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MONGOLIAN ECONOMY



America is my home country,
but Mongolia is my heart country

Pietro Doran: Interested in
attracting the Korean institutional
investors to Mongolia

2011. June. № 005

Mongolian economy and business magazine

Mongolia: A Lot More Than Just Mineral Resources?



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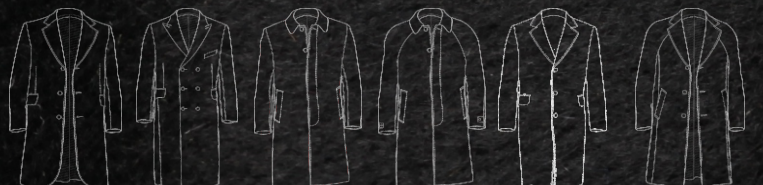
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Dear Readers,

In the eyes of foreigners, Mongolia is rapidly changing. The number of tourists coming to see Chinggis Khaan's Mongolia since the democratic winds of the 1990s is increasing year after year. Of course, our country's virgin nature captures their imagination, as well as our ancestors' legacy, our traditions, culture and nomadic customs. World renowned The Three Games of Men, the cradle land of dinosaurs, the most pristine waters of the Khuvsgul Lake, and the Gobi region are all amazing sites. In this edition, you will find a proposal to establish a large-scale dinosaur

museum, which would significantly increase the number of tourists travelling to Mongolia.

Around the world, many people wish to visit Chinggis Khaan's birthplace despite their lack of knowledge on the country. Jack Waterford, who studied Mongolian history and the author of "Genghis Khan and the Making of the Modern World," attracted global attention. Our journalist's interview with the writer of the book, who diffuses the "smell of Mongolia" in his home, will undoubtedly interest many people. He welcomed journalists with treats such as dried curds and dried cream crust of milk. "I like Mongolia very much and as time passed by, I realized that if I did not write about Mongolia, no one else would explain the world about its history and how modern Mongolia was created. Mongolia is not an isolated country lost in the steppes, but the center of the modern world," he says.

In the MEM's column on capital market, you will find a series of article on institutional investors and an interview with the largest investment banker of the Republic of Korea in which you will learn that Mongolia's capital market development is reminiscent of the situation in the Republic of Korea 20 years ago.

We all know that car speeding can lead to disastrous events, so what will the speed of the country's rapid economic development bring? You can read about it in our journalist D. Munkhchimeg's article "Best of Luck."

In this 5th edition, MEM also touches upon the issue of green development in an article on the way the government pays little attention to the transfer of the country's economy from "brown" to "green."

In addition, MEM also touches upon the current state of land reclamation; one of the most important issues at a time when everyone talks about nothing else but mining.

The article on "Water Polluter's Fine" reflects on how the value of "white gold" is being lost and how lack of major policies and regulations to promote and protect waters in Mongolia is likely to lead to disastrous consequences in the future. It seems it is time for the government to show its iron fist in making the industries and individuals polluting the country's "white gold" accountable for their actions.

Yours faithfully, D.Bekhee

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Main topic

Discover Mongolia

The fact that the number of international tourists increased 37 times worldwide to exceed 935 thousand in just sixty years' time stands as a proof that tourism business is acquiring force. One person in six in the world regularly travels to foreign countries or tours once a year. In order to attract as many tourists to Mongolia and generate as much money into the economy as possible, Mongolia is facing a dire challenge as competition is fierce. With the beginning of the tourist season, the Mongolian Economy Magazine has devoted its 5th issue to its "smokeless industry."

It is stated that the establishment of the Tourism bureau in 1954 launched the roots of modern tourism in Mongolia. It is likely nobody would deny that although the number of tourists and business entities conducting operations in the tourism sector has mushroomed since, its contribution to the country's economy is still insufficient. What can be done when government officials, who promised to invest profits from the mining sector towards the development of other sectors, sit idle? How tourism in Mongolia has been hit by dutch disease with the expansion of the mineral resources exploration and exploitation can be read about in the article "Mining operations endangers smokeless industry."

It can be observed that resource rich countries, knowing that someday all their resources will be exhausted, cultivate other niches of development such as tourism by injecting substantial amounts of capitals. Why is Dubai spending billions of US dollars to create enormous projects such as the Emirates Towers, the Burj Khalifa, the Palm Islands? Because once its reserves of black gold are exhausted, only tourism will save Dubai's economy and provide jobs

and incomes for its citizens.

On the international tourism arena, "Discover Mongolia" was the motto chosen to promote the country natural beauty and nomadic lifestyle. However, the mining sector has "robbed" the "smokeless industry" of its motto and conducts large international investment forums under the same title "Discover Mongolia", which earned its place in the world. Actually, tourists coming to Mongolia have a lot to discover. Mongolian ancestors have left an astonishing history and culture and the country possesses mind blowing sceneries which will appeal to anyone. Furthermore, the Gobi sands hide extremely valuable paleontological findings, and Bayanzag (Flaming Cliffs), which is situated in the Bulgan soum of the Umnugobi aimag, constitutes a cradle land of dinosaurs' fossils. MEM would like to remind its readers that in 1920's, a team sent by the American Museum of Natural History under the leadership of Roy Chapman Andrews introduced to the rest of the world all of these discoveries.

So let's hope tourists will come to Mongolia again and again, each time discovering new aspects, and each time returning home with a sense of satisfaction. Time has come for Mongolia to stop putting all of its attention into exploding and mining its land, and to realize that there are also opportunities and profits to be made in developing the "civilized" sector of its economy by exhibiting its nature's attractions. With the motto "Discover Mongolia," it is time not to promote activities for exploring and extracting mineral resources such as copper, gold and coal, but instead to focus on developing its tourism "smokeless" industry and its limitless resources. ■

Challenge

“Affordable Mongolia” Lags Behind World Development

Are Mongolia and its tourism industry - which spends the majority of the year dormant - ready to welcome tourists as the season is about to start? Yes indeed! And tourists are likely to be taken to the usual nearly-collapsing building where they will enjoy traditional horse-head fiddle and throat singing performances, before to visit the Natural History Museum, whose operations, by the way, were suspended by the General Agency for Specialized Inspection. Of course, they will be taken to Zaisan Tolgoi, the Gandan Monastery and the monument to Chinggis Khaan and his imperial mounted guards. They will then leave Ulaanbaatar to see Yoliin am, and Erdene Zuu. These are Mongolia's most common – and only - tourist destinations. Similarly, Mongolia also lacks events to attract tourists. Its only events include Naadam, Lunar Year, Nomads' Day festival, Golden Eagle festival, Tsaatan festival, and the Thousand Camel festival. These are all of the festivities Mongolia has to offer. So, how rapid is the expansion of Mongolia's tourism industry - an industry dubbed as a mean of “smokeless production” and “invisible export” – compare to the rest of the world?

The World Travel and Tourism Council (WTTC) noted that in a2011, USD652 billion shall be invested worldwide in the tourism industry; an amount which is expected to double and reach USD1.5 trillion in the coming decade. In other words, tourism has transformed into an international business venture and countries are racing to secure their share of the pie. However, Mongolia seems to be progressing at the speed of a turtle...

The UN World Tourism Organization (UNWTO) informed that if international tourist arrivals merely reached 25 million in 1950, were up to 935 million last year. In addition, it was pointed out that profits generated by the tourism industry in 2010 reached USD919 billion, or an increase of 5% from the previous year. The tourism sector has

turned today into in one of the largest sectors in the world, and one that has become a source of income for millions of people. According to a WTTC study, the so-called “smokeless industry”, supporting more than 258 million jobs worldwide and generating some 9.1% of the world's GDP. Furthermore, it has projected that its share in the world's GDP will increase by 4.2% in the coming decade and 65 million new jobs will be created. It has even been estimated that by 2021, one in ten people in the world will be employed in the tourism sector.

Each country has their own tourist attraction to appeal to world travelers, such as the Great Wall in China, Taj Mahal in India, Pyramids in Egypt, Eiffel Tower in France, the Statue of Liberty in New York, and so on... For other countries lacking such valuable historic creations, the competition is fierce to attract tourists. For example, Singaporeans drained their fetid swamps to create the Sentosa Island, Malaysia built a casino on the top of a mountain where the earth meets with

the clouds, and Dubai spent USD1.5 billion for the construction of the 828 meters high Burj Khalifa building. These are just some of the examples of the competition spurring among countries to attract parts of the 935 million world tourists. So what does Mongolia have to offer?

Take your backpacks and come to Mongolia!

Mongolia strives to attract tourists with the (over used?) concept of its virgin nature and nomadic lifestyle. Unfortunately, tourists coming to Mongolia can see all these “without spending a single dime.” Just outside of Ulaanbaatar, any Mongolian nomadic household is ready to open their doors to them.

The Vice President of the Mongolian Tourism Association Mr. N. Erdenebat has told the Mongolian Economy Magazine that generally and according to world practices, so-called backpackers constitute 20% of the total amount of tourists, VIP tourists 20%, and “mass tourists” who use the



Source: Mongoliatourism.gov.mn

» services of tour operators the 20% left. However, backpackers represent 30 to 40% of the total amount of tourists visiting Mongolia. After the flooding of these visitors whose travelling budgets is insufficient to spend five nights in hotels, the number of guest houses to offer a night for MNT 5,000 or 10,000 has increased in Ulaanbaatar city like mushrooms after the rain.

Mongolia hopes to receive one million tourists by 2015. Last year this number increased by 10.8% to exceed 456 thousand. For a population that does not even reach 3 million people, this number should not be underestimated. However, it should be reminded that profits generated were very low. If in 2008, profits amounted to USD236.9 million, and in 2010, they decreased to total USD222.4 million.

Nevertheless, there is a problem. Last year, out of the 557 thousand people who crossed our border, 456 thousand belonged to the category "tourists." The data is issued by the General Authority for Border Protection on foreign visitors to Mongolia, but experts affirm that such data does not satisfy requirements by the UNWTO as it is certain that Russian tradesmen and Chinese construction workers are also included in this number.

So, one question remains: what vision has Mongolia for the development of its tourism industry? Does it rather increase the quantity of its tourists? or rather increase their quality? What Mongolia should do is aim at making his "smokeless industry" as profitable as possible.

Quality matters, not quantity

Mongolia's media outlets made a buzz over the inclusion of Ulaanbaatar city in the top 20 travel destinations of 2011 by the National Geographic Magazine. Nonetheless, it is necessary to read the commentaries first before to feel elated over the result. "In this city, it is possible to see many things for less, and it has a benefit for buying cheap souvenirs for a wholesale price." Other countries, on the other hand, receive their tourists in five star hotels, offer them high class services, sell them expensive brand products, and, in short, make as much profits as possible. It seems that "bargain" Mongolia lags behind world development and standards. But why is the country in this situation? Has it not any superior services to offer to

wealthy tourists? It is certain that VIP tourists will not travel on unpaved dusty roads and go to wooden toilets. In order to attract wealthy tourists, Mongolia needs to at least to build decent roads from Ulaanbaatar city to Kharkhorin.

There are plenty of tourist attractions in Mongolia, a country with a huge history of world domination, virgin wild nature, dinosaur findings, nomadic lifestyle, herdsman, and rare animals under state protection; but goals of implementing further large-scale projects to benefit the country should not be omitted.

Between 2012 and 2015, the "Kharkhorin 13th Century Complex" project will be implemented. This complex, which aims to attract travelers in search of historic, cultural, spring sanatorium and archeological findings, will include the Kharkhorin museum, monastery, ancient architectural buildings, sculpture and exhibits. In addition, restaurants, hotels, night clubs and most importantly, an airport will be constructed. It is believed that once the complex is operational, over 2,000 jobs will be created. Furthermore,

many more wonderful ideas and initiatives include the construction of "Khoridol saridag" holiday complex near the banks of Khuvsgul lake, the construction of large scale paleontological museum and research center near Bayanzag in the Umnugobi aimag, and the establishment of the largest ger-carriage museum in the world in the Khentii zone to show off the power of Chinggis Khaan's army of warriors.

If all of these ideas are implemented, Mongolia can revolutionize its tourism sector not in terms of quantity, but in terms of quality. It will then not make any difference whether the number of tourists coming to Mongolia reaches a million or half a million. The most important thing is that profits generated by the tourism industry are counted not in terms of hundred millions, but in terms of billions of US dollars.

It is not hard to believe that if today people eagerly travel to Mongolia despite the lack of tourism infrastructure, once tourist attractions are completed, the country's tourism industry will reach new levels. ■

News

Eco projects have been made to be competed

At the initiative of Zuunii Medee, a daily newspaper, and Mongolian Entrepreneurs' Association, an international contest of selecting best nature-friendly business projects that was organized for the first time in Mongolia took place in June 6-10. M. Enkhbold, Deputy Premier of Mongolia, made opening remarks in the opening ceremony of the Green Business – Sustainable Development 2011 contest that took place in the Government House. Youth aged 16-35 came from 17 countries of the world brought their nature friendly business projects. Eight teams out of 33 were selected as the best ones and awarded USD1000-3000. Many "green" ideas such as a distinguished solution that

is used to charge mobile battery with solar energy to use in necessary places, method of classifying garbage were born during this contest.

Eco youth who managed to have their projects compete and exhibit their works, also managed to plant trees in the Mongolian National Park. Organizers and the participants of this contest of eco projects expressed their gratitude to B.Garmaasuren, President of Mongolian Entrepreneurs' Association and J. Tsogtsolmaa, Head of Economic News Department of Zuunii Medee newspaper. There is a hope that this contest will be organized as a tradition in the future.

Branch Expert

N.Erdenebat: Tourist camps need to cooperate closely

Interview with Mr. N. Erdenebat, Vice President of the Mongolian Tourism Association.

- What is the current state of the tourism sector's development in Mongolia?

- There are people who criticize the lack of progress of the tourism sector. Nevertheless, the sector has been experiencing a 10 to 15% growth per annum. Meanwhile, the number of Mongolians travelling abroad and using the services of Mongolian travel agencies has also increased. Having an extensive working experience in the sector, I can say that the skills of our tourist guides have improved and their knowledge of foreign languages is excellent.

- It is said that quality is more important than quantity. How do you interpret the fact that, despite the growth of tourists in Mongolia, the percentage of "backpackers" among them is quite substantial?

- Yes, under current conditions, quantity seems to prime over quality in Mongolia. Even though their quantity has been increasing, their structure has changed. The number of backpackers, who before constituted a mere 5%, has increased up to 30 or 40% in a decade. This, unfortunately, bears some negative consequences and favors a "black economy." Nomadic household fail to declare the horse ride they service to a backpacker for MNT 10,000 and omit paying the individual income tax. Consequently, this money becomes "black money". Nevertheless, if money is transferred from tour operators, nomadic households receive a service fee which is reported in tax accounts. Generally, backpackers constitute around 20% of the world's total number of tourists, VIP tourists 20%, and "mass tourists" - or tourists who travel through tour operators - the rest, 60%.

- What needs to be done in order to reduce the number of backpackers in Mongolia?

- Their number cannot just be "stopped." Backpackers are also tourists. Generally, students or people with scarce resources tour with their backpacks to see Mongolia. However, we should not forget that they also contribute to the promotion of our country. Actually, the number of backpackers increased because we did not pay enough attention to increasing the numbers of tourists using tour



operators. However, for the intensification of packaged tours, foreign promotional activities play a significant role. For the last 20 years, we have conducted promotional activities only at the level of tour operators without sufficient general information for tourists. Publishing an information brochure and opening an internet website do not constitute an effective form of promotion. Foreigners rarely visit Mongolian websites. This is due to the fact that they do not consider Mongolia as a tourist destination. Not being able to distribute the information constitutes a serious challenge for the tourism sector today.

- How do you intend to resolve this issue?

- During ITB Berlin 2011, the world's largest tourism trade fair organized last March, Mongolia participated as a cultural partner and the Government spent half a billion togrogs for the event. We estimate that the exhibition was able to become a significant promotional event on Mongolia, and hopefully, the money invested might even multiply several folds. As a result, it is estimated that the number of tourists from Europe will increase by 5%.

