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MONGOLIAN ECONOMY

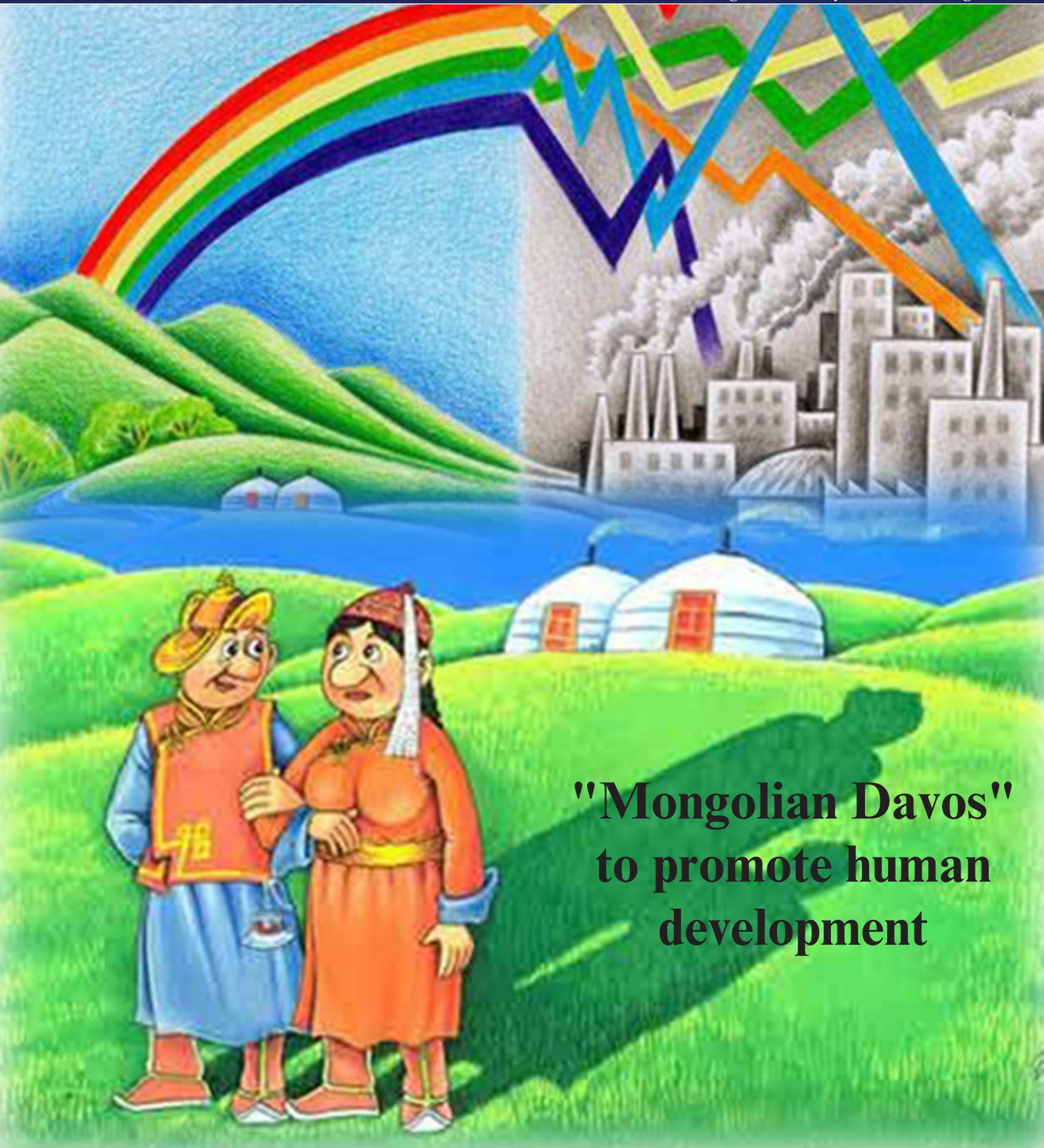


The Year of the Rabbit Will See
Cashmere Prices Soar Like Never Before

MSE to Undergo a Thorough Clean-up

2011. March. № 002

Mongolian economy and business magazine



**"Mongolian Davos"
to promote human
development**

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Message from the Editor:

Dear Readers,

We are very pleased that our editorial staff received so many emails and messages of congratulations for the first issuing of The Mongolian Economy Magazine. Thanks to these many messages of encouragement, it seems our efforts to deliver news of quality and interest about important events taking place in the country's economic and business sectors have been widely appreciated and have not passed unnoticed. In addition to these messages, many people gave calls of congratulations and offered many valuable proposals and advices. Having taken them into consideration, we are glad to present you with the second edition of our magazine.

It was important that the first edition of our review came out in time for the Mongolian Economic Forum, where discussion on the future of Mongolia's development and developmental solutions were taking place. Our team seized the occasion to report on the Mongolian Economic Forum and deliver to you, dear readers, news about the event. Of course, we will not write about all of the 15 issues discussed at the forum in this edition. In the future, each edition will address a specific issue, and most importantly, provide you with a detailed report on how the Government intends to implement the ideas proposed by the forum's participants. For example, governmental officials spoke a lot about high growth, development, profits, and brought facts showing poverty has been reduced in Mongolia. This led I. Otgonjargal, one of our journalists, to carry out a live reportage in the ger district. You will learn from the feature story how poverty and the number of poor have increased there. D. Munkhchimeg, another journalist, wrote an article on the fact that, although daily newspapers are full with vacancy notices, few people meet the criteria required for the jobs they apply for, exposing the state of Mongolia's educational system and human development, the foundation of a country's development. In another article, developmental difference experienced in the cities and the countryside, and development advantages and urgent problems facing our nation will be illustrated with the life of Dorj, a herder. Finally, two young Mongolian citizens - both models of a contemporary youth who gained a higher education in western countries - were invited to our office to exchange opinions and new ideas on business, capital and financial development in Mongolia. We are confident this will be an interesting interview.

