanged points of view on the cooperation of the civil aviation sector for the two countries as well as about the possibility and conditions of managing direct flights of the company on the routes from Ulaanbaatar to Tokyo and vice versa. MIAT also launched direct flights to Istanbul, Turkiye starting the last month, which is a significant step in the development of the airline industry.

Besides that, the ministry acknowledged that it will pay attention to the development of general aviation flights. The General Aviation Development Office was established under the Civil Aviation Authority in 2016, but it hasn't been very active other than organizing a professional awareness day and flying for the special needs of the Emergency Management Agency. The office owns more than 20 economically inefficient aircraft. But New Zealand, which is close to our country in terms of population and several times smaller in area,

uses more than 3,900 small planes and thereby creating many job opportunities. About 90 percent of the world's aircraft are general aviation aircraft, generating USD 20 billion in income a year and contributing about USD 150 billion to economic circulation. In addition, one pilot pays USD 80 to 100 thousand for attending civil aviation training.

Therefore, experts state that there is a possibility to establish the same type of training base and manage flights in Mongolia, and on top of that, train pilots from other countries in Mongolia. Even if schools are not established and pilots are not trained here, there is an urgent need for generating large amounts of cash outflow from mining companies that were spent on hiring foreign pilots and renting foreign aircraft and developing general aviation flights tailored to the country's features. As part of a government resolution, it was decided to further use the Buyant-Ukhaa airport as a of general aviation flight center and it is planned to build of general aviation runways in 116 soums of 21 provinces.

Briefly, as a landlocked country, we have the opportunity to become a “transit” country if we could implement road and railway construction projects to start with, while boldly reforming the civil aviation sector, and developing general aviation flights. ■

**“ANA Holdings”, a Japanese company will make a direct flights from Ulaanbaatar to Tokyo and vice versa.**



## Guest

# D.Damba: The real problem is that Mongolians just lack the required knowledge



*We had a talk with Mr. Damba, a consulting engineer who served as President of the Mongolian National Mining Association from 2010-2014, about the challenges facing the mining sector as well as the transportation and logistical bottlenecks. He is an experienced professional and started his career at the Tsagaan-Ovoo coal mine in Dundgovi aimag back in 1980 and has worked in the gold, coal, and fluorspar mines from master to mine director over a period of 40 years.*

**In short, Mongolia's economic interests do not matter at all to them, it is only their personal interests that prevail. That's the main problem.**

**-A double-gauge railway bridge over the Amur River connecting Russia with China was put into operation in April. How important is this railway for Russia? What will be its impact on our coal exports?**

-It is of vital importance to Russian coal exports. The coal exporting capacity and speed will increase dramatically. This, of course, will indirectly affect our coal exports. Let's consider the construction of the Gashuunsukhait-Gantsmod railway, the country's main coal export route. The distance between the

Chinese railway and the end of our railway is said to be about 12 km. A coal loading and unloading terminal will be built in this space. Why can't we build the railway right to the Chinese border like the Russians?

**-It will take time to complete the construction of the coal loading, unloading, and transferring terminal. It is assumed, that coal export will slow accordingly.**

-I cannot say. I think a lot needs to happen. Why was Tsagaan Khad built in the desolate and remote area, almost 28 km away from the border? When Tavan Tolgoi coal is unloaded at Tsagaan khad, trucks come from the Chinese border to transport it. It is a place that is affected by high levels of air and environmental pollution. As I understand, Tsagaan khad is a place created by rich people for the purpose of money laundering. Why don't Mongolia's state-owned Erdenes Tavan Tolgoi, and China's state-owned Shenhua and Chalco sign a direct contract with each other? There are intermediary companies on both sides. After that, Mongolian coal finally reaches its consumer. There is a price issue somewhere in the middle. Tavan Tolgoi and Shenhua will not pay a single penny to politicians if they were to sign direct contracts and negotiate the price. Even the Prime Minister said that there is a coal mafia and he will fight it.