- When will the results be visible?

- We are waiting to see the results. For instance, MIAT, which used to fly to Europe twice a week, has increased its number of weekly flights up to four times. Since the promotion took place in winter, they are probably doing this in anticipation of a growth of tourist arrivals.

Last year we specifically paid attention to the Japanese market. We invited Japan's largest tour operators and media outlets and worked on our foreign promotion and advertisement. The Government also supported this initiative and provided for a 30 days of non-visa regulation for Japanese tourists. As a result, the number of Japanese tourists increased by 26%. Actually, Japan constitutes a market which avails success in a relatively short period of time. On one hand, Japan is geographically close to

► Mongolia; on the other hand, Japanese tourists rarely travel to the countryside with their tents. They usually station at tourist camps, and the economic yields are significant.

- Will there be an increase in the number of tourists from Japan? What are the effects of the earthquake for Mongolia's tourism sector?

- Last year, the number of flights to Japan was of three a week, during which we witnessed an increase of 26%. This year MIAT has scheduled 7 flights a week. Five flights from and to Narita, and two fly from and to Osaka. As such, Japanese tourists will have little difficulties in coming to Mongolia. Of course, the earthquake in Japan will affect our expected outcome. However, Japan is quickly recovering. Between June 18 and 22 of this year, 50 members and representatives of various Japanese crews from the media and tourism sector will be coming to Mongolia.

- How do you envision the state of this year's summer tourism?

- I am optimistic about the tourism sector in Mongolia, not only for this summer, but also for this autumn and winter.

- Is any progress being made in respect to diversifying the tourism sector like, for instance, developing winter tourism?

- The increased diversification of tourism in Mongolia is an indication that the sector is consolidating. In other words, a capital is accumulated. Several companies specialize in certain branches of tourism, including mountain tourism and adventure tourism. For example, Mongolia Bike Challenge bicycle tour was transformed into a rally. This rally started its journey on July 20 from Sukhbaatar square and will last 20 days. Last year more than 100 cyclists joined the rally, and this year the number of participants is expected to rise up to 200.

- Tourist camps are stationed at nearly every mountain side. What is your view on the existence of many "small players" in this field?

- It is true. Business entities operating in the tourism sector are sizably smaller. Due to their low capacity they turned into small self-catering entities, and cannot accumulate capital to invest into their field. Tourist camps constitute an example of supplies surpassing demands in the tourism sector. Actually, out of the 300 and more tour operators in Mongolia, only 60 conduct active operations. From these, only 1 or 2 are capable of housing 1,000 tourists from one foreign tour operator.

- Do the universities providing specialization in tourism constitute another example of supplies surpassing demand?

- Yes. More than 1,200 students specialized in tourism graduate from about 40 universities but the country's sector can only absorb 120 specialists. Unfortunately, only 10% of these graduates can expect to land a job.

- You have said that VIP tourists represents 20% of the number of tourists worldwide. Do VIP tourists visit Mongolia?

- Relatively few such tourists come to visit Mongolia, probably around 5 to 10%. Even though there are five star hotels in Mongolia, there are no paved roads. It is highly unlikely that VIP travelers will tour Mongolia on unpaved roads. Such tourists can cash out a lot of money; unfortunately, our services are unsatisfactory.

Recently, thanks to mining, the number of VIP tourists has increased. The number of visitors staying in five star hotels, negotiating mining agreements, and then touring for 1 or 2 days before departure is increasing. However, it seems that our companies' speed and initiative is lagging behind. There is a lack of initiative in finding out where international conventions will take place, and then propose tour programs to VIP guests.

- People say that mining sector has put a strain on the tourism sector. It is further said that with the loosening of the dollar exchange rate, the mining companies are luring into their businesses highly skilled experts with excellent knowledge of foreign languages from other sectors...

- This situation can be witnessed not only in the tourism sector but in all other sectors of the economy. The Government needs urgently draft a policy on the matter and take appropriate measures. Asked about the fluctuations of the foreign exchange rate, the President of Mongol Bank Mr. L. Purevdorj said negotiations exist between the banks, which we can use. We need to work efficiently. We should not stay inactive, but rather search for solutions. Foreign exchange rate will constitute a challenge this year, and it seems in the future too.

The price rise also puts a pressure on us. In Mongolia, products prices and services are getting higher; however, we cannot raise our prices because we would lose our competitiveness. Of course, this will put a strain on tour operators. But we cannot ask the Government to lower prices. Instead, we need to step up our activities because we are conducting a business. Tourist camps need to cooperate. Many benefits can be made, including saving on human resources, getting our voice heard in the Government, experiencing discounts in advertisements, exchanging new service practices, and getting rid of the price strain. For instance, one tour operator might have 100 tourists, and another one also 100 tourists, while the price of hotel stands at USD 100 per night. If these two tour operators join forces and offer 200 tourists, then the hotel could provide a discount of USD 90 per night. The hotel too has an interest to offer discounts in order to have 200 guests. In short, only by joining forces can difficulties be overcome.

- The Government says that it will support other sectors with the profits generated by the mining sector. Is support felt in the tourism sector?

- The Government plans to spend profits generated by the mining sector into the tourism and agriculture sectors. This is because these two sectors encompass many other sectors. But we should not talk about today or tomorrow. We need to have a long-term policy. Our tourism sector experiences a 10 to 15% growth per annum. However, it is now time to move from quantity to quality. It is necessary to increase Mongolia's number of "mass tourists." As I said previously, only 1 or 2 tour operators capable of accepting 1,000 tourists is rather poor. We need first to increase this number to 5 or 10, with the aim to make it 100 one day. Out of the 20 million Japanese tourists travelling around the world yearly, only 13 thousand travel to Mongolia. So let's try to welcome 20 thousand Japanese tourists first and adopt long-term policies. ■



Profitable Project

Mongolia: A Lot More Than Just Mineral Resources?

Mongolia's vast lands are rich in mineral resources such as copper, gold, coal, uranium to mention only a few. Its amount of mineral resources allows it to rank high in the world and the implementation of projects such as Oyu Tolgoi and Tavan Tolgoi truly excite investors. On the other hand, it inherited and even greater heritage from its ancestors. Its Gobi sands hide extremely precious paleontological findings as can be seen from the example of the Bayanzag area situated in the Bulgan soum of the Umnugobi aimag, which became famous for the dinosaurs fossils it holds. Although the fact is well-known by foreigners, Mongolia is strangely indifferent to its pre-historical fossils. Nevertheless, if such wealth is put into economic circulation, it would generate far more profits than mining.

The Mongolian nation which once conquered half of the world has been forgotten by the rest of the world for a long time. However, the discoveries made by the expedition team of the American Museum of Natural History under the leadership of Roy Chapman Andrews in the Mongolian Gobi created an international stir in the 1920s. This is the reason why Mongolia, situated in the heart of Central Asia, became known in many countries as the Mongolian Gobi rather than just Mongolia.

Andrews discovered and informed the rest of the world that ancient humankind lived in Arts Bogdiin uvur hooloi, Togrogiin Shiree, Bayanzagiin zag, and in sand dunes, and that the famous Silk Road that connected Europe with Asia many centuries ago passed through our land. He discovered amazing and unique paleontological findings such as the first hidden fossils of dinosaur eggs in the Mongolian Gobi, an area which will prove to be the cradle land of Asian, European and American animals.

Books written by Andrews and visual recordings made by his expedition team tempted many people to travel to the Mongolian Gobi. One such example is the fact that a 10 year-old small boy, who passionately read about the first discovery of dinosaur eggs in the Bayanzag area, later worked as the leader of a joint scientific expedition led by the American Museum of Natural History and the Mongolian Academy of Sciences. Chairman and Curator-in-Charge of the American Museum of Natural History Dr Mark A. Norell specifically cited this case when the book written by Andrews first time published in Mongolia.

At the time, the Gobi expedition led by Roy Chapman Andrews, one of the best scientists in his field, had become an immense and valuable work. It was estimated that the expedition required 5 years time and USD 250 thousand of funding. He wrote in his book that in order to garner funding, he met with J.P.Morgan, took out the map of Central Asia and introduced to him in 15 minutes his plan of expedition. When the renowned investor heard about this, his eyes sparkled with interest and he exclaimed, "This is a very good plan. How can it be financed? How can I help?" Consequently, Andrews' success in securing funding to finance his expeditions stands as a proof that Mongolia once attracted the attention of one of the wealthiest men in America, who happens to be the founder of the now famous J.P.Morgan Investment Bank.

After the World War II, a Russian expedition team came to Mongolia and discovered many new paleontological sites, one of which was Nemegt Beds. Russians discovered there the 30 meters long fossil of an unknown herbivorous dinosaur which they named Nemegtosaurus. Later, a Polish-Mongolian joint paleontological expedition team

made a groundbreaking discovery of “Fighting Dinosaurs” at the place called Togrogiin Shiree near Bayanzag in 1971. All of these are just some example of the amazing findings discovered in Mongolia’s vast lands. But because Mongolia does not have a long history of paleontological studies, many more lay hidden. It is amazing that although comparatively fewer expedition teams undertook explorations in the Mongolian Gobi, they were able to discover so many new valuable paleontological findings.

Today the exploitation of Oyu Tolgoi has started, and Tavan Tolgoi will be put into economic circulation very soon. Mongolian people expect that these mineral deposits will constitute the main driving forces of Mongolia’s development and will feed them for many generations. They think that if only these strategically important deposits are put into economic exploitation the future will be bright. However, as it turns out, mineral deposits are not the only way to generate profits. Places situated near the Gobi Gurvansaikhan Natural Complex like Bayanzag, Togrogiin Shiree, Khermen Tsav, Altan Uul, Bugiin Tsav, Guriliin Tsav house the most valuable dinosaur fossils in the world. If these sites are used to develop paleontological tourism, then a bright future is awaiting Mongolia.

The case of the Canadian Royal Tyrrell Museum of paleontology that was built in 1985 illustrates that it is possible to generate profits from paleontology as this museum welcomes half a million visitors annually. In 2010 this museum welcomed its 10 millionth visitor, and the annual museum membership fees vary from USD25 for individuals and families to USD50 thousand for club membership, demonstrating how much money is generated. It is worth recalling that foreign and domestic paleontologists are drooling over Mongolian fossils of dinosaur skeleton and eggs. Why cannot these opportunities be exploited to build one world renowned museum?

By developing paleontological tourism, Mongolia will be able to attract wealthy tourists and experts, and generate profits. Even today, there are no tourists who, after coming to Mongolia, do not travel to Bayanzag to see the cradle land of dinosaurs. Foreign tourists, especially experts from the American Museum of Natural

History come here on an annual basis to conduct explorations. They submit their findings to the Paleontological Institute. Some are then loaned for further research and experiment to their home countries before to be returned. Would Mongolia’s economy not be better off if a large dinosaur institute and research center was built near Bayanzag, so that researchers can spend a whole year there to study their fossil findings?

Mongolian Gobi is a home to beautiful natural sites such as Yoliin Am and Khongoriin sands, as well as rare animals such as the Bactrian wild camel, the Gobi bear, the caracal, the wild horse, the wild mountain sheep and mountain goat, and birds such as the bearded vulture, the snowcock, and the pigeon-hawk. There is a great possibility to enjoy natural sceneries, observe rare animals and conduct paleontological studies. Unfortunately, there is a lack of environment for tourists and scientists to relax, work and spend money.

Currently, tourists travelling to the Gobi area come only during the summer period, where there are no other festivities but the Thousand Camel festival. In addition, there is a lack of opportunity for researchers to study their paleontological findings. It is only possible to see the dinosaur skeleton situated at the Natural History Museum, which has not been renovated since its establishment 60 years ago. Meanwhile, many valuable findings are being left dusted in storerooms.

Actually, some time has passed since Umnugobi officials paid attention to establishing a Dinosaur Institute. The aimag’s Citizen Representative Council made a resolution to allocate MNT100 million towards this initiative. At first, the Dinosaur Institute was due to be located near Bayanzag, but could now be moved to Bulgan soum situated 18 km away. However, MNT100 million will not be enough for drafting an architectural design let alone building a Dinosaur Institute. Experts state that the work requires MNT1.5 billion. Actually, if the government supports this initiative and allocates substantial amount of capital to build something like the Canadian Royal Tyrrell Museum of Paleontology, then Mongolia will truly be able to generate capital in the future. Such a museum would also become a weapon

to promote the beauty its sceneries to the rest world.

“Every tourist coming to Mongolia goes to see Bayanzag because the place has become renowned around the world. However, Chinese built a very large Dinosaur Institute near Erlian Tsav, situated to the East of Erlian. People go there because our Southern neighbor created a myth that Roy Chapman found his historic findings there. However, Roy Chapman found his first dinosaur egg in Bayanzag. This is the cradle land of dinosaurs as marked in the history of world science. We need to understand that we have great possibilities to turn this into a profitable project. We need to realize how profitable it is to build a Dinosaur Institute,” Head of the Amazing Gobi Tourism Association Mr. Kh. Tumendelger points out.

We rejoice over the fact that in Mongolia 1,170 mineral deposits of 80 types of mineral resources, and around 8,000 mineral findings are registered. However, people have forgotten that Mongolian Gobi is rich with paleontological findings, every one of which constitutes a rare document of the world history. Government officials should be reminded again and again that the country can generate tremendous amounts of profits by protecting and promoting such heritage to tourists and experts. A halt should be made before to explore mineral resources from the South Gobi and extract all that is found. In any case, Mongolia already generates sufficient amount of capital from the currently utilized mineral deposits. ■



Short comical story

Bashful fellow

By A. Amarsaikhan

Old man Lutaa's eyes went to the roof when, in the midst of a Gobi desert with limitless horizons, he saw one lonely person riding a bicycle. A blond young man, boiling hot and tired under the flaming sun, barely cycled and pushed forward his bike zigzagging on the sanded road. Fair skinned face, the man, who seemed to be a foreign tourist, was burnt by the sun and looked terrifyingly red. His long and curly hair like that of a woman had become matted and tangled, and perspiration ran along his cheeks, mixing with dust.

"There's 300kms to reach the next aimag. What will become of this poor person?" murmured the old man.

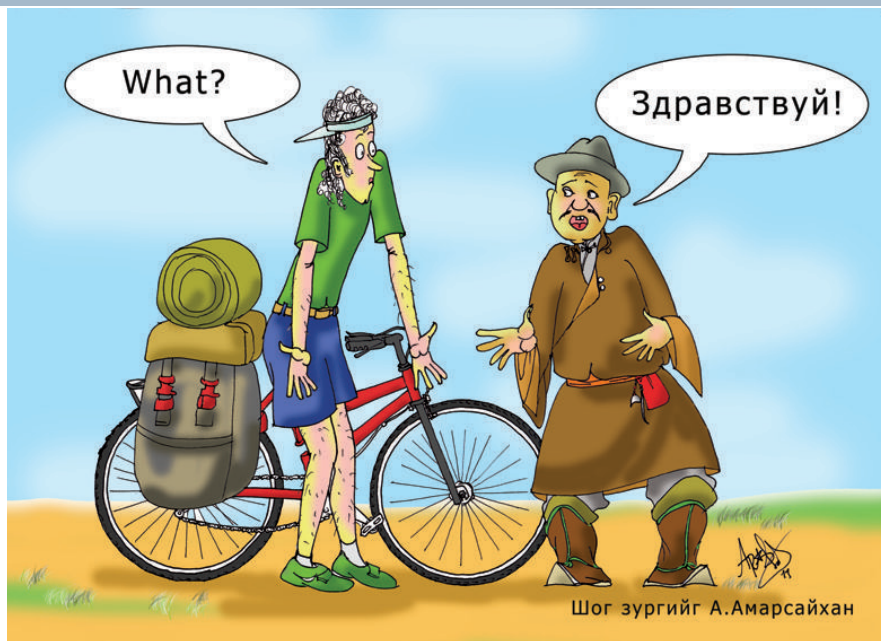
"This poor guy looks just like our son. He is probably thirsty. Let's take him with us!" cried Lutaa's wife Dolgor.