Water issues were also raised in our column titled Mother Nature. Our review has already reached Ts. Elbegdorj, President of Mongolia. He appreciated that a review delivering objective economic information and wishing to expand its Mother Nature column raises not just global, but also the country's urgent problems for the future. This encouraged us very much. Many foreigners also expressed their joy at reading a review that provides them with extensive of Mongolia's current economic sector.

In addition, let's not forget that subscription to our magazine has been growing in numbers, much more than originally expected. This encouraged us greatly too. Therefore, we would like to thank all the people, our readers and subscribers, who express their impressions and opinions, and, in doing so, participate in making The Mongolian Economy Magazine Mongolia's best economic and business publication.

Yours faithfully,
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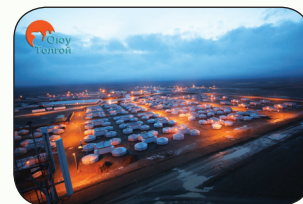
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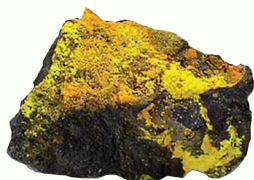
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Mongolian Economic Forum 2011

“Mongolian Davos” to promote human development



What is Davos famous? Although it holds the largest ski resort in the world, today the Swiss city of Davos is renowned for determining the course of the international economy. Forty years have passed since generations of heads of states and governments first gathered there to sharpen their economic policies. The Davos Forum has now become a brand name, a two-word shorthand for the World Economic Forum (WEF). Consequently, the fact that representatives of this organization who determines the direction of the world development arrived in Ulaanbaatar to participate to the Mongolian Economic Forum is a notable event. As well as representatives from the Government and civil society, international organizations, business entrepreneurs and foreign investors have gathered at the State Parliament House for two days to determine the course of development to be adopted in Mongolia. This year's Forum did not concentrate on protesting about obstacles and barriers, facing the country but on the means and ways to overcome them and on the adoption of an appropriate model of development.

Prime Minister of Mongolia Mr Batbold announced that the final mission of the Mongolian Economic Forum will be to discuss ways of providing for and promoting human development and the emergence of a wealthy middle class. President of Mongolia Mr Elbegdorj confirmed this tendency by asserting in his opening speech on the second day of the Forum that “mineral resources should leave a mark not only on the soil but on the human development.”

Today experts state explain Mongolia finds itself on the eve of a rapid economic development. CNN's international reporter Stan Grant who chaired the joint session has, undoubtedly, caught the attention of the participants when he labeled the Mongolia economy as the “Wolf Economy”. We are already getting used to many eye-catching names such as the “Next Asian Tiger”, “Mongolian Wolf”, and “Central Asian Kuwait,” and so on. However, it is too early to adopt these names, before even having taking the bull by the horns.

World Economic Forum representative Mrs Catherine MacPile reminded that “mining will not immediately yield a positive outcome,” and that “all will depend upon its management.” Alex Won, Director of the World Industrial Center, WEF, explained how Chili directed mining profits

towards education and human development, setting Chili as a leader in the world not only in mining resources, but also in the supply of mining techniques and technology. The “Mongolian Davos” is now in its second year of existence with the sole purpose of listening to such foreign experts, learning from other countries' experiences and adopting world practices.

Mr N.Altanhuyag, the First Deputy Premier of Mongolia, cautioned that “a lot of money will come from mining.” “If we do not adjust the appropriate economic structure, we might be left with nothing but a ‘Dutch Disease,’” he added. “We can only develop our country by substantially raising the quality of education, knowledge, and skills of the Mongolian people,” Prime Minister Mr S.Batbold asserted. As for the President, he stated, “Citizens exist not because the Government exists, but the Government exists because citizens exist. As such, the main responsibility of our Government is to serve our citizens. In this Year of the Rabbit, rights should be increased citizens and local provinces. A Person will only emancipate by exercising his or her rights. In a country where the Government, the leaders or the President think for the people, the discussion of human development cannot even begin to take place.”

The Mongolian Economic Forum program included 15 sub-sessions dealing with the four principal themes of “Human Development”, “Development Policy”, “Governance”, and “Infrastructure”. All the sessions focused on the issue of human development in Mongolia and discussed ways of creating satisfying educational, working and living conditions. Prime Minister Mr Batbold promised that “all the resolutions coming from the Forum will be reflected in the Government decision-making processes.”

The Government is already expected to adopt a policy to direct the wealth of the country's natural resources towards the development of human capital. The “Mongolian Economy Magazine” is glad to support such initiative originating from the “Mongolian Davos.” As such, this edition includes articles such as “Has Poverty Decreased or Not?”, “Time to clean up your act,” and “Will mining revenues benefit Mongolia's arts and culture industry?”

The theme of Human development as an effective human growth factor will be the regular subject of our magazine. ■

MSE to Undergo a Thorough Clean-up

By D.Munkhchimeg

Mongolia had the best performing equity market globally in 2010, surging 138 percent by year-end 2010. However, it is still too early to rejoice. Mr J.Unenbat, director of the Corporate Governance Development Center, warned during the Mongolian Economic Forum that “people are buying shares without any data.”