There are many people who have earned a lot of money from coal transportation, and there are many politicians who own a coal transportation business. That's why a railway was not built, why coal is still transported by trucks and it has been like this for 10 years. In short, Mongolia's economic interests do not matter at all to them, it is only their personal interests that prevail. That's the main problem.

**-At that time, you were the president of the National Mining Association. ►**



► - Yes. I was insulted for being a Chinese spy. A documentary was made and it included my interview which made me look an extremely bad person. They showed some sand in a plastic bag, and then pierced it and made it look like Mongolian wealth is spilling just like that sand.

The narrow-gauge railway is a return route from Gashuunsukhait to Tavan Tolgoi and Tsogttsetsii. This is only for business, export-oriented, and cost-effective route.

At that time, using a belt conveyor system was considered. There was a businessman who started the construction of a conveyor terminal to transport coal from Shiveekhuren port but that all went quiet. He built more than forty kilometers of a conveyor system.

Once, I visited Australia and there I saw a conveyor system that stretched for more than 100 km, had a protective cover, and reached the seaport all the way from the mine. This transportation system is environmentally friendly and reduces the cost of coal exports. As the world develops, we are still transporting coal by trucks. I don't know of any other country except Mongolia that transports its coal by trucks.

**-You have worked for many years in the mining sector, how do you assess the recent trends of this sector?**

- We must look after mother earth. This is in the interest of all nations, including the United States, Russia, and Mongolia. Thus, we must abandon technology that burns coal to produce energy and must use alternative sources to produce energy. For Mongolia, methane can be extracted from coal deposits.

Let's also invest in renewable energy. In addition, a nuclear power plant needs to be built. Modern nuclear power plants are highly sophisticated, automated, small, cost-effective, and, most importantly, safe. We should be ashamed of our backwardness when we are afraid of even yellow powder. There is a danger that Mongolians just lack the required knowledge.

Europe uses nuclear power as well as solar and wind power. People who oppose hydropower plants like to advertise them protecting the environment, but in fact, it is a geopolitical issue. It is a trick by some people who want to supply their energy. We must understand that.

**-The next stage in the development of the**

**mining sector is defined as going from mining to processing. It is often talked about but without any tangible result. What factories should we build in the near future?**

-The processing industry requires a lot of investment and technology, much more than the extractive industry. Second, it is not a good idea to build a processing factory just because it seems a good idea. For example, more than 30 years after the Erdenet copper mine was established, one of the reasons why the copper smelter has not been built is that there is no solution on how to use the huge amount of sulfuric acid that would be released from the smelter.

Sulfuric acid is a highly toxic substance that cannot be released into the environment. Therefore, the Russian engineers were originally planning to import ore from the Burenkhaan phosphorite deposit, and produce phosphate fertilizers, which are in great demand internationally. There was a decision to build a railway to Lake Khuvsgul, and even the route had been planned, but the work was stopped in 1989 after an article 'Mother Lake is on death row' was published. In fact, the Burenkhaan deposit is located more than 80 km from Lake Khuvsgul and does not have a direct ecological impact on the lake.

Therefore, the construction of any processing plant must be planned carefully and we must be aware of the environmental impact it might have.

**- What lessons can we learn from Oyu Tolgoi and Tavan Tolgoi mega projects? What could be the next mega project?**

-There might well be many more mega deposits. But I can't say that for certain because 80 percent of Mongolia's territory has not yet been explored. We don't know how many more Oyu Tolgoi like deposits there might be. It has been 10 years since the last exploration license was issued, making it impossible to find the next Oyu Tolgoi. Geological exploration does not damage the environment. If a deposit is found, it should be a state policy whether to mine it or not.