However, Namshir, who was getting a lift in their car to the aimag, just shook his head.

"These people are said to relax by torturing their bodies. They are strange people who do not drink milked tea when given, but instead drink water instead!" he said.

While Namshir murmured, "Better not," Lutaa and Dolgor totally objected him and decided to offer the exhausted guy a lift. When the car stopped in front of him, the stranger just smiled, saying something as if greeting them and bowed his head. Old man Lutaa, thinking he would have no problem communicating with the foreigner given his past experience in befriending Russian geologists, was quite confident.

"Good day, friend! Get in the car"



said Lutaa in Russian, looking at the cyclist. The cyclist looked at him with big eyes, as if he did not understand a thing.

"He is not Russian but English. How will he understand what you are saying?" exclaimed Namshir annoyed. So the old couple started adding gestures to their words to show that they will put his bicycle on top of the car and that he can sit at the back of the car.

"Oh, no, no!" shouted the guy, who also gesticulated with his hands. He pointed to his bicycle and as if miming he would be cycling himself. Then, he kept on talking continuously as if explaining something.

"It is hard to make out what he is saying, for all we know, he could be saying he is going to kill us" said Lutaa, shaking his head.

"How sinful, what are talking about. What killing? Looks like a well-mannered young man!" angrily criticized his wife Dolgor. Old man Lutaa looked into the face of the tourist and thought for a moment.

"Poor young man, maybe, he is saying to us that he does not have any money spare for the lift?" suddenly shouted Lutaa, who stood up.

"Exactly!" cried his wife.

"No need for money!" said, always in Russian, the old man. Then he felt for his chest pocket, took out his thick brown purse, showed 10 thousand togrogs and started to make signs with his fingers. Any person would have understood from the old man's mimics that he would not take any

money from the tourist. But the foreigner once again shook his head, saying "No, no," followed by a rapid stream of many more words.

"Poor guy, maybe he is now afraid we could be robbers," whispered Dolgor.

"Yes, that could be true! He looks afraid. Could he tell the police and get us in trouble? Let's leave him here!" cried Namshir.

"We are not robbers!" explained Lutaa in Russian, making his friend loose patience.

"We told you that he is not Russian, and you still talk to him in Russian!" said Namshir irritated.

"Do you know English then?" Lutaa answered angrily. He was ready to get into a fight with him. The Cyclist scarily looked at the two old men and stared with his rabbit-like big eyes. Dolgor for a moment watched over the scene and felt sorry for him.

"My poor son is probably just like him, suffering in a foreign country," said Dolgor and wiped her tears. She felt miserable and terribly missed her youngest son who went studying in the US. The old woman kindly took the young man to the back seat of the car and fondled his head. The young man looked pleadingly.

"No, no..." said the tourist, who once again started talking in his own language. But the three old people did not understand a thing.

"This young man is just bashful! Remember my friend Kolya, he was just like this – a very bashful fellow! In order to give him meat and milk, ▶

► I forcefully had to put these into his car!” cried Lutaa.

“Exactly that, he seems bashful!” said Dolgor. She then took his bicycle and put it on top of the car. The young man’s blue eyes looked terrified. He clung to his bicycle, but Lutaa smiled at him and gently patted him on the shoulder.

“My son, there is no use in being bashful,” she said. “Get into the car, we’ll give you a lift! This is a new car bought thanks to the profits of this year’s sheepskins’ sell!” added Lutaa. He then pulled up the guy into the back of the car as if he was a child.

“Oh well, aren’t we going to get into trouble!” murmured Namshir

continuously. The British guy, who had been forced into the Russian car, try to explain throughout the way that he was on a bike trip around Mongolia and would go through a lot of trouble getting back to this very place. Unfortunately for him, the three old people did not understand a word he was saying.

“No use in being bashful, young man,” repeated Lutaa, and poured into his mouth fat boiled mutton and tasty mare’s milk.

“Oh, wouldn’t it better to drop him off here?” murmured Namshir as they arrived at the aimag’s hotel.

After dropping off their passenger in front of the hotel, they kissed the

curly blond young man on the cheeks, waved their hands in goodbye and drove off.

“What a bashful fellow!” said Lutaa.

“Just like our son,” cried Dolgor and wiped off her tears. The cyclist, reflecting on the old people’s open-hearted desire to help him, just stood hiding his frustration. When the Russian car turned around the corner and disappeared out of sight, the tourist looked back at the road he just came from and sighed. “Now I have to find a ride to return back,” he thought to himself. ■

Travel route

Are you travelling to Mongolian Gobi?



1. At first you fly from Ulaanbaatar- to Dalanzadgad- 580 km
2. The travel continues from Dalanzadgad- to “Yoliin Am” valley- 56 km /Umnugobi province- Khankhongor Soum/
3. From “Yoliin Am”- to Khongor sand dunes- 130 km / Umnugobi province- Servei Soum/
4. From the Khongor sand dunes- to “Bayanzag”, which is also called the “Flaming Cliffs” among the tourists- 150 km /Umnugobi province- Bulgan Soum/
5. From Bayanzag- to Dalanzadgad- 100 km
6. Flight from Dalanzadgad- Ulaanbaatar

You will travel three days with this route. Travel costs are different, depending on the reservation orders by the individuals or by the companies. This travel route will show you the most spectacular places of the Gobi. The valley “Yoliin Am” is located 2800 m above the sea level. A little creek flows between the canyons. In some parts of the

canyon, where the sunshine never reach it, there are ice layers over one m thick. In the rainy years, the four m tall waterfall falls down. In this beautiful area, lots of cool places are beset with shadow, where the cold airstream creeps among the valley. The Khongor sand dunes melt in the mouth, and can heal the five internal organs of the humans. This sand cannot be used for construction material. Bayanzag is a clayey place, located in the vast valley across the mountains of Arzbodg in Umnugobi province. The name of the place means “Rich with saxauls” because of the plentiful saxauls growing there. The Mongolians call “Tsav” (crack in English) the places with reddish sandy soil that became hard. More higher places are called “Tsonj”, which are about 20-50 m high. Bayanzag is also known as “Flaming Cliffs” due to the glowing of the red sandstone cliffs like a fire during the sunset. This area is famous for the first discovery of the dinosaur eggs. ■

Dutch Disease

Mining Operations Endangers “Smokeless Industry” ...

“This is a Great Wall and only a great people with a great past could have a great wall and such a great people will surely have a great future”.

- US President Richard M. Nixon on the Great Wall of China.

“The people who made them build such a Great Wall must also have a great past”.

- Author Baabar, “Twentieth Century Mongolia”.



The above phrases, to be found on the first page of the book Twentieth Century Mongolia, moved me and made me feel proud of being a Mongolian. Yes, we are Mongolians, and we must have a great future. However, how will we accomplish greatness? Today Mongolians feel elated over the opening up of their natural resources with the hope of attaining a rapid economic growth. Most Mongolians are succumbing to the dream of making their fortune in mining, and the mineral resources sector constitutes 30% of the country's GDP, more than 85% of its exports, and swallows around 90% of foreign direct investments. Chinggis Khan's Mongolia has become “Minegolia,” or “Moncoalia.”

This country, which has once conquered half the world, is today at the epicenter of global attention thanks to Oyu Tolgoi and Tavan Tolgoi. It is a positive outcome that a lot of money is being invested in the country as a result of the mining sector's development. But it must not be forgotten that while some countries have become rich thanks to their wealthy resources, others have been destroyed by this very process.

Therefore, good management and good policies are a must if Mongolia is to attain rapid and sustainable development.

As Mongolians increasingly wonder whether they are being stricken by the dutch disease or not, government officials are preserving calm by saying “There are risks of dutch disease, but currently it does not exist in its classic sense.” But is this true? One of the signs of dutch disease is said to be a strengthening of the national currency, which would lead all other sectors but one to lose their competitiveness. In 2010, the Mongolian togrog was established as the currency whose value proved the highest appreciation against the US dollar.

But has the mining sector started to negatively influence the competitiveness of other sectors? Government officials should pay attention to the fact that a lot of data exist which show that dutch disease poses a serious threat to the tourism sector and how mining operations have started to threaten the “smokeless industry.”

Firstly, tourism companies sell

their products a year in advance. They plan beforehand when and where the tourists will travel and allocate their capital accordingly. However, if the dollar's exchange rate is depreciated when tourists make their reservations 6 months before to come to Mongolia, it is understandable that it puts a strain on the tourism companies collecting their incomes from foreign currencies and assessing their expenditures in togrogs.

Secondly, the ruling power overjoyed by the thickening of the budget due to the mineral resources high prices on the world market have taken the decision to distribute MNT 21,000 to every citizen, which heightened the rate of inflation. However, it is stated that the value of the tourism sector's products and services are dependent upon the cost of 15 to 17 other sectors. Increases in the cost of hotels, restaurants and air transportation instantly increase the cost of travel itself. Desire to increase the cost of tourism is halted due to the risk of losing its competitive advantage. On the website of a tourism company,

it can be observed that Mongolians today can travel to Dubai for USD1,980, and to Hainan for USD1,065 for a 8 day period. On the other hand, an 18 days tour in “Mongolia in the Footsteps of the Nomads with Tim Cope” will cost USD4,950. In other words, the value of a trip to the secluded lands of Mongolia in comparison to other Asian countries is significantly higher. In such conditions, will any tourists be interested in travelling to Mongolia if the cost of tours continues to rise?

Thirdly, thanks to the expansion of the mineral resources sector, it has become trendy to come to Mongolia and the number of visitors attending conferences and seminars has increased. They travel first class and stay for two nights in five-star hotels. Of course, hotels that used to greatly depend on tourists for survival have increased their prices as a result. Furthermore, it has become common for wealthy mine operators to organize charter flights. Employers at large mining sites such as Oyu Tolgoi, Ukhaa Hudag, and Ovoot-Tolgoi work for two weeks and then take breaks of 7 or 14 days. In order to transport them from Ulaanbaatar city to Umnugobi aimag, they rent planes at high prices. Consequently, air companies service tourists accordingly to prices inflated by mining companies.

Fourthly, it has become a common practice for mining companies to lure experts from other sectors into their companies. All the capable personnel with excellent language skills enticed by high salaries go to work for mining companies. The tourism sector, after losing its human resources, has no other way than to train new recent graduates who are likely to defect to the mineral sector after improving their language skills.

Consequently, tourism companies, bullied by the mining companies, are starting to experience hardship. However, the most worrying trend is the destruction inflicted to the nature. According to the information released by the Mineral Resources Authority, there are 5,139 special licenses including exploration and mining licenses in operation. But do these mining companies conduct rehabilitation of the

land adequately? Out of several thousand business entities conducting mining operations, fewer than 10 undertake their operations according to international standards.

Local people complain that instead of sand storms, there are now coal storms in the South Gobi region. Openly or not, discussion on how mining companies destroy precious paleontological findings, historic and cultural heritage are on the increase. Law on Protection of the Cultural Heritage provides for mandatory archeological studies to be carried out prior to mineral resources exploration and exploitation; however, the provision is rarely implemented. Mongolia's soil carries historic, cultural, religious, and traditional artifacts which Mongolians should protect and cherish, but which instead continue to be demolished and plundered. In such a situation, what will become of a tourism sector which so far has blossomed thanks to two main characteristics: a virgin and wild nature and a nomadic culture? Will they take tourists to admire open holes, piled up dirt, dried up pebbles and be transported on coal ridden roads?

In 2008 the Government announced that the tourism sector constitute a priority for the economy. However, the sector has been left and forgotten by the Government. While Mongolians today are misguided to believe that money will only be generated through mining, many countries around the world are making up their budgets from money earned by their tourism industry, by creating jobs and selling off national brands. In addition, mineral resource rich countries, aware of the fact that one day all their natural resources will be exhausted, are adopting a policy to inject generous amount of capital in tourism as a potential future income generating sector. Why does Dubai spend many billions of dollars towards the construction of Emirates Towers, Palm Islands? Is it not to appeal to tourists by creating interesting and unique attractions? As of 2007, Dubai was the 8th most visited city of the world.

However, Mongolians are not in a hurry. They are digging up the mineral resources of Mother Nature as if they were limitless and their price on the world market always high. Actually, two years ago, a resolution was adopted to build a Hunnu museum complex, but nothing has been done since. Since 2011, the state budget has not allocated funds to implement this project and it seems that construction works will not start this year too. In addition, although a decision has been made to implement the “13th century Kharkhorin” complex project, investment issues remain unclear.

In conclusion, it should once again be recalled and cautioned that the land left to us by our ancestors carries within itself not only mineral resources such as gold, copper and coal, but also an unmatched cultural heritage. However, if Mongolia continues to destroy and exploit its nature led by the greed of a minority, what will be left in a few years time? What will be handed down to its future generations? Experts state that since Mongolia has a great history, the tourism sector will flourish if the Government only would supported it. So, it may be time to stop sacrificing nature for mineral explorations, but start supporting a sector that generates profits by promoting the beauty of its landscapes, historic and cultural heritage? Mongolia should concentrate on developing its “smokeless industry” whose resources are unlimited, and leave its children with a land filled with glorious history and a promising future. ■

News

First Mongolian Stock Market Forum in Ulaanbaatar

The Mongolian stock market has come in the limelight recently when the first Mongolian Stock Market Forum was held on June 3. The stock market started to develop in Mongolia during the 1990s. According to the Financial Regulatory Committee, there are in total 79 operating professional brokerage and dealer companies. Information about governmental policies regarding stock market development and registration requirements for foreign stock market, regarding the distribution of the shares of the Erdenes Tavantolgoi Company and the protection of the rights of small shareholders was provided during the forum.

They about us



Photo by B.Byamba-Ochir

America is my home country, but Mongolia is my heart country

By Kh.Khulan, I.Otgonjargal

We are happy for meeting and interviewing Jack Weatherford, author of the bestselling book “Genghis Khan and the Making of the Modern World”, which has millions of readers and is published in over thirty countries worldwide. We met him during the event prior to the shareholders’ meeting of Khas bank, and asked permission to visit him and his family for the interview. He lives in Gandirs, the house on the left side of the State Department Store. Jack W. invited us to his balcony for an overview of Ulaanbaatar city. He said he sees the city from here as in a mirror. They have been living in that apartment for almost three years. From the entrance door to the living room, Mongolian household items can be found. On the kitchen shelf, we saw the three thermos flasks with beautiful pictures of Naadam (archery, wrestling, and horse racing). We wanted to know where he found them. “During the travels by a Russian van in the countryside in Mongolia we would always have the thermos with tea in it. Since it has played an important role in my life, I wanted to find the thermos with Naadam pictures. Our friends luckily found them and gave to us as a gift”. Also the picture of the queens on the wall of the living room looked fabulous. One young artist has painted that work. A big picture showing one important historic scene, a big long chest and other Mongolian items decorated their apartment. It was very pleasant to have tasty aaruul and urum, which he put in a bowl on the table of the guest room.

Jack W. has 2 children and 6 grandchildren. He met his wife during high school, and is a very caring husband to his spouse. Although he lives now far away from his grandchildren, he was embracing the little boy Amarsanaa, who is the son of his student. Enjoy reading our interview about Mongolian history, and the author’s talent, which we tried to present from the personal perspective.

-How did you come to an idea of writing the book “Genghis Khan and the Making of the Modern World”?

-I was very interested in Mongolia as a child. And then as a student I wanted to come to Mongolia, but it was impossible for me to come to Mongolia because of the Cold War at that time. But then much later in life -- I was already in my 50s -- when I was able to come to Mongolia for the first time, I just fell in love with Mongolia.

Mongolia took my heart. And I had no plans to write a book. I didn’t speak the Mongolian language; I didn’t know Mongolian history very well. But I love Mongolia so much, and then slowly through the years here, I realized if I didn’t write the book, no one will write the book. I wanted to explain Mongolian history to the world, but also to show how the modern world began here, here in Mongolia. This is not some isolated place; this is the center of the modern world.