It is true. Investors interested in buying Mongolian companies' shares have no other way than to do so blindly, because our companies have completely forgotten what transparency means. Only 33 companies out of the 336 joint stock companies registered at the Mongolian Stock Exchange have sent an annual reports to their shareholders in 2010 and only 19 paid dividends.

It is likely that no one would buy a cake from a supermarket if it did not provide information on its producers, its ingredients, a date of production and a best-before date. However, the majority of Mongolian joint stock companies are proposing just this type of product. Failing to disclose their annual report, not holding shareholders' meetings, and not paying dividends are regular occurrences. There is an abundance of “extreme cases” at the Mongolian Stock Exchange (MSE), such as uncertain or doubtful companies addresses, or even if certain companies conduct any business operations at all. In such a situation, it is simply a near-impossible task to protect the shareholders' rights and interests. Therefore, the Financial Regulatory Commission has proposed to conduct a “thorough clean-up” at the MSE and register anew the joint stock companies. As experts point out, this is the only way to upgrade the system of accountability and to create the favorable conditions to

improve corporate governance and transparency.

Why do we need corporate governance? Mr J.Unenbat explained that “only by realizing their commitments under the law can companies attract capital.” “You can say that corporate governance provides for this condition and thus protects the interests of investors,” he says, but “actually, transparency of information and reality of the situation are very important for the capital market. Investors have only information to feed on. Here lies the value of corporate governance.” In other words, the three cornerstones of corporate governance are fairness, accountability, and transparency.

It has not been long since the concept of corporate governance, which started to dominate around the world in the 1990's, came to Mongolia. During the Financial Regulatory Commission meeting which took place at the end of the year 2007, a Corporate Governance Code was approved. However, its implementation record is truly shameful. Recently, the Government discussed and approved the National Program to Develop Corporate Governance. Nevertheless, experts warned that in order to implement this concept in Mongolia, the Government needs to conduct a “thorough cleaning” starting with itself. Corporate Governance is not only relevant to joint stock companies, but also the banks, the general public and governmental organizations” affirmed Mr J.Unenbat.

But many questions undoubtedly arise as to how many state-owned companies are working profitably? Who-and under what criteria-appoints the board of directors? Can the board of directors take any kind of responsibility?

“Members of the board of directors



do not attend meetings. Even if they come, they do not take any initiative. But we still want to have our work assessed. If we make mistakes at work, we want to be criticized for it,” Mr B.Tseveen, director of the Thermal Power Station IV Company, pointed out during the Corporate Governance sub-session of the Mongolian Economic Forum.

Mr D.Bailykhuu, advisor to the Director of the State Property Committee, conceded that the board of directors of state-owned companies are only operating like a front, and do not have the ability to take any responsibility. “Even if the State is the owner of the company, the board of directors should be privatized,” he went on further. However, director of Mongol University Mr N.Dashtseveg pointed out to the necessity “of paying attention to the appointment of the management of state-owned companies,” pursuing that “only three of the nine members of the board of directors should be appointed by the Government, the rest should be appointed by an independent council of directors.”

There is plenty of evidence to support a clean-up starting with itself. This is because data made available shows that, out of approximately 2.7 billion shares traded on the Mongolian Stock Exchange, over 1.8 billion



belong to state-owned companies. Mr D.Bayarsaikhan, director of the Financial Regulatory Commission, maintained that “there is a lack of corporate governance in state-owned companies and that they have issued orders to raise the criteria for registration process at the Mongolian Stock Exchange and halt the share trading of companies that do not conform to these standards.”

Since 1991, out of the 520 state-owned companies that registered without any criteria, only 320 are operational today. The rest are bankrupt and have been dismantled. Out of these 320 companies, 22 have maintained their 100 percent state-owned status and 29 have acquired a parastatal status. Despite the fact that the remaining were privatized, they have become the property of a few. Mr B.Ayush, director of the secretariat of the board of directors of the “Mongol 999” National Consortium said, “The majority of companies in Mongolia are currently either state-owned or in the hands of family members of state officials. In such circumstances, it is of a capital importance to protect the interests of small shareholders.”

The National Development and Innovation Committee, in cooperation with the Asian Development Bank, conducted at the end of 2009 a survey named “Protection of the Interests of Small Shareholders.” The survey determined that 93.7% of the total of shares traded at the MSE was concentrated in the hands of a few people united under a common interest. Consequently, state-owned companies and “family” companies occupying the Mongolian capital market turned their backs

on implementing their commitments under the law and the protection of small shareholders’ rights. 94% of the surveyed participants said it is impossible for small shareholders to influence the decision taken by the board of directors.

The Mongolian Stock Exchange announced on its website that 86 percent or 288 joint stock companies out of 336 did not fully comply with the security registration requirements for the last two years and that it had been decided to send a proposal to the Financial Regulatory Commission to stop the trading of securities of 72 joint stock companies, as well as to cancel their registration in the near future.

In 2008 the Financial Regulatory Commission stopped the trading of 166 joint stock companies that did not fulfill their commitments under the law for more than three years. From these companies, eight have renewed their trading, and three were dismantled. However, 22 joint stock companies have changed their form of organization to a limited liability company. The authorities have announced that the remaining 133 companies are still under investigation. Apparently, 50 of these companies were transferred to the police. As for the remaining ones, the decision to transfer them to the police is pending due to a lack of the required documentation. This is because the address of some of these “nomadic” companies is still unclear, and efforts to locate them in the provinces remain unsuccessful.