We are talking about only a few minerals: coal, copper, and fluorspar. But global trends are changing. Therefore, we need to pay more attention to the exploration of rare earth elements, lithium, uranium, silver, and gold, which are smaller in size but are much easier to transport. ■

*As the world develops, we are still transporting coal by trucks. I don't know of any other country except Mongolia that transports its coal by trucks.*

## Foreign investment

# Multinational mining enterprises in Mongolia



***In other words, the BHP at one time held both the licenses of Tavan Tolgoi and Oyu Tolgoi which now are driving forces of our economy.***

Mongolia's economy may soon need to be resuscitated. The symptoms leading up to this are already beginning to show. Exports have been severely disrupted, inflation reached more than 14 percent, the economy shrunk by 5.3 percent for the first time since 1992, and on top of that international freight has slowed sharply.

In addition, next year we will have to pay about 720 billion MNT for the Japanese Samurai bonds and 500 million USD for the Renaissance Eurobonds. According to the current budgetary and financial situation, we might not be able to repay these two expensive bonds.

To get out of this tricky and difficult situation, even adopting somewhat fancy or exaggerated policies and programs like working together between the public and the private sector, solving this repayment issue might be beyond Mongolia's capacity.

In particular, the situation for the private sector, which has been difficult for two years due to the pandemic, is not easy. In this case, attracting foreign investment could be a life-saving financial injection.

But are there any investors that are truly interested in Mongolia? At one time in the recent past, many of the best foreign companies, including multinational corporations, were interested in our country.

## The time when Mongolia was in fashion

BHP (formerly BHP Billiton) is the first multinational corporation that set foot in our country since Mongolia transitioned to a market economy. In the mid-1990s, the company bought an exploration license in the Gobi from an American company, Magma Copper together with the stock and drilled many times to find copper deposits in the eastern provinces of Mongolia, including Khanbogd soum in the South Gobi, and spent about 30 million USD. They found many copper findings, but not any large deposits.

At a time when the mining sector was in decline and 100 million USD was being spent on exploration around the world, the 30 million USD that was 'spent' in Mongolia was a sizable amount. Only a large company like BHP could afford it. However, due to not finding any large deposits and falling commodity



► prices, they sold their Tavan Tolgoi licenses to a Mongolian company called Energy Resources and the Oyu Tolgoi licenses to Canadian company Ivanhoe Mines. In other words, the company at one time held both the licenses of Tavan Tolgoi and Oyu Tolgoi which now are our economy's driving forces. BHP later established BHP Billiton Mongolia LLC in Mongolia but due to an uncomfortable legal environment and uncertainty surrounding Tavan Tolgoi megaproject, they stopped their operation on the 1st of July, 2009. This is the story of how one of the big mining sharks left our country.

Multinational companies are only interested in large projects that are sustainable, profitable, and require significant human and technological resources. One such project in Mongolia was the Tavan Tolgoi coking coal deposit. The proven reserves as estimated by JORC are 7.3 billion tons comprised of 53% high-quality coking coal and 47% thermal coal. This deposit first caught the interest of BHP and they bought the license and started their work in 1998, but abandoned it a year later due to underdeveloped infrastructure and falling coal prices. The "small" Tavan Tolgoi Company started operating the deposit, which was ignored by international companies. It attracted the attention of many domestic and foreign mining companies when coal prices rose sharply around the world. Thus, in 2008, Mongolia became a trend again and almost all large mining companies sent representatives to Mongolia. At that time, even the name of our country became "Minegolia".

In 2008, the Mongolian government led by then Prime Minister S. Bayar took the Tavan Tolgoi deposit under state control and announced that it would select a strategic investor. There were 15 companies that took part in the international tender. It included many multinational mining companies such as Australia's BHP Billiton, South Korea's CORES consortium (which includes Daewoo International, Samsung C&T, and LG International Corp), the United States' Peabody Energy, and China's Shenhua Energy, India's Jindal Steel and Power and Brazil's Vale. These companies are all on the "dream list" of any country dreaming of attracting foreign investment. For example, Vale is the world's largest iron ore and nickel producer and the largest company in Latin America with a market capitalization of USD \$111 billion (as of 2021).