-Mongolian Naadam is coming soon. Do you watch it?

-We used to go to the countryside a lot to see Naadam in the past. Now we stay home, eat some huushuur, and watch on TV. We stay here at the apartment. The crowds are very big at Naadam. Dust, cars everywhere. So at Naadam we just look outside, and then we watch on TV. We enjoy Naadam very much.

-At the stadium, during the opening ceremony of Naadam, people carry the white Suld of Genghis Khan. Do you get excited in that moment?

-Yes, I am very excited at Naadam. The modern form of Naadam of course celebrates modern Mongolia since 1921. But Genghis Khan also used Naadam to celebrate important events, including the founding of Mongolia in 1206. So this is one of the oldest traditions in the world today. If you think about more than 800 years people have been celebrating Naadam »

to honour the Mongolian State. So it is very important to me as a historian to think about this long history. And the fact that the same tradition of Naadam has been carried on ever since the time of Genghis Khan. So what we are seeing is also what Genghis Khan saw.

-Some of the Mongolians don't know their history in a detail. However every Mongolian has in his heart pride. In your opinion, with what could it be connected?

-I think no country in the world has a history like Mongolia's history. The history of Mongolia is unique. Because Genghis Khan was the greatest conqueror in the history of the world. And yet, he only had about one million people -- one million Mongols at that time, a very small number of people. If you look around today and see any people who were around 800 years ago with only one million people mostly they are lost now. They are part of bigger country. They are part of China, or Russia, or France, or United States. But the Mongolian people are still here. 805 years later they speak the same language, they still wear in the deel, they are still practicing the Naadam. They still use Mongol bichig that Genghis Khan gave to them. There is no other country in the world that has as much continuity of culture -- and also of the state -- as Mongolia.

-Your book "Genghis Khan and the Making of the Modern World" is not only easy reading but also has very poetic expressions. Did you pay attention to the writing style in order to make the book interesting, or is it in general your writing style?

-By the research for the Genghis Khan book I travelled all over Mongolia. Often I stayed with the families in the countryside in the ger. And I would look and walk around the countryside. Sometimes you will be riding horses or camels in the countryside. You smell the air of Mongolia; you see the hills and the mountains. You go through the Gobi, all of these things gets inside of you. And it begins to fill me with inspiration. Then I wanted to write the book in a way that people wherever they are in the world can feel Mongolia. I wanted people who will never see Mongolia, people who will never come to Mongolia, people who will never even meet one person from Mongolia to read the book, and smell a little bit of Mongolia, to taste a little bit of Mongolia, to feel a little bit of Mongolia. So I wrote about my feelings, what I smelled, what I tasted, and what I touched in Mongolia.

I think that the history of Mongolia is a very beautiful history. If you look at things such as the nature of Mongolia, you look at the performing arts -- the music of Mongolia -- and then you meet the people of Mongolia, it is a unique feeling these three bring together in you. I tried to put some of that in the book. I wanted the reader to see the unique beauty of the Mongolian countryside, the kindness of the Mongolian people in the ger, a family, and the mother making the milk tea, the children looking curiously. I thought I was still in Genghis Khan's world. When I was in the countryside, this was the world of Genghis Khan. And I wanted people to feel that.

-Your writing style is very beautiful, poetic. Do you write poems?

-No, it is so strange. I don't have any talent for that. When I write I just tried to reflect that what I see -- what I see with my eyes and what I see with my heart. But I don't have any talent for literature or poetry. When you listen to long song urtiin duu, you feel the countryside of Mongolia. The river is very real in the long song. I wanted Mongolia to be real in the book.

-There is one passage in the book about how the Mongolian horses could be heard from the Pacific Ocean to the Mediterranean Sea running through various rivers

and seas. There are many such sentences with vivid descriptions.

-I think the most people when they talk about Genghis Khan in the West, they talk about the land that he conquered. But for Mongolians the water and the horses are very important. And I tried to write in a way that I thought I reflect the true history of Mongolia. But it is also hard, because I am a foreigner. Sometimes I make mistakes.

-How many years did you dedicate to research the book?

-In Mongolia almost six years, 1998 to 2004. But before I came to Mongolia, I did research also in some other countries in Buryatia, in Russia, and then in Middle East, Uzbekistan and Kazakhstan, Kyrgyzstan, and Turkmenistan.

-You cooperated with our famous historians. How helpful was their support to you?

-Almost everything in my book is something I learned from a Mongolian professor or a Mongolian herder, or a Mongolian person. I worked with Doctor Lhagvasuren and Doctor Sukhbaatar of Chinggis Khaan University as well as others. But especially with those two I became very close, almost like brothers. We travelled in the countryside, and we would wake up in the morning and start talking about Mongolian history, then we would eat breakfast and we would talk about Mongolian history until the evening -- all day into the night. It is not enough to hear the facts. You need to talk to people for whom the facts are meaningful and learn from the people whose ancestors lived this life.

-Probably it is not necessary to ask you whether you can ride a horse. You wrote it is good to have some aaruul, dried milk curds, in a pocket.

-Especially in Khentii we did a lot of horseback riding. Sometimes it was very hard for me because I would be very sore; my legs would be hurt. We rode by horse in Khentii a lot. Sometimes in other places also. And in the Summer time I became very fond of dairy products, even now I still eat aaruul, and eezgii, and urum. It is interesting in the different parts of Mongolia how the flavours of the dairy products can change. Sometimes aaruul is more oily, or sometimes more sour. And I learned and enjoyed the difference of the flavours. So when you go to a herder's home, I am always very excited because I know that I will eat the dairy products of that family and they will have the taste of the grass of their land.

-What kind of aaruul do you like the best? The sour ones or the oily brown ones?

-Honestly, I like all of different types. Because I eat one for a while, and then I want to eat another one for a while. In the West, from Khovd it is very oily, and then early in the summer it is softer. But then later it is very hard.

-Do you like airag, the fermented mare's milk?

-Yes, I like it very much. In the summer, when it is hot in the countryside, and you stop at the ger, and you drink airag it is so cool, so fresh, and you are inside with the family, and it just feels so nice. People bring airag to me now in the city. I drink it in the city, and I like it. But it is never the same as drinking in the countryside.

-Have you learned the Mongolian language?

-It is very difficult, I am an older person. When I first came to Mongolia, I was over 50 years old. Learning a new language is difficult for older people, but I like the Mongolian language very much. It calms my heart, but when I speak with the children in the countryside, they never understand. They just stare at me.

-Did you want to become an author? I have read, you are an anthropologist.

-I wanted to write when I was a kid in school, but when »

► I started the university I did not have a good education. My father was a cook in the army, and we had many children and little money. I was proud that I was the first in my family to finish high school, but when I went to the university, and the first year I failed English. So I was very ashamed, because I was trying very hard to pass but English was difficult for me. But then after that I began to work in secret by myself, to study English better. It is funny now that I am a bestselling author that I failed English in college.

-How did you come to an idea to write your second book "The Secret History of the Mongol Queens: How the Daughters of Genghis Khan rescued his Empire"?

-First I heard Mongolian people talking about Mandukhai, and I wasn't very interested. But it was important to Mongolians. So I thought I should know a little bit about it. Then I studied The Secret History -- which was written long before Mandukhai. I began to see that the parts about the women were missing. I became very curious, but also a little bit angry. Why did somebody lie to us? Why did somebody take The Secret history and cut out parts? But then it became like a duty to me. I would say that I wrote Genghis Khan book more out of love from my heart, but then I wrote about the queens out of duty and respect for their place in history.

-How do you write? On a notebook or computer? With pen or pencil?

-On a computer, and it may sound strange, but I wrote the books in America, away from Mongolia. Because when I tried to write in Mongolia the sensations and emotions were too strong. The air, the smells, everything is too strong. But I get to America, and I get alone with the computer, and I think very carefully. And then I listen to the music, especially of Mr. Jantsannorov. And then I just slowly began to smell Mongolia again, I begin to hear it and to feel it, and then I can write. When I was writing the queens' book, I also used to listen to Shuranhai, the three girls who sing. So these are female voices I was listening to. Also Mr. Chinbat playing Jantsannorov's music for Mandukhai. And I watched the beautiful actress Mrs. Suvd for inspiration in America.

-From your Queens book, with whom do you feel closest?

-On the intellectual level I like Alagha Bek the most because she was reading, and writing, and studying. However, on a family level, Mother Oulun did everything for her children. I have different feelings for different queens. But those two are very important to me. Later, Mandukhai slowly became more important emotionally to me. At first, I didn't feel much for her. But then slowly, slowly, slowly I began to have a great affection for her -- like a sister. These queens are a family; for each one you have different love.

-Who are your favourite authors?

-The most important for me was Marco Polo. Because I lived in a farming area in America, and I had never been to big cities not even in New York or Washington. Marco Polo opened the world to me. When I was around 12 years old, I read a book on Genghis Khan. It was written by English author. His name was Harold Lamb. And I fell in love with Mongolia.

-When did you come for the first time in Mongolia?

-I first came in 1998. I love Mongolia.

America is my home country, but Mongolia is my heart country (he said this sentence in Mongolian language).

-During the time of Genghis Khan trade and agriculture were already developed. Can we say that tourism was also introduced in that time?

-Beginning in the time of Ugudei Khan, Europeans and other foreigners began to coming to Mongolia. They were not

exactly tourists,--sometimes they were diplomats and spies. But when I read their works now, I can say in a certain way, that they also were tourists.

-What do you think our country should do for tourism sector development?

-I think the process is already on the way. Mongolia is becoming now famous everywhere. It is becoming famous because of mining. More films are made in Mongolia; many history books are written about Mongolia. All of these attract more tourists. The people who come to Mongolia will see that it is a unique place. They will see how magical it is, and then they will tell other people. People want to come to see the unique land of Genghis Khan, the land of the Morin Huur, the land of Urtiin Duu, the land of Huumii.

-Could you tell us about your own home in your childhood. Is there any similarity with Mongolia?

-We were seven children. In some ways, our life was completely different from Mongolia because it is very hot where I was born in South Carolina. We have many trees, very thick bushes, and the weather is very wet and hot. But in another way, there is a similarity. We had no electricity, so we used fire. The fire from my childhood smelled different from the Mongolian fire, but when I enter a Mongolian ger and I smell the fire, there is something very deep inside of me that feels at home. We also had to work with the cows, so we had milk and fresh dairy products. And we had to take our water from the ground. The water had its own taste. The water in Mongolia tastes different from the water of my childhood. But still you come here, you drink the water, you smell the fire, and then you feel the place. But always reminds me my own home.

-How important is the Mongolian history towards the world history?

-I certainly think that Genghis Khan is the most important man of the last thousand years. Mongolia should be given a special place. The truth is that people do not give that great of importance to Mongolia. That is something I am trying to correct. The whole world should be studying Genghis Khan and the history of Mongolia, and should be learning from



» Genghis Khan. It is important to remember that although Genghis Khan was the greatest conqueror in the history of the world, he was born in a very simple ger, and he ended his life in a simple ger. He changed the world, and he made his people very rich. But in the end, he was just a simple herder. There is no other leader in the world who lived that simple life. We need to learn from Genghis Khan.

-Family is the most important thing in the society. What kind of value would you outline for the Mongolian young people?

-Yes I think that the family is the most important thing in your life -- your mother, your father, your brothers and sisters, children. If we look back in Mongolia, the nation was founded around the family of Genghis Khan, Oulun and her children, the family of Alangua and her sons. Working together you can do everything as a family. As Alangua told her sons If

you compete with each other and fight, you will never achieve anything. Sometimes today I fear that the Mongolians are competing with each other to be rich. But the richest time in Mongolian history was when everybody worked together to make everybody rich. If Mongolia will work together as in the times of Genghis Khan, Mongolia can once again be one of the richest countries in the world.

-Is there anything what we haven't asked you, and you would like to say to all readers of our magazine?

-We are at the very important moment in Mongolian history. We are in the beginning of the ninth century of the Mongolian nation. I believe that this century has the potential to be the greatest century in Mongolian history if the people of Mongolia will work together. To do this, Mongolians should always remember their heritage, and love their history. I hope that this century will be the greatest century in Mongolian history. ■

Mongolian Economy Magazine Questions:

How do you see the future for Mongolia's tourism sector?

T. Batjargal

/General Director of Ar Mongol Travel Group/:

I consider there will be no good opportunity if it continues at this pace. No concrete attention is paid by the government to the tourism sector. Private sector has no fund resource to develop the sector. Now it needs for the government to pay attention to the producing of new services in the industry. It is not an overstatement if I say that the present services our sector offers date from the years 60s or 70s. It will be good, if at least a large recreational complex were established by adopting the Casino Law. We try to attract tourists with our untapped nature and nomadic lifestyle, but this is not working well. Only people who really want to see our remote country travel to it. At present, Mongolia has nothing - except these - to attract tourists like some other Asian countries do.

Sh. Nergui

/President of New Juulchin Group/:

If the government implements the right and accurate policy to support tourism, it is a sector that could bring more benefits than the mining sector. Unfortunately, there is currently no actual support. Tourism product cost consists in the costs of 15 to 17 organizations. In other words, it means travel expenses depend on the fees and prices of hotels, air transportation, restaurants and theatres. But there are cases when the sector's companies face difficulties because of a high inflation rate and price instability. If we want to increase our price following the cost increase for international tourists, we lose our competitiveness. Therefore, price instability is an important issue for us. I think the government should pay more attention to this and improve mutual relationship between the tourism sector and other sectors. It should also pay attention to the promotion of the country abroad.

M. Navchaa

/General Manager of Tsolmon Travel Company/:

I consider that tourism is the most promising sector. In Mongolia, there is no opportunity to develop like in industrialized countries as it has a small and dense population in a huge country. This is a disadvantage. Our advantage is that the country possesses a nature that is almost untouched by human hands, and developing environmental friendly

tourism will have a great future. Therefore, it seems to me that targeted tourism is more suitable for Mongolia than mass tourism. At present, it said that Mongolia will develop thanks to its mining operations. But it is necessary to take into consideration how long the mining sector will subsidize Mongolia's development for. In fact, the tourism sector is the opposite of the mining one. Therefore, we need to develop the sector that gains money by demonstrating the natural beauty and the country's heritage and culture.

Helge Reitz

/Managing Director, "Nomads Tours and Expeditions"/

Most tourists come to Mongolia for its fast unspoiled nature, combined with its traditional nomadic culture. Mongolia as travel destination is currently receiving some attention internationally especially in the US, but due to the aftermath of the Economic crisis travel from Europe and the US is still down from 2008. This hopefully will recover during the next couple of years. Asian tourism, especially from China is increasing and has huge potential, but we would need to stop telling every Chinese who comes to Mongolia that Mongolians actually do not like Chinese. Direct flights from Hong Kong as well a Consulate there is helpful. As well we have now more international flights, and a better access to MIAT tickets from Europe, again very helpful.

Public effort to market Mongolia as a Tourism destination will be essential to keep people interested to come here in the future. Mongolia's recent popularity as a place to invest or mine does not make it more interesting as a tourism destination, contrary could be a threat, as those usually are linked to cultural decay and environmental damage. To counterbalance this, a marketing strategy would be helpful. Mongolia is a quite expensive travel location, again something that can be expected to get worse: shortage of qualified labour, local price increases, deflation of the currency, all that points into this direction. A number of countries in Asia appeal in one way or another to similar clients and therefore need to be seen as competitors with Mongolia as travel destination. Kyrgyzstan, Siberia, Nepal, Bhutan are just some to name. If we want to succeed, we need to become more aware of this and consider that fact in our strategies. ■



Air Transportation

Mr Ts. Orkhon: MIAT Services Rated 3 Stars

Interview with Mr. Ts.Orkhon, MIAT Mongolian Airlines' Executive Director.