Mr D.Bayarsaikhan criticized that the fact that companies, which received official letters stating their failures to comply with their commitments under the law, disregarded these letters and

did not reply. “They do not even pay their fines,” he says, “because the majority of our joint stock companies do not conduct operations in reality. Therefore, it is necessary to conduct a renewed registration of joint stock companies.”

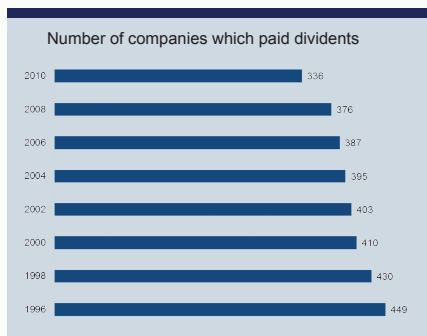
Since the emergence of the capital market in Mongolia, only 16 companies made IPO. Why are our large companies so sloppy in raising funds on the capital market? Because Mongolians have a “zero” trust in the capital market. Of course, this is understandable as companies trading on the Mongolian Stock Exchange neglect the three golden rules of fairness, accountability and transparency. Any type of policy and regulation to protect the rights of shareholders is sorely ignored.

Economist Mr D.Jargalsaikhan pointed out in his article “Trust in the Capital” that “the oil that runs the mechanism of the capital market is information,” and that in countries where information standardization procedures have been introduced, “information is only distributed within the set criteria”. “There is also a system that checks the reliability of such information. If we do not introduce similar standards, nobody will give us money” he stated. The transparency of information is one of the vital constituents of corporate governance.

But Mr B.Ayush reminded that “the improvement of corporate governance cannot be completed in three months time.” “For this, one year is required at least. Companies need to make the necessary preparations at a time when the money flow is directed internally. Corporate governance is essential in the accumulation of capital,” he added.

Except for the significant increase of foreign direct investment in Mongolia, domestic companies are also becoming wealthier and a tendency to increase the state budget has emerged. Our country’s economy increased by 10% and there is no sign that the speed of this growth will slow down in the future. At this time, it will only depend upon business entities themselves if they will scoop such wealth with spoons or saucepans. In short, a company management can only raise capital when it works well.

MCS Group’s General Director



Mr J.Odjargal declared “Apparently, Mongolians tend to realize the importance of corporate governance only at the last moment; it is important to make people understand and feel the significance of corporate governance.” What are the advantages of implementing corporate governance? Mr J.Unenbat pointed out that “the main reward is in raising funds rather than capital market itself.” From this, a simple conclusion can be drawn: good corporate governance is essential for the running of a company. Then why Mongolian business entities do not implement the Corporate Governance Code?

“The implementation of the law

as well as its monitoring is paramount. However, the capacity of the people or the knowledge and skills of the executives who implement this law are even more important. It is unlikely that the executives who do not know the significance and utility of corporate governance will follow its code of practice, no matter how good it is. It is thus of the utmost importance to train executives. Corporate governance should be promoted vigorously” Mr Phillip Armstrong, head of the International Corporate Governance Forum declared. Although Mr D.Bayarsaikhan warned that property owners have no idea about corporate governance. “There are many mechanisms to improve corporate governance including setting strict criteria, rating the companies and rewarding them accordingly,” Mr Phillip Armstrong added.

The USA leads the world when it comes to implementing corporate governance principles as well as implementing the law on the protection of shareholders’ rights. It is also appropriate to recall that they top other countries in the amount of measures

taken against violations of corporate governance and penalties it awards. However, in the case of violations, it is not clear in our country what types of penalties are inflicted. As its last resort, the Financial Regulatory Commission has no other way than to search for the joint stock companies throughout the country. But this organization does not have the authority to cancel the registration of companies that are not “found for good”.

Experts point that today Mongolia is on the verge of a rapid development and the Government is starting to pay attention to the development of capital market. However, what use is there in talking about development if 86% of the companies registered at the Mongolian Stock Exchange do not fulfill their commitments under the law? Is it not the same as planting potatoes and expecting apples to grow? Experts warn that only by addressing all the aforementioned issues and conducting a “thorough clean-up,” will a fertile soil be prepared to grow the seeds of corporate governance. ■

Mongolian Economic Forum 2011

Harald Hirschhofer, Senior Vice President of TCX Fund



By D.Bekhbayar

Mr Harald Hirschhofer, Vice President of TCX Fund, came to Mongolia to establish commercial contacts for the TCX Fund and to increase their understanding of the Mongolian economy. He was also invited to speak at the Mongolian Economic Forum on capital market development issues.

- What are your views about the outcomes of the forum?

Mongolia has a very significant potential thanks in particular to its mineral wealth. The issues discussed at the forum concerned of course the way policies should be adjusted and formulated to make a maximum use of this potential for the benefits of all Mongolians, and to turn it into a sustainable potential. Experiences in various other countries have shown that in resources rich economies, these resources can be a benefit to people but also a handicap. Typically, what happens is that large mineral wealth leads to very strong boom and bust cycles and can crowd out the non-mineral economy – a phenomenon called Dutch disease, which was observed in the Netherlands when gas was

► discovered. Macroeconomic policies and structural policies both need to carefully address the consequences of mineral wealth. Anti-cyclical policies, such as running fiscal surpluses in good times and deficit in less prosperous times, would help the Mongolian economy sustaining a certain growth momentum, even if raw material prices are very low, and even if other shocks which temporarily reduce the value of these natural resources as an export item are experienced.

