

# Mongolian Economy

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Multinational companies

Multinational mining enterprises  
in Mongolia

Projects

Development incentives –  
Mega projects

## FOREIGN DIRECT INVESTMENT A DRIVER OF THE DEVELOPMENT





**The  
Godfather**



# NOMIN CARD

## BASIC SERVICES:

The first loyalty service was introduced to the market in 1999 to provide the highest bonus points and satisfaction in Mongolia. Nomin bonus card, which currently has the highest number of 772,570 users, is the Nomin bonus card, which implements a loyalty program that increases customer satisfaction by giving bonus points of up to 10% depending on the value of each purchase made from Nomin chain stores.

## ADVANTAGES OF NOMIN BONUS CARD:

- Bonus card with the highest rate
- Available in electronic format
- You can monitor your own consumption



## THE HISTORICAL TRAJECTORY OF NOMIN BONUS CARD:

**1999** Mongolia's first loyalty service was introduced to the market.

**2006** Upgraded from direct discount card to savings bonus card

**2014** The loyalty system was updated with the latest technology.

**2018** In collaboration with Ulaanbaatar Smart LLC. Started implementing the "National Loyalty Program" or Open loyalty program.

**2004** Became the most popular loyalty card in Mongolia with **39,875** users.

**2007** Joined Nomin Union branch

**2017** A partnership program with ICINEMA cinemas was launched. Mongolia's first e-loyalty service was introduced

## PRODUCTS AND SERVICES:

### Nomin bonus card

Every time you visit all branches of Nomin, you can use your bonus card to collect a bonus of 3-10% of the purchase amount, and then use it for your next purchase, get the branch sales information first, and enjoy more bonuses twice. Users can access services such as editing bonus card information, monitoring transaction information, and transferring bonuses through the Enomin application. It also provides an opportunity to become a new user through the application from anywhere and anytime.

### Family card

• It is a service that allows family members to join a joint account to increase their card share and collect more bonuses. Up to 2 family members can jointly own the card and the members have one joint account.

### Membership card

• A permanent rewards card with an annual fee and 2% cashback on quarterly purchases for corporate organizations.

### Nomin Business card

"Nomin Tav Trade" LLC in cooperation with "Arig Bank" introduced "Nomin Business Card" for its loyal customers and users, which can receive comprehensive banking and loyalty services. This card is a card that has the right to receive discounts, incentives, and new products and services first, which is a real support for customers' daily business activities. It has also become an advanced modern payment tool with environmentally friendly solutions that save the user's time.

The card issued by "Nomin Tav Trade" LLC for all customers is characterized by the fact that it contains a payment solution that allows you to experience real savings from every purchase.



bonus.nomin.mn



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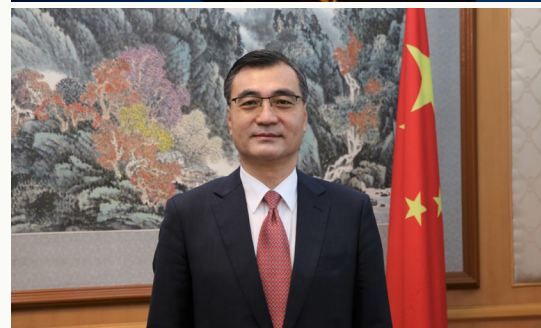
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## Editor-in-chief message

# The 'Investment and development' series will continue



**Editor-in-chief,  
Bekhbayar  
Damdindorj**

I greet our readers and subscribers with our new edition of Mongolian Economy magazine.

The new edition is dedicated to foreign direct investment in Mongolia. We created a number of articles on the 'Foreign investment and Development' topic last year.

As part of the series, the following topics were covered: the level of inbound FDI over the last 30 years, the legal environment surrounding FDI, whether have we attracted enough FDI to boost continued economic growth, whether should we support FDI in the future or whether we would try to grow without FDI, what was the significance of the FDI, whether we have benefited from the FDI, whether the foreign investors were happy enough to invest in Mongolia again, how we support foreign investors and others. More than 70 articles were created.

Specifically, ambassadors from the nations that lead inbound FDI to Mongolia were invited and interviewed, including those from China, Japan, the USA, and Canada. Also, delegates from international organizations, foreign investors, and business leaders were interviewed. Only the

most important contents were included in this edition.

The above-mentioned content is also available online in the 'Investment and Development' section of the [www.mongolianeconomy.mn](http://www.mongolianeconomy.mn) website. Some important content was published in daily newspapers and other leading websites.

The full year of our hard work on the 'Investment and Development' topic has produced a large amount of data, content, and materials regarding FDI.

The Law on Foreign investment is expected to be amended and approved by parliament this year. Taking this opportunity, this edition will be sent to the MPs, who will have more insightful information on the FDI from the magazine, which will help them to approve the bill.

The series will continue to be covered this year. Taking this opportunity, I would like to thank "Rio Tinto Mongolia" for their continued support and determination to bring this important content to our readers. I hope you can have a one-stop set of comprehensive articles on FDI from this issue as well as from the website.

I wish our dear readers all the best. ■

## Government policy

# We invite you to invest Mongolia

Prime Minister of Mongolia **L.Oyun-Erdene**



As the Prime Minister of Mongolia, I call on every citizen, business entity, and investor to actively participate in the process of creating a more resilient and independent economy.

The main premise of the “New Recovery Policy” is to create an enabling environment for citizens,

businesses, and investors where the government will be rooting for everyone to compete on the world stage.

*Source: Prime Minister's greetings to the participants of the MEF-2022*

Minister of Finance, **B.Javkhlan**



I believe that the biggest mistake was a weak system of protecting the interests of investors and the uncertainty of the government mechanism to support investment. Investors say that uncertainty within the legal environment, government bureaucracy, weak judicial systems, and a political and business unstable environment are the biggest obstacles to foreign investment.

Therefore, the investment environment needs to be reformed as part of the New Revival Policy. Investment will be supported by tax policy and strengthen the investor protection system.

*Source: From the interview to the Mongolian Economy magazine, dated April 2022*

## Foreign investment agency to be re-established

The Mongolian government decided to establish an agency for investment and trade to attract more foreign investors. Mongolian Minister of Economy and Development Chimed Khurelbaatar briefed the media after a regular government meeting.

The agency is committed to attracting foreign investment, protecting legal interests of investors, and developing trade in Mongolia.

Previously, the Foreign Investment Agency carried out its operations independently under the Government. The agency is now being re-established

under the current government after many years. With the re-establishment of the agency, Mongolia's mid- and long-term policies and plans for foreign investment will become very clear, creating the appropriate conditions to connect foreign investors to large-scale construction projects being carried out domestically as well as with other economic sectors.

The agency will be in charge of promoting current opportunities for making investments in Mongolia by carrying out wide-scale works to introduce the country's business sectors.



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In the spotlight

# Foreign direct investment – a driver of the development

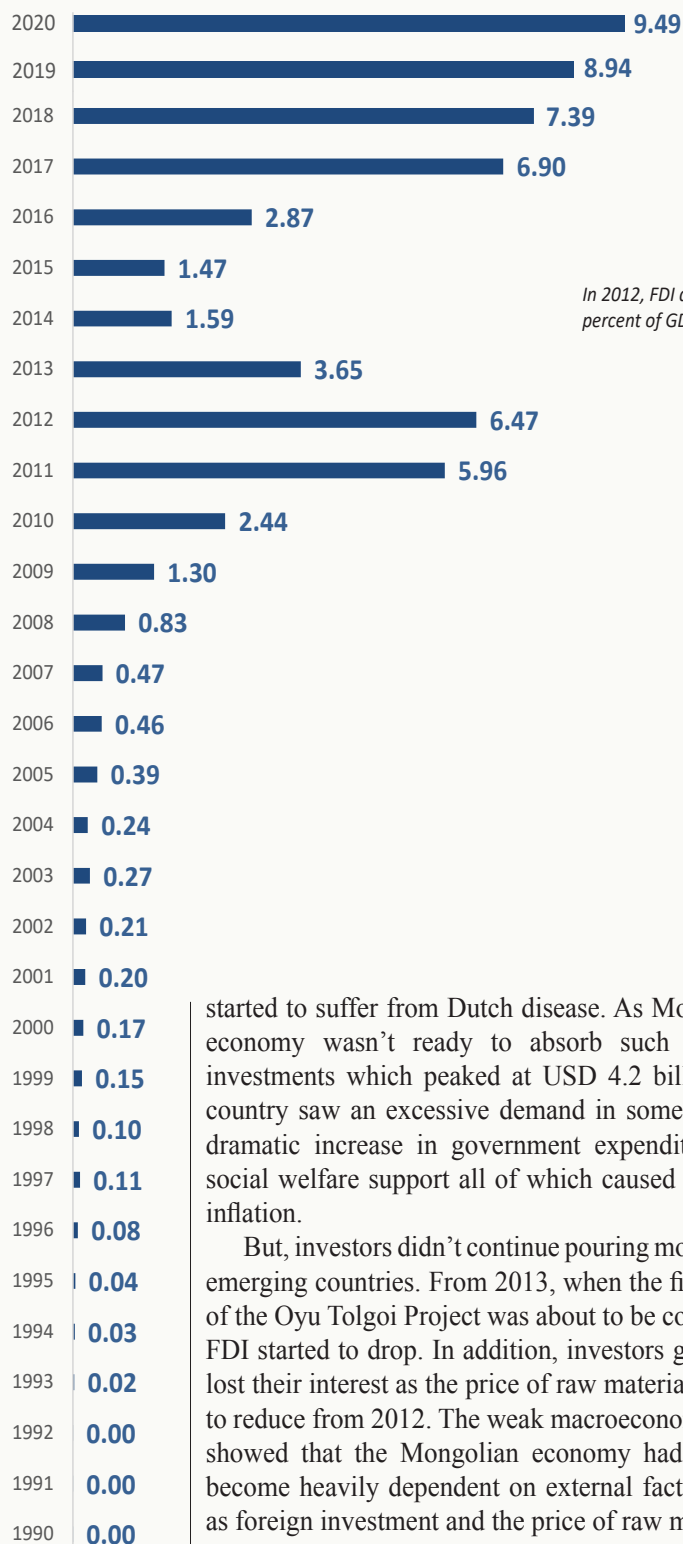
In 2011, countries around the world were left in shock when Mongolia's GDP grew 11.5 percent. There are still many people who look back at that year with great pride. However, it would be more appropriate to say that kind of growth was a tough lesson, not a success to be proud of. This record breaking economic growth was the result of USD 7 billion investment into the Oyu Tolgoi Project under the investment agreement which was signed on October 6, 2009. The economists at the Bank of Mongolia estimated that investments in the Oyu Tolgoi Project accounted for approximately 54 percent of total foreign direct investment (Hereafter FDI) flow between 2010 and 2013.

To be honest, until we signed an investment agreement on the massive mine project which carried out under the partnership of the Government of Mongolia, Turquoise Hill Resources and Rio

Tinto Group, we didn't have any clear idea regarding the current state of Mongolia's investment climate. Within the framework of transitioning to an open economy, Mongolia adopted its Foreign Investment Law in 1993 which further led to increased trade and played a pivotal role in the flow of investments. The number of new business entities kept growing but there was almost no company that could attract foreign investments. The annual FDI was on average USD 10 million and at its maximum USD 25-30 million.

Mongolia hadn't been at the center of global attention until the middle of 2000, when the price of minerals and raw materials began soaring on global markets and the trend shifted to the mining business. Between 2005 and 2008, approximately 5,636 newly established companies had foreign investors but Mongolia didn't experience a notable increase in its ►

## FOREIGN INVESTMENT (TRILLION MNT)



*In 2012, FDI averaged 40 percent of GDP.*

► FDI flow.

From 2000, the flow of global FDI began to grow exponentially and its pattern began to change. According to the United Nations Conference on Trade and Development's (UNCTAD) report developing and transition economies received 12 percent of global FDI flow in 2000 and it reached an astronomical level of 35 percent in 2012. The FDI flow to Mongolia reached its peak during 2011 and 2012 largely due to investments in the Oyu Tolgoi Project.

Due to the steady FDI flow, illegal mineral and exploration licenses became a widespread business in Mongolia. This upheaval in the mining industry became the root cause of environmental issues and the spread of patriotism. It was indeed one of the major challenges faced by our decision makers. Eventually, because of the huge influx of investments, Mongolia

started to suffer from Dutch disease. As Mongolia's economy wasn't ready to absorb such massive investments which peaked at USD 4.2 billion, the country saw an excessive demand in some sectors, dramatic increase in government expenditure and social welfare support all of which caused a rise in inflation.

But, investors didn't continue pouring money into emerging countries. From 2013, when the first stage of the Oyu Tolgoi Project was about to be completed FDI started to drop. In addition, investors gradually lost their interest as the price of raw materials began to reduce from 2012. The weak macroeconomic data showed that the Mongolian economy had already become heavily dependent on external factors such as foreign investment and the price of raw materials. In other words it was getting harder and harder to steer the wheel of our economy. However, the ►

Source: NSO

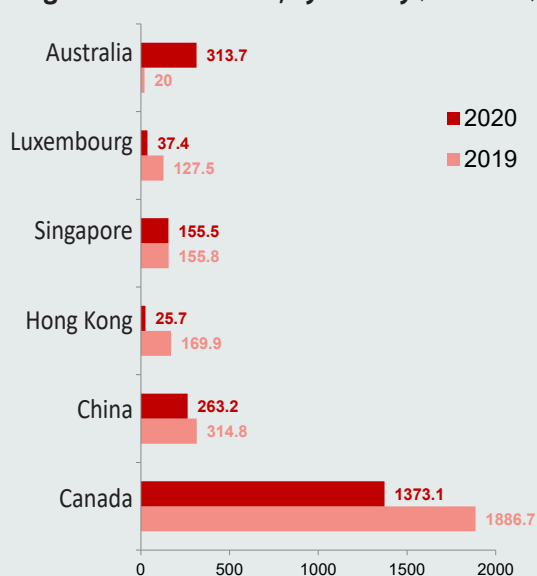
- authorities failed to notice it and made a political mistake on their investment policy. It was like adding fuel to the fire because it obstructed already declining investments. In May 2012, right before the Parliamentary election, public discussion and debate regarding national security and foreign investment took place.

Consequently, in order to stop the FDI flow into the mining sector, the Law on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors was drafted and approved by the Parliament of Mongolia. The law stipulates that private and public foreign entities must apply for permission to the Government of Mongolia if they intend to invest in strategic sectors (mining, banking and finance, media, information and communications). Moreover, if a foreign investor is about to acquire a 49 percent interest in the shares of companies operating in strategic sectors it must obtain permission from the Parliament of Mongolia.

The above law ceased the purchase of companies that were causing major problems but at the same time it froze all other potential investments. Hence, it was believed that investors had lost confidence in Mongolia as the law created uncertainty around investments in Mongolia. In the Investor Protection Survey for Mongolia conducted by the World Bank,

**Eventually, because of the huge influx of investments Mongolia started to suffer from Dutch disease**

**Foreign direct investment, by country (million USD)**

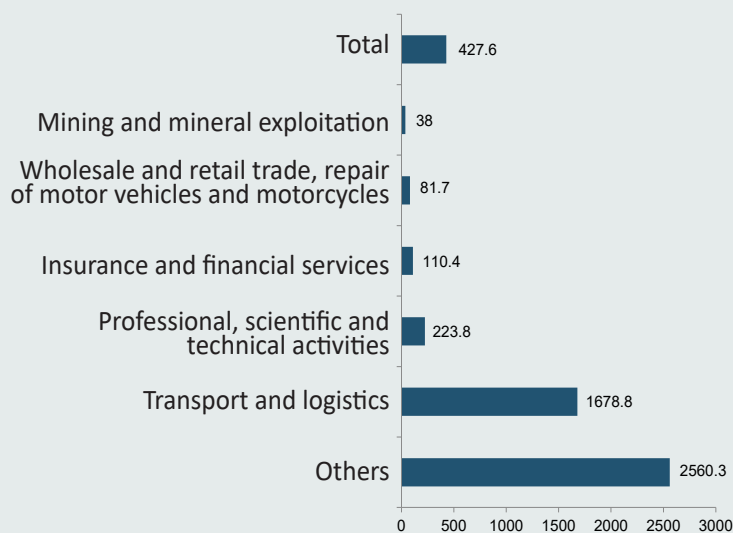


Source: NSO

around 80 percent of the companies expressed that their investment was at risk due to uncertainty around investor protection. The total amount of investments at risk was estimated to be around USD 1.9 billion which was equal to 90 percent of their total investments. The law that was pushing investors away was abolished six months later. Instead the authorities decided to update and make amendments to the Foreign Investment Law which was adopted back in 1993. The basic principles of international investment were covered by the Foreign Investment Law. Therefore, the amendments were more focused on promoting investments in non-mining sectors and regional development to avoid urban concentration, and ensuring that investors run their businesses without incurring any risks. Furthermore, the General Law of Taxation, Customs Law on Tariff and Duties, Intellectual Property Law and Minerals Law were amended accordingly. Unfortunately, economist S. Javkhlanbaatar points out that we are still not receiving the benefits of such amendments because of the slow process of legislation. For instance, the amendments to the key tax laws only came into force in 2020.