- The tourism season has started. Is MIAT ready?
- There is an understanding that tourism should only be related to receiving foreign tourists. It is time to change such misconception. Currently, there is a tendency to develop domestic tourism and MIAT Mongolian Airlines undertakes various measures to develop domestic tourism. There is an increase in the number of international flights during the winter, spring and autumn seasons as our citizens are interested in travelling abroad. In other words, there is a new flow of flights from Mongolia to foreign countries and it should be understood that not only foreign, but also domestic tourism is developing.

In terms of foreign tourists, the major tourist season starts from June. Our company has made an overview plan to renew its aircraft park between 2015 and 2021 and we are working on the exploitation of large airplanes. Consequently, Boeing 767 and other large airplanes with 263 seats arrived to Mongolia on 25th May. Currently, these new aircrafts are mainly conducting flights to Moscow, Berlin and Seoul and passenger capacity on these routes is substantially full. We are also paying attention to park reforms. Mongolia should take the issue of the development of strategically important sector within the purview of national security and regulate its development by state policy. We expressed our firm standpoint to the relevant authorities that the adequate development of air transportation should be conducted at government level.

Apart from this, we have opened a new regular flight to Hong Kong. Mongolia had not opened a new foreign flight route since 2002. Due to foreigners increased interest not only in the tourism sector but also other economic sectors, we are conducting two regular direct flights per week in order to increase business flows. Mongolians are given the opportunity to travel to Hong Kong and East Asia. In addition, we are making two weekly direct flights from Ulaanbaatar to Berlin starting from this year. This summer, there will be four flights per week to Berlin. We are also planning to arrange five weekly flights to Tokyo, and two weekly flights to Osaka.

- MIAT Mongolian Airlines purchases one plane and sells another. What is the difference?
- Renting and exploiting an airplane is a costly business.



It is very important to lower the cost in order to develop tourism and offer comfortable services to foreign and domestic tourists. Within this framework, we drafted an aircraft park reform policy. In other words, we are working to use the airplane from one aircraft manufacturer in order to lower the costs. Therefore, we are conducting operations to sell off our used Airbus 310 to replace them with Boeing 767 as mentioned previously. We are also planning on renting a second airplane starting from this autumn.

- Can the two MIAT airplanes handle the increase in the flow of tourists to Mongolia, especially during the tourist season?

- In the Mongolian tourism market, apart from our company, large companies such as the Korean Air and Air China conduct flights. In comparison to our company, these companies have higher capacity for aircraft park reforms, and have many large and small planes. Korean Air conducts daily flights with A-330 airplanes that have a passenger capacity of 280 seats. Therefore, not only MIAT but also many other teams of international standard are offering their services in Mongolia's tourist air transportation market.

- Your flight tariff is quite high. Are there any ways to lower prices?

-Our tariffs are substantially lower in comparison to other airway companies who probably have higher expenditures. Our company has comparatively lower expenses apart for fuel. Therefore, we are paying attention to make our prices competitive on the foreign markets. According to estimates of the first five months of 2011, our company increased passenger transportation by 42%. The majority

» of this increase is linked to our flight route to Beijing. If previously during the summer season there were 8 to 9 weekly flights to Beijing, now we are conducting 10 flights per week throughout the winter season. Such market expansion shows that our flight tariffs are reasonable. The main factor contributing to the increase in prices and tariffs is the price of fuel.

- We are waiting for a resolution over the privatization of MIAT Mongolian Airways management. What are your thoughts on the matter?

- Since Mongolia is a landlocked country situated between two great powers, it is considered that its only civil aviation company should be under state control. The law also provides that the same state policy be maintained with respect to both state-owned and private civil aviation companies. Consequently, civil aviation companies should operate profitably disregarding their type of ownership. As such, MIAT conducts its regular operations whether it will be state-owned or privatized in the future. However, following the current development trends, businesses are rapidly changing, and companies are quickly amending their resolutions and reform accordingly. Nevertheless, state-owned companies are considered to be slow and inefficient in their decision-making processes, and from this point of view, privatization seems to be more effective.

In the case of MIAT, management privatization means having a foreign management team for the purposes of improving the company's management. State Property Committee negotiates the possibility of having a foreign management team overseeing MIAT operations. No specific decisions have been made yet. We expect that foreign experts will assume the positions of General Director and Deputy Director. Some American advisers affirmed that MIAT does not require a foreign management team, but that it is more effective to invite foreign consultants and accept support in operations.

- Where does MIAT stand in the world civil aviation development?

-Civil aviation always develops ahead of other sectors of the economy as it conducts operations not only within the country. For example, even though MIAT is a small company, it conducts operations in China, Korea, Russia, Germany, Japan and even the US. It can be said that it is progressively developed in comparison to other domestic business entities operating on the transnational level. For example, International Air Transportation Association audits the safety operations of our company every two years and issues certificates. We received this certificate in 2009. This year's inspections will take place in autumn. Also, the UN International Civil Aviation Organization (ICAO) twice conducted audits to assess the level of Mongolian Civil Aviation structure, security and operations, which concluded that Mongolian aviation sector reached international levels and ranking. It is a shame that despite the fact professional organizations made such an assessment, some newspapers suggest that MIAT and Mongolian Airway are in a trouble.

-MIAT services entail good and bad ratings. How do you pay attention to the issue of service improvement?

- Service improvement is an important issues facing our company. Services, quality and standards of aviation companies around the world are rated at certain levels. MIAT Mongolian Airway rated three stars out of five. In

improving the services and adopting standards, we hope to reach the same standards as five stars aviation companies. For instance, we are undertaking minor tasks such as improving our staff's communication skills, re-styling their office and raising the quality of passenger food.

- The training and formation of pilots constitutes one of the most important issues in the civil aviation. How are you forming pilots?

- The civil aviation sector has been projected to intensively improve in the future. Actually, not only in our country, but in other countries around the world too, the lack of pilots constitutes a difficult issue. In the future, our company plans to cooperate with the Civil Aviation Authority to form pilots on an annual basis. Young people interested in becoming pilots cannot afford to pay for their studies as formation requires USD100,000. Furthermore, recently graduated pilots need training. Our pilots travel to the US twice a year for training purposes. Their formation should be considered at government level. For civil aviation companies, pilot formation constitutes a more important issue than that of aircraft park reforms. ■

News

Experience Sharing to Improve Corporate Governance

On June 13, the Center for Corporate Governance Development together with the Mongolian Stock Exchange organized the IV Forum of Mongolian Corporate Governance. Representatives from the stock exchanges of Hong Kong, London and Shanghai participated to the forum to introduce and explain in detail the requirements on corporate governance set for companies wanting to register with them. Directors of the Energy Resources and Petro Matad Companies which managed to successfully enter the international capital market also exchanged their experience on making IPO.

Of course, participants exchanged their opinion on how to develop corporate governance and how to improve companies' directors' knowledge on the matter. During the forum B. Bold, Chairman of Board of Directors of the Mongolian Stock Exchange, remarked that the "Mongolian Stock Exchange has now a website, and if companies do not provide the relevant information, it will take repressive measures such as blocking their shares." D. Bayarsaikhan, Chairman of the Financial Regulatory Commission, pointed out to the guests that "Mongolia has approved the National Program on Corporate Governance Development and is going to establish guidelines for the future." During the forum were also debated requirements set for companies' board of directors and independent directors which, according to experts on the subjects, should hopefully be improved by the revision of the Company Law.

8 out of the 9 directors of board of the state-owned Mongolian Stock Exchange are independent.

Budget

Best of Luck!

Some may have noted the carcass of a car on which is written a warning sign “Speed=Death” on the way from Ulaanbaatar to Darkhan; a way to warn drivers about the dangers of speeding. Nevertheless, Mongolia itself seems to have turned into an uncontrolled and boastful driver.

“We should mark Mongolia’s economy rapid development, unmatched in its history. In the first quarter, its economy experienced a 9.7% growth,” the Chairman of the National Development and Innovation Committee Mr. Ch.Khashchuluun said during the Development Bank’s opening ceremony. However, have living standards of the country’s ordinary citizens also increased by 9.7%? According to the National Statistical Office data, in the first quarter the average income of a Mongolian household was MNT453.5 thousand, or an increase by 15.4% from the previous year. However, average household expenditures increased by 28.9% during the same period to reach MNT487.2 thousand. In other words, despite the speed of the country’s economic growth, citizens’ livelihood has declined.

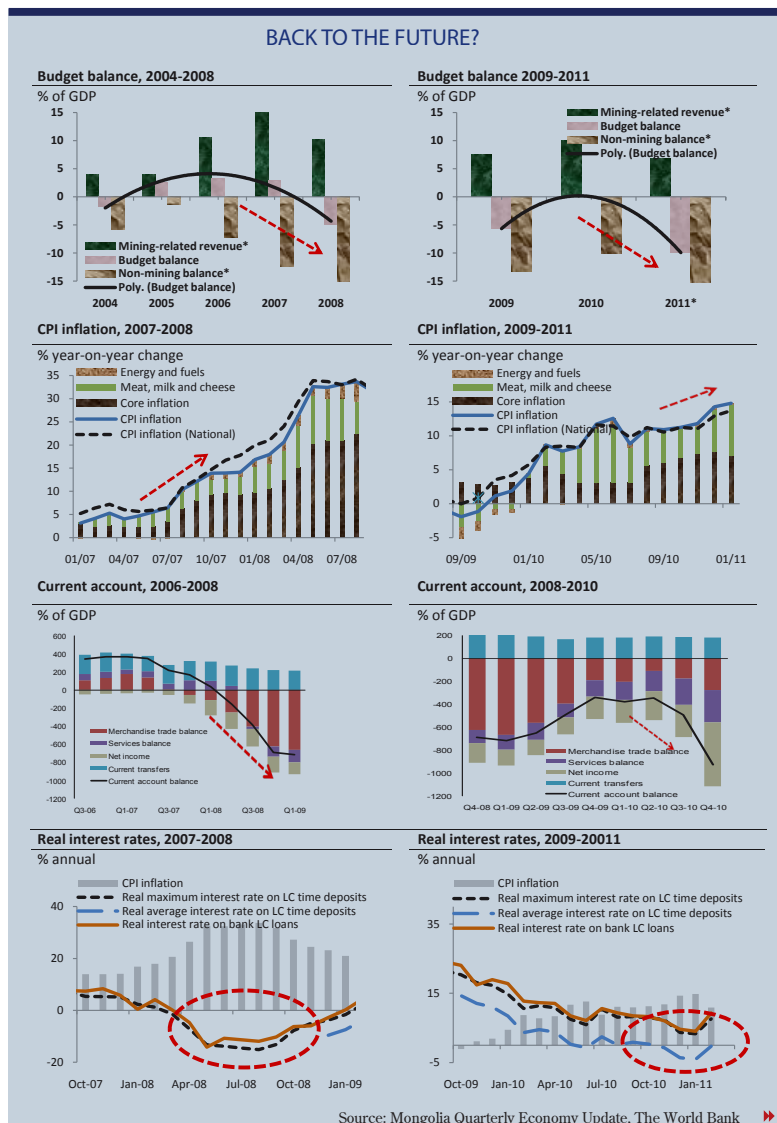
A Lead economist of the World Bank, Mr. Rogier van den Brink was born in 1958 in the Netherlands. He recalls that current living standards in the Netherlands have increased substantially in comparison to the time when family members, in order to take a hot weekly bath, used to line up one after the other to go to the same bath. “However, our economy never experienced 10% growth,” he said. Dutch economy increased between 3 to 4% per annum and when it experienced 5% growth, people were startled by the economic boom. However, Rogier explains that such steady growth managed to realistically change people’s lives. In order to help Mongolia avoid dutch disease, our magazine wishes to share the advices and experiences of a person who was born in the country which first experienced the “economic disease.” So why does the state of Mongolia’s economy worry him?

In 1959 Netherlands discovered its tremendous reserves of natural gas, and in the 60s and 70s, its budget income significantly increased as a result of the extraction and export of gas. The Government of the Netherlands then - just like its Mongolian counterpart now - started to increase children’s money, unemployment allowance, salaries and retirement benefits, and subsidized sectors of education and health. However, ship and car industries, coal mines that constituted a significant share of the country’s exports experienced hardship and many jobs were cut.

“Despite such real economic changes, the Government continued to have huge income. Our country was turned into a welfare state as each person received financial support from the Government from the day they were born until the day they died,” Rogier noted. He further stated that in order to finance all these, the Government did not stop spending cash handouts and took

loans relying on the imminent generation of income by the country’s natural gas reserves. The state budget of the Netherlands expanded, inflation skyrocketed and its debt increased. It continued this way for 20 years until the 1980s, when it suddenly experienced a downfall. Each Dutch citizen realized their true conditions and understood they could not continue living this way. Consequently, in 1982 the Dutch Government decided to collaborate with the representatives of the private sector and trade unions, and during a roundtable meeting, a historical pact was signed. The main goals of this document were to lower the inflation rate, decrease the number of welfare programs, and pay attention towards supporting projects aiming to cultivate the interest of people in assuming employment.

“I was a student then,” Rogier recalls, “ We studied for free, received stipends, and if we worked at the market, we received high wages. Of course, there was no need to work, and everyone was happy with this situation. However, the Government encountered with a formidable politicization



» when it tried to decrease expenditures.” Nevertheless, Dutch people were not disadvantaged by this situation. The country has grown into one of the most influential countries of the euro area, and it easily overcame the 2008 financial crisis. Rogier points out that the Law on Fiscal Stability adopted in Mongolia last year is reminiscent of 1982 pact of the Netherlands.

Actually, up until 2005, Mongolia's budget was substantially stable. When the price of mineral resources increased on the world market, the amount of profits into the budget equally increased. With the gain of profits, the ruling power increase state expenditures and started to intensively deliver cash handouts in 2007. However, what happened during the crisis? Only recently, Mongolian officials, desperate because of the lack of accumulated capital, crossed borders to borrow money from foreign countries. A year has now passed since the adoption by the Parliament of the Law on Fiscal Stability in order to avoid experiencing such hardships again. The main guiding principles of the law include the provisions on the integrated budget income assessment according to balancing procedures, prohibition on the excess of the given year's budget expenditure to more than 2% of GDP, and the requirement for maintaining the state debt to less than 40% of GDP. However, these will come into force only in 2013. It seems that policy-makers have made up their mind to relax until the 2012 election passes, to continue distributing cash handouts and to implement these provisions only once elected.

“Why should the implementation of the law be left until 2013? Why cannot it be implemented immediately starting from today?” Rogier warns. “If in 2010 the state budget experienced a 5% loss, then this year it was adopted for such losses to reach 9.9%. This amount as provided in the Law on Fiscal Stability cannot be set at 2% from 2013.” He further noted that it sounds as elusory as when a person addicted to alcohol and tobacco declares they will stop tomorrow. Rogier recalled one Mongolian politician who stated, “As a citizen I like this law very much; however, as a politician I hate it.” It has become a regular occurrence for officials in power to spend as much as earned, to be debt-ridden. It has now become common in Mongolia for election candidates to promise everyone money exceeding the country's real economic, financial and budget capacities in order to collect votes.

“Mongolians should accumulate capital while copper and coal prices are high, not distribute cash handouts,” Rogier warns. According to the Law on Fiscal Stability, the capital of the state stabilization fund should be no less than 5% of the nation's GDP. This fund should accumulate income that exceeds budget balancing procedures. However, it has been announced that this requirement will be implemented before 2018. In short, there is plenty of time before the Law on Fiscal Stability is genuinely implemented. In the meantime, all that is left is pray that prices of mineral resources on the world market stay high. This is due to the current economic environment in Mongolia, which according to the World Bank's quarterly review, is very similar to the situation prior to the 2008 financial crisis: a substantial increase in the budget income and expenditure, in the amount of loans issued by the banks, in the increasing inflation... A warning should be issued that if the prices of copper and coal falls, then the economy of the country will go through a total collapse.