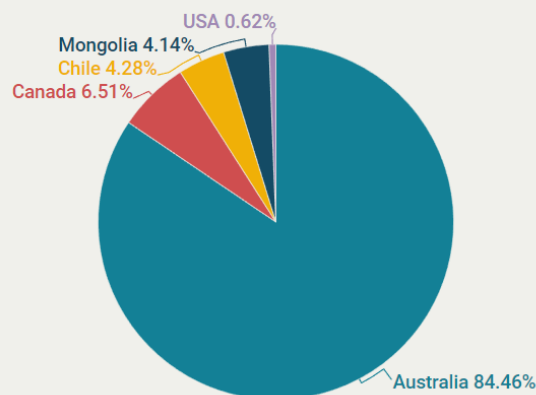
However, the government was soon changed

and the tender process stalled. In 2010, the National Security Council did not support and rejected proposal of the Prime Minister S. Batbold's government. Since then, the governments led by N. Altankhuyag (2014), Ch. Saikhanbileg (2015) and J. Erdenebat (2016) all tried to start the Tavan Tolgoi project, but each time it failed due to internal conflicts, empty politicking, misunderstandings, and external influences. Each time an international tender was announced, the participation of multinational corporations diminished and over time they all left Mongolia. These companies, which have been operating for at least 100 years, and have higher incomes than most countries in the world, left due to uncertainty, not being consistent with the decision, and lack of reaching an agreement. ■

***If one of the above companies had won the Tavan Tolgoi project tender, undoubtedly, there would have been many advantages.***

### Tax payment of Rio Tinto in 2021

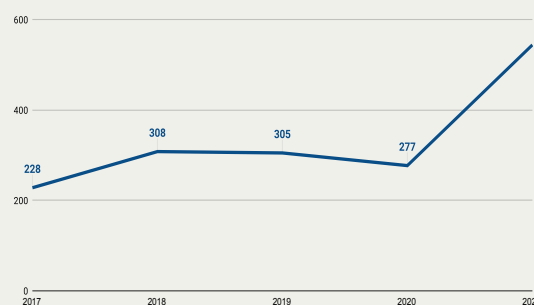
by countries, percent



Source: riotinto.com

### Tax payment of Rio Tinto in Mongolia

million USD



Source: riotinto.com

**Multinational mining corporations may not be interested in Mongolia again. We don't have the experience, unity, big projects, and pride to partner with them.**

▶ If one of the above companies had won the Tavan Tolgoi project tender, undoubtedly, there would have been many advantages such as introducing know-how technology in Mongolia, building railways and power plants in a short time, creating jobs, opening branches of major foreign banks, implementing third neighbor policies, establishing large mining complex in the Gobi and develop processing factories. If one can see the example of Oyu Tolgoi, the number of large taxpayers would be increased by more than just one. Most importantly, the construction of the Tavan Tolgoi mine, railway, and coal washing and processing plant would already be completed, and in other words, Mongolians would have seen the benefits in a short period of time. But at the same time, there is no denying that there would also be many potential problems. During the Mongolian Economic Forum 2022, Finance Minister B.Javkhlan said that "We have usually offended our investors in the past". Offended investors are unlikely to return. In particular, multinational mining corporations may not be interested in Mongolia again. We don't have the experience, unity, big projects, and pride to partner with them. They see how we are "hurting" the only existing one.

### **The only one that has survived**

Rio Tinto has become the world's second-largest metal and mining company (after BHP) in 149 years since its establishment.

Rio Tinto stepped into Mongolia in 1996, marking the beginning of a long partnership. They left Mongolia in 2000, when mineral prices declined, but returned as the investors of Oyu Tolgoi. The company signed an Oyu Tolgoi investment agreement with the government on October 6, 2009, three years after their re-entry into Mongolia. "Mongolia's economy looks more like a rabbit compared to the economies of Russia and China which are like elephants. The right support is needed at the right time. I wish an investor with 10 billion USD would come to Mongolia. Then the situation will completely turn round" said then Prime Minister D.Byambasuren in 1990. His words became reality after 19 years.