Mongolia does not only support foreign investors through a domestic regulatory framework but also ►

**FDI inflow in 2020 (million USD)**



Source: Bank of Mongolia



► through separate investment agreements. In addition to that under the new Foreign Investment Law, investors are now able to obtain tax stabilization certificates. Experts recommend that in order to attract foreign investments, Mongolia needs to address the issues identified in Doing Business, an annual report published by the World Bank, speed up the dispute resolution process and specify the strategic sectors that require foreign investments. On top of that, investors demand greater certainty and clarity in the investment environment.

Khan Resources Inc.'s USD 70 million and Erdenet Mining Corporation's USD 112 million cases were submitted to international arbitration. This news has given investors a negative impression of Mongolia's investment climate. In fact, it was a bitter experience that closed new opportunities and further slowed our economic growth. If you look back 30 year ago, there were numerous examples of companies that succeeded and played a significant role in the development of Mongolia owing to foreign investments. To name a few, Gobi JSC which introduced Mongolian cashmere to the world was established with investments from Japan. Also, after the establishment of a pioneering company

in the telecommunication industry, Mobicom Corporation, new mobile network operators began to emerge and now Mongolia has a global standard telecommunications infrastructure.

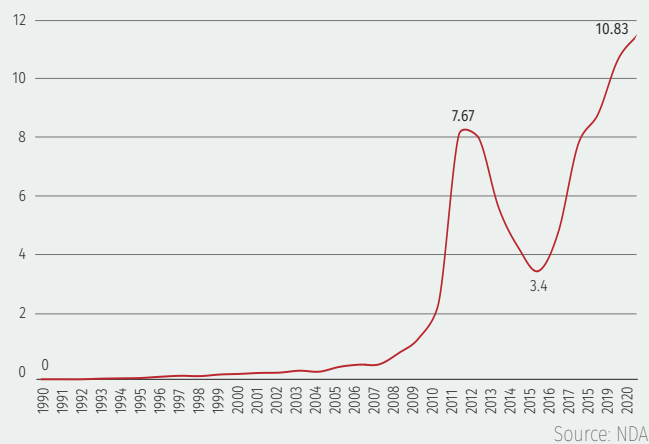
Nowadays, to attract foreign investments every country designs their unique policies and strives to turn it into a key to prosperity. Countries such as China, South Korea, Malaysia and Singapore achieved high economic growth by harnessing foreign investments. Countries like Mongolia which barely invests in research and innovation can gain managerial experience, knowledge, skill and new technologies with help of foreign investors. This means next time when we discover a new mineral deposit and open another large mine it won't be necessary to invite mining experts and engineers from Canada, Australia or the United States if we learn from our investors. That is the type of investment that can't be measured with money.

Putting it briefly, all the aforementioned data and past lessons show that for Mongolia, a small country with an open economy, an underdeveloped industrial sector and low levels of export diversification, FDI is like the heartbeat that keeps its economy alive. ■

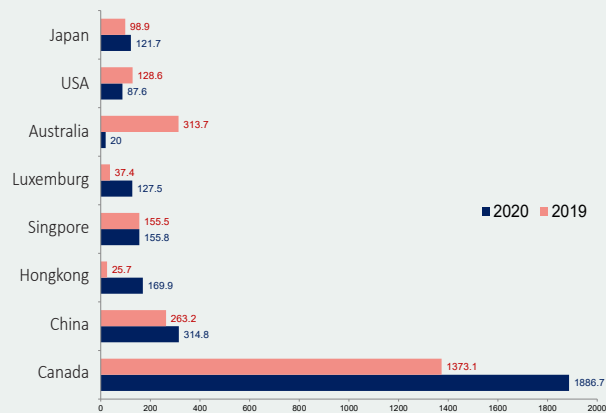
*During the 11th annual conference "Invest Mongolia" in 2017*

# Infographic

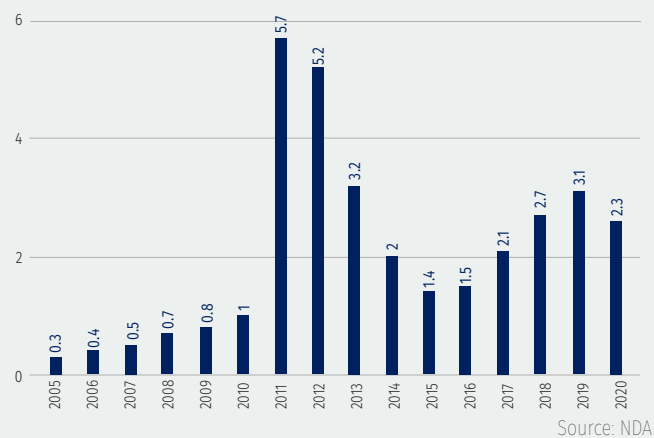
## Foreign investment (trillion MNT)



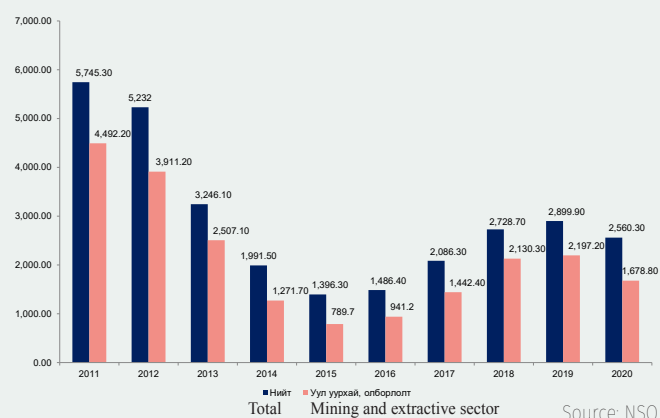
## Inbound FDI, by nations (million USD)



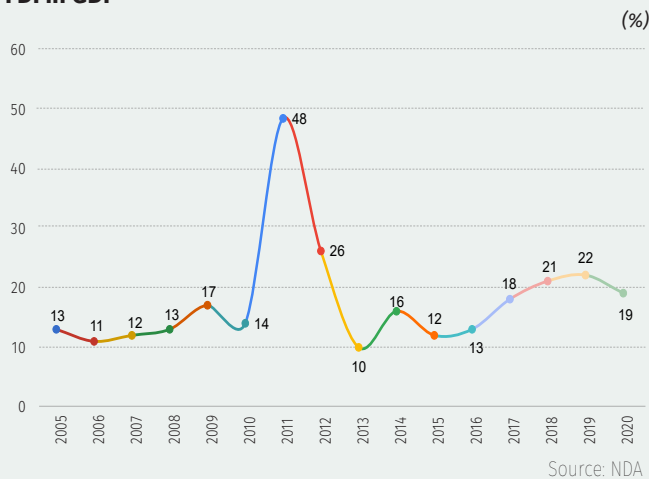
## Inbound FDI (billion USD)



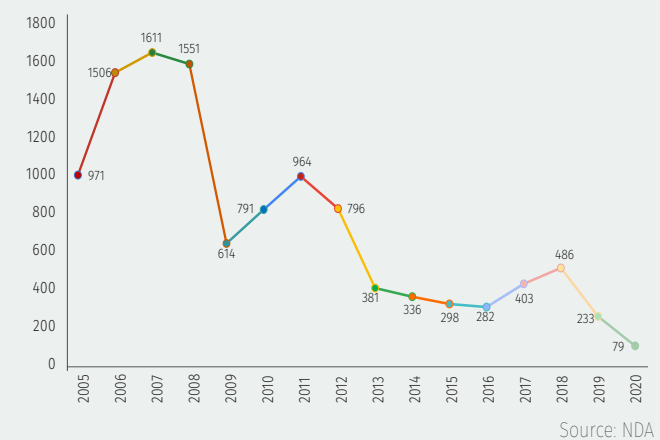
## Mining and extractive sector percentage in the inbound FDI (million USD)



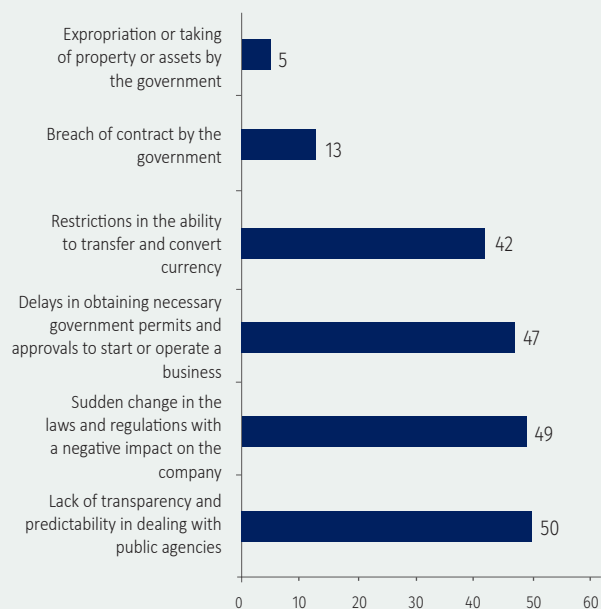
## FDI in GDP (%)



## Newly registered foreign entities

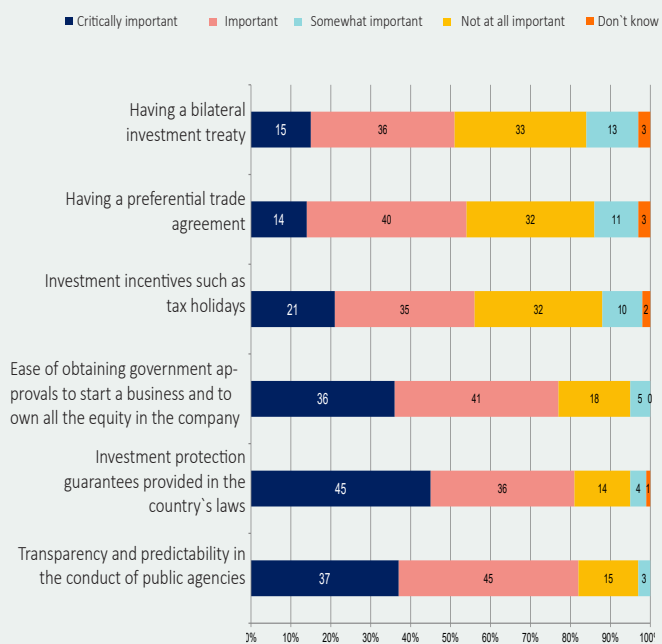


### Investor experience with political risk (percentage)



Source: Investment reform map for Mongolia 2018

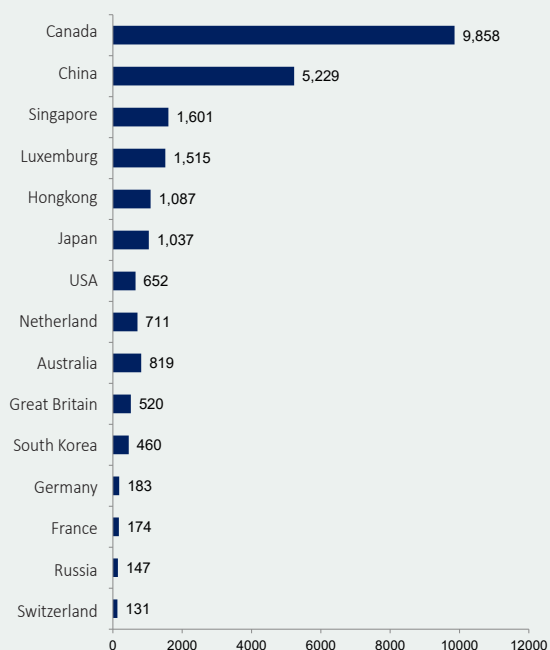
### Importance of investment climate factors



Source: Investment reform map for Mongolia 2018

### Foreign direct investment, stock

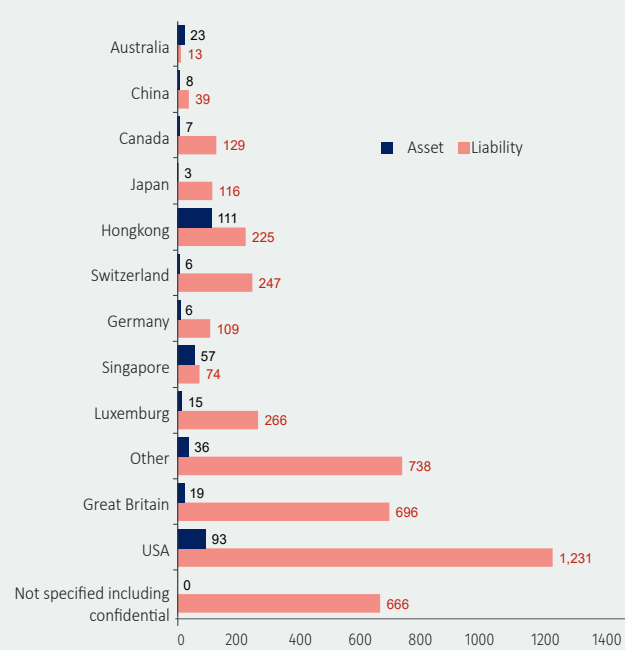
(million USD) 2021.II



Source: Bank of Mongolia

### Portfolio investment, stock

(million USD) 2021.II



Source: Bank of Mongolia

## Review

# A light at the end of the investment tunnel?



The slogan “We will improve the legal environment for foreign investments” can be heard from many leaders. But this statement lacks in specifics and can be confusing. In fact, the current Investment Law of Mongolia is really not all that bad. However, it should be realised that the legal environment and the law are two separate things. Laws are the basic rules of the game for foreign investors, while the legal environment is referring to how the laws will be enforced and how the system will actually work in providing fair and transparent opportunities for investments. Just having a good law is only one part of the foreign investment landscape.

So, the main point regarding most of the issues related to foreign investment is linked to enforcement of the investment law and regulations. Foreign investors and representatives of international organizations in Mongolia stated “Capability to enforce investment laws is weak and insufficient”.

## National security or dangerous domestic trends?

Mongolians are very sensitive to the idea of how foreign investment would affect national security.

But, if you cannot be open and realistic and provide up-to-date and concise information, the main danger comes more from domestic issues rather than from foreign investment issues. Ahead of the parliamentary elections in 2012, foreign investments came to a halt as a result of the pressure of nationalism, and significant restrictions were imposed on foreign investors in many strategic sectors (mining, banking, telecommunications and the media) by amendment to the investment law. Authorities (governors), recognizing their mistakes, abolished that law a mere five months later.

Subsequently, a new law was passed in 2013, updating provisions about dividing investor support into taxation and non-taxation issues, providing the stability to the tax environment, and amending the law regarding support for non-mining related investments. However, the pace of legal reforms in the areas of taxation, customs, justice, and some others that are essential in improving the foreign investment environment is to say at least slow, and the legal ramifications are still not be fully effective.

According to statistics, since 2011, mining sector investment accounted for about 70 percent of foreign

- direct investment, trade and catering just over 17 percent, and the remaining sectors just under 13 percent. Of these, 40% of the total investments relate to the Oyu Tolgoi project. In terms of the number of foreign investors, according to data from the Office of Foreign Citizens and Nationality, there are only 1,834 foreign investors registered in Mongolia.

From this, we can see that the notion of foreign investment being detrimental to national security is not supported. Researchers have clearly found that the public controversy about the foreign investor's rights of residing in Mongolia is not posing a threat to national security. In addition, there are other laws that can regulate how many foreigners can have a residency permit.

### Investment equation

The most important change in the investment law today is to review the provisions that discriminate between foreign and domestic investors.

According to the current investment law in force, foreign investors are required to invest at least \$ 100,000 to establish a business entity in Mongolia. There are no such requirements for domestic investors. Therefore, Kh. Batjargal, Chairman of the National Development Agency, stated that regulations to protect the interests of investors will be added to the current draft amendments. The draft law also introduces the term "priority sector". Mining, tourism, creative industries, infrastructure, agriculture and information technology will be the leading sectors for attracting foreign investments, while tax and non-tax support will also be provided.

Investors see that the biggest risks are political and policy instability. According to international best practice, large-scale public-private partnership projects require about three years of consideration to do a proper assessment, preparation and selection. However, the average life expectancy of our government in recent times has only been about 2 years, so there is no track record of the ability to implement large-scale projects. Leaders have repeatedly said "This will not happen again", and the current Prime Minister, L.Oyu Erdene has even said "We are very sorry" during a meeting with investors.

Another thing that investors are rather fearful of is the dispute resolution process. In Mongolia, it takes a long time both in resolving disputes in court and then enforcing the court decision. But, time in business

is a valuable resource just as money is. According to investor's comments posted on the website of the US Embassy in Mongolia, judges tend to avoid business disputes and delay trials as long as possible, sometimes for several years. In some cases, the case was delayed for too long, which allows enough time for the defendant to sell his property and disappear.