I think that the economic forum was very useful in a sense that people could openly express their concerns. There were concerns voiced by the IMF and the World Bank that fiscal policy in Mongolia is actually pro-cyclical, meaning that fiscal policy runs a very high deficit even though the economy is growing. The current fiscal policy makes the job of the Central Bank to maintain inflation at a low level really difficult. Inflation is edging up, now reaching 14%, and is projected to increase even further.

-Mongolia is entering a new level of capital and financial market, do you have any recommendations?

I think the development of financial market is an extremely important issue which Mongolian authorities, and also the private sector, need to tackle. A well functioning modern financial market environment is much needed to provide effective financing for the non-mineral economy and small enterprises especially. This is important to ensure the diversity of the Mongolian economy and employment: mineral economy has access to financing quite easily, while non-mineral economy is suffering because of the exchange rate appreciation, high wage inflation, and the resulting deterioration of competitiveness. Aside from prudent macro-policies, it is necessary to make sure that financing is available for companies that have relatively competitive products, and that can offer sustainable production and employment opportunities. Financial services are also important to provide risk sharing instruments and opportunities. For example, TCX is trying to develop such risk sharing opportunities by offering foreign exchange risk sharing instruments in terms of 3 to 4 years fixed interest rate swaps between Mongolian currency and other currencies.

Let me outline why foreign exchange risk sharing will be increasingly important. The main objective of the Central Bank seems to gradually crystallize as maintaining price stability – in other words ensuring that inflation does not exceed a certain threshold. It sets its monetary policy accordingly. Typically, interest rates are raised or lowered in correspondence to the Central Banks assessment if the inflation objective is met or not. By focusing on the interest rates and inflation, the Central Bank will be more likely to allow the exchange rate to become more volatile. And if the exchange rate becomes more volatile, people are facing higher exchange rate risks and will need more instruments to share and reduce such a risk to their financial health.

Right now many people expect the togrog to continue to appreciate. But this is not necessarily the case and recent episodes of sudden depreciation are still well remembered. That is why we believe that people and firms should be careful and not get overexposed to exchange rate swings -- they should not speculate on the exchange rate to continue appreciating forever. In order to develop risk sharing instruments, one important step is to establish a reference interest rate in the domestic currency. This is normally done by issuing togrog government bonds or bills and slowly building a liquid yield curve out up to 2 to 3 years.

- The government is going to have the Mongolian Stock Exchange managed by a foreign team. What is your opinion about this?

It is important that the financial market infrastructure is well and transparently managed to give confidence. My general impression when I look at the financial sector in Mongolia is that the participation of strong foreign financial institutions could be useful. It would result in a faster adoption of state-of-the-art technologies, both hard and soft. As I said before, it is very important for Mongolia to develop a well functioning financial sector fast. If foreign investors can contribute, they should be welcome, and that also applies to the stock exchange operation.

- Much foreign investment is made in the Mongolian mineral sector. What could be the risks associated

with this?

Let me put it like this. The challenge is that your wealth should be exploited in a way to benefit all Mongolians, both present and future generations.

- You are here in Mongolia for the first time. What is your impression of the country?

I see a rapidly transforming society and many opportunities. It relates a bit to your previous question. Cultural norms were shaped by a certain lifestyle which sustained the population for thousands of years. All this will now rapidly change, and we know that cultural norms typically adapts more slowly to technological and economic change. It will be a very interesting historic period.

Unfortunately I did not have this time the opportunity to travel to the countryside to experience its breathtaking beauty. But that is a good reason to come back.

- What is your purpose here in Ulaanbaatar?

I came to Ulaanbaatar to form myself a firsthand impression of your economy and its development and to establish contacts with potential future clients. We are offering here exchange rate hedging instruments and are currently in discussions with a number of local banks and financial institutions about how we could cooperate in the future.

The TCX Fund is a joint venture of more than 20 shareholders which are mainly development banks and development institutions. Some have local representations in Mongolia. Our shareholders include the EBRD, KfW, JBIC, and FMO from the Netherlands. The purpose of TCX is to promote lendings in local currency and take the exchange rate risk out of development lendings. We believe development can happen more smoothly if exchange rate risks typically resulting from financing from above are managed by a globally diversified institution, rather than being forced on the backs of those which can afford and manage to bear it the least – such as micro borrowers or SMEs which have no hard currency income. TCX is a very effective exchange rate management tool because we are pooling exchange rate risk from our shareholders on a global level. And we have been doing this quite successfully now for the past 3 years. ■

Politicians Told to “Clean up Their Act”

Representatives of various financial institutions involved in the development of the Mongolian nation, have suggested that the country's politicians “clean up their act.” A way to emphasize the great importance of the forecasted and soon-to-come rapid development standing ahead of Mongolia - a vast territory rich in minerals-and to tell ruling politicians holding the future of its 2.7 million inhabitants to prepare themselves for the task.

Mongolian politicians were advised to “clean up their act” if they have a real desire to master the country's high economic growth, and turn Mongolia into a wealthy and developed nation as a result of the largest investments ever made to date in its mining sector. Effectively, politicians stand at a crucial time in the nation's history and need to make the right decisions, as well as undertake outstanding economic reforms, so Mongolia can rise and not fall into the abyss.