The direct and indirect effects of this project were immediately felt in a small economy like ours. Mongolia's economic growth has reached the unprecedented level of 17 percent, and sectors that had been struggling were slowly recovering. "Compared to 2001, the size of the Mongolian economy in 2011 had increased tenfold. In addition to quantity, the economy is a sector characterized by indicators such as credit rating and competitiveness. With the signing of the Oyu Tolgoi agreement, many of Mongolia's indicators have begun to change for the better," said former Prime Minister S. Bayar in his biography book.

Of course, the Oyu Tolgoi project was not free from, rumors, scandals, and politicization that follow any mega projects, big deals, and big companies like a shadow. We know that there were mistakes in connection with the project from both sides.

S. Bayar also wrote in his book, "Rio Tinto's subsidiary company has become one of the largest taxpayers in Mongolia. They did not stay in Mongolia just to pay taxes. They stayed because they poured so much money into the soil of the South Gobi. If they leave, it's not hard to guess what other giant will fill their shoes". His words show the scale, significance, and meaning of large projects involving multinational companies.

The time that Mongolia was attractive to world-class corporations is already gone. Difficult geopolitical circumstances are also contributing to this. The project of the only remaining company brings in one out of every two dollars coming in from abroad during this difficult time of the pandemic. We must not forget the lesson we learned from our mistakes of ignoring and losing big companies. ■

### **World top 10 companies (by market cap)**

Company	Country	Business	Market Value (billion USD)
Apple	USA	Technology	2,825
Microsoft	USA	Technology	2,358
Saudi Aramco	Saudi Arabia	Energy	1,889
Alphabet	USA	Technology	1,820
Amazon	USA	Technology	1,649
Tesla	USA	Electric vehicles	1,031
Meta	USA	Communication services	922
Berkshire Hathaway	USA	Financial services	711
Nvidia Corporation	USA	Technology	679
Taiwan Semiconductor	Taiwan	Semiconductors	640

Source: Value Today (as of January 7, 2022)



## Ambassador

# HIROYUKI KOBAYASHI: I have no doubt that a world-known genius like Genghis Khan will arise from Mongolia's IT sector



Since the EPA came into force, Mongolia-Japan trade volume, which previously was around 24 billion yen, increased to 54 billion yen in 2018 and 61 billion yen in 2019.

*The Mongolian Economy magazine spoke with Hiroyuki Kobayashi, the Ambassador Extraordinary and Plenipotentiary of Japan to Mongolia, about Mongolia's investment climate, trade, and business relations between Mongolia and Japan.*

**- The year 2022 marks the 50th anniversary of the establishment of diplomatic relations between Japan and Mongolia. Could you briefly assess the economic relations of our two countries over the last 50 years?**

-If we look back into 50 years of our diplomatic relations, the first 18 years were the tough cold wartime years and in the next 32 years, our countries have been building friendly relations after Mongolia transitioned to democracy.

The Government of Japan has provided loans

and grant aid worth 340 billion yen through Official Development Assistance (ODA). At the time when Mongolia faced a deep economic recession in the first few years of its transition to a market economy, Japan immediately provided substantial assistance in supplying food, goods, and petroleum products; and repairing and renewal of the Thermal Power Plant No. 4. Moreover, in cooperation with the World Bank, Japan initiated the Consultative Group Meeting for donor countries and organizations to Mongolia in Tokyo.

In the past, Japan has always been taking a leadership role among donor countries in the international community. I'm confident that in the future, we will fill each other's gaps at much broader levels and a new era of mutually beneficial development will come.