Moreover, the law is not enforced equally at the capital, aimag, soum and district levels. This is especially obvious from the actions of local state inspectors responsible for taxation, inspections, health and safety. Investors are also concerned that there is a lack of a clear definition of what powers of state and local government may lead to the loss of property or the use of them. For example, In the Mineral Law, the power between provinces, and soums in terms of the use of land permits and special-use permits are not clearly defined. Investors have reported that certain high level government officials and politicians have intervened in the administrative and judicial processes involving government disputes. For example, in disputes between investors and the Mongolian government, some government officials seek to pursue some undisclosed business interests and do not follow the proper and applicable legal rules and regulations. In doing so, it pursues these interests through various state-owned companies that have the power to interfere in any business under the guise of the government. Investors warn each other that those officials may use government, judiciary, law enforcement, media, and public prosecutor's office acquaintances and contacts to force foreign businesses to accept their claims. It lacks fairness as well as accountability and is not transparent.

The need to remedy this opaque situation is often mentioned in recommendations from international organizations and in research papers. Therefore, the draft law contains provisions to eliminate the risk of bureaucracy and corruption during the dispute resolution phase, according to Kh.Batjargal, head of the National Development Agency.

It would be untrue and unfair to say that the government doesn't care about improving the foreign investment climate. Relevant ministries and agencies will conduct various studies regarding the investment environment with the aid of international organizations, and the research results will be reflected in the upcoming draft law. In an effort to establish a "One window policy of investment" the

**Leaders have repeatedly said "This will not happen again", and the current Prime Minister, L.Oyu Erdene has even said "We are very sorry" during a meeting with investors**

**Thus, the investment climate is becoming more politically stable and promising than it has ever been before**

- National Development Agency has been tasked with implementing a best practice foreign investment policy.

What is proper and what is not right in the investment environment has already been comprehensively researched by both international and domestic organizations. One of them is the "Investment Reform Map" developed in cooperation with the World Bank. The report covers the entire legal and economic environment of Mongolia's foreign direct investment. This is an excellent guide for all government authorities.

Second, there is a common international practice in which a government issues a statement on the investment environment and thereby sends a clear message to any potential foreign investors, "This is the way we want to work with you." The Mongolian government is currently preparing to make such a statement, and no clear message has been delivered yet other than the prime minister's apology.

If the message is clear and concise, it is important to have a law that supports that message, as well

as an implementing agency, and most importantly, the institutional capacity to enforce it. One thing foreign investors do not like is an investment climate that lacks stability and consistency. The National Development Agency is the place to bear all these burdens. This agency, which will soon be working at a ministerial level, has done some work in order to improve the investment climate. For example, in 2016, the government established the Investor Protection Council and appointed the head of the National Development Agency as its Secretary.

It has also launched an electronic system for resolving investors complaints known as SIRM. According to the agency, a number of investor complaints have been resolved and about \$ 3.2 million of investments that were at risk of being withdrawn have been retained in Mongolia. It also aims to launch a "One stop shop service" for investors to provide all the necessary services at one point such as advice, inquiries, registration, taxes, social security and visas. The most advantageous thing is the service digitization. For example, a service process that used to take as long as 15 days before, now only takes 8 hours, stated by B.Bulganimeg, deputy director of the NDA

Thus, the investment climate is becoming more politically stable and promising than it has ever been before. But, as mentioned before, a good law is only the first step. Even though there are currently no major investors knocking on the door or are waiting in line to make an investment, when the rules of the game are clear and transparent and will not be changed overnight, the outgoing messages will improve and interest in investing will increase.

We still have a vast amount of work to do in the future to increase investor returns, especially for the support regarding increasing the investment in the non-mining sectors. The amount of investing is just only one of the many factors that affect an investor's decision-making. This is followed by a long list such as transparent taxation procedures, improving the legal environment, investing in infrastructure, identifying labor opportunities, exploring market opportunities, and aligning customs policies and free zones with international standards. The investor will only decide whether or not to invest in Mongolia after considering the total equation that takes into account all these factors. ■

### Total foreign direct investment

1990-2020

**29.6**

billion USD

from 123 countries

### TOP 5 INVESTOR NATIONS

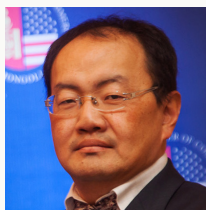
Canada South Korea Netherlands Luxemburg Singapore

**70%** of the foreign direct investment

were made in the mining sector

## Questions from the Mongolian Economy magazine

1. What is your opinion of Mongolia's investment environment? What has Mongolia been doing right and wrong in attracting investors?
2. During the pandemic, foreign direct investment has become a "vaccine" necessary to stabilize and boost the economies around the world. Bearing that in mind, Parliament is discussing amendments to the Foreign Investment Law of Mongolia. How does your organization see the proposed amendments to the law?
3. The amendments to the law are only the beginning. What do you do to retain investors who have already started a business and how do you attract potential future investors? What changes have been brought on by the pandemic to attract foreign investment around the world?



**O. ADIYA**

*The Executive Director of the American Chamber of Commerce in Mongolia*

1. Even though it has been 30 years since Mongolia transitioned to a market economy, we still need to discuss the core concepts of the market economy, competition, role of the private sector and property. We need to keep passing on a message that the private sector is the key driver of economic development. The state should not compete with the private sector.

We need to carry out reform boldly in the state-owned enterprises and improve its corporate governance. Moreover, we also should not just talk about mega projects because there are numerous small and medium projects in Mongolia. We need to share the success stories of such projects.

Furthermore, I think that we need to change the attitude towards the foreign investors. It is largely affecting the regulatory framework. For instance, due to the "Law of Mongolia on Prohibiting Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas" and "Windfall Tax Law" quite a number of projects and investments stopped, and investors left Mongolia. Pushed-away investors take a long time to return. If you look at the years after 1990, Mongolia lost everything by adopting a strict policy and pushing away foreign investment. This is mainly due to political instability. On the other hand, nothing can be perfect. That means it would be enough to just have sustainable, predictable and stable regulation and the Government's decisions. It is alright to have a contract that levies high taxation but it should not be changed whenever the Government changes.

An issue that must be mentioned here is the Oyu Tolgoi Project. This project is the largest third neighbour project and became a benchmark for other investors. The Oyu Tolgoi Project must not end. The successful investment of Rio Tinto may bring more investment to Mongolia. We believe that the two parties can resolve their issues in order to balance our economy by reducing the heavy dependence on our two neighbouring countries, China and Russia. ►

**2.** The amendments to the Foreign Investment Law of Mongolia were proposed by the Members of Parliament. The proposal to amend only a few articles drew significant attention from the public. It is quite unfortunate that this was misused. We hope that the National Development Agency will carry a comprehensive legal reform and accelerate its work regarding the matter.

The American Chamber of Commerce in Mongolia has submitted its proposal for legal reform to improve the investment climate and will keep working closely with the Government of Mongolia.

**3.** After the outbreak of the COVID-19 pandemic, the developing countries have been fiercely competing for foreign investment. Therefore, Mongolia needs a clear strategy and policy on what the country can offer to investors, how it can protect the current and future investors and how it plans to attract investments in the future.



**DR. JULIEN LAWRENCE**  
*Chairperson of the Australian Chamber  
of Commerce Mongolia*

**1.** Often the interest is in attracting foreign investment to business in Mongolia, and the country has had great success in this in the past. However since 2014 there has been a substantial decline in interest from foreign investors to invest in Mongolia. Some of this is due to the need for Mongolia to address why foreign investment would be attracted to Mongolia.

We in Mongolia must understand that foreign investment has global opportunity, and if Mongolia wants to attract foreign investment it must compete to win the attention of those investors.

Investors must have an incentive to re-invest dividends to grow the business – which delivers long term value to all stakeholders including government

Predictable regulatory environment doesn't have to be the best regulatory environment available, but must be predictable so that investors can make a reasonable assessment of their likelihood of return, especially on taxation of transactions which is not consistent, compliance audits and licensing.

An investor must feel secure when committing serious funds for an investment – without this, the investment value will be considered “higher risk” and as such less attractive

compared to more stable investment opportunities that provide a secure return to the investors.

Red tape and regulation – Sometimes regulatory processes required in business in Mongolia are ambiguous and unfavourably labour intensive considering the value these processes bring to business or the government – this is wasted time, effort and resources and detracts from the value proposition and certainty of return.

Our members from a variety of sectors have faced investment restrictions in Mongolia. Such restrictions have included ambiguity of regulations with frequent changes with little/no consultation, and unfair application of regulation, whereby foreign investors are disadvantaged. The investment law continues to ensure an unfair position for foreign investors. Risk has faced our members also due to uncertainty of political climate, the reality of return and lower performance of their investments with respect to key investment metrics.

**2.** Our Organisation has considered this law and more broadly the performance of Mongolia with respect to attracting foreign investment. Let me start with the current status of foreign investment in Mongolia. In the 2nd quarter of 2021, FDI net inflows to Mongolia were just over US\$1.3 billion, this is a \$1.3 billion decrease when compared to the year before. Investment from major economies such as the USA and China declined during this period.

According to certain indices on investment performance, we are seeing some small improvements in the ranking for Mongolia, however those improvements are not in all areas. Mongolia scores well in areas such as the openness of its market for investment, however scores relatively poorly in areas such as the Rule of Law and the Regulatory Efficiency. This is where the government should focus to improve the overall investment climate, which will lead to stronger FDI.

**3.** Australian Chamber of Commerce Mongolia (AustCham Mongolia) is a non-governmental organization as contemplated by the NGO law of Mongolia. Since 2013, AustCham has promoted the interests of Australian and Mongolian business in the region which it pursues through business-to-government relations with the support of the Australian Embassy, Austrade, leading institutions, professionals and “thought leaders”.

The Chamber uses its ability to provide high level interaction through advocacy thus offering long term economic and social contributions to Mongolia and its people.

**B. NARANZUL**

*Policy Director of the Business Council of Mongolia*

**1.** There are a number of flaws in the way our country is trying to attract foreign investments. Even though we have provided a general background for the legal environment of investments, some of those reforms have as yet not been fully implemented. The provisions in the law are not always consistent and often incoherent. Rather than adhering to a policy based on a well-developed vision, political or socially acceptable decisions are having a negative impact on attracting and retaining foreign investments. In the past, political instability had a negative impact on the investment environment. But now the problem is that we have unqualified government officials, each department doing their own thing, meaning there isn't a comprehensive and unified approach in dealing with potential foreign investments across all sectors. As a result, officials might not have the right skills to do their job and issues that need to be looked at are falling through the cracks.

On top of that the Investment Promotion Agency, which was responsible for receiving and diversifying investments, was disbanded in 2016. The end result of all these decisions is that various ministries and agencies are now overlapping each other in the investment area and some issues are not dealt with while others are not implemented.

There are also many stages in the court proceedings. Issues such as judicial independence have affected the investment environment in a negative way. The two main things investors are looking for are transparency and consistency.

There is also a shortage of public infrastructure and engineering facilities. Transportation, logistics and infrastructure are underdeveloped, energy supply is insufficient, and equipment and technology are outdated. The weak business environment and an underdeveloped supply chain increase the costs of doing business and make it impossible to generate a profit. In addition, along the market principle, the slow speed of bureaucracy and the inability to compete with other countries have caused investors to look towards other countries to avoid wasting time.

Furthermore, the development of human resources is weak, and there is a severe shortage of production and technical professionals. Not enough attention is paid

to training qualified personnel. As a result, it requires additional costs and time to prepare personnel for investors.

In the end, even after attracting an investment, having the expectation that investors will handle all of the issues without being aware of possible pitfalls, will result negatively on the entire process.

**2.** As far as I know, a group of parliamentary members headed by Kh.Gankhuyag submitted some amendments to the Investment Law, and they were discussed but rejected by Parliament. We have not yet received the investment law amendment that the government is discussing.

**3.** Foreign investment has decreased in most countries due to the pandemic. In addition, external factors such as global financial instability, rising oil prices, and decreasing cross-border integration are putting pressure on many countries. Globally, public spending on health, education and social security has been increased in order to reduce the direct impact of the pandemic and support potential growth. Various tax incentives have been introduced for industries and companies affected by the pandemic.

Regional organizations and countries are actively concluding free trade agreements to attract foreign investment.

Certain incentives are provided in the logistic field to attract foreign investments in order to overcome transportation and logistics difficulties and prevent the problems from reoccurring. Investment in pharmaceutical, medical equipment research and development, innovation, new technologies such as robotics, driverless car development, construction technology, biotechnology, fintech and semiconductors have also increased significantly.

Countries have begun to attract large amounts of investment in the renewable energy sector, like green hydrogen and electric vehicle batteries associated with the COP26 meeting in order to mitigate climate change and attract green funds. Some countries are promoting favorable investment conditions in this direction.

Many countries are pursuing a comprehensive policy of reform in order to increase economic growth. Long-term reform priorities pay more attention to improving governance, infrastructure investment, land issues, labor reforms, and the quality of education. These are regarded as the basic indicators of a liberalizing investment environment ▶

**TOMAS BRAVENEC**

*The Executive Director of the European-Mongolian Chamber of Commerce and Industry*

**1.** We see great potential in Mongolia and opportunities for foreign investors to contribute to sustainable, technological, and socio-economic advancement in many areas, from mining and infrastructure, energy and transport, to agriculture and manufacturing, export-oriented industries. However, as I have said numerous times before during interviews, talks, and forums – Mongolia needs to realize that we are not the only country with potential and abundant natural resources. The country needs to change its mindset and compete for FDI. We have missed several years in this respect.

We are well aware of the concerns and the general public perception of foreign investment and investors. Without education and transparent, balanced information, this position can quickly turn into suspicion or jealousy. Dangerous outcomes can come from this and we do not believe that the people of Mongolia should suffer the consequences simply because of lack of knowledge or one-sided information. Therefore, we are keen on helping raise awareness and better educating everyone to help get them on the same page.

Investors expect long-term and stable development policies, which go well beyond the four-year election cycle. Domestic and foreign businesses need to be treated equally. Efficient law and policy enforcement and implementation is a critical component of keeping existing and attracting new investors. Without trust, we cannot build anything...

**2.** My position or we should better say our – EuroChamber- position with over +150 members remains very much the same, in line with our FDI Climate Position Paper published in October 2021. We believe our detailed recommendations in the paper will help the legislature amend the laws in a more trustworthy and accountable bill being passed.

The currently proposed amendments to the Investment law seem very insufficient. It is our understanding that the Government, in particular, the NDA is working on a comprehensive overhaul of the Investment Law, and our Chamber stands ready to comment on it, once a draft will be released.

Mongolia itself recognizes the importance of foreign investment as you said, now more than ever. Landlocked between two giant economic powerhouses, the country needs to diversify its prospects and opportunities. The Covid-19 pandemic crippled not only our but many other countries' economies, but the ones with the larger and more curated environments will recover faster while countries like Mongolia will need to pay close attention to the revival of the economy and make the decisions that benefit the country, not individuals. As you used the metaphor for 'vaccine', I think it is the right time to get the body (country) well aligned to get an effective jab (investment) to fight back the recession with a healthier mind and body. I always believed that both the mind and the body that carries it needs to be healthy to ward off viruses, quite literally in our cases on both levels.

**3.** Legislative updates alone cannot guarantee investors will come running back with open arms. We have lost their trust and now we have to earn that back, it is a long road but the good thing is no investor will turn a blind eye to an amended relationship. We, as a country, need to "walk the talk" and demonstrate tangible improvements and desire to attract know-how, technology, and investment through a partnership with international investors.

In terms of our activities, EuroChamber develops policy dialogue between public and private stakeholders for the betterment of the main aspect of the FDI climate. We are working on improving the international perception of Mongolia as an investment destination, among others via our membership in the European Business Organization network <https://eboworldwide.eu/>. We established several 'working groups' on FDI, Sustainability & Renewable energy, Hospitality & Tourism, Wine & Spirits, Labour law, etc. to come up with more research, more recommendations and insight which our member organizations, as well as potential investors, may use to deal with matters at hand.

On the global stage, we are not only experiencing foreign investment becoming more diversified but also more demanding with other aspects gaining prominence, such as climate change, sustainability, and technological advancement. A broad range of requirements is now present to attract and offer investment. I trust and hope Mongolia will embrace its potential and approach the matter with a clear mind and open heart, for the country to prosper. ■

## Multinational companies

# Multinational mining enterprises in Mongolia



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

*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*

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

► 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".