According to Mongolia's partners, the development of the nation will come naturally if its politicians prioritize the country's interests instead of their own and the distribution of money to their electoral districts in preparation of the 2012 elections. Rather than focusing on mining only, they recommended politicians focus more on budget policies and concentrate on how to increase human development and social welfare, produce added value products, reduce poverty, develop new financial structures, improve education standards, health insurance and the supplying of safe water, create jobs and deliver quality public services to their fellow citizens.

Effectively, development partners noticed a lack of significant poverty reduction in Mongolia, of a proper ability to regulate the economic growth, while most of those in charge debate and concentrate upon mining activities. Such disregard could dangerously undermine Mongolia's future, they said, and criticisms were raised at a joint technical meeting held recently with Mongolia's Government.

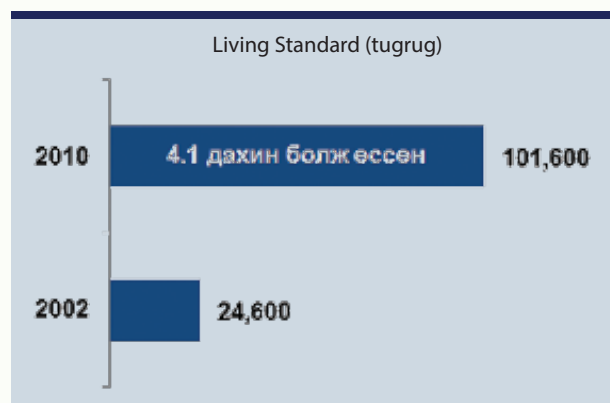
Delivering some brief information on the meeting, World Bank Director for Mongolia, China and Korea Klaus Roland declared that the time had come for Mongolia's partners to reconsider their relationship with the country. As Mongolia is about to enter into a most promising development stage, its partners must rethink how they can adapt and develop their cooperation to the country's new situation. At the same time, Mongolia proposed to cooperate via consultations when it comes to the implementation of large mining projects and the laying of the foundation for a solid financial

mechanism.

Meanwhile, Mr Ts. Bayartsogt, Mongolia's Finance Minister, thanked greatly all those who contributed along the years to propel Mongolia's economy into new a phase. “Today is a great development opportunity of development for our country, although it faces new challenges,” he said.

The Finance Minister pointed out to the social and financial improvements made by the Government. According to him, minimum living standard has been multiplied by 4.1 between 2002 and 2010, increasing from MNT24,600 to MNT101,600. In the past, Mongolia's cooperation with foreign countries was limited to soft loans, and donations and assistance only. But now, thanks to the country's increased credit rating, an opportunity has emerged for self-dependence and the use of new financial tools and instruments. The Government is working on the necessary implementation of several projects concerning the development of the mining, urban and housing infrastructures. Nevertheless, Ts. Bayartsogt made clear that cooperation with foreign partners was a necessity to attract new investments, create jobs, increase exports and budget revenues, invest in social welfare, tackle poverty and improve social productivity.

The general feeling resulting from the technical meeting which gathered government officials and strategic partners' representatives was that Mongolia made a step forward on the path of economic and social development. In other words, a page has been turned. Times when free financial assistance was solicited are over. From now on, Mongolia will work with its partners on an equal footing throughout consultations and collaboration. ■



Question

Mongolian Economic Forum 2011

-What is your impression of the second Mongolian economic forum held this year? What do you think about the outcomes resulting from the forum?

J.Oyungerel

/Chairman of Petrovis LLC's Board of Directors/



-It is a sign that the Government is listening to its citizens. The forum has become a platform where people can freely express their opinions. In that regard, it is a useful event. In order to have a positive outcome, all the participants involved must be attentive and take initiatives. It is understood that governmental and non-governmental organizations, as well as the private sector, should focus on addressing all the issues that were discussed during the forum.

Personally, I think it would be wrong to say that this year's forum had no positive outcome. It can be said it has improved significantly in comparison with that of the previous year.

N.Dashzeveg

/Economist/



the country will be on the right path and develop rapidly.

For example, many objective ideas such as a strategic planning of Mongolia's economic development over 4 years and 8 years periods,

the involvement of the public or non-governmental organizations into the state budget discussion, the dismantling of many state-owned universities and colleges, and the establishment of laboratories and medicinal parks equipped with nano-technology were made. If the Parliament and the Cabinet can grasp these ideas and make amendments to laws and procedures in order to implement them, then significant results will be obtained. If the proposals made by those participating to the forum are ignored, then the forum will become a meaningless event and attract less and less participants year after year.

L.Ariunbold

/Mongol-999 LLC Executive Director/



-I don't know what outcome will result from the forum. It is exemplary that the government and the public exchange opinions at the start of the country's development. But Government's officials are more interested in promoting their performances than listening to their fellow citizens. Again, they speak of the difficulties they experience. Attending the three-day forum, I noticed that our politicians would not change and were preparing for the coming election. They use the forum as a platform to display their performances.

I have not witnessed one situation where important ideas made by the private sector, scholars and researchers were supported through actions. What is important is that decision makers have a real political will.

M.Ichinnorov

/lawyer/



- Some solutions were found to several issues discussed during last year's forum - issues that are still under discussion to a certain extent today - and measures were taken and are being taken to implement these solutions. In order to take measures, a solution is needed; and to figure out the right solution, a discussion is necessary. It is said that if all and everyone are included in a discussion, then mistakes will be avoided. The solution lays the ground for appropriate measures to be implemented. I am optimistic about the people. They mostly speak about approaches and solutions to the development of the nation rather than about current difficulties. A construction company's specialist spoke about how to reduce the level of smog in the capital city and how to increase jobs. Some delegates proposed solutions adapted to the cultural and social specificities of Mongolia. All the issues addressed during the forum have mutual connections. In order to obtain consequential results, it is necessary to determine a strong, adapted and clear economic strategy policy for the country.