**-In 2015, Mongolia and Japan entered into an** ▶

***I think Mongolia needs to enhance its air transport capacity and utilize air transportation more to drive industrial recovery. It would be more lucrative to transport goods that have higher added value but are smaller in size and weight through the air.***

► **Economic Partnership Agreement (EPA) or so to speak Free Trade Agreement (FTA). What is your opinion on how much this agreement has been mutually beneficial to both countries?**

-The Japan-Mongolia Economic Partnership Agreement (EPA), which came into force in June 2015, is a comprehensive agreement that contains various rules and procedures related to bilateral trade in goods and services, investment, electronic commerce, competition, and intellectual property. Goods imported from Mongolia have to compete with identical or similar products in the Japanese market in order to attract new consumers. Lowering your prices is important during such competitions but not enough. Consumers make a decision to buy any product after taking several factors such as quality, design, package, and price into account. In my opinion, there are several Mongolian products that could be sold in Japan. But, these products must be improved and refined to make them more saleable in Japan.

In other words, you need to work on your product development with your Japanese colleagues and partners. In addition to that, it might be fruitful to enroll in various business seminars offered by the Japan-Mongolia Center for Human Resource Development to learn more about product development.

**-Mongolians perceive the Economic Partnership Agreement (EPA) as a huge opportunity. What might be most important to seize such an opportunity to the fullest?**

-Since the EPA came into force, Mongolia-Japan trade volume, which previously was around 24 billion yen, increased to 54 billion yen in 2018 and 61 billion yen in 2019. Unfortunately, due to the global pandemic, trade between our countries dropped to approximately 38 billion yen in 2020. In general, exports from Japan to Mongolia are comparatively higher than exports from Mongolia to Japan.

As I mentioned previously, to increase exports from Mongolia, it's important to work on your product development to sell your goods and products in the Japanese market. Furthermore, another important thing is to have a reliable transport mode to make continued exports to Japan. Therefore, I think Mongolia needs to enhance its air transport capacity and utilize air transportation more to drive industrial recovery. It would be more lucrative to transport goods that have higher added value but are smaller in size and weight

through the air.

Also, we must ensure a balance of trade between our countries. In recent years, major Japanese corporations such as Marubeni Corporation and Sumitomo Mitsui Banking Corporation have invested in AND Global Pte. Ltd, a Mongolian fintech company. Japan and other foreign investors invest not only in Mongolia but in other countries as well. By saying that I mean Mongolia needs to understand that it's also competing with countries such as Vietnam, Malaysia, and the Philippines in attracting foreign investments. That means the foremost importance must be given to creating a favorable environment for foreign investments.

**-The main investors in Mongolia such as Canada, China, and Australia are mostly investing in the mining sector. Could you tell us which Mongolian sectors Japan is interested in investing in?**

-As global demand for minerals is steadily growing, Japan wants to secure a stable supply of mineral resources. Thus, Japan has been largely investing in increasing mineral reserves in various countries. However, due to Mongolia's geographic location, transportation, and infrastructure, Japan's investment in Mongolia's mining sector is far lower than in any other country.

If you ask me, I would be interested in investing in agriculture, livestock, tourism, renewable energy, and information technology (IT). In my opinion, Mongolia could supply healthy and safe produce grown in its vast soil to the rest of the world. I believe Mongolia has tremendous potential in contributing to global development and promoting a healthy lifestyle by becoming a supplier of organic and healthy foods. In terms of IT, it's quite advantageous that the industry is not dependent on transport, logistics, and infrastructure. I personally think that Mongolians have a strong ability to think creatively and find solutions to a problem relatively quickly. Hence, I believe Mongolia's IT industry has so much potential to grow exponentially. I have no doubt that a world-known genius like Genghis Khan will arise from Mongolia's IT sector.

Also, I think that it's possible to develop ecotourism around Mongolia's beautiful natural landscapes. It may well open up opportunities for the establishment of wellness retreats and for the development of medical care services.

On top of that, I think Mongolia needs to develop ►



- ▶ and make use of its renewable energy resources. It will not only provide energy safety but also contribute to fighting climate change.