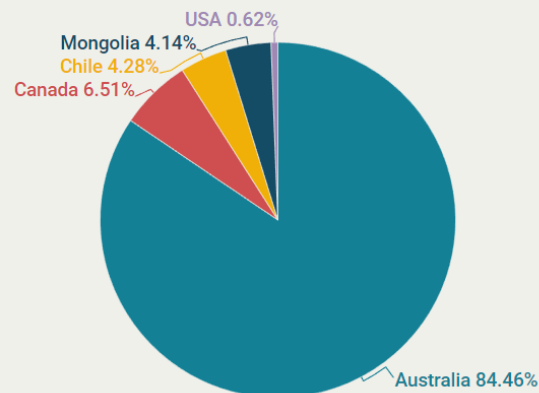
In 2008, the Mongolian government led by then Prime Minister S. Bayar took the Tavan Tolgoi deposit under state control and announced that it would select a strategic investor. There were 15 companies that took part in the international tender. It included many multinational mining companies such as 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. ►

### Tax payment of Rio Tinto in 2021

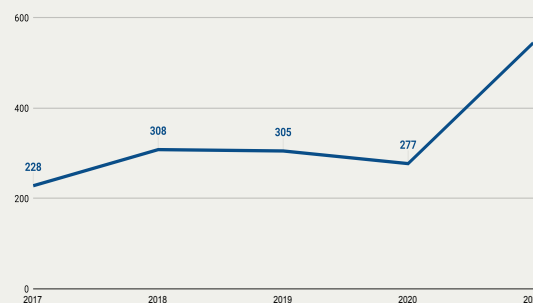
(by countries, percent)



Source: riotinto.com

### Tax payment of Rio Tinto in Mongolia

(million USD)



Source: riotinto.com

► 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. ■

**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**

### 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)

## Project management

# B.Bold: Oyu Tolgoi - Mongolia's role as a leader in global mining

*"Powering the project economy" international virtual conference, organized by Project Management Institute Mongolia (PMI) was held on 24 September 2021 and attracted more*

*than 700 guests. Among the participants were keynote speaker Bold Baatar, chief executive, copper member of EXCO at Rio Tinto. We are bringing you his speech.*



## A bit about me

I began my career in the same way as many of you. I left Mongolia at a young age to work and fund my study in the US. I had multiple jobs. I was a campus security guard. I worked in shops and restaurants and then over time I developed a career in finance. I spent 10 years in investment banking with JP Morgan in New York and London, before returning to Mongolia as CEO of a local company.

I joined Rio Tinto's Marine business in 2013 and led our Energy and Minerals group before being appointed Chief Executive of our Copper business in February this year.

I'm not a professional project manager, but I do have the experience gained from many years supporting some amazing projects. It is these projects which attracted me to Rio Tinto and drives our purpose - producing the metals and materials which support human progress.

Rio Tinto - producing metals and materials essential to daily lives

As you look around you, everything you see is either grown or mined. As a leading global mining company, Rio Tinto helps to produce the materials that are essential for our daily lives. At the heart of our business are 48,000 talented employees and over 100,000 dedicated contractors that make this happen.

We operate in 35 countries and our products form many of the things you see and use every day.

o **Iron ore** – essential for homes and infrastructure

o **Aluminium** – a key component used in everything from aircraft to medical equipment

o **Lithium** – New for Rio Tinto but critical for battery minerals

o **Titanium and borates** – central to a diverse range of products including paint, glass, toothpaste, agricultural products

Rio Tinto has developed, or is developing, mega projects to drive capacity in almost all of these commodities. We have invested almost \$2 billion to expand our Weipa bauxite operations in Queensland Australia. \$1 billion in greenfield development at our titanium dioxide operations in Madagascar. We have also recently announced plans to invest \$2.4 billion in our Jadar lithium-borates project in Serbia.

## Mega projects and the global economy

I want to touch briefly on the importance of mega-projects. As the world seeks to manage and recover from the challenges of COVID-19, Governments, and all economic actors, will be heavily focused on stimulating a return to growth. You will have heard of the phrase "Build Back Better" and as we speak today the US is seeking to approve a \$3.5trn package of infrastructure spending to drive growth. ►

**OT is currently the single largest source of FDI in Mongolia**

► Some are predicting that infrastructure spending could rise to as much as \$9 trillion per year by the end of this decade – with mega projects already estimated to drive 8% of global GDP. So you see, mega projects are going to be essential as we drive the post-pandemic recovery. Gone are the days when we focused on \$100M, \$500M or even \$1B dollar projects. Multi-billion-dollar projects are now common in every sector and every continent.

## Understanding Oyu Tolgoi

Today the global mining industry is predominantly focused on copper project expansion. OT is not only one of the most important copper projects under development – it is in fact one of the largest projects of any commodity anywhere in the world.

It is also special - as one of the few underground developments using block caving - the others being Grasberg in Indonesia and Chuquibambilla in Chile.

Today, OT is close to completion – if we were building a 10-storey building, we would be on the last floor. By 2028, OT expected to deliver more annual tonnes of copper than any other expansion or new project in development. To achieve that, we are building a mine that is almost unrivalled in its scale and complexity

OT is a city in the desert. It is a mega project made up of a hundred or more multi-million-dollar projects. We have 14,000 people who work and live at site, many of whom we fly in and out from UB on a rotating basis. On an average week that is 30 flights, carrying 850 people every day.

To feed our teams, we make up to 24,000 meals per day, all of it has to be transported to site – stored, prepared and served. Someone even has to wash the dishes! We have more than 9,200 beds on site. And we work with over 600 different contractors to make the project happen.

While we are developing the underground, the open pit at OT has been running 24 hours a day, 365 days a year – and has been doing so since 2013. We have exported 1.2 million tons of copper which has helped to generate approximately \$2.8 billion in taxes, royalties and other fees to the Government. In its own right, it is a deeply impressive operation:

- *We run 30 haul trucks each the size of an average house*

- *We have 50 female truck operators, an industry-leading number that we're very proud of*
- *We move 320,000 tonnes of material per day*
- *And, everything is maintained and looked after on site in the Gobi*

## Unlocking the Underground

The reason we are building the underground, however, is because it is where the true value of OT lies. We are privileged to be stewards of such an important resource. But, let's be clear – the process of unlocking its value is very difficult.

Copper is very hard to find, and while the OT grade is unique, it lies very deep underground – 1.3 kilometres. Every 100 tonnes of ore removed, produces 2 tonnes of copper concentrate. So 98% of the material removed with 2% average yield – means hundreds of thousands of tonnes of processing is required to find and extract the copper locked in the ore body.

We have invested billions of dollars and man hours to build the underground. US\$5bn has been committed so far, with US\$3.7bn spent with national companies -more than double our original target for local content. The underground has a peak workforce of over 7000 – 92% of whom are Mongolian.

The project contributes around a third of all Mongolia's FDI. And it is this continued investment which means that at full production, OT will be one of the world's biggest copper producers delivering around 500,000 tonnes of copper annually.

As we speak, all of this is happening over a kilometre underground in a network of tunnels currently 90km long. A network which will grow to over 200km at later stages of the mine. This is the approximate distance between UB and Darkhan!

Delivering a megaproject above ground is difficult, but developing underground poses an entirely different set of challenges. Firstly, in relation to the process of tunnelling 1.3km below ground, ensuring the structural integrity of the underground and the safety of our workforce – the latter of which is paramount. When you tunnel, you drill, blast, remove tonnes of material whilst installing ground support. To do so, you have to install bolts of up to 14 metres in length. We have installed 850,000 of them in the last two years. That is all to make sure the ground doesn't fall and converge on people and equipment. ►

**Unlocking the OT underground will be vital in driving the growth Mongolia**

**It is a mega project made up of a multi-million-dollar projects**

► Safety is absolutely vital.

Second, let's consider how a mine underground is constructed and developed. In the open pit, all of the supporting infrastructure is built outside the mine – maintenance workshops, explosives magazines, a huge crusher that reduces the size of the ore after mining, even places for the team to take a break. Underground, we need all of the same infrastructure but it has to be built alongside the mine, in tunnels and chambers over a kilometre below ground.

The central challenge of development underground is the constrained environment. All the people and equipment required to develop the mine, as well as waste materials, come up and down two access shafts. Until November 2019, we only had use of one access shaft before completion of Shaft 2. It takes several minutes to get underground – like squeezing 1,200 people down a straw at the start of every shift. Whilst shaft 2 added 5 times additional capacity, it is still a challenge just to get our operational workforce underground each day.

And it is here, 1300 metres underground that we face another central challenge to development – ventilation. To mine underground, you need to breathe. Air ventilation is the number one infrastructure in the mine. After blasting there are fumes. We are operating a diesel fleet underground, so shafts are essential for ventilation. Our Shaft 5 is purely for ventilation, and another couple of ventilation shafts (3 & 4) are currently under construction.

To support the mine, we pump in 78 million cubic meters of clean air into these shafts and remove another 78 million cubic metres of dirty air. This is the equivalent of what 20 million people breathe every day. Because of this, we are limited in the numbers of people we can send underground.

And this isn't the only constraint. Large equipment that does not fit the shaft diameters are transported to site, disassembled, transported down the mine and reassembled. For example, the underground primary crusher, which is as heavy as a Boeing 747 and is transported underground in parts and reconstructed there.

In order to be able to build the huge crusher that is essential for mine development, we excavated and developed an underground chamber 48m high and 25m wide. You could fit in the State Department Store

in UB in there. In a surface megaproject, where you face challenges during construction, you can throw more people and equipment at it. In an underground project, with limited capacity – more resources on one activity means less somewhere else. So, we are constantly forced to optimise our decision-making to balance both construction and development of the mine.

Added to the complexity of OT is the technical challenge ahead of us. We are developing block caving – a new mining technology in Mongolia, and a process that we hope will begin, following the commencement of the undercut process. There are currently only a small number of block caving mines in the world.

Block caving is complex to develop and relatively expensive to build, but is perfect for large ore bodies like OT – it also allows us to recover more of the ore body, rather than just targeting the high-grade parts. Once mining begins, the ore body collapses under its own weight making it lower cost during production. I'm proud that here in Mongolia we are developing the future leadership of block caving – in 10, 20 years' time Mongolian experts will be building block cave mines around the world.

## **A Global Partnership**

I am extremely optimistic about OT's future and the role it can continue to play in Mongolia's development. What is of critical importance is ensuring the project can continue so the remaining \$1.4 billion of investment can flow down, protecting jobs, driving growth and Government revenue and encouraging further investment. All partners are committed to working towards this and I remain confident that we will make progress.

Delivering a megaproject like OT cannot be delivered any other way. Working with the Government of Mongolia, with international investors, with our communities, with 600 suppliers and with a talented team of 14,000 employees and contractors.

## **Oyu Tolgoi – Proud of our achievements**

We have much to be proud of about what we collectively are delivering as a country: ►



#### ▶ LOCAL EMPLOYMENT

- Earlier estimates predicted that we would need 40% foreign labour to build the underground mine. Our work force developing the mine is 95% Mongolian

#### LOCAL CONTENT

- Our supply chain is supported by over 700 Mongolian companies
- We have spent \$3.7bn with Mongolian supplies since 2010

#### ECONOMIC CONTRIBUTION

- OT is currently the single largest source of FDI in Mongolia
- Taxes and royalties paid making up 10 in every 100 Tugriks of Mongolia's government budget

#### MINING EXCELLENCE

- OT consistently achieves one of the best safety performance globally
- It is one of the most water efficient mines in the world, losing only a fraction of the water used in processing and recycling around 90% of water used

### Conclusions

Delivering mega projects of the scale and complexity of OT is never easy, but we are almost at the top of the tower. In doing so, together we are establishing Mongolia's role as a leader in global mining, experts in underground copper and in the development of global mega-projects.

We are building the skills to equip the next generation of project managers. When I visit other Rio operations around the world, I always get proud of the Mongolians I meet there. Only a few years ago, these Mongolians were working at other Rio operations to gain experience and build skills. But today, many have grown into leadership positions, leading big teams and delivering huge projects.

I will share a couple of quick examples. Our HR Director who leads HR for 2,000 people at Rio's ilmenite/titanium dioxide mine in Madagascar. A project manager who is looking after a US\$150m dollar project in the Pilbara (Australia) to improve the communications systems of the largest autonomous rail network in the world. Both are Mongolian's who are leading global projects and operations.

In this sense, OT is producing not only copper but also new generation leaders who are sought after globally.

It is driving the development of a project ecosystem in Mongolia that will support the project economy of the future. Providing the talent, experience and supply chains, which will be crucial in building the next generation of megaprojects.

It will also be crucial in creating the legacy that builds confidence in the attractiveness of Mongolia as a destination for foreign direct investment from around the world. So, in short, unlocking the OT underground will be vital in driving the growth Mongolia needs now to support post-pandemic recovery as well as creating a legacy which will underpin its project economy into the future.

I am focussed on tackling the challenges that remain so we can complete the project. I have no doubt that together we can deliver a truly amazing Megaproject. ■

***We are  
developing  
the future  
leadership of  
block caving***

## Pride

# Woman in an underground mine



Namjilmaa never imagined that she would become a woman working in the mining industry. As an 18 year old girl, she came to Ulaanbaatar from Zavkhan Province. She attended the School of Communication and Information Technology at the Mongolian University of Science and Technology, graduating with a degree in electronics engineering. She did not work in her profession but instead, for over a year, she worked part-time as a designer for a construction company. The salaries for new graduates are low. Due to working part-time and earning a low income, Namjilmaa started looking for another job. During this time in 2009, the Oyu Tolgoi subcontractor announced vacancies and they were hiring many workers.

Namjilmaa filled out the job application and was called in for an interview. She was very happy when she heard that she was successful in her application. When she started working at the mine she had no idea where she was going or what she was going to do.

This girl from the western aimag knows only about the South Gobi. To find out where she was going, she did a Google search for "Umnugovi Aimag, Khanbogd Soum, Oyu Tolgoi Mine". The search showed something worse than she imagined, only a few gers. At that moment, she thought, "Where exactly did I get hired?" Still, she decided to go.

On a cold winter day, when the mountains wear their snow hats, a young lady absorbed with sacred thoughts, boarded a plane from Ulaanbaatar to Dalanzadgad, Umnugovi Aimag. This was when Khanbumbat Airport was not built yet. There were dirt runways, and it was impossible for the plane to land due to rain and snow so from Dalanzadgad, a Kamaz truck drove her to the Oyu Tolgoi Mine.

The destination from Dalanzadgad to the mine site is over 200 km. Imagine a 21 year old woman traveling with a Kamaz truck for the first time and on a sandy and bumpy road in the Gobi Desert. Her birthplace is Songino Soum of Zavkhan Aimag. ►

*Imagine a 21 year old woman traveling with a Kamaz truck for the first time and on a sandy and bumpy road in the Gobi Desert*

► Zavkhan is a place surrounded by high mountains, large hills, rivers, lakes and forests. The girl from such a place was greeted by the several gers which she saw on the Internet. Then she arrived at the mine after "riding" in the Kamaz truck through the South Gobi. Namjilmaa's early thoughts became clearer. She told herself, "I won't work here for long. I'll only work for a few months. I must be resilient".

Namjilmaa started working as a design engineer for Redpath Mongolia LLC, which is building the Oyu Tolgoi underground mine. As she was not a mining expert and had no knowledge of mining, she could not imagine building a tunnel at a depth of 1,300 m. For many other mine workers, the picture of building a mine deep underground could not be fully imagined. But they were driven by the belief that they could and that it would work. They believed that one day the underground mine would be operational.

"I was very scared when I took underground training in the first 1-2 months. But today we have no fear. All Oyu Tolgoi laws and standards are for the safety of miners and workers. And because it is above world standards, we do our job with confidence." said Namjilmaa.

### Namjilmaa's thoughts have changed

The girl from Khangai received her first month's salary as a result of getting into the life of the mine, facing many unknown problems, heating up in the Gobi sun and cooling down in the evening. She couldn't believe her eyes when she saw the money in her account. "Oh, if it is so, I can work for a few more months," she thought. She recalled that she had given presents to her parents and siblings with her first salary.

Namjilmaa, who thought she would endure working in the mines for just a few months, is now working in her ninth year, with the exception of a three-year hiatus. "The first 1-2 years were not easy. I have been driven by the salary for several years, and then I fell in love with my job and mine. Today, the mine is my second home" she said. Looking back 13 years later, I am happy that our few gers have become large mining complexes. Construction is underway with thousands of employees, a world-renowned project that is of interest to foreign and domestic investors, Namjilmaa added.

Her life following the mine also changed dramatically in a short time. This young woman ►

**For many other mine workers, the picture of building a mine deep underground could not be fully imagined**

## Underground mining

Compared to open-pit mining, Oyu Tolgoi's core profits come from a group of underground deposits with a high mineral content. The Oyu Tolgoi deposit consists of several ore bodies containing copper, gold and silver.

The ore bodies that stretch out 12 km from north to south are the Hugo Dummett North Zone, the Hugo Dummett Southern Zone, and the Oyut and Heruga ore bodies. Currently, the concentrate is extracted from the ore mined from an open-pit. More than 80 percent of the total reserves of the Oyu Tolgoi group of deposits, or the highest grade ore, are located underground. These ore bodies are located hundreds of meters below the surface and are one of the largest in the world in terms of its copper and gold content. The ore to be mined from the underground mine has an average copper content of 1.66 percent.