L.Purevbaatar

/Deputy Chairman of the Railway Authority/

It was a timely event. Participants mostly belonged to managerial levels. There were a few "soldiers." If those in charge of resolving the issues addressed at the forum are well informed, the forum will be successful and resultful. So the way information is



delivered to the rest of the society and how it is formulated is very important. Part of the problem is also transferring an issue generally formulated into a specific plan of action. I believe that this work should be done after the forum. Many issues are addressed generally such as infrastructure, financial market and community

development for example. I think, in the end, it is necessary to develop long, medium and short term plans of action, as well as schedules including detailed lists of the measures to be taken, the dates of their implementation, and the persons in charge of implementing them. Meanwhile, it is the public's right to be informed of the measures implementation process.

David Paterson

/Oyu Tolgoi's Vice Director/

I think the forum has been a great event for the exchange



of ideas about the Mongolian economy and its future growth. It is always a very positive thing when we got government and civil society and industry talking about these issues together.

There was quite a lot of interesting discussion about the cycle resources curse, and I think we all realized that resources have the potential

to be either a curse or a blessing for countries. But I think there is a lot of evidence produced to show that in the case of Mongolia, it is most likely that these rich mineral endowments will be a great blessing. I think we have seen that it is things like the fact there is such an open democracy, the fact that there is such a commitment from the government to good Governance that would lead us to believe that the development of the mining industry here is going to be a positive one for Mongolia. ■

<http://www.mongolianeconomy.mn>



Cashmere

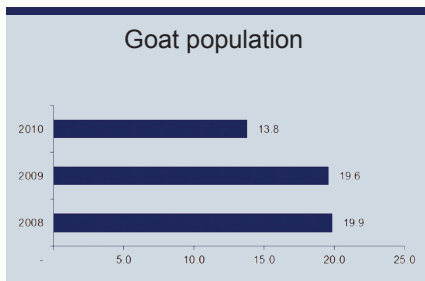
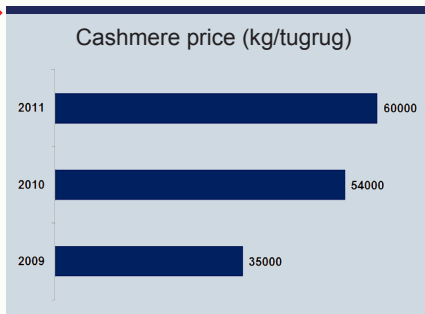
The Year of the Rabbit Will See Cashmere Prices Soar Like Never Before

By I.Otgonjargal

Do not be surprised or pinch yourself if you hear that the price of cashmere has reached MNT70,000. This will probably not be a dream. I have just learnt about it myself in an interview with the Mongolian Wool and Cashmere Association Vice President Mr G.Yondonsambuu. However, it does not mean that the

price is set to reach MNT70,000 yet; but in any case, the first price to be established this March will determine the price rate for the rest of the year. Consequently, it can be concluded that this year's price will be relatively higher than precedently.

The Khentii province has been supplying goat



cashmere for many years. As of the 18th of March, experts announced that in the Khentii province, herders were evaluating the situation and only started to dehair the goats. By the time this magazine edition is published, combing the goat and dehairing the wool will have undoubtedly intensified. Can anyone remember a time when the price of cashmere was so high?

Many people are involved in the cashmere business in Mongolia and a

lot can probably remember. Since the end of 1990's, the price of cashmere has been going up and down. During this period, the highest cashmere price ever reached was MNT52,000 and the lowest MNT17,000. As of the 18th of March, the price of cashmere has been set at around MNT 53,000 to 55,000 in the Khentii province. This can be considered to be the price proposed by producers. However, herders are not too keen or in hurry to sell their wool at that price should grow even higher and they think it should reach at least MNT60,000. Taking this into consideration, Mr G.Yondonsambuu is predicting that this year's start-up cashmere price is most likely to be MNT60,000. Now the question whether our national producers will be able to stock up on such high priced cashmere inevitably arises. Let's take a look at the reasons for such a price surge.

Reason number 1: According to a recent livestock census, the goat population increased to reach 19.9 million by the end of 2009, before to significantly decrease to 13.8 million in 2010. Despite the fact scientists and researchers - who study the desertification process in Mongolia and partially hold the goats responsible - welcome the news, this is really bad for Mongolia's economy. If approximately 20 million goats annually produce about 7,000 tons of cashmere, then now it will be only possible to produce twice as less. For the national producers who came last in the cashmere business competition, at a time when raw material was abundant, this is simply devastating. However, it is another story for the Chinese who have been wrestling with the Mongolian cashmere industry for many years. Since they have money, they need not to worry, and might even rejoice.

Textile producers and the heads of professional associations declared that due to small stock and high prices, the Year of Rabbit will see significant obstacles occurring in the country's cashmere industry. Nevertheless, they will not complain that the prices are so high.

Reason number 2. First of all, Mongolian cashmere producers need to draw lessons from last year. Last year's competition among cashmere businessmen was stiff. In the end, there

was a clear winner: China. Like every year, Chinese attempted to kill the Mongolian competition by purchasing cashmere raw material at higher prices. Large national producers such as Gobi and Eermel companies barely came out from the "battlefield." They relied upon their small stocks, which came to a shortage at the end of the year and led them to panic. So what will happen because of the soaring of prices?