**-What are common challenges in running a business in Mongolia for Japanese business owners?**

-Japanese businesses face challenges not only in Mongolia. I believe that most foreign investors face similar problems and challenges. Before being appointed as the Ambassador of Japan to Mongolia, I served as a Consul General of Japan in Nashville, a city in the US state of Tennessee. During that time I closely watched how five US states namely Arkansas, Kentucky, Louisiana, Mississippi, and Tennessee were trying hard to attract foreign investment. These states were greatly welcoming foreign investors because the factories that were built with foreign investments are creating new jobs and bringing stability to the lives of Americans.

Companies set up with Japanese investment do not become Japanese companies but Japan-US joint ventures. What is more, during my time in the US, I have never heard Americans saying “They are stealing the wealth of our nation” from foreign investors. In fact, if foreign companies do well the tax income will grow in that state.

**-What is the key secret for successfully attracting foreign investment to Japan?**

-First of all, Japan is the world's third-largest economy. But, Tokyo is not the only city that is economically strong. As a matter of fact, the GDP of many prefectures in Japan tends to be higher than in some European and Asian countries. Also, the steady income makes it easier to monitor what goods and services are entering and spreading in the market. The fact that Tokyo-Yokohama is a top-ranking industrial cluster and the ratio of R&D expenditures to GDP is relatively high in the list of G7 countries shows that Japan is indeed an open innovative country. Then, we could say that our highly advanced infrastructure plays a critical role in attracting investments. For instance, Japan is ranked at the top in the world in terms of public transport efficiency.

Moreover, the country is highly valued for its high-speed rail network that connects the entire country, wide range of flight destinations, connectivity to main Asian regions that are good for business, and stable supply of energy.

**-How many complaints and feedback do**

**you receive from Japanese investors related to Mongolia?**

-For example, they point out that the additional cost, which they have never incurred in investment projects in other countries before, is quite high. The number of documents to collect and permits to acquire is also high. The investors mention that administrative activities come to hold in case the person who is responsible is absent.

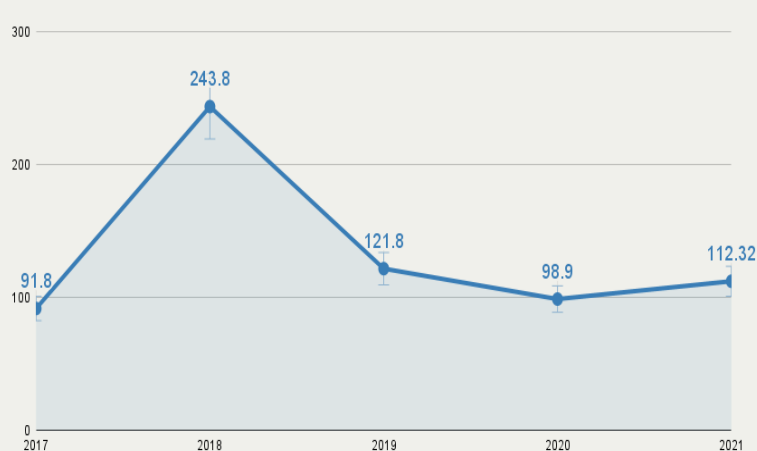
For the most part, investors have no choice but to provide again the same introduction and explanation to newly appointed public personnel whenever there is a replacement. It is said that sometimes the Mongolian counterparties do not follow the contractual agreements and do not make payments on time. Furthermore, if investors do not accept their counterparty's forceful demands, later on, they tend to be pushed and pressured in various ways.

As Mongolia makes frequent amendments to its laws and regulations, it is almost impossible to carry out a stable activity under an unstable regulatory environment. Having said that, I think all foreign investors face difficulties and challenges in any country. Therefore, most importantly, we should be able to quickly resolve those issues and take the necessary measures. By doing so, Mongolia can gain greater trust from investors and create more favorable conditions for investment in the future. ■

*I have no doubt that a world-known genius like Genghis Khan will arise from Mongolia's IT sector.*

**Japan's FDI in Mongolia**

million USD



Source: BoM