These ore bodies are located deep underground and are scattered around. It is more suitable to use the method of block caving on the behalf of geotechnical and economic efficiency. This is a method of using the weight of the ore body to crush the ore from below and collect it with a dump truck and transport it to the surface via a conveyor belt.

### Highlights and facts of Oyu Tolgoi underground mine:

- More than 80 percent of the Oyu Tolgoi deposit's reserves are underground
- Mining method: Block caving
- Operation: The underground mine will operate 365 days a year in two 12-hour shifts.
- The total length of the conveyor belt is 13.2 km which is equal to the distance from Sukhbaatar Square to Tolgoi station.
- The deepest shaft is equal to 12 times the height of the Blue Sky Tower.
- The total length of the tunnel to be built in the northern part of the Hugo Dummett deposit will be over 203 km (in most parts 5.5 meters high and 5 meters wide).

Source: ot.mn

► who met her husband before coming to the Gobi, gave birth to her daughter exactly on the first anniversary of her starting work at the mine. The young family welcomed their new member into their new apartment. Her husband also started working as an electrical engineer at the Oyu Tolgoi Mine. Munkhbat's family is connected to the Oyu Tolgoi Mine and has become one of the many young people who have benefited from the project and are living peacefully and happily.

Today, Namjilmaa leads more than 1,200 people. In 2019, she transferred to Oyu Tolgoi LLC and became a senior specialist on the Oyu Tolgoi side. She is in charge of Dayan Contract Mining which is building the underground tunnel. She loves to talk about her experience of working on all the project teams, accumulating a lot of experience and all that she has learned. From Design Engineer, to Mining Engineer, on to being the Senior Engineer, she is now working as a Senior Specialist of the Lateral Development Team of Oyu Tolgoi Company.

***Looking back 13 years later, I am happy that OT has become a world-renowned project that attracts interest of foreign and domestic investors, Namjilmaa added***

Today is her happy day. This day is the result of her 13 years of work. The day the 13-year vision came true. It's the day she has been waiting for all these 13 years.

### **The first blast of an underground mine**

2022.01.25 It is a nice and warm winter in the South Gobi. Namjilmaa was driven by a Kamaz truck on a bumpy road in the Gobi to reach the mine 13 years ago but I reached the mine through an improved sand road on a comfortable bus after landing with a MIAT plane at Khanbumbat airport. This is my second visit to the Oyu Tolgoi Mine.

This day of the first month of the new year marked the commencement of the underground mine and the Prime Minister of Mongolia, L.Oyun-Erdene, and the CEO of Rio Tinto, Jakob Stauscholz, have given the command to launch the first blast at the underground mine. This is how the underground mining industry operation started. In 13 years, we have faced many problems, been stuck several times, and there was even a time when there was talk about stopping the project. At the end of all this, the mine moved forward. There will be no going back. The technological process can not be stopped at this point.

The parties emphasized that this is a great event in the history of the world and the Mongolian mining industry. It is good that Rio Tinto and the Mongolian government have reached an agreement to start underground mining after more than a year of negotiations. This allows the underground mine to operate at full capacity by April or May 2023. The bilateral agreement will continue within the frame of the financing plan for the underground mine, as well as additional plans and tax disputes.

“Oyu Tolgoi is one of the largest economic projects of Mongolia. The commencement of underground mining today is a historic event that will benefit our economy two to threefold. Also, there is an opportunity to become one of the world's five largest mines and a major player in copper,” emphasized Prime Minister L.Oyun-Erdene. Rio Tinto CEO Jakob Stauscholz said the Mongolian government, Turquoise Hill Resources and Rio Tinto have entered into a number of negotiations to take the partnership to a new level. We started a decades-long process by blasting the undercutting. We are very optimistic about the future of Oyu Tolgoi and our cooperation.” ►



T.Namjilmaa, senior specialist of the Lateral Development Team of Oyu Tolgoi Company

► During the negotiations, Rio Tinto sent two letters to Prime Minister L. Oyun-Erdene. The second letter meant a proposal of writing off the 2.3 USD debt owed to 34 percent of the Mongolian government and Rio Tinto and Turquoise Hill Resources be fully responsible for the additional financing until the first half of 2023, when underground mining begins. This proposal led the Mongolian Prime Minister to visit the Oyu Tolgoi Mine with journalists to inaugurate the underground mine.

“As a Mongolian, I am thrilled and excited. More than 14,000 Mongolian employees are getting ready to start their first mining operations with the historic blast of an underground mine. This is a joint labor of many foreign and local people for over a decade. On the other hand, responsibility is increasing. An important time is coming when being loyal to what you have said, doing really well at your job and bringing the mine fully operational by the first half of 2023. This is a tense time” noted Bold.B CEO of Rio Tinto Copper Group. The debt of 2.363 million USD owed to 34 percent of the Mongolian government has been written off. Luke Colton, CFO of Turquoise Hill and I have signed and ratified this event. Mongolia now becomes an equal shareholder in benefiting from the Oyu Tolgoi project, said Tserenbat.N, CEO of Erdenes Oyu Tolgoi

Here are a few highlights that sound good to Mongolians. When the underground mine is fully operational:

**Mongolia will have one of the top five underground mines in the world.**

**Mongolia's budget and economic returns will increase at least threefold.**

**There is a provisional estimate that the Oyu Tolgoi sales are expected to be 5 billion USD, and royalties to Mongolia will triple to approximately 700 billion MNT a year.**

### Witness the construction

Namjilmaa, the protagonist of our article, after reading the above-mentioned highlights, thanked the mine and its staff. "It's very nice that the mine I've worked in since the beginning has made such a big contribution to the country's economy and helped move the country forward," she said. She was proud of herself when she



***It is quite certain that she will always be proud of herself for being the first woman to work at the Oyu Tolgoi underground mine***

listened to Economist Ch. Khashchuluun's recent lecture on the impact of Oyu Tolgoi on the country's economy. After she heard the economists say that in the two years since the pandemic, the Oyu Tolgoi Mine had borne the brunt of Mongolia's economic burden, she wanted to work even harder than before,

Namjilmaa is witness to large-scale construction projects. When the Oyu Tolgoi mine was temporarily shut down from 2013 to 2016, she worked on a new airport project and a feasibility study for a new railway. Afterwards, she returned to the mine.

Her thoughts of leaving the Gobi have already been blown by wind and her goal now is to stay in the mine and see it become a world top level in the next 10 years. It is also her dream to see leading experts from other countries come to work at the world's best Mongolian mines.

It is quite certain that she will always be proud of herself for being the first woman to work at the Oyu Tolgoi underground mine. Another of her merits is that she exemplifies that Mongolian women can work alongside men in the mining industry. According to Mongolian law, there was no possibility for women working in mines underground, but an amendment to the law in 2016, the legal environment opened up this opportunity for women who wanted to work underground in the mines. Namjilmaa Tumenjargal became the first Mongolian woman who worked underground in a mine.

“Mongolians will continue to run their mines. So I will be one of the best professionals in the mine and one of the world's leading mine managers” said the woman who works underground in a mine. ■

## Ambassador

# Michael S. Klecheski: Mongolia has significant endowments that are attractive to investors



*"Mongolian Economy" magazine spoke with US Ambassador to Mongolia Michael Stanley Klecheski on economic and business relations, especially the investment environment. The interview was conducted on February 2022.*

**U.S. direct investment in Mongolia reached an all-time high of \$779 million in 2020**

**-To begin, I would like to ask you to share with our readers your thoughts on the level of economic and business relations between our countries in recent years.**

-Thanks for the question and for the opportunity to talk. Economic cooperation is a key element of this strategic partnership between our countries. And a lot of what we do here is aimed at laying the foundations to strengthen this market-oriented,

private sector-driven, sustainable model of economic growth. For example, one of our most successful projects is a 5-year, \$15-million U.S. Agency for International Development (USAID) program to support small and medium enterprises so they can improve operations and management, gain access to bank loans to expand their businesses, and create new jobs. Since it began in 2019, this program has helped over 1,000 Mongolian businesses and facilitated over \$21 million in private sector financing. Another example I am very proud of is that the U.S. Government, through various forms of technical assistance, was able to help to get Mongolia off the Financial Action Task Force (FATF) gray list and strengthen its anti-money ►

► laundering and counter-terrorist financing systems. We continue to work with Mongolia on that because we want it to remain off the gray list, we support that because it is in our interests no less than it is in Mongolia's interests.

Increasing private sector trade and investment is one of our top priorities, as I testified before the U.S. Senate to become an ambassador. While trade between our countries declined in 2020 after reaching a five-year high in 2019, we are pleased that bilateral trade began to bounce back in 2021. Mongolian exports to the United States have increased by over 30 percent. Trade continues to lag globally, but there is a vitality to our bilateral commercial relationship, so we are hopeful that in the coming year we will get to new levels.

**-In 2012, U.S. investment in Mongolia reached \$350 million, but this has declined in recent years. What is the reason for this?**

-Global investment flows into Mongolia reached a peak in 2011-2012 because of a dramatic expansion in the mining sector. While year-to-year changes have not matched those levels since, I am proud to say the total value of U.S. direct investment in Mongolia reached an all-time high of \$779 million in early 2020. The COVID-19 pandemic had a negative impact on investment all over the world, including in Mongolia. But the domestic economic recovery, high international commodity prices, and the Oyu Tolgoi project getting back on track give us cause for optimism. So I am very pleased and hopeful that the Oyu Tolgoi project will indeed advance the way we have all been hoping.

**-Mongolia's largest investors, such as Canada, Australia, and China are investing heavily in the mining sector. But in which sectors of Mongolia is your country interested in investing?**

-The mining sector is of course the biggest part of Mongolia's economy and attracts significant U.S. interest. But our investors and companies have found success in many sectors, such as finance, retail, real estate, services, wholesale trade, and food and beverages. One area we are particularly excited about is renewable energy and green technologies. That is important for us, not just economically, but also politically because fighting climate change and the resulting problems is one of the top priorities of President Biden. Mongolia has some of the

highest solar and winds energy potential in the world. One of our upcoming projects focuses on improving energy sector governance and creating an enabling environment for renewables and advanced energy technologies. We are also pleased to see the government and investors beginning to work together last year to resolve some regulatory challenges that have affected previous energy sector investments. So the energy sector is something of significant potential. I am optimistic these efforts will boost private sector interest in Mongolia's renewables sector.

On the government side, we are looking to expand the presence of the U.S. International Development Finance Corporation (DFC). The DFC is an institution of the U.S. Government that supports transparent, sustainable, and most importantly private sector-led investments that have a development impact and create sustainable growth. They are looking at substantially expanding their \$100 million Mongolia portfolio, with a focus on priority sectors like energy and climate, healthcare, financial inclusion, and food security.

**-Mongolia is paying close attention to reforming the investment climate and updating laws. To what should our two countries pay attention to become an investor-friendly country?**

-We welcome the government and parliament's publicly stated focus on improving the investment climate, combating corruption, and boosting private sector activity through business-friendly reforms. Carrying out these reforms through a transparent process with ample opportunity for input from domestic and foreign businesses and other interested parties will ensure that laws and regulations are designed in a way that best addresses their needs. In other words, it should be an open process with a good amount of interaction. On this note, we are working hard to secure full implementation of something we have been talking about a lot for a long time, which is the U.S.-Mongolia Transparency Agreement, which among other things, requires the Mongolian government to post for public comment draft measures that affect trade and investment, and then to consider and respond to public input. I think this is very much in line with what the Mongolian government has been doing and wants to do. But the Transparency Agreement would put it at a higher

***The U.S. Department of Commerce estimates that 12 million U.S. jobs are attributable to foreign direct investment***

- level and offer yet another very effective way to do that. So we view the Transparency Agreement as a critical building block in our trade and investment relationship. We have been saying this for a long time, and its full implementation is going to be welcomed both by the U.S. government and by the business community. The success of that will be a real sign that this kind of cooperation can work, and in turn, will further boost interest in the United States in investing in Mongolia.

**-What are the biggest barriers to American investors in Mongolia?**

-Mongolia has significant endowments and material and human resources that are attractive to both domestic and foreign investors. I'm always impressed by Mongolia's young people and their potential. But the message we hear, both from the U.S. and the Mongolian business community, is clear that they seek greater transparency, stability, and predictability in the legal and regulatory environment. What this means is more consultation in the creation of laws and regulations. And this is where the Transparency Agreement comes in. More consistency in enforcement is a very important element, as is more synchronization between national regulations and local regulations, and a more timely and effective dispute resolution process. My colleagues at the embassy and I are particularly encouraged by recent steps that your government has taken to streamline bureaucracy through things like digitalization and enhancing the independence of the courts through judicial reform.

These things have the potential to increase the ease of doing business while bolstering democracy. When we talk about barriers, but also when we talk about incentives, every year, every U.S. embassy all over the world produces an investment climate statement. It is a publicly available document, and we very much welcome people reading it. It is based on consultation with the business community, both American and local. It lays out both the potential and the barriers. This year, we discussed the investment climate statement with members of parliament and others. So I would recommend that to your readers if they are interested. It is publicly available on our embassy website, and it is a very good document. I am very proud of it.

**-What role has foreign investment played in American development? What do you think is the "secret" to attracting foreign investment?**

-Foreign investment plays a key role in bolstering economic growth, creating high-paying jobs, spurring innovation, and driving exports globally. That's true throughout the world, including in the United States, which is the world's largest recipient of foreign direct investment. So interestingly, the U.S. Department of Commerce estimates that 12 million American jobs are attributable to foreign direct investment. Investors are attracted to the United States for a variety of reasons, but let me highlight just two of them:

First, a stable, transparent, market-oriented regulatory framework and legal system to ensure that investors can be confident that their voices are heard as rules and regulations are developed, and that their contracts are protected, and that their activities are not hampered by things like bureaucracy and corruption. That is one element that is very important to attracting foreign direct investment all over the world.

Second, the U.S. workforce is among the most skilled and productive in the world. I am very proud that our culture focuses on things like diversity, openness, and innovation. And the United States has a very strong education system. So as I said earlier, Mongolian young people are very, very impressive. They often travel abroad, and they come back with a lot of ideas. But they also inject a lot of great ideas in the countries where they visit or are working, even temporarily. I know quite a few Mongolians who have been in the United States or are in the United States, who are contributing to our dynamism. It is one of those things that makes for a dynamic economic environment, and that is tremendously important.

**-A joint Mongolian-American Trade and Investment Framework Agreement Council was established under an agreement between our two governments. How effective has the agreement been?**

-The Trade and Investment Framework Agreement (TIFA) plays an important institutional role. It provides the strategic framework and principles for dialogue between our two countries ►

*One area we are particularly excited about is renewable energy and green technologies*

► on trade and investment issues. This agreement established a TIFA Council, which convenes one of several high-level dialogues we hold with Mongolia as part of our strategic partnership. The TIFA Council talks, which are chaired on the U.S. side by the Office of the U.S. Trade Representative, are an important forum to advance our bilateral trade and investment relationship, which again is one of our top priorities.

**-The TIFA Council has met six times before. When is the next meeting scheduled, and what issues are planned to be discussed?**

-The TIFA Council last convened in 2019 and discussed a range of bilateral trade and investment issues, including transparency, the investment climate, intellectual property rights protection and enforcement, trade-in cashmere, the U.S. Generalized System of Preferences (GSP), trade facilitation, and trade promotion. We anticipate a similar set of issues at the next talks. Given the COVID-19 pandemic, it is difficult to predict exactly when the next TIFA Council talks will take place. That said, this year is the 35th anniversary of the establishment of diplomatic relations between the United States and Mongolia, so we are planning a wide variety of engagements, and of course, economic issues are going to be very significant in this year of celebration.

**-Aside from all this, what do you think about Mongolians, and have you noticed anything unique in Mongolia?**

-My wife and I have been here almost three years, and we really love this country. Anybody who looks at our Twitter page probably can see just how much we love this country. One of the things we like most about Mongolia is that people are really friendly and warm. I know that's something that every diplomat is supposed to say. But it's very sincere. And I can tell you that we have a lot of Mongolian friends. We feel really lucky to be able to do that. One thing that's unique about Mongolia is its traditions. Every country has strong traditions, which are important. For me, the traditions of Mongolia have continued to shape the way people act and think, and I find that really wonderful. I always say that when somebody hands me the snuff bottle, I think this is the epitome of Mongolian tradition. I know that in



*The groundbreaking ceremony for an advanced water purification plant, the first major project in the Millennium Challenge Corporation's \$350 million Mongolia Water Compact. August 2021*

the time of the pandemic, it's more complicated. But those traditions are something that we find unique, and that we love. And I think whenever Americans come to Mongolia, either as tourists or working at our embassy or working in the private sector, most of them are captured in a positive way by the uniqueness of your traditions, but also by how those traditions are reflected in everyday life.

Maybe I can just add one thing – Mongolia is a country and a society that values its traditions. But it is also a society that sometimes uses those traditions in very modern ways. So the example we all cite, and it is a good example, is The HU, which, on the one hand, has traditional instruments, traditional ways of singing, but at the same time, rock music is not exactly a traditional type of music. But that's true not only with The HU. The fact that young Mongolians are now part of the international community shows how they value the traditions of the past but are able to integrate them in a really beautiful way with the challenges of today. So that's what's unique, and it's really cool.