So why - according to Mongolian statistics - is the country's current inflation rate only 4.2%? Steven Barnett, IMF Chief to Mongolia, pointed out that even though

customers' price index is decreasing, if one takes out the price of meat alone, then it can be determined that the basic inflation rate reached 10% and could reach 20% in the future. “If the rate of inflation is low, and the value of exchange rate is stable, then profits generated by the private sector will be higher. However, during the last two years' time the real value of togrog has appreciated by 35%. This is no less a burden then as if export products were taxed 35%,” Rogier declared. All these fluctuations occur because officials in power spent the incomes generated instead of saving them. According to the data of the National Statistical Office, for the first five months of this year the integrated budget balance generated MNT89 billion profits. However, this is a temporary occurrence related to the high prices of copper, coal and other mineral resources on the world market. As the fluctuations of the copper prices show on the world market, prices increase and decrease with the same rate. During the summer 2008, one ton of copper fell down to USD2,770 6 months only after reaching USD9,000. Rogier warned that if Mongolian officials in power do not stop distributing cash handouts, the situation will turn dire and added, “There is no other specification than to state that it is very risky. Nobody knows what will happen tomorrow.”

It should be recalled that the Human Development Fund budgeted MNT805 billion to distribute cash handouts to citizens. Meanwhile, it seems that the creation of the Development Bank and the issuing of bonds to finance highly important developmental projects constitute a small deceit by the Government. Today, officials in power have produced a plan to take out loans in the name of the Development Bank, but bailed it out since they have spent the money necessary for the construction of crude petroleum factory and the implementation of large scale reconstruction works by distributing cash handouts to citizens.

Furthermore, Rogier did not hide his pessimism that the Development Bank can implement large scale projects by issuing bonds worth of MNT800 billion. “The Development Bank first needs to differentiate among projects it can finance. However, by this I do not just mean a project idea. I am talking about projects that are determined to be profitable, for which technical and economical feasibility studies are prepared. I do not know how much time the newly established Development Bank will require to properly assess one project. At the World Bank, where capable personnel with many years of experience work, the preparation of the implementation of one project requires at least one year. If the Development Bank issued bonds and raised capital today, what will be done with this capital? No projects have been estimated, and none are ready to be implemented,” he said. At a time when budget expenditures have expanded, and the inflation rate is set to increase because of the surplus of money on the market, if the Development Bank issues an additional several billion togrogs, then the price of consumer products and goods will skyrocket.

While Dutch people have learnt from their mistakes and were able to reach development, Mongolian officials seem to have learn little from their 2008 mistakes and to be striving to fall even further down into the abyss. They even started talking about issuing all students with stipends. Should ordinary citizens sit blindly as they witness the deterioration of their living standards thanks to the distribution of cash handouts? Where will the nation head to, knowing the pace with which wrong policies are applied (and maintained)? The truth is, no one knows what will happen tomorrow, so “Nothing else to say but best of luck,” as Rogier concluded. ■



BUSINESS COUNCIL of MONGOLIA NewsWire

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IVANHOE, RIO HEADING BACK TO ARBITRATION

Rio Tinto and Ivanhoe Mines, which are together building the giant Oyu Tolgoi copper/gold/silver mine, will likely go back to arbitration later this month, after a six-month suspension on the proceedings expires, Ivanhoe said last week. Construction at the USD6-billion project, which is now more than 23% complete, will not be affected by the arbitration, Ivanhoe CEO Robert Friedland said.

Rio currently holds a 34.9% stake in Ivanhoe, and, under a 2006 agreement, could have increased its holding in Ivanhoe to about 46.6% until October 2011. But Ivanhoe this year implemented a shareholder rights plan that would prevent the bigger firm from increasing its stake even after the agreement expires next year, unless it makes an offer to all shareholders. Rio Tinto disputed the shareholder rights plan and the two parties headed to arbitration over the issue.

In December last year, the two companies announced they had reached a new agreement that would result in Rio assuming management of the big copper/gold project, as well as taking a bigger stake in Ivanhoe. The new deal includes support from Rio for a previously disputed rights offering and help with arranging project funding, as well as a six-month suspension of the arbitration process.

Mr. Friedland said in a statement on June 9 the company remains "highly confident" that the shareholder rights plan does not breach Rio Tinto's contractual rights. "We are committed to vigorously protecting the rights of all of our shareholders and have received very strong support from institutional shareholders for our insistence that all shareholders be treated fairly during any takeover bid."

Mr. Friedland said Ivanhoe also continues to assess "potential strategic initiatives" and was negotiating with several parties. Ivanhoe owns 66% of the Oyu Tolgoi project and the Mongolian government holds the balance, after the two signed a long-awaited investment agreement in October 2009. Rio's interest in the asset is indirect only, through its shareholding in Ivanhoe, but there has been speculation that CEO Tom Albanese wants either a direct stake in the project or control of Ivanhoe itself.

Source: The Mining Weekly

MMC COMMISSIONS COAL HANDLING AND PREPARATION PLANT

The first module of the coal handling and preparation plant (CHPP) at the Ukhaa Khudag coking coal mine of the Mongolian Mining Corporation is now ready to commence its commercial operations following formal approval issued by the State Professional Inspection Authority on June 10 as scheduled. The CHPP, comprising three processing modules and a single product handling system, is the first of its kind in Mongolia.

The first module has the capacity to process around 5 million tons of run-of-mine coal per annum, to produce washed hard coking coal for export with 8-10% ash content as well as thermal coal for the on-site power plant's use. Trial run started on May 12 and the company expects full production capacity of approximately 900 tons as received coal per hour to be reached in June itself.

The design, procurement and construction management of the CHPP was undertaken by Sedgman Limited, Australia. The physical construction process took approximately a year. Capital expenditure totaled around USD111.6 million as originally estimated. The project involved altogether about 600 workers from over 20 different contractors and the CHPP will work on 2 by 12-hours shifts employing around 96 workers. The company has already commenced construction of the second module and expects it to be completed and commissioned by the 4th quarter of 2011.

Source: Mongolian Mining Corporation

FITCH AFFIRMS ITS "B" RATING OF KHAN BANK AND XACBANK

Fitch announced on June 7 that it affirms its "B" rating of Khan Bank and XacBank, with Positive and Stable outlooks respectively. Khan Bank's affirmed ratings are long-term foreign and local currency issuer default ratings (IDR) at B with a positive outlook, and short-term foreign currency IDR is at B. The agency said the positive outlook reflects its expectation of continued improvement in the bank's profitability, bolstering its capitalization, as well as the strong possibility that the bank would be able to raise additional capital.

XacBank's affirmed ratings are long-term foreign currency and local currency IDRs at B with stable outlooks and short-term foreign currency IDR at B. According to the agency announcement, XacBank issued USD12-million of common equity in Q1 2011. However, this was only to restore its capital adequacy ratio because of rapid loan growth, Fitch said, adding it expects XacBank to raise further capital in the near-term to fund its strong loan growth and to preserve capitalization.

Source: Eurasia Capital

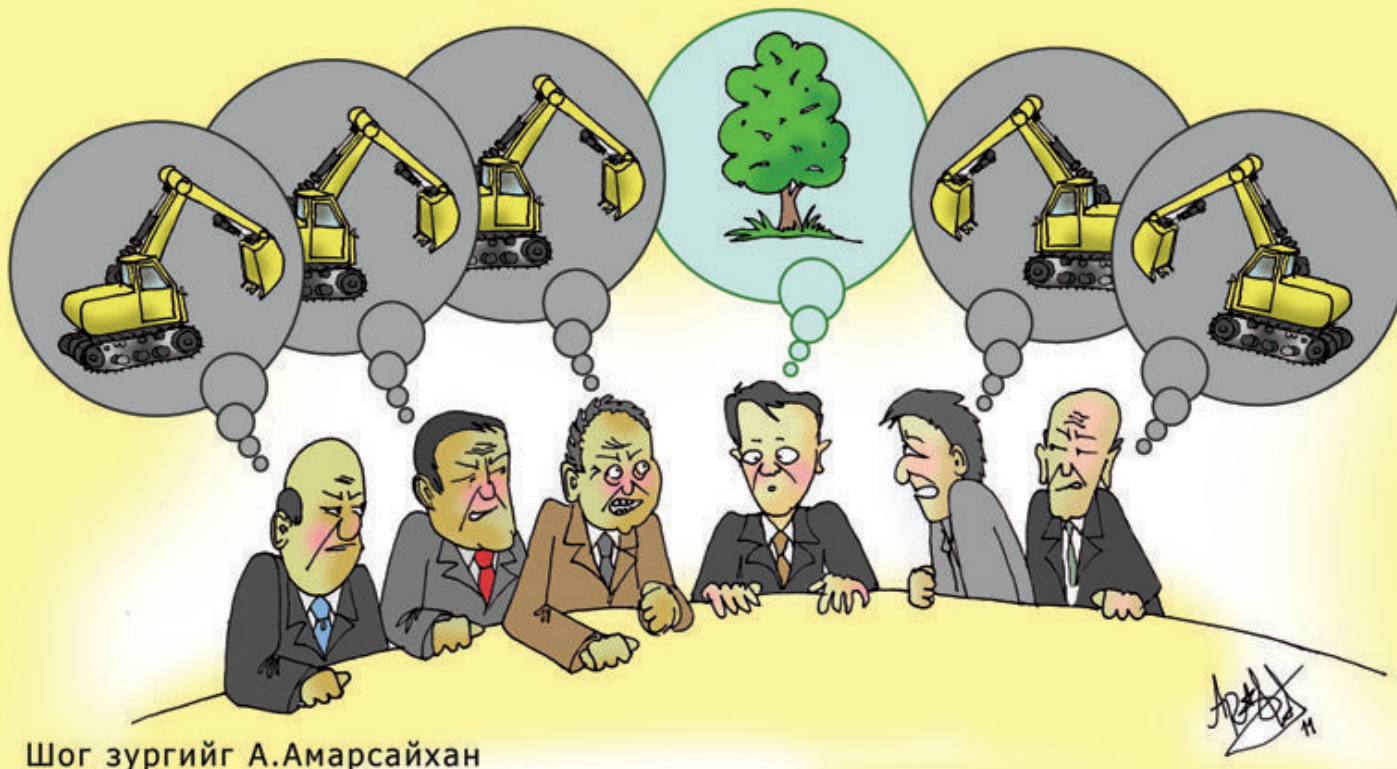
SOUTHGOBI RENEWS COMMON SHARE REPURCHASE PROGRAM

SouthGobi Resources Ltd. has authorized the renewal of its share repurchase program to purchase up to a total of 3,183,650 common shares of the company on either the Toronto Stock Exchange or the Stock Exchange of Hong Kong, representing approximately 1.7% of its current outstanding common shares. The share repurchase program will commence on June 15 and will remain until June 14 next year, or until the purchases are completed or the program is terminated by the company.

SouthGobi's Board of Directors believes that having the capability to repurchase common shares increases the investment alternatives that can be undertaken for the benefit of all shareholders. The program will not impact on SouthGobi's growth plans. Any shares purchased under the program will increase the proportionate interest of, and may be advantageous to, all remaining shareholders of SouthGobi.

From time to time, SouthGobi may not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise. For example, according to applicable Hong Kong securities laws the Company is deemed to be an 'insider' in its own stock for four weeks in advance of any board meeting to receive quarterly results.

Source: SouthGobi Resources ■



Шог зургийг А.Амарсайхан

Environmentally-friendly development

National Program to Transfer Economy from “Brown” to “Green” Still to Be Implemented...

By D.Bekhee

In recent years, Mongolians have been talking, writing and voting “green.” TV broadcasters rapidly and increasingly started to make programs demonstrating the importance of the green revolution. This is a healthy situation, a sign of a progress. Around the world, the genuine initiative of protecting the environment and developing green economies is rapidly acquiring significance. Every country has set itself for priority the adaption and promotion of green policies to its own developmental needs.

No one else but the humankind can render love and protection for Mother Nature and countries are joining their forces... It is after all necessary for each person and each country to join forces to mitigate the negative effects of climate change. The President of the Republic of Korea is appealing to his fellow countrymen to create a greener country, greener provinces

and districts, and become greener citizens themselves. Actually, all the countries in the world are discussing the issue of greener economy at high level meetings. They call for the development of a green economy and the protection and promotion of the environment. State policies and decisions are prioritizing discussions of such developmental issues. So what is the situation in Mongolia?

As a journalist, I can answer that the current situation in Mongolia is highly unsatisfactory. There are few people who are directly involved and concerned by environmental issues. However, since these issues are so important, they require discussions at high levels, state resolutions, laws and legislation. If a green turn in the mentality of Mongolian citizens and their state officials is awaited for, the country will probably be left far behind the rest of the world on the

matter. I can think of one person who has been talking and reminding about transferring the country's economy from “brown” to “green,” the Chairman of the Mongolian National Chamber of Commerce and Industry Mr. S. Demberel. He has talked many times about the content, significance and aspects of such transition, informing public officials and actively fighting for the adoption of a state resolution, which by now people have probably become aware of.

Thanks to his efforts, a joint working group made up of representatives from the Chamber and the Government was established and a National Program to switch the economy from “brown” economy to “green” was drafted. Prime Minister Mr. S. Batbold greatly supported the initiative. Many people were happy that the heads of the government and the private sector joined to draft the program, which ▶

► they hoped will contribute to the well-being of not only the country but also its people and future generations. However, more than a year and a half has passed and the program still lays dormant on paper. Actually, there was a plan to draft the program in the first quarter of 2010 during the Year for Business Reforms and submit it to the Government for adoption.

How long will this program said to include proposals from all the relevant governmental and non-governmental organizations, will lay dusted for? Its main objectives are to unite against global climate change, protect nature and live peacefully in a clean environment adopting a green mentality, and to hand down a beautiful unspoiled nature to future generations. To attain these objectives the program has been drafted in detail to include issues such as the types of policies, rules and regulations to be adopted by the Government, practices to be followed by public offices, companies and industries, and types of support required from the public. On the other hand, mistakes which have been made could be amended. However, government officials are not interested in the program, let alone discuss it. Instead, they prefer discussing mining, mineral deposits, economic growth, huge sums of money, and getting rich.

Some Parliament Members are even talking about abolishing the Law to Prohibit Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas, whose final goal is to protect the country's forests and rivers. If Parliament Members adopt such mentality, how far will Mongolia's green economic development reach?

More important than public officials succumbing to money, corruption and bureaucracy is the mentality and capacity of citizens to nurture and protect the environment. During the 2012 elections, candidates, parties and individuals who talk about mining, gold and money will receive no vote from voters, while those who talk and worry about the environment, about initiatives to implement the aforementioned program and green economy will likely win the elections.

MEM asked MNCCI Chairman S. Demberel why the program is still not implemented by the Government

- The National Program to transfer the economy from "brown" to "green" has yet to be implemented. What is your opinion on the matter?

- I do not see any red tapes in adopting or implementing this program. This is connected to many issues. For instance, citizens' mentality has not turned green yet. There is an issue of structure. The Program entitled "Economy: From "Brown" to "Green"" reflects all the proposals made by the relevant ministries and its goal includes the activities of many ministries. Ministry of Nature and Tourism will probably work in the area of nature protection. National Development and Innovation Committee should work on the Program to oversee the issues of a green economy principle and concept.

A draft program was sent to several Parliament Members. Actually, in any case should Mongolia adopt a green economic concept and program today or tomorrow. Otherwise, we will lag behind the world's development. Despite the fact that today, current governmental policies, resolutions and programs include no provisions on the protection and nurturing of the environment, the concept of using huge coal reserves and increasing the GDP dominates.

If there is a genuine concern over the fate of the country and its environment, an annual GDP estimate should be made, which should be analyzed to determine which percentage to allot to the development of a green industry and to the protection of the environment, and the Government should pay attention to increasing green products. Government should set itself the goal to increase "green" purchasing power by 20% by the year 2020.