Of course, it will yield high profits to herders. However, it will negatively affect national producers who have poor floating capital and high interest banking loans. However, they try not to complain about high cashmere prices - like during the previous years - because the market price rate is set. This probably requires a small explanation. Mongolia and China determine the world cashmere market. In the People's Republic of China, there was a decrease in the number of goats herds. Meanwhile, domestic demand for cashmere products increased due to an augmentation of the Chinese middle class and its consumption of cashmere products. This led our southern neighbor to stop its exports of combed cashmere. In addition, demand for cashmere products has also increased due to the world economic recovery. So how can we stock up on textile raw material if our cashmere producers do not mind the high prices?

National producers urgently demand from the Government that they renew the taxation for combed cashmere exports which was zeroed in 2008. But a year away from the elections, Parliament members are unlikely to welcome an export taxation on cashmere. Therefore, it is important to remind our esteemed members of Parliament that their understanding that a raise of the cashmere export tax will reduce herders' profits, is obsolete because the soaring prices of cashmere will not be intimidated by export taxation. In other words, the current price rate of MNT60,000 will stand with or without export tax. In Mongolia as well as in China, demand is rapidly increasing. For example, foreign orders for companies such as Gobi, Goyo and Eermel have substantially increased in comparison to previous years. If last year Gobi produced 180,000 textile products,

then this year it plans to market 300,000. Therefore, our large wool and cashmere processing factories are preparing to train in total 5,000 textile workers. They say they can afford to pay salaries of MNT300,000 to 500,000 and that jobs have already been advertised in the media.

As for China, the main player in cashmere production, it is closely paying attention to its domestic production and Chinese cashmere intermediaries are starting to pay extra attention to Mongolia. In such circumstances, we hope Parliament Members will understand the necessity to levy a cashmere export tax. Experts envisage the possibility to set the tax rate at MNT10,000 per kilo of cashmere, and have submitted their proposal to the Government. The Prime Minister met with cashmere producers three times to discuss the obstacles facing them and ways of resolving them. Finally, Finance Minister Mr S.Bayartsogt promised to provide them with MNT100 billion over a period of 10

years. Now producers wait for the cashmere issue to be discussed during the spring session as it is set high on the political agenda.

Our wool and cashmere industry can be considered to be quite well developed. For example, there currently are more than 10 textile factories, more than 10 factories producing final products, more than 20 primary processing factories and more than 200 small textile workshops conducting operations in Mongolia. In addition, the large primary processing factory MMG Capital from Xianjan-Uigur, Inner Mongolia, has just been put into operation near the entrance gate of the city of Ulaanbaatar. The total cashmere stock of this factory amounts to almost the total annual stock of our cashmere. Hopefully, Government officials will understand that it is time to conduct a strict policy to protect our production of cashmere raw materials in accordance with foreign and domestic market conditions. ■

Best essay

My contribution towards the development of the agricultural sector in Mongolia

At the initiative of President's Office, an essay writing competition among Mongolian students studying abroad was launched to listen to their views and opinions on the country's development. The Mongolian Economy is proud to present you the winning essay.

NARANBAATAR Adiya

/Masters at the University of Dublin, Ireland/

According to the survey by the Food and Agricultural Organization (FAO) of the United Nations, the world population will reach 9.8 billion people by 2050. The growth population rate increase is currently estimated to be 42%. Due to a rapid population growth in countries such as China, India (40percent of the world population) and the Russian Federation, the world will experience a significant increase in food demand. This will result in a rapid increase in the demand of products of animal origin such as meat and milk, the supply of which will become an issue of critical importance. During the last 30 years, the demand of meat in developing countries increased by 150%, while the demands of milk increased by 60%. It is estimated that by 2030, the demands for meat and milk will increase by 44%.

Today's sustainable development and environment issues have acquired critical importance worldwide. Almost every day, the media broadcast news about the thinning of the ozone layer and global warming, documentaries about renewable sources of energy and the "green revolution." Such environmental issues and climate change have significantly impacted upon Mongolia's agricultural sector, where millions of livestock died from drought and the so-called "zud" - an extremely cold winter -, as a consequence of which many households started migrating to the cities. Meanwhile, the aforementioned big powers are unable to meet their present (and future) demands in products of animal origin without imports, in spite of the adoption of concrete policies and measures. Although it becomes clear that profits from the country's mineral resources will steadily increase and that Mongolia, understandably, heavily concentrates its powers on its mineral resources sector, it is equally important to pay attention and conduct significant number of actions to develop its agricultural sector. Foreign markets for products of animal origin represent huge export profits and promise to be substantial as these markets are likely to further increase in the future. Yet, it is disturbing that people in our country get sick from "zoonosis" – a disease which is transmitted from cattle to humans. This disease can be eradicated, but only with the help of the Government and the implementation of adequate policies, funding, and extensive countermeasures. Without healthy livestock, we cannot guarantee safe and healthy populations.

To eradicate cattle diseases and monitor livestock, a livestock registration program must be introduced. With the help of a such a program, it will be possible to monitor

livestock migration and the origins of raw produce and products. It will also be possible to retrieve data on the cattle's owner, obtain a certification of guarantee on the livestock health and information whether the cattle has been removed from livestock registration or not. Member of Parliament Mr Z.Enkhbold submitted to the Parliament in 2008 a draft law on online livestock registration. However, it was sent back without any resolutions being adopted, although an appropriate pastoral