**-Thank you so much for giving this interview. All the best to you. ■**

**Improving Mongolia's transportation and logistics infrastructure could make exports more resilient in the future**

## Ambassador

# Catherine Ivkoff: More proactive efforts will be required to promote Mongolia and its investment potential to international investors

*"Mongolian Economy" magazine spoke with Ambassador of Canada to Mongolia Catherine Ivkoff on foreign direct investment environment of Mongolia.*

**-First of all, I would like to emphasize that Canada is the largest investor in Mongolia. Please share with our readers about influential projects implemented in Mongolia that are invested by Canadian entrepreneurs and companies?**

-Canada is indeed the largest foreign investor in Mongolia. According to the Bank of Mongolia, Canadian investments in Mongolia are valued at USD \$8.1 billion. Canadian investments are primarily concentrated in the mining sector.

Canada's most notable, and most well-known, investment in Mongolia is in the Oyu Tolgoi copper-gold mine in the South Gobi desert. Oyu Tolgoi was developed by Montreal-based Turquoise Hill Resources (previously known as Ivanhoe Mines) in partnership with the Mongolian government. Export Development Canada (EDC) has provided CAD \$1 billion (USD \$750 million) in financing toward the Oyu Tolgoi project in support of Turquoise Hill Resources' investment and Canadian supply to Oyu Tolgoi.

Canada has been part of Oyu Tolgoi's story from the beginning. The Canadian company Ivanhoe Mines (now called Turquoise Hill Resources) initially discovered the copper ore deposits in 2001. The Oyu Tolgoi mining project has now become the largest internationally managed project in Mongolia's history. The project is worth approximately USD \$13 billion in total. Oyu Tolgoi is expected to produce approximately 500,000 tonnes of copper annually once the mine is at full production. This project provides significant export revenue, high-paying jobs, as well as tax revenue for Mongolia.

**-The Government of Mongolia and Rio Tinto have reached an agreement on the Oyu Tolgoi**

**Canada's most notable, and most well-known, investment in Mongolia is in the Oyu Tolgoi copper-gold mine in the South Gobi desert**



**underground mine project and are moving forward together with a lot of optimism. But we must learn from the past. What do you think Mongolia needs to pay attention to in the future when implementing such large projects?**

-We were pleased to hear that the Government of Mongolia and Rio Tinto reached an agreement earlier this year on many longstanding issues. We hope that the Oyu Tolgoi project will move ahead in a constructive manner for the mutual benefit of all parties and for the Mongolian people.

Moving forward, it would be important to note that foreign investors value predictability in Mongolia's policy frameworks and laws. Investors also value ►

► protection against discriminatory and arbitrary practices. Predictability, transparency, and reliability are core elements of a solid investment environment, which must be supported by adherence to the rule of law and the independence of the judiciary. Respecting these principles will position Mongolia as a more preferred destination for foreign direct investment in the eyes of foreign investors.

**-Scaring a big investor is the main reason to drive away other potential investors. In the past, have Canadian investors been skeptical of Mongolia and changed their minds over the Oyu Tolgoi dispute? What are the challenges in inviting Canadian investors to Mongolia?**

-The uncertainty surrounding the outcome of the Oyu Tolgoi dispute, coupled with geopolitical risks, has caused Canadian investors to be more cautious with respect to their exposure to Mongolia. As noted above, Canadian investors want to ensure that their investments are safe and free from political interference. With major issues related to Oyu Tolgoi now resolved, Canadian investors can look at Mongolia with more certainty. That said, it has been many years since Mongolia issued new mining exploration licenses, so it may take time to build back the confidence of foreign investors in Mongolia.

One of the key challenges will be addressing the lack of awareness among potential investors of Mongolia and the sectors of opportunity that Mongolia offers. Mongolia is a relatively small market and more proactive efforts will be required to promote Mongolia and its investment potential to international investors. A second key challenge is diversifying foreign investment and expanding it into sectors outside the mining sector, such as agriculture, infrastructure, and renewable energy.

**-Are Canadian investors interested in investing in the non-mining sector of Mongolia? If so, in what sectors do they want to invest?**

-As we discussed earlier, Canadian investment in Mongolia has primarily been concentrated in the mining sector. Mongolia offers potential in many other sectors, and we would like to see more Canadian companies consider becoming engaged in areas such as renewable energy, agriculture, and infrastructure. As you know, Canada and Mongolia have a lot in common in terms of geography and climate. We are both northern countries with four seasons and harsh winters. Canadian companies have

a wealth of expertise in agriculture, construction, and infrastructure development that is particularly suited to Canada's geography and climate, and this Canadian expertise would be very complementary to conditions in Mongolia as well. I believe that we need to do more to build on these commonalities between Canada and Mongolia.

In 2017 Canada and Mongolia signed a comprehensive bilateral investment agreement, also known as the Canada-Mongolia Foreign Investment Promotion and Protection Agreement (FIPA). The FIPA supports the efforts of Canadian and Mongolian businesses to explore and expand investment in both our countries. This agreement is not specific to the mining sector, and the hope is that it will help facilitate investments in other sectors as well.

**-Mongolia is making a huge effort to reform its investment environment and began updating its related laws. What should Mongolia pay attention to in order to become an investor-friendly country?**

-As previously mentioned, predictability, transparency, and reliability are core principles that must be supported by adherence to the rule of law and the independence of the judiciary. Factors to consider are the business environment, costs and taxes, the competitiveness of the workforce, and stability.

Evidence from around the world suggests that having appropriate policies, infrastructure, and skill base to take advantage of foreign investment will also contribute to becoming an investor-friendly country. Mongolia should also increase efforts to improve its "Ease of doing business" ranking (Mongolia is currently ranked 81), as well as its corruption perception index (Mongolia is ranked 110 on Transparency International's index). These are all factors that investors consider.

**-Foreign investment is an important development factor for any country. How much has foreign investment contributed to Canada's development? Could you please share some of the experiences of how Canada successfully attracted foreign investment?**

-Yes, certainly. Foreign direct investment is important for Canada and contributes to Canada's economic growth and long-term prosperity. That's why attracting foreign direct investment into Canada is one of the mandates of the Embassy of Canada to Mongolia—and is a mandate of all of Canada's embassies around the world. ►

*Moving forward, it would be important to note that foreign investors value predictability in Mongolia's policy framework and laws*

► I can give some figures that may help paint the picture of how foreign direct investment contributes to Canada's economy. Foreign controlled companies in Canada account for:

- 18% of total corporate assets
- 30% of operating revenues
- 41% of research and development (R & D) business expenditures
- 13% of jobs in Canada

Canada's competitiveness in attracting foreign direct investment comes from Canada's fiscal soundness, resilient economy, low cost and low tax environment, and Canada's highly educated and competitive workforce.

Here are some of the ways Canada attracts foreign investment. Canada fosters innovation by supporting private-public collaboration through our Supercluster program in five industry-led sectors for a total of \$950 million in support by 2028. Further, Canada has a strong and stable banking sector. Canada's banks continue to be among the world's safest and most dependable ones. In addition, Canada is a G20 leader in social progress and has been rated as offering the best environment in which to do business in the G20 for the next five years.

**-Let's change the topic to foreign trade. Since 2014, trade between the two countries has declined sharply. What could be the opportunities to increase trade turnover in the future?**

-Two-way trade between Canada and Mongolia is modest at around \$20 million per year. Canada exports around \$18.5 million to Mongolia and imports \$1.4 million from Mongolia. The decline in trade is partly due to the COVID-19 pandemic. Border closures, travel restrictions, and global supply chain disruptions have had a negative impact on Canada-Mongolia bilateral trade.

A lot of our bilateral trade is also concentrated in the mining sector. The mining sector will continue to be a strategic and very important sector for both Canada and Mongolia, but in order to grow our bilateral commercial relationship, we must also diversify and build linkages in other economic sectors.

A key focus area for Canada is in supporting the development of Mongolia's "green economy". In particular, this means supporting initiatives in areas such as green mining, green building, climate-smart agriculture, and traffic smart solutions. As we emerge from the pandemic, we expect bilateral trade to return

to historical levels, but we also expect growth as we diversify into new areas.

**-Mongolians know that the Government of Canada's International Development program has been an incredible contributor to the social development projects in Mongolia. In 2022, what are the main areas that the program will focus on?**

-We are proud that Canada is able to contribute to the social and economic well-being of Mongolia through our international assistance program. Canada has provided development assistance to Mongolia since 2012. In total, the Government of Canada has contributed approximately \$85 million in Official Development Assistance to Mongolia. Canada's development program is articulated around three themes: inclusive governance, gender equality and the empowerment of women and girls, and supporting growth that works for everyone. Our current international assistance to Mongolia is guided by Mongolia's Sustainable Development Vision 2050 and Canada's Feminist International Assistance Policy. Canada is currently funding four operational projects in Mongolia worth approximately \$25 million over five years.

Canada continues to support improved public sector management of the extractive sector in Mongolia through Mongolia: Enhancing Resource Management through Institutional Transformation (MERIT) project. MERIT is an eight-year project funded by Global Affairs Canada (2016-2024) that brings skilled Canadian technical expertise and fosters knowledge-sharing with Mongolian partners to increase the effectiveness and accountability of the extractive sector in Mongolia. The project works in four target aimags: Sukhbaatar, Dornod, Dundgobi, and Tuv, and focuses its capacity-building efforts on supporting better environmental protection, stakeholder engagement, and consultation, the development of small and medium-sized (SME) enterprises, as well as supporting gender-responsive budgeting practices. At the national level, the Project partners with the Ministry of Mines and Heavy Industry, the Mineral and Petroleum Authority, the Ministry of the Environment and Tourism, and other government institutions to strengthen the overall management of the natural resources sector in areas such as result-based management, gender equality, and gender mainstreaming, environment and policy planning and improving administration.

**Mongolia should also increase efforts to improve its "Ease of doing business" ranking, as well as its corruption perception index. These are all factors that investors consider**

► Going forward, MERIT will continue its work in human resource management, leadership change, results-based management, and promoting gender equality in public agencies, as well as supporting environment and provincial development and promoting community engagement and knowledge management. In March 2022, I was pleased to be able to participate in the Regional Mining Sector Development Conference in Sukhbaatar aimag, supported by MERIT, that aimed to promote dialogue on important issues between stakeholders at both the national and local levels. That month, I also participated in the Women in Mining networking event co-sponsored by MERIT and hosted by the Minerals and Women Association and Ministry of Mines, which focused on promoting women in decision-making roles in the mining sector.

Canada is also supporting the government of Mongolia in its implementation of the 2017 Civil Service Law. The Towards a Citizen-Centered Civil Service in Mongolia (2018-2022) project, implemented by UNDP, promotes effective human resource management using a gender lens and works to help develop and improve human resource processes and procedures to make a more effective and efficient public service that is supportive of its employees. Recently the project successfully implemented a Women's Leadership Program, advancing the professional and leadership skills of 150 women civil servants and facilitated the adoption of an "Action plan for gender equality in the civil service".

Over the course of the next year, the project will support the Civil Service Council in implementing a new gender equity strategy for the civil service; it will continue to work on aligning public servant job descriptions with a competency-based framework and train over a thousand human resource practitioners on how to avoid bias and stereotypes in hiring processes as well as other human resource functions and mechanisms. The project plans to carry out a national study on workplace sexual harassment in the summer as well as support a relevant study by the Human Rights Commission that aims to promote more women for managerial positions.

Canada supports two projects that focus on the important area of gender equality. The first is the Strengthening the Response to Gender-Based Violence in Mongolia project, implemented by the International Development Law Organization (IDLO) (2018-2022), which works to empower survivors of



*At the launch event of the Women's economic empowerment project*

***The strongest and most positive impressions have been made by all the wonderful people I have met. The Mongolian people are this country's greatest strength and that holds great promise for the future***

domestic and gender-based violence by helping them to access justice, claim their rights, and advocate against violence. This Project has prepared a Domestic Violence Trial Monitoring Toolkit and a Justice Sector Scorecard to help monitor domestic violence and related offense cases. It has trained lawyers and civil society actors on the application of the toolkit and monitored court hearings in 5 aimags and 4 districts of Ulaanbaatar. The Project also works to build the capacity of civil society organizations, or CSOs, working in this sector, through the establishment of a CSO Forum, designed to strengthen the coordination and collaboration of those working in this space for improved access to justice for victims. The project has helped to establish a domestic violence legal clinic at the Internal Affairs University and supports the Authority for Family, Child, and Youth in its public awareness efforts on promoting healthy family relationships, for instance through the [www.familycenter.mn](http://www.familycenter.mn) website.

For the coming year, the project will continue to support Government and civil society in building their capacity to address domestic violence and gender-based violence issues as well as support efforts to ensure proper implementation of the law on domestic violence. IDLO will continue to train officials from law enforcement and the judiciary on the application of a victim-centered approach.

The Women's Economic Empowerment (WEE) project (2020-2024) implemented by The Asia Foundation, will continue to enhance the capacity of civil society organizations working on women's economic empowerment issues in Mongolia to ►



*With Oyu Tolgoi female employees*

- ▶ improve their strategies, capacities, and coalitions. The project provides professional and quality skills development to aspiring women entrepreneurs in Ulaanbaatar and various aimags and will continue to promote policy reforms to improve the business environment and access to funding for women. In 2020, the project provided 50 emergency cash grants for selected women entrepreneurs to help them overcome pandemic hardships and supported 10 civil society organizations to implement projects that assisted women and girls who have been negatively impacted by the pandemic. The WEE project also completed an assessment of Covid-19 and its impact on Micro, Small, and Medium-sized women-owned enterprises in Mongolia. The project also carried out a capacity needs assessment of CSOs working on women's economic empowerment, and works to build their capacity in partnership with MONFEMNET. The project expanded its activities to Uvurkhangai aimag and is planning to open a Women's Business Center in Tsetserleg in the coming months.

**-As an ambassador, how do you envision bilateral relations will continue in the near future?**

-I envision that in the near future bilateral relations between Canada and Mongolia will continue to become even stronger and more mutually beneficial to both our countries. Next year, in 2023, we will celebrate the 50th anniversary of our bilateral relations. This anniversary will provide an excellent opportunity to reflect on what Canada and Mongolia have built together in the past, and on where we can work together more going forward. As democratic countries, our bilateral relations

***I believe that the future of Canada-Mongolia bilateral relations looks very bright and positive***

are built on the solid foundation of our shared values, including respect for the rule of law, and respect for human rights and fundamental freedoms.

Last year, in 2021, we held the 9th Canada-Mongolia Roundtable and we adopted the Roadmap for Comprehensive Partnership, which maps our way forward in all key areas of our bilateral relationship, including bilateral dialogue mechanisms, cooperation in multilateral forums, enhancing defense cooperation, building people-to-people relations, enhancing our commercial relationship, and continuing our support for Mongolia through our international assistance program, to support Mongolia's progress in meeting its Sustainable Development Goals. We are continuing to work together intensively in all these areas. This year, in March 2022, we held the first bilateral consultations between our Ministries of Foreign Affairs. This allowed a very comprehensive and deep discussion about many bilateral, regional, and international issues of mutual interest, and on which we will continue to cooperate. In short, I believe that the future of Canada-Mongolia bilateral relations looks very bright and positive.

**-At the end of the interview, could you please share your impressions of Mongolia with our readers?**

-Yes, I am pleased to do so. I have many wonderful impressions of Mongolia. The strongest and most positive impressions have been made by all the wonderful people I have met. The Mongolian people are this country's greatest strength and that holds great promise for the future. I live in Ulaanbaatar and I love exploring this city and its vibrant culture. But I have had the opportunity to travel around Mongolia too. I made business trips to Oyu Tolgoi, Erdenet, Bulgan province, Bayan-Ulgii, and Khovd. I also had a wonderful vacation at Khuvsgul Lake, which reminded me of Canada in many ways. On these travels, I met many wonderful people and I learned a lot about Mongolia's diversity, geographically, socially, and culturally. But Mongolia is a huge country, and I am eager to travel much more. As I mentioned earlier, I recently visited Sukhbaatar aimag to attend the Eastern Mining Conference co-organized by our MERIT project. I hope to travel more in the coming months.