But this concept is inexistent, which is why the development of a green mentality should be prioritized, planned, put into action and monitored by ministries and agencies. It should be also reflected in the Law on Tender Selection. It should be required that

a portion of a ministry's annual plan of action be allotted towards green purchases. However, there is a lack of governmental policies. They are seen as good ideas, but simply lack the tight climate for their genuine implementation. We are actually lagging far behind world development and trend. We need to step forward now if we do not want to fall far off and be left behind. "Green" is not a very complex concept or idea. It is very simple to adopt a different perspective and plan the country's development and future.

- When will the program come to life?

- It is necessary for the program to be included in the parties' political agenda during the 2012 elections. Recently, we have signed a Memorandum of Understanding with the Civil Will-Green Party to cooperate in this area. Very soon we will negotiate with other parties as well. In the current Mongolian situation, it seems speedier to use election promises.

- What are the "five 20" principles of the program? Can you explain it briefly?

- In order to make goals and issues understandable to people, it recommended to use simple words and concepts. For the EU, this is the "four 20." In order to implement taxation reforms, the "four 10" principle is used. Similarly, the "five 20" principle is being developed. By 2020, goals have been set to make the purchasing power capacity of the government reach 20%, to make the installed capacity of renewable energy sources reach 20%, to increase energy efficiency by 20%, and to increase environmental investments by 20%.

Actually, the green economy is based on initiative and ideas rather than through administrative or persuasive means. Today, payments for the uses of water and forests are separate. In Europe, a comprehensive means of payment for ecosystem services exists. In other words, it is considered that the ecosystem renders us services. This program strived to adopt a novel perspective by translating the recommendations of the EU on ecosystem. ■

The following is the brief introduction of the program.

NATIONAL PROGRAM TO TRANSFER ECONOMY FROM “BROWN” TO “GREEN”

One. Program’s goal and its significance

The Program is directed towards reformulating the development policy of Mongolia in compliance with the “Millennium Development Goals based Comprehensive National Policy /2008-2021” of Mongolia, and the “sustainable/green” concept followed by the countries around the world, and to undertake comprehensive economic and social development to reform the legal climate.

Main goal of the program:

“Five 20”- 20/20/20/20/20/ or until 2020:

1. Increase energy efficiency by 20%,
2. Make the installed capacity based on renewable energy sources to reach 20%,
3. Decrease the greenhouse emissions by 20%,
4. Increase environmental investments by 20%,
5. Make “green purchasing power” reach 20% of total governmental and local budget purchasing power.

Significance of the program:

- Conform the development policy with global development trend,
- Determine social and economic development levels and policy using green economic indicators such as the green GDP and real savings,
- Increase the efficiency of the exploitation of natural reserves,
- Decrease the nature degradation and environmental pollution,
- Provide for the basis of the development with low greenhouse emissions.

Two. Program implementation period

3.1. The program will be implemented in two phases for the period of 2011-2020:

a/ first or main phase:	2011-2015;
b/ second or target phase:	2016-2020.

World Wind Day

Opening ceremony of the Wind Power Park at Salkhit

Last June 15 marked the celebration of Global Wind day for the third time in history since 2009. Many thousands of people gathered around the world to celebrate the occasion. When the Global Wind Energy Council (GWEC) and the European Wind Energy Association (EWEA) first joined their forces to organize a Global Wind Day, they received a wide support from the governments and energy organizations of many countries around the world. Many thousands of public events were organized all over the world on this day.

Mongolia is a country with tremendous reserves of renewable energy sources and beneficiaries from the right climate conditions to efficiently utilize these resources. Its total wind power stands at 550,000 MW, an amount which can fully provide for its domestic demand in energy, and also for exports.

For the celebration of Global Wind Day at the Salkhit Mountain, an opening ceremony for the building of a 50 MW Wind Power Park project took place. The ceremony was attended by multiparty representatives including Minister for Mineral Resources and Energy Mr. D. Zorig, Parliament Member Ts. Tsengel, CEO of Newcom Group B.Bold, Deputy Director of Energy Authority Mr. P. Gankhuu, and other officials from relevant ministries, governmental and international organizations conducting operations in Mongolia, as well as the leadership of the energy sector and business entities.

Initial works within the implementation of the Salkhit Wind Power Park include the construction of a 110 kV high power transmission grid from Nalaikh to Salkhit Park, improved



roads, additional railway crossing and crossroads.

When Clean Energy Co. Ltd. puts into full operation the Salkhit Wind Power Park in 2012, Mongolia’s energy supply, which constitutes one of the developmental forces of the economy and society, will be able to rely on renewable sources of energy, produce more than 160 million kW/h of energy per annum, and supply energy to the country’s Central Energy System.

The production of clean energy resulting from the constructing and operation of the Salkhit Wind Park will bring a lot of benefits and helps reducing air pollution in Ulaanbaatar by 3 to 5% per annum, decreasing the CHP’s coal consumption by 160 to 190 thousand tons per annum, savings up on water consumption by 1.40 to 1.90 million tons, and decreasing CO2 emissions by 180 to 200 thousand tons. ■

Responsible Mining

Mine Reclamation Standards to Be Heightened

By Kh.Khulan

What makes Mongolia rich? Everyone will certainly have different opinion on the matter. However, the majority would likely agree that Mongolia's land and unspoiled nature constitute its biggest richness. And indeed, Mongolia and its population inferior to three million live on a huge territory in Central Asia, where studies have proven soils to be rich with large quantities of various minerals.

The mining sector has been developing rapidly to this day since the Gold project operation after the government adopted the resolution Nr. 304 in 1991. Because of the challenge the expansion of the economic framework represented during the transition period due to regular budget deficits, the state did not pay any attention to the responsibility and supervision of the entities as long as they were creating workplaces and paying their taxes. But now the situation has changed. "23% of the GDP, over 60% of the industrial products, more than 20% of the state income, over 80% of the export come from mining," member of the State Great Khural S. Oyun said. This means that every MNT1 out of MNT5 is linked to the mining sector and features the realistic possibility of earning profit from this sector. However it is impossible not to mention the issues of mine reclamation, which are more crucial than any profits. A total of 17000 hectares have been exploited for mining activities in 15 provinces, and only around 5000 hectares land has been reclaimed to this year. Around 1000 hectares of soil have been damaged so far because of artisanal mining operation (so called "ninja mining"). Most of the areas left damaged are iron and coal mines. Fluorite mine in Dornogobi and several other mines in the Khentii Aimag are also included in this group.

S. Oyun, D. Enkhbat, and G. Bayarsaikhan, the three members of the State Great Khural have initiated the draft law "on the volume of capital to be spent for environmental protection and reclamation process of the natural resources out of the payment for the use of petroleum and minerals resources and environment pollution," and are planning to introduce it within June of this year. According to the draft law on Mine Reclamation, up to 5% from the payment for mining resources' use will be gathered in a special fund. The accumulated capital will be spent for mine reclamation and other environmental protection projects. An approval of the draft law will certainly make a valuable contribution to the exploited mining areas left without control.

Experts of the relevant institutions agree that mine reclamation process in Mongolia - an issue which has been discussed seriously only after 2003 - is insufficient. The Ministry of Nature, Environment and Tourism and the State Inspection Agency are the public institutions in charge, and risk calculations, as well as details concerning closing procedures of mines and requirements for reclamation, shall be considered before the opening of the mines since 2010. The largest companies have experts and departments responsible for environmental issues and consult with regional inhabitants, which is a sign of progress. Over 70 mine reclamation professional companies were founded since 2006. The five standards for the mining recovery were set up and approved in 2008, and it is now of the utmost importance to launch high standards for techniques and technologies, safety activities, and to introduce standards specific to the different types of mining. Any supervision and requirements are claimed according to these standards; therefore, responsible mining will develop only on the

basis of enhanced professional standards.

By looking at the article Nr. 45 concerning mine closure requirements, only 5 clauses are included in the 2006 Minerals Law. It is obvious that these five clauses are insufficient for the entire developing mining sector. "One renowned Australian researcher conducted a survey about the reasons leading to mining closure. Firstly, a mine can be closed once the resources are over; secondly, when a natural disaster happens; thirdly, when prices go down; and fourth, if the Government makes a sudden resolution. In Mongolia, we talk only about the first case," said N. Batbayar, Chief of the Supervision Department for Environment, Tourism, Geology and Mining at the State Inspection Agency, who also mentioned other crucial issues which should be solved in the near future. The filling in of deep mines' empty excavated spaces and in which condition the mines should be left at closure stage are unclear. Gold mine excavation sites which are only 40m deep can be filled in and smoothened. But how to carry out reclamation operations in 200m and 350m deeper mines? These examples show how the current legal regulations cannot solve these issues.

The success of a reclamation process in a mining area depends on its geographical attributes. Mongolian Economy Magazine has enquired about it to S. Erdenetsetseg, an expert at the Environment and Natural Resources Department at the Ministry of Nature, Environment and Tourism. "The Khangai, Khentii, Selenge and Zaamar regions are in favor of reclamation process if technical requirements are considered. Although vegetation can be reclaimed within 2 to 3 years, in areas such as Bayankhongor, Uvurkhangai and other Gobi regions, that process is challenging." The Ministry of Nature, Environment and Tourism approved the budget for mining reclamation. Since 2006, any entity that is carrying out mining activity shall put 50% of the amount to be spent for reclamation into a special State Fund's reclamation account. This fund has nowadays MNT3 billion from over 190 entities.

Moreover, some professional organizations have prepared their additional amendment to the 2006 Minerals Law. The Mongolian National Mining Association (MNMA) has given their proposal about establishing an Insurance and a Risk Fund for mining reclamation, informed N. Alгаа, the Executive Director of the MNMA.

Judging from experiences of foreign countries with mining development of many hundreds years, they all take up different measures when it comes to mining closure. For instance, reclaimed areas are used for water sport activities, beach, ski resort, parks, training fields, and even casinos. Some experts consider that reclamation for pasture purposes is closer to Mongolia's needs.

Mongolia does not have any entities that have conducted the best model mining reclamations. However, companies such as Baganuur LLC, Gatsuurt, Boroo Gold, Monpolimet and Peabody can be named for their recovering activities of their used mining areas to a certain level.

Of course, profits generated by the mining industry are important for the country's economy, but so is its environment. If Mongolians neglect caring for their nature, it may turn its another face in the future. ■

Investment

Pietro Doran: Interested in attracting the Korean institutional investors to Mongolia

D.Bekhbayar

Pietro Doran, the Executive Director of “Korea Mongolia Resources” was interviewed in this issue of Mongolian Economy. He is the owner of the “Doran Capital Partners” investment group in Korea. The Fund “Korea Mongolia Resources” is founded in cooperation with Eurasia Capital. We met him during the Mongolian-Korean business forum in Ulaanbaatar.



-What is the purpose of your visit in Mongolia?

-Well, it is the first time I am in Mongolia. Alisher and I have been friends for over 4 years and I'm proud to say that. Alisher is a member of my firm's Board of Advisors. I have followed what Alisher has been doing in Mongolia over the past few years and I am very impressed with the organization that he has built along with his expertise and the international reputation that he has built as one of the most knowledgeable spokespeople for the new Mongolian economic experience. I am using the phrase “experience” because what is going on in Mongolia today is about a rate of economic development that very few countries have experienced in their entire history, and Mongolia is about to shine as one of the stars of a group of emerging countries. I recognize the path that Mongolia is on as I have been fortunate enough to have been working for almost 20 years in a country that has recently shared the experience of extraordinary economic change – that country is the Republic of Korea. So I see the parallel of what I experienced in Korea about to happen in Mongolia. We have an unusual opportunity in the partnership between Eurasia Capital and Doran Capital Partners; there is somebody like me in Korea, a foreigner who has spent his career in Korea, and there is somebody like Alisher in Mongolia, a person who has been a visionary on the opportunities of Mongolia's future. The two of us can link our mutual professional experiences in working within countries undergoing rapid political, economic and social change.

-Which activities are you planning to carry out within the scope of your cooperation with Eurasia Capital?

-It is our goal to bring together our knowledge, insight and understanding for the unique challenges faced by ancient cultures experiencing rapid modernization and globalization. By bringing together our firms that we have independently built, and by taking advantage of our mutually extensive expertise in the fields of finance, investment management, infrastructure, construction and urban development, Alisher and I, together with our partners, hope to achieve some great successes not only for our new joint venture, but for both Korea and Mongolia. The advantage that Doran Capital Partners and Eurasia Capital can bring to investors is a disciplined approach. We can help investors from Korea looking to invest in Mongolia avoid the mistakes that many foreign investors make in emerging markets. And I would say that through Eurasia Capital Korea we can guide Korean investment initiatives in Mongolia by articulating the positive aspects of the Mongolian investment market, by informing investors of the regulatory challenges to be considered, by identifying credible investment opportunities and sourcing qualified local partners whenever necessary. Eurasia Capital is uniquely positioned to act as a “bridge” linking Korean investors with the Mongolian market due to the impressively skilled multi-national team of investment and market analysts all located in Ulaanbaatar.

» **-What can you tell us about foreign investment from your experiences?**

-Because Mongolia is developing economy its dynamic growth is still a young experience in terms of its political and economic stage of maturity. The regulatory environment in terms of foreign investment still evolving and the challenges will only increase as the average Mongolian citizen wonders “what do I get from this market expansion” and their voices will have to be carefully heard by politicians charged with meeting Mongolians expectations as political power in a democratic Mongolia is defined by its citizen’s votes. It is inevitable that regulatory changes will continually evolve to meet the ever increasing complexity and sophistication of a growing Mongolian economy. This is why most investors tend to be very nervous about going into a developing economy as the laws and regulations governing and effecting foreign investment tend to be in a constant state of evolution as political needs and economic expediency must be balanced with increasing societal expectations. So often in rapidly growing economies one finds that what was true today may not be true tomorrow. That was the Chinese experience over the past 10 years for many early Korean investors. The Koreans actually had some terrible problems investing in China as many Korean companies filled with excitement at the potential of the Chinese market implemented investment initiatives without bothering to understand or analyze the unique cultural and political challenges that the Chinese market presented.

-Why these problems happened in China?

-I suppose that many Koreans thought that their country’s proximity and long history of cultural exchanges over the past 5,000 years gave them a unique insight into China which, unfortunately, too many Korean investors learned wasn’t necessarily true or useful. Simply put, the Koreans were wholly unprepared for the magnitude and pace of the political, economic and social forces shaping China and many, actually very many, were in fact badly hurt for the experience. This is what we at Eurasia want to help investors avoid doing in Mongolia.

-How do you avoid risks in such countries?

-By having a partner like Alisher we are able to access his deep understanding for the country as well as his intensive commitment to improving the investment environment for the benefit of both Mongolians and foreign investors alike. Alisher has assembled a wonderful multi-national group of some of the most intelligent people I have ever met, and this is exactly how you go about minimizing market risk for investors. The advantage I think that Doran Capital Partners can bring in terms of Korean investment, as opposed to US or, European investment is that only 25 years ago Korea was, in fact, much like Mongolia today. Not so long ago Korea was continually accused by the Western world of being hostile to foreign investment, of aggressively pursuing regressive trade policies to protect local industries, of rampant patent violations and copyright infringement and, above all being among the least transparent of the world’s market economies. So, as one can see, many of the things being said about Mongolia today were said about Korea just two decades ago

(and maybe not even that long ago). You see, for Koreans the memory of its time as a young developing country is still fresh. However, through that experience, Koreans know what can be accomplished within the environment of a developing economy because the powerhouse that is Korea today was forged from the same extraordinary political and socio-economic forces that are changing Mongolia today.

-The Chairman of the Mongolian Stock Exchange gave an interview to our magazine. He said to promote the establishment of institutional investors at the stock exchange. Can you share your experience of working in Korea?

-We were just talking about this. In the 90s the Korean stock market index was never able to get over 700. And that was because nobody understood Korea. They didn’t understand how Korea’s corporations operated work and there was no transparency whatsoever in corporate governance. Transparency in corporate governance was practically non-existent, and therefore public information about how corporations made decisions, ran their businesses, how they utilize capital didn’t exist. And there certainly weren’t any investor rights. The Korean corporations thought that shareholders were a public nuisance. Listing on the stock market 20 years ago was more about the sense of pride that people wanted to buy their shares. They never thought of the value of those shareholders much less that the shareholders had any rights to determining how a corporation should be managed!