This year I experienced a real Tsagaan Sar celebration for the first time. Learning about this important tradition, in which family is so important, was very special for me. Tsagaan Sar left me with many deep impressions. ■

## Ambassador

# Chai Wenrui: In a business environment, only the best can survive, not just the good ones

*Despite the slowdown in the global economic recovery due to the Covid-19 pandemic, as the Chinese economy recovers, its foreign direct investments (FDI) have risen sharply. And also, The People's Republic of China is on the top of the list of the Asian largest investor countries. Therefore, we had a talk with the Ambassador of the People's Republic of China to Mongolia, Chai Wenrui, about the best practices of attracting foreign investments and also the investment environment in Mongolia.*

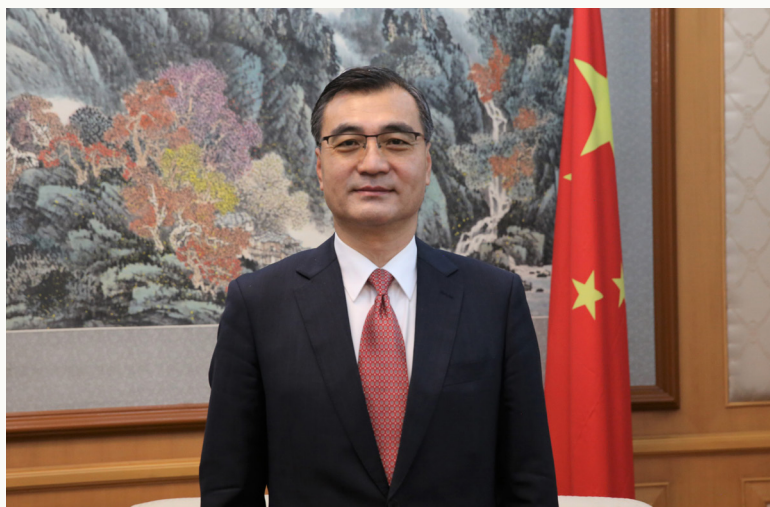
**-The PRC is a leading country in attracting foreign investments. For example, in 2020, it surpassed the United States as the largest recipient of foreign direct investments (source: UNCTAD). What is the "secret" that attracts so much foreign investments in China?**

- In 2020, China's foreign investments reached 144.37 billion US dollars, an increase of 4.5 percent over the same period the previous year. From January to November 2021, China attracted foreign investments to the total of 157.2 billion US dollars, an increase of 21.4 percent over the same period of the previous year.

In China, there are six main advantages as to why China is attracting foreign investments. First, it is constantly improving its social and political stability and investment environment, and continuously expanding opportunities for open development abroad. Second, China has become a global manufacturing hub and that is significantly related to the increasing demand for modern services.

Third, modern infrastructure such as transportation and communications is very well developed. The level of services in some sectors has reached the level of developed countries, which provides a good base for the development of service outsourcing. Fourth, China's macroeconomic growth is very rapid.

Fifth, foreign investors are increasingly interested in large markets. According to a study, more than 90 percent of foreign-invested enterprises are targeting the Chinese market, with the goal of "being in China is to tap into the Chinese market." More than 400 million of our 1.4 billion people now belong to the middle class, and the range of our consumer market, and growth potential



is beyond comparison to any other market. In addition, the number of foreign investors interested in China is increasing day by day due to the advantages of our country's industrial facilities, complete infrastructure and plenty of human resources.

Sixth, foreign investors see China as a stable country. According to a survey conducted by the Ministry of Commerce of the PRC, 93.3 percent of the more than 3,000 foreign invested enterprises are optimistic about the future development prospects.

**-A World Bank report states that the legal environment for investments and businesses in China is more favorable than ever over the next five to ten years. How has China created such a legal environment to attract foreign investments?**

-In order to improve the investment environment, our country extends a legal guarantee to foreign investors on fairness and equality. Second, it has done a good job of protecting the legitimate interests of foreign investors. The service mechanisms are also being improved. During the "Thirteenth Five-Year Plan" period, we passed and implemented the "Foreign Investment Law" and its implementation regulations, procedures for improving the business environment and other related legislation. In addition to providing legal guarantees to improve the business environment, we are taking steps to reduce licence requirements, innovate

**Our country extends a legal guarantee to foreign investors on fairness and equality**

**By the end of 2020, Chinese direct investments in Mongolia had reached 3 billion 240 million US dollars**

▶ on control systems, and provide high-quality services, and continue to improve the business environment. In a business environment, only the best can survive, not the good ones.

The 14th Five-Year Development Plan to Improve Foreign Investments proposes broader reforms aimed at reducing licenses, innovating control systems and providing high-quality services. This will update foreign investment regulations, protect the legitimate rights and interests of investors, tighten the basic status of competition policy, and promote fair competition between domestic and foreign enterprises.

**-Mongolia is also paying a lot of attention to reforming the investment environment and working to reform the law. What else do you think our country needs to focus on in order to become a more investor-friendly country?**

-The last few years have caused many serious problems to the world economy mainly related to the Covid-19 pandemic and we are still facing many challenges. The Government of Mongolia has gradually resumed its programs and supported industry by fighting against the pandemic while applying support for economic and social development. As a result, in 2021, the process of attracting foreign investment will gradually recover, and both investor expectations and confidence have improved.

It is very commendable that in recent years, the Mongolian government has paid much attention to improving the business environment and implemented policies on attracting foreign investments. It is necessary to revise and implement the Investment Law, provide equal conditions for foreign investors, and implement a policy to liberalize and facilitate investments. I think that the competent authorities of Mongolian need to improve their services to foreign-invested companies, treat them fairly, protect their legitimate interests, and improve visa services. We also want them to take effective measures to increase the quota of foreign labor, to continue to improve the business environment, and to stabilize the expectations of foreign investors and confidence in Mongolia.

**-China is one of the leading countries in terms of investment in Mongolia's mining and construction sectors. In which sectors are Chinese investors interested in investing in Mongolia in the future?**

-I am glad that the strategic partnership between China and Mongolia is deepening. At this time, boosting and strengthening investment cooperation between the two countries is important to deepen

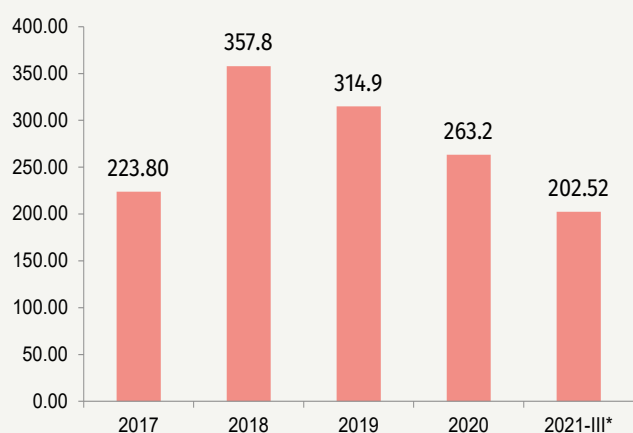
the China-Mongolia economic and trade cooperation and support regional economic integration. China and Mongolia are geographically adjacent, have easy access to transportation, and are economically complementary. China has always been an important source for Mongolian investment. Mongolia is an important backbone of the northern line of the development of the "Belt and Road Initiative".

According to the statistics from the Chinese Ministry of Commerce, by the end of 2020, Chinese direct investments in Mongolia had reached 3 billion 240 million USD. In terms of where investments are made, Chinese investment in Mongolia is mainly concentrated in the areas of mineral exploration, mining, construction materials and energy. Of this, the majority is invested in mineral exploration and mining. In particular, Chinese investment in Mongolia is mainly concentrated in resource-intensive and labor-intensive industries, while investment in technology-intensive industries such as finance and smart manufacturing is relatively low, and the investment structure is relatively one-sided. Beside the Mongolian mining sector, Chinese investors have always been interested in investing in catering, tourism, animal products, textiles, clothing, as well as information and communications. We hope that in the future, many Chinese-invested enterprises will enter into these sectors and create new important events in China-Mongolia investment cooperation.

**-What are the difficulties for Chinese businesses to do business in Mongolia? How many complaints does the embassy receive from Chinese investors regarding Mongolia?**

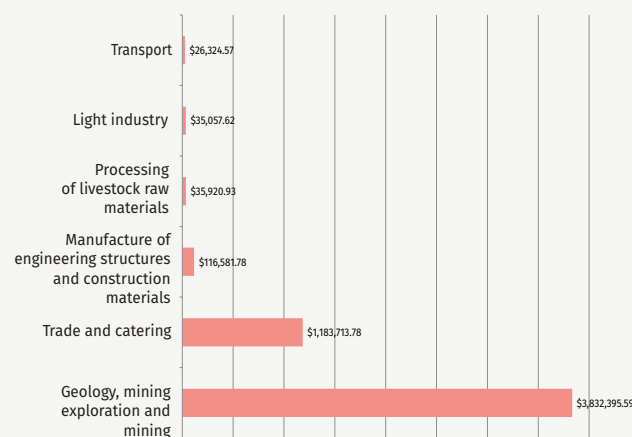
-The political situation in Mongolia has generally stabilized, the legal and business environment has improved, and Chinese-invested enterprises are increasingly interested in investing in Mongolia. Chinese-invested enterprises operating in Mongolia are generally in a healthy state, but some of them face certain challenges. Our embassy rarely receives complaints from Chinese-invested enterprises. However, there are some complaints from mining companies about environmental inspections, tax audits, and social insurance. There are also issues such as illegal interference by some NGOs in the normal operation of an enterprise. By liaising with competent authorities at the embassy and at company levels and protecting the legitimate interests of investors, it will increase the confidence and motivation of Chinese companies to invest in Mongolia. ■

### Inflow of direct investment from China to Mongolia (million USD)



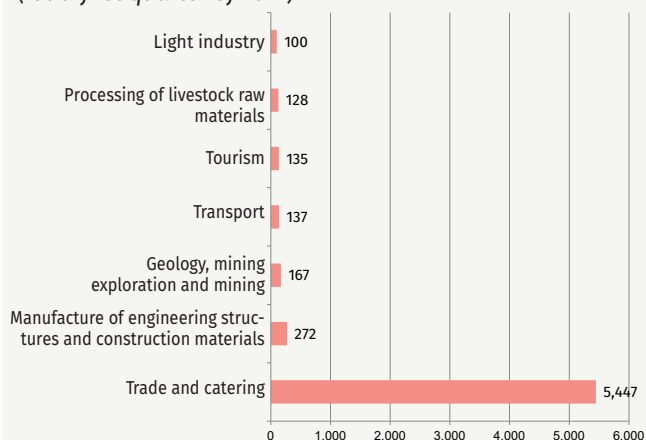
Source: Statistical Information Service

### Chinese direct investment (by industry) 1990-first quarter of 2021



Source: Ministry of Economic and Development

### Chinese companies registered in Mongolia (1990-first quarter of 2021)



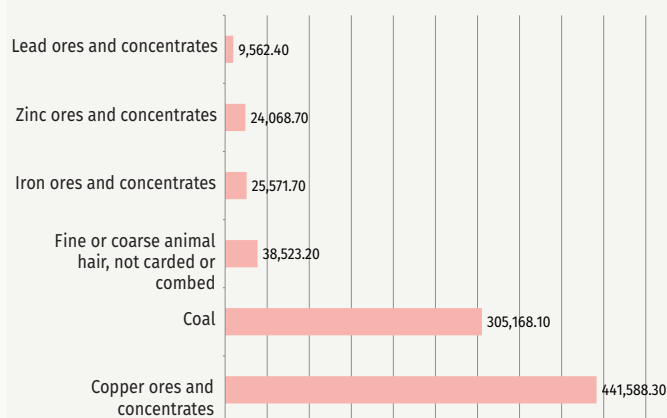
Source: Ministry of Economic and Development

### Foreign trade turnover (thous.USD)



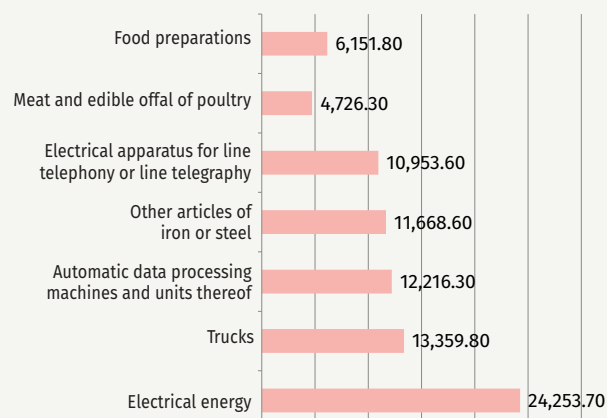
Source: General Department of Customs

### The main product exported to China (first 2 months of 2022)



Source: General Department of Customs

### The main product imported from China (first 2 months of 2022)



General Department of Customs

## 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 ►**

► **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 ►

***I think Mongolia needs to enhance its air transport capacity and utilize air transportation more to drive industrial recovery***

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

▶ 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?**

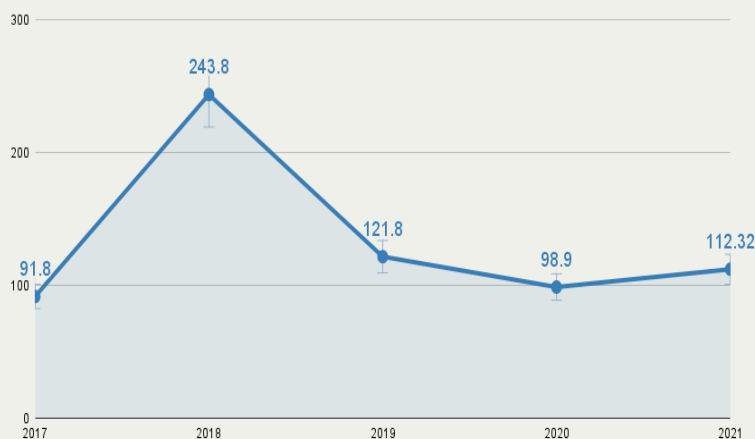
-For example, they point out that the additional cost, which they have never incurred in investment projects in other countries before, is quite high. The number of documents to collect and permits to acquire is also high. The investors mention that administrative activities come to hold in case the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

**Japan's FDI in Mongolia**

million USD



Source: BoM

## Projects

# Development incentives – Mega projects

By 2030, globally, investment in energy, infrastructure, mining and real estate will double.

Developing countries maintain the sustainability of their development by identifying key sectors of the economy which attract foreign investors. In our country, 70 percent of foreign direct investment is related to the mining and oil sectors.

There are obviously several reasons to attract foreign investment in the mining sector. However, infrastructure issues inevitably arise in the development of this sector.

Infrastructure development in the mining sector has opened many opportunities attracting potential investors. Experts emphasize that attracting investment from both neighboring and distant countries in the areas of construction of energy, power plants, roads, transportation, manufacturing and irrigation systems is entirely possible.

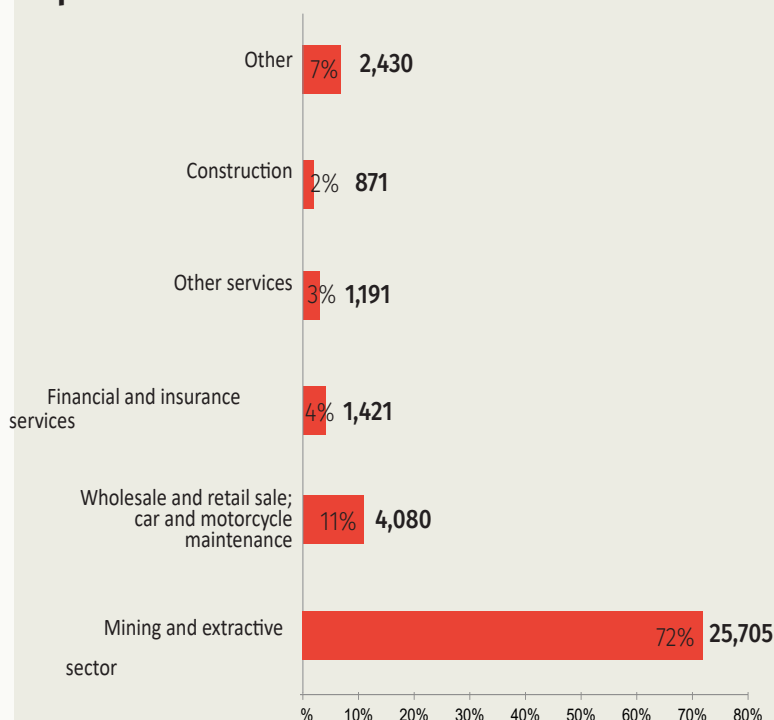
The investment in mega-projects and funding per project has been growing rapidly in recent years. According to a study by the McKinsey Institute, global investment in energy, infrastructure, mining and real estate is expected to double by 2030. The study states that, investment in infrastructure, mainly concentrated in mega projects, is expected to reach an average of US \$3.4 billion per year.

Internationally, a project which requires an investment of more than US \$1 billion is a mega project. However, in some countries, projects which require more than 500 million U.S. dollars are called a mega project. In Mongolia, either project can be considered a mega project due to our smaller population and market size, said former Prime minister M. Enkhsaikhan. The mega project however differs from simple projects by the results, duration, negative consequences of failure and the financial capabilities of the implementer.

There is a common tendency for mega-projects to go over the estimated cost, run past the forecast due date and produce less than initially projected. A survey by

the Research and Statistics Department of the Bank of Mongolia mentioned that this tendency has been termed as “Iron law of mega project”. We need to develop a good plan and do a lot of research without rushing while still managing to implement the mega projects on a timely basis. In order to attract foreign investment, there is a need to make a strong legal framework and create a politically risk-free environment while solving problems prudently. There are many factors which affect a mega project. The most important are policy planning, the readiness of human resources, project management and the legal environment. ►

### Top 5 sectors that attract FDI



Source: National Development Agency

*A construction contract of the plant will be signed with the contractor in the first quarter of 2022*



► In 2013, Mongolia re-enacted the Investment Law which has to date been amended six times. Each time the law was amended, there were superficial changes made regarding structural changes, such as changing the terminology of the law and changing the institution in charge of investment.

Regarding the on-going need to amend the Investment Law, Kh. Batjargal, Head of the National Development Agency, said, “This is not just a matter of changing a few provisions of the law. It is about the comprehensive renewal of fundamental change of the investment. In addition to the Investment Law, the Tax Law, the Land Law, and the Diplomatic Service Law also need to be amended.”

Amendments to the Investment Law are just the first steps of what needs to be done. There is no need to pay attention to the \$100,000 limit in investment in the current law. What matters most is how many jobs the investor has created in Mongolia, how much tax they have paid, and how stable the operation is. Attracting investment in mega projects will be easier once all these issues are realized and solved comprehensively.

Although there are over 30 projects which highly impact the social, economic and state budget, even these projects have a budget of less than one billion USD in our country. Among them are many mega-projects which could possibly attract investment of more than USD 1 billion. Feasibility studies for some of them are currently in progress and other mega-projects are at the stage where an investment agreement is ready to be signed.

### **Tavan Tolgoi Power plant construction project**

Oyu Tolgoi is one of the few projects which attracted foreign investment during the pandemic. The project purchased electricity to the amount of USD 650 million from China's Inner Mongolia power system from the years 2016 to 2020. This indicates that approximately US\$160 million is spent on energy every year. If the Tavan Tolgoi power plant is put into operation, the same amount of funds will be retained in Mongolia.

This project will also provide reliable mining energy for South Gobi and save coal transportation costs. In addition, this is an important project which has a positive impact on the development of small and medium-sized enterprises, creates job opportunities and reduces the loss of transmission lines. The government will focus on launching this project in the near future, said Tavinbekh.N, Minister of Energy, in his statement earlier this month. In this context, an international tender has been announced for 90 days to select the contractor for the construction with a turnkey agreement of the Tavan Tolgoi power plant. Subsequently, once the tender has been successfully organized, a construction contract will be signed with the contractor in the first quarter of 2022.

The signing of this agreement will result in 450 MW new thermal power plants and 220 kV overhead transmission lines being put into operation in 2025. Erdenes Tavan Tolgoi will fund 30% of the project and the remaining 70% will be funded by bidders on the basis of government guarantees.

The successful implementation of this project will ►

***In Mongolia, either project can be considered a mega project due to our smaller population and market size, said former Prime minister M. Enkhsaikhan.***

- surely send a message to investors that will have a positive impact on the future of many unimplemented projects in the energy sector.

### Copper Smelting and Processing Plant Project

According to the preliminary feasibility study of the copper smelting and processing plant, the project requires an investment of USD \$190-210 million to generate funds and as the result of implementing this project, 1 million tons of copper concentrate 57,000 tons of pure cathode copper, 5.7 tons of gold, and 57 tons of silver. Refined gold and silver will be supplied to the Bank of Mongolia, with estimated sales of US\$1.6387 billion.

With the commissioning of the Oyu Tolgoi underground mine, 180,000 to 200,000 tons of copper concentrate will be produced annually from 2022 to 2025 and 99,999 percent gold and silver will be produced. Trading copper in a fully processed form rather than a concentrated form is important as it increases the foreign exchange reserve.

China alone accounts for 45% of copper consumption. Therefore, Chinese investors are highly interested in investing in copper smelting plants according to the project unit. At present, with the purpose to solve the investing and financing issues, investor selection is processed in accordance with internationally accepted methods. Seven companies from China, Germany and Japan have submitted bids. In the sense of ensuring the supply of raw materials, a copper smelting plant can attract many investors. The government tends to deal with an agreement holding not less than 10% of the company's shares without an investing cost and the project unit is planning to organize the selection in the first quarter of 2022.

### Coal bed methane project

The state-owned Erdenes Methane LLC started exploring for coal bed methane in the Tavan Tolgoi deposit in 2017. The study determined that there was a methane reserve in the Tavan Tolgoi coal deposit. In 2019, an exploration was conducted by Erdenes Methane LLC which an Australian company, Jade Methane LLC funded 100-percent without any cost to the state budget. As a result of the open tender, the project unit emphasized that Australia's Jade Methane LLC is obliged to complete the exploration work within three years in accordance with the financing agreement. Once the reserves are determined, methane can be mined

from the coal bed, a certain amount of energy can be supplied to the country, and then exported, creating numerous job opportunities and completely solving the problem of urban air pollution.

Jade Methane LLC raised US\$5.4 million by issuing a share on the Australian Stock Exchange last October. The project administration emphasizes that the raised funds may be utilized only for project related purposes according to the stock exchange rules. Also, the investor's registration on the Australian Stock Exchange should be viewed from two perspectives. First, the activities of investors and the expenditure of any funds have become more transparent and open. In other words, all costs associated with the project become "glassy". On the other hand, registering gives companies the right to openly trade and increases the financial capabilities of investors. Therefore, the necessary funds of the project and the conditions to continued success are being provided. ■



*Investor selection process of the copper smelting and processing plant project is underway.*



*Jade Methane LLC started its drilling to determine a methane reserve on 28 November.*

## Asian Development Bank

# Pavit Ramachandran: Building capacity for sustainable growth and green growth is supercritical for Mongolia



*“Mongolian Economy” magazine spoke with Mr. Pavit Ramachandran, Asian Development Bank Country Director for Mongolia.*

**Strengthening transparency around capital investments and ensuring non-discriminatory practices against foreign investors are factors that need to be addressed**

**-This year marks the 31st anniversary of Mongolia and Asian Development Bank (ADB) partnership. As the largest multilateral development partner that has supported and cooperated with Mongolia’s social and economic development, what is your opinion on the current state of the investment climate in Mongolia?**

-Mongolia is a peaceful and vibrant democracy. As a frontier market, Mongolia has resource abundance in the mining sector, and also has a lot of very important cultural and historical niches which are advantageous, and a lot of opportunities for investors. At present, the investment climate

is quite challenging, exacerbated by the current economic situation because of the war in Ukraine and the COVID-related border restrictions in the south with the People’s Republic of China. However, I think these fundamental advantages still persist, and Mongolia is well positioned to capitalize on these advantages looking ahead, but there are a few important considerations to keep in mind.

First, Mongolia’s economic model is premised on exporting minerals, and importing almost all other goods; this means the government, in practice, imposes very few market access barriers. But it’s important to step back and look at the investment outlook from the standpoint of the overall macroeconomic picture. Mongolia has historically been susceptible to frequent booms and bust cycles triggered by FDI inflows being closely ►

► associated with commodity price fluctuations. The FDI inflows, as a result, have also been very volatile. Ensuring a stable macroeconomic environment with built on sound fiscal and debt parameters is essential to send the right signals to investors. Political stability, predictability, and strengthening the legal environment and regulations, as well as implementation and enforcement of laws are also crucial for Mongolia to really attract FDI in sectors, beyond mining. If you look globally and regionally, how countries attract FDI has almost become akin to an art form. Strengthening transparency around capital investments and ensuring nondiscriminatory practices against foreign investors are factors that need to be addressed.

Mongolia imposes very few restrictions on capital inflows and does not restrict international payments and transfers. However, the capital market itself is quite underdeveloped here in Mongolia, with very little ability to trade in futures or derivatives. ADB helped the state-owned Mongolian Stock Exchange in the early days since the 1990s, through advisory support. This is the main venue for domestic capital and portfolio investments, but the banking system remains still quite concentrated, and most of the financing comes only through the banks, and very little goes through the capital markets outside. So, this presents another challenge, i.e., in terms of strengthening the financial sector.

Last point is corporate governance. If you see companies that have attracted investments, these are companies with strong track record of corporate governance, including companies where ADB has invested - both banks as well as private companies. Strengthening corporate governance is important and companies that are well managed, that are publicly listed on the Stock Exchange are likely to get more investments going forward.

**-In the years since Mongolia became internationally open and transitioned to a market economy, it has attracted a significant amount of investment from more than 120 countries. However, no major development projects other than Oyu Tolgoi have been implemented during this period. What do you think are the main reasons why investors are so reluctant to invest in large projects?**

-Economic diversification is important. But in Mongolia's context, it does not mean totally neglecting the extractive sector or the mining sector, because the mining sector will continue to remain very important. Since 2011, when the large strategic mining deposits were really exploited, we have seen a lot of FDI flowing to the mining sector and this will likely increase now, once the Oyu Tolgoi's underground mining starts its operations sometime next year – in the near term, the dependence on mining will not reduce, it's actually going to increase. In this regard, I want to highlight two points.

First, is to focus on adding more value in the extractive sector. As we know, mining is a capital-intensive sector, it is not a job inclusive sector. It creates less jobs than other sectors such as services and agriculture. We need to strengthen the value linkages within the mining sector, which means focusing more on domestic processing. This will also need forging of stronger linkages between the foreign and domestic companies involved in the mining sector. In the non-mining sector, the real constraint is the ability to attract more FDI, particularly efficiency seeking FDI, this will need diversification and expansion of the export basket. Focusing on the mid-stream and down-stream segments of the agriculture sector (meat, dairy and cashmere), in particular, will allow for more forward and backward linkages to be developed within the sector, and job creation.

Second, is the issue of macroeconomic stability. The growth forecast and prospects will depend on the government's continued focus on fiscal consolidation to rein in public debt (particularly as the current crisis begins to abate) by strengthening domestic resource mobilization and through prudent public expenditure reforms. Mongolia's medium-term growth prospects are positive, supported by growth in private consumption and continued steady investment in mining and manufacturing.

**-Could you say more on the impact of policy stability, in terms of attract investment?**

-Historically, one of the big things that investors look at is political stability and policy continuity. In the case of Mongolia, there has been a lot of volatility in terms of changes in government and associated political and bureaucratic transition. That has also unfortunately meant that there's been a lot of changes

**Focus on adding more value in the extractive sector. As we know, mining is a capital-intensive sector, it is not a job inclusive sector**

***The growth forecast and prospects will depend on the government's continued focus on fiscal consolidation to rein in public debt by strengthening domestic resource mobilization and through prudent public expenditure reforms***

- ▶ and lack of predictability in policies, and ad hoc policy implementation and enforcement. So, I think what investors really want to see is keeping your promises. Saying that you will enforce your policies, you will implement your policies as designed and you will deliver the reforms that you set out to do right.

I believe, Mongolia now has a very good foundation, because this current government has been in power for four years. They have shown leadership by engaging with the private sector, and the business community; they have really also articulated the desire and the commitment to attract private investments. For example, on the New Economic Revival Policy, it is amply clear that many of these projects will need significant private investment to materialize; they cannot only be delivered through public sector, some of these planned infrastructure and 'greenfield' investments will also need to be delivered public private partnership arrangements.

There are a lot of things that Mongolia can already build on to attract FDI. There is renewed momentum with the creation of the new Ministry of Economic Development, including establishment of an agency within the Ministry focusing on FDI mobilization and retention. There is also a new ministry for Digital Development and Communications, which is timely, given its mandate to leverage potential in Mongolia for digital technology investments and digital transformation across sectors, including in e-commerce, fintech, and banking sectors. Mongolia can also leverage or access other tools like business registration system, and aftercare services for investors to make it more appealing. These are things that have already been trialed at various levels and can be rolled out at a larger scale.

**- The international economic crisis continues. Developing countries are implementing a number of policies to make their economies more resilient, with a focus on attracting foreign direct investment. Mongolia lags behind other countries in the region in this regard. How should we work in this time of pandemic to attract foreign investment? What are our strengths and weaknesses?**

-Unfortunately, Mongolia has been buffeted by

twin external shocks - the war in Ukraine has affected trade and supply chains, and the persistent border restrictions since October last year with the People's Republic of China has also directly impacted trade and revenues. Being a landlocked trade dependent economy, Mongolia has been particularly affected, and is trying to navigate as best as possible, through this crisis. Looking ahead, I think the first thing to say is Mongolia needs to optimize its macroeconomic and fiscal management. There is recent precedent for this; the period from 2017 to 2020 was a strong period in terms of how Mongolia managed its macroeconomic situation. They reduced their debt. They built up a small number of external buffers. They even ran a small fiscal surplus. So, I think the first thing is, as soon as this crisis starts to abate is that, Mongolia needs to embark on fiscal consolidation, they need to focus on more targeted social expenditures, gradually loosen the monetary policy, and that will automatically, I think, address some of the inflationary pressures, and inspire confidence and send the right signals to the market.

The second issue is around economic competitiveness. The cost of reliable infrastructure provision, both 'hard' and 'soft' infrastructure, including trade facilitation systems and customs procedures, processes to reduce permissions, clearances required for business registration and trade, electric power supply and utility costs for companies is also a factor that businesses consider in weighing up their operating costs, and overall investment potential. ADB conducted a study which shows that 10% reduction of time involved in freight transport/clearances at the border would expand trade and raise the share of trade in Mongolia's GDP by 0.65 percentage points. This shows that there are significant linkages between actually improving efficiency of border crossing points and their contribution to trade. ADB has been involved in supporting the establishment of Customs Automated Information System (CAIS) to reduce the dependence of paperwork and improve efficiency of customs approvals. All of this has also an impact in improving overall foreign exchange inflows.

One area where ADB has been involved for a very long time is on regional cooperation on trade ▶

► facilitation. We have a program called the Central Asia Regional Economic Cooperation Program (CAREC), and we found that by harmonizing customs procedures across both countries and on the border, and by aligning your health quarantine surveillance testing measures, there could be tangible improvements in trade flows. For example, in the Zamiin-Uud economic zone, we're trying to do is set up a single window trading system that should reduce the need for paperwork, additional permissions, and clearances. We are also looking at a number of priority border crossing points for investment in the future, to upgrade their operations, which in turn, should invigorate trade and investment.

**- In which areas does the Asian Development Bank conclude that Mongolia should attract foreign investment as a priority? Are there any studies and recommendations in this regard?**

- Let me highlight four areas. First on, agriculture and food production. Although, Mongolia is ranked among top 15 in Asia in terms of food self-sufficiency index, this mask a number of untapped opportunities. Meat self-sufficiency is very high, but Mongolia imports more than 45% of its vegetables. There is also significant potential around meat processing given its linkages to upstream and downstream segments of the value chain – of the roughly 550,000 tons of meat produced in Mongolia, only about 5% are produced at processing factories. So, meat, cashmere, dairy are important sectors.

The second area relates to green investment. The President of Mongolia has announced, and Mongolia has committed to the one billion tree initiative, Mongolia represented by President Khurelsukh, demonstrated leadership in the last Climate Summit. This provides an opportunity to invest not just in tree planting, but also in sustainable forestry and land (and water resource management), involving the private sector and local communities. There is already a lot of momentum around green financing, with the development of a taxonomy for green finance already approved by the Financial Stability Commission, and the Mongolia Green Finance Corporation already operational, within climate fund secured from the Green Climate Fund. ADB is very active in the area of mobilizing and developing green investments –

we are, for example, working on a number of projects to accelerate the transition and facilitate the uptake of renewable energy. The current focus is on adding storage to enable greater renewable contributions. A battery energy storage project is currently under implementation, and we have a pumped storage hydropower project in our pipeline for 2025. The battery project will maximize contributions of existing renewable generators, currently curtailed. The storage hydro could enable the addition of 1.3 GW of new renewable generation as lower-cost solution than coal. Currently, we are also in the final stages of development of a large program on aimag and soums development focused on rangeland and pastureland management countrywide involving the Green Climate Fund and the European Union. In short, there's a lot of potential to attract green finance, through concessional funding, but also commercial investors and institutional investors (for example, pension funds, insurance companies) for projects that are commercially viable and have social and environmental returns.

The third area I will touch on is tourism, particularly in eco-tourism, and adventure tourism, in other words, niche tourism. The focus has not been high-volume tourism because Mongolia will never be able to compete on numbers, but within specific market segments, Mongolia can really attract premium tourists, and this presents a real opportunity. As part of our focus on supporting the tourism sector ADB has adopted a medium-term programmatic approach around supporting community-based and nature-based tourism development in Western and Eastern Mongolia.

The last one is ecommerce, and I think there's a lot of potential to do more on ecommerce because Mongolia has the basic ingredients – a high smartphone penetration rate, and an advanced fintech and mobile payment system. More than 60% of the population regularly use the internet and the use of mobile phones is at even higher level. But, less than 25% of the population actually use ecommerce for purchases, significantly less than other countries in the region. This is another area that represents growth potential, and the potential to attract foreign investment. ■

**ADB has been involved in supporting the establishment of Customs Automated Information System (CAIS) to reduce the dependence of paperwork and improve efficiency of customs approvals**