-How this attitude of the Korean corporations could be changed?

-This attitude has changed radically in just the last 10 years. Over just the last decade as Korean corporations began to expand beyond Korea and into global markets they learned the value of being able to access international public markets in order to raise capital to fund overseas expansion – to do so, they had to accept and adapt to global market standards especially in terms of transparency and public accountability in corporate governance. In adapting these standards they found that it was actually a huge benefit to them both in terms of branding and international reputation, and most surprising for Korean corporations they began to find that transparent governance actually built market value for their companies.

-Which results came out of it?

-Most importantly of all, Korean corporations, admittedly quite reluctantly and often forced to do so by Korean government policy, began to import that market discipline to Korea with the result that the Korean stock index tripled from around 670 in the late nineties to over the 2200 mark it enjoys today (and the KOSPI is now one of the most favored Asian stock markets of global foreign investors). The result of this sometimes unenthusiastic acceptance of change is that today Korean corporations are among the best run corporations anywhere in the world. The addiction that Korean conglomerates once had for bank financed debt (with a few major Korean conglomerates having debt to equity ratios as high as 23,000 per cent!) a dependency which, by the way, allowed them to operate almost as “secretive” »

► empires (and the problems of corruption that such a system produces) collapsed in the Asian financial crises of 1999 - 2001.

-How the Korean corporations became transparent?

-The Korean government's critical role in enforcing stock market disciplines forced Korean corporation to become transparent. What they found was by following the rules of improved governance and accountability, listing on the market was good for the corporations and a boon to the Korean economy. And that is the power and advantage of a well managed public market; while it insists on transparency and highest standards of corporate discipline it acts as an incredibly efficient conduit for delivering capital at competitive rates and, in doing so, augments the reputation and value not just of the firms listed on that market but the image of the country itself. Transparency is then not a burden but is, in fact, an advantage and a measure of a firm's maturity and success.

-And now the Korean corporations demand transparency from the Mongolian companies?

-It is something of an irony for me to hear Korean corporations now complaining about and demanding from Mongolian companies higher levels of transparency, reduction of corruption and calls for improved governance, all market attributes that that they would not have even considered listening to anyone's complaints (much less conform to) as recently (and still, frankly, to some extent today) 15 years ago. Korean corporations back then would have thought such complaints to be an unnecessary intrusion on their executive management rights and a blatant attempt to undermine Korean corporate ownership. Through the Korean government's determined efforts, Korea is today one of the most open investment markets anywhere in Asia. Its currency markets are, in my opinion, among the most liberal anywhere in Asia.

-What could you tell us about the Mongolian Korean relationships?

-There are now almost 40,000 young Mongolian working and studying in Korea today! What is exciting to me and promising for Mongolia is that many of these young Mongolians are studying at the universities in Korea. They are coming back educated in the Korean experience just as beginning 20 years ago Korea sent its youngest and brightest to America and Europe to study in many of the West's greatest universities. And those young Korean imported many of the economic, financial and market disciplines back to Korea. And now the Mongolians are doing the same thing, only they are learning these disciplines from the Koreans!

You know, it is an open secret that Koreans love to claim that they are all descended from Mongolian ancestors. They believe (and it is true after all) that their very genetic make-up is Mongolian. Every Korean is intensely proud of being of the same stock as the descendents of Genghis Khan. And they all love to tell foreigners of how when a Korean baby is born it carries the "Mongolian Spot", which is manifested as a blue spot on the baby's bottom. I believe that when a Korean travels to Mongolia he or she has an almost spiritual sense of having come "home", of following in their ancestors

footsteps all the way back to Mongolia. And so I believe that Koreans experience a sense of pride in helping to Mongolia achieve its place in the global arena - in a sense, the Koreans are helping to build the future of their ancestral home. This is something you cannot duplicate anywhere else in the world. The advantage to Mongolia today is that as a country, as a government and as a changing society, it doesn't have to look to Europe or to America for example and it does not need to look to China for inspiration in the management of its economic growth (and given the fierce independence of the average Mongolian, I certainly don't think that China is a political or economic model they could even possibly duplicate). No, in my opinion there really is only one country that Mongolia needs to look to for inspiration and as a model upon which to build its future, a model of success achieved by a people who pride themselves on their own Mongolian roots - and that model is Korea.

-Benefits and advantage of coming to Korea? Which obstacles did you encounter during your first year there. What do you think, which obstacles could be in Mongolia?

-That is a really good question. And that is probably why I am in Mongolia. When I went to Korea in early 90s, there was almost no significant foreign community except the US army. Korea was considered the worst place foreign expatriate to have to be posted. No corporate executive wanted to be posted in Korea but rather wanted to live in Japan or Hong Kong and only travel to Korea as business required. Yet that was exactly the place I decided to go!. Upon arriving in Korean I had three distinct advantages over every else:. I was young, I was stupid and I was full of adventure. I was stupid since I didn't know everything in Korea was hard since I didn't know anything about Korea anyway. It simply didn't occur to me that it should be easy - or else why would I have come?. You know, climbing a mountain is hard, but if you love climbing mountains you do it anyway. It seemed like a great adventure and I was overwhelmed by the energy and determination of the Korean people. My first impression of Korea in those days was that nobody smiled. Everybody was intense about getting to schools, becoming lawyers, scientists, engineers, managers and doctors - there was just a great sense of a "peoples" mission to build the country. Then I began to understand how Koreans think, the power of the collective Korean mind, and the power of a unity of purpose. All the problems, all the troubles, all the things that the investment bankers would consider as terrible weaknesses and disadvantages in an economy, I thought were Korean strengths, its power and its future.

-How do you feel during your first visit in our country?

- When I came to Mongolia yesterday for the first time in my life, I felt the same surge of energy and excitement that I did 20 years ago coming to Korea. When I first arrived to Korea, everybody said: "6 months and you will go running home to Boston". But now, 20 years later, I have built my own companies in Korea, I have headed the real estate investment division of one of America's major investments banks in Korea, I have built a brand new city in Korea and I have raised global capital for investment into Korea. As ►

► I said, when I came to Mongolia yesterday I felt the same surge of excitement that I did coming to Korea 20 years ago. Mongolians want their country to take its place in the world, everybody in Mongolia feels this is their country's time. I can tell you without hesitation that I have never met so many incredibly intelligent, risk taking, ready for anything the future might offer young professionals as I have in the past two day in Ulaanbaatar. Yes, it all feels like the Korea of 20 years ago.

-What were the 3 reasons you came to Mongolia?

-Because where I was once young I am now mature, because where I was once adventurous I am now wiser, because where I was once just stupid I am now experienced. Mongolia doesn't need just young, stupid and adventurous. It needs maturity, wisdom and experience to guide its future and avoid the mistakes of other developing nations (think of the tragedy of the Philippines). What I see from the advantage of experience is I can guess where Mongolia is heading in the next 10 years. What I see is not challenge in Mongolia and I don't focus on the disadvantages but what I do see are the opportunities that Mongolia offers and what I am convinced of is that Doran Capital Partners working together with Eurasia Capital have once in a lifetime opportunity to contribute to the building of a great economy. Well, perhaps because of my Korean experience I can say that this is actually a twice in a life time chance! We can be part of creating solutions for Mongolians and Korean investors because of our experiences in similar places with similar histories of development. We didn't come here full of professional arrogance, we are coming here on the basis of hard earned wisdom and experience gained from living and working in countries with a similar development experience and having lived through the mistakes as well as the successes made in those places. We believe we can actually be part of bringing Mongolian business and foreign investors together and for mutual success by helping both to avoid the errors made in other places. In doing so, may be we can have the privilege of having made a small contribution to building a successful Mongolian development model that other emerging markets can follow.

-Have you established the Fund?

-We have not established the fund. We have reached the first stage of creating a fund in that we both agree and are committed to working together to bring Mongolian and Korean firms and investors together and through this effort make our contribution to bringing both countries closer together.

-What is the first step?

-First step is defining the purpose and mission of the Fund. To do so we must first refine our investment goals and , then we need to identify the optimum target investor groups in Korea those who would most benefit from investing in Mongolia. Of course, the first real t step is to identify, assess and verify those investment opportunities that we believe will be most attractive to Korean investors.

-What would be the guideline for the sectors of the investment?

-We will look for discipline in governance of the companies, we would look for the energy of the principles and the commitment of those executives to growing their

companies – not simply growing rich, Eurasia and Doran Capital are not about just making money, we are about living a dream to build something of value for our partnership, for Mongolians, for Koreans.

For us management is critical – it is, in fact, the primary component in evaluating an investment opportunity. When we consider any investment we look to the management to assess the level of their integrity, their level of commitment to building a successful company, to their underlying motivations and avoiding the “get rich quick” crowd. We ask the hard questions: How does the investor make money? Investing is not a missionary expedition. The investors are looking to make returns in exchange for the risks they are taking. They are going to look for companies they feel they can trust in making an investment. It is simply a fact that the first investments that we recommend to Korean investors will be the measure by which any future success we might have in raising future investment capital for Mongolia will be determined..

-What was your first investment success story in Korea?

-My first investment was in me! When I came to Korea as an entrepreneur, I had to survive on the little financial resources I had (which were at the time almost none). Four years later I had 15 people working for me. 2 years after that Morgan Stanley bought my company and I suddenly found that I had the responsibility for investing 2 billion USD of foreign capital in Korea as the President of Morgan Stanley's Korean real estate investments. Doran Capital Partners now has offices in Hong Kong, Seoul, Melbourne, London and we are going to soon open an office in New Delhi – and now, through our partnership with Eurasia, we are in Mongolia! You asked me about the big success. Surviving and being able to see how the small idea can be turned into a global company – that is the essence of success. And I felt just as excited by each small success in the beginning, among which was simply being surprised that I survived, as I now feel in some of the multi-million dollar projects we are now involved with. And, now, here I am in Mongolia having the honor to work in partnership with my good friend Alisher who is as a person and a professional demonstrates the highest standards of integrity and honesty and who has built an extraordinary investment banking business in Mongolia that exactly reflects those qualities.

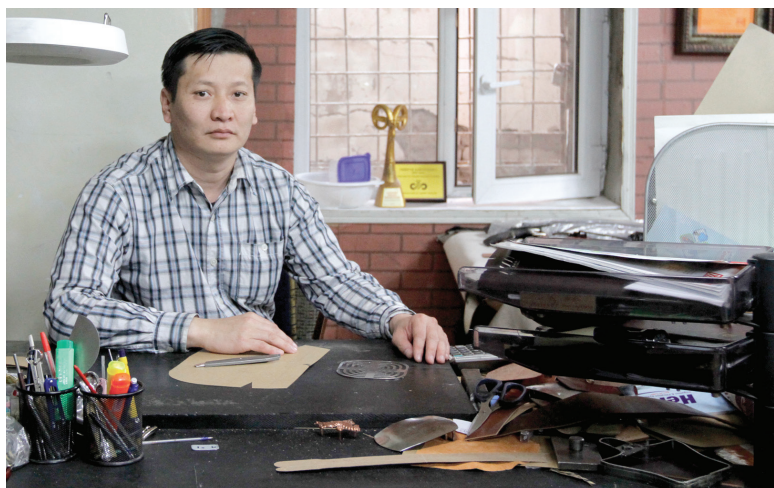
-What is the risk you are taking on?

-The biggest risk we are taking I would say is the risk to our reputations given the expectations for our success in Mongolia. But then, that's okay, after all I have been taking risks all my life. I go to a place I've never been to before and I try to create something out of nothing or I undertake an investment in which I just might get (metaphorically) killed in the attempt to have the experience of accomplishing something extraordinary. You see, I don't climb mountains or jump out of planes. Do you know why? It is because I take huge business risks all the time. On Sunday, I can assure you, all I want to do is to quietly read a book. My entire life has been one long exercise in taking risks – I wouldn't want to live in any other way. ■

Made in Mongolia

Only One

By E. Zorigt


<http://www.mongolianeconomy.mn>

This edition of Mongolian Economy Magazine in connection to the tourist season devotes considerable amount of its pages to the issues of the tourism industry. Among all the tourism related companies, Mongolian Economy Magazine drew its attention to one leather product manufacturing factory. After inquiring for some time, the “Only One” factory was elected to be subject of this article.

If you ask any Mongolian if they know “Only One” leather product manufacturing factory, very few will probably say they heard about it. However, the small factory has been operating for more than 20 years. Director Enkhtur tells about many mistakes and difficulties the factory has encountered until today. In 1990’s when the market economy was just starting, Enkhtur launched his business with great resolve and dream about the future. The company is promoting Mongolia to foreigners by selling the types of souvenirs that are commemorative of the country. This factory distinguishes itself from more than 40 other factories and individuals that conduct the same kind of activities by manufacturing high quality leather products starting from leather key chains up to belts, bags and purses. They hope selling at least one kind of designed product to every consumer, which constitutes their competitive advantage, hence the name of the company “Only One”. There are many orders for the manufacturing of one and only type of products. This factory, apart from souvenirs, makes also fully equipped police belts, back plate for miners, and all types of attractive and good quality office and decorative bags. Also, when we say that this factory makes only one design product of a kind, do not think that they are very expensive to order. Orders are placed for a reasonable price and products are of good quality. For example, a decorative bag will cost around MNT100,000 thousand. Good quality leather belt costs around MNT20,000. Instead of purchasing expensive foreign products manufactured in south east Asia, it is better to purchase Mongolian made products. While Mongolians do not know about their national factories, tourists come to Only One factory and order “Made in Mongolia” leather products.

It is necessary to purchase and promote Mongolian made products; only then will Mongolia be able to have a world renowned manufacturing industries. Although some people scorn souvenir shops, complaining they make poor quality leather products, “It is impossible to assert the quality of nationally produced goods based on the quality of souvenirs sold in souvenir shops,” Enkhtur says. “Therefore, please, do not be quick in declaring that the quality and design of Mongolian

leather products are inadequate. Firstly, it is important to get to know the products and understand the reasons behind their production.” This is because souvenirs in souvenir stores are made as gifts. Their quality is not discussed as much as the necessity for it to be attractive and fancy enough to be placed in silver cupboards. However, leather products such as purses, bags and shoes are consumer products; therefore, they are made from the best quality materials. Consequently, readers should be advised that in order to purchase quality leather products, it is better to approach the manufacturers themselves. Learning to differentiate these issues and further advising foreigners and tourists that if they want to purchase other types of leather products than souvenirs they can approach manufacturers is important. If these issues cannot be differentiated, then people will say that Mongolians cannot manufacture good products and the country’s name will be tarnished. A study even says that a buyer criticizes poor quality products to ten people, while commenting about good quality products to only three people. Therefore, it is clear that a lot will depend upon the tourists’ guides’ responsibility and awareness.

“Only One” factory cooperates with many of its counterparts in the UK, Turkey, Russia, and China. Despite the fact that the factory is well-known to quite a lot of countries, it is not very well-known in Mongolia.

They established two years ago the Small Medium Enterprises Association for the purpose of expanding their operations. Enkhtur is the Executive Director of this Association, which currently holds 65 members. The association has submitted a proposal to decision-makers to implement various programs on gloves, student bags and children’s shoes complying with sanitary standards. It seems that they have a firm belief in the government support this time.

This factory has around 10 permanent staff. At peak order periods, they hire additional workers, and work with a full capacity of around 20 staff.

“Only One” strives to closely cooperate with other sectors. For example, they cooperate with Tourism companies. This aids them in not only promoting their organization to foreigners but also to promote the country. They also make good quality gun holders, handcuff and bat for policemen. They have made belts for sportsmen during the Beijing Olympic Games. Factory workers take as a good omen the fact that by wearing their belts, sportsmen brought more than one golden medal. “Belt constitutes the coat of arms of a Mongolian. If our athletes wore foreign made belts, their victory would be uncertain,” they joke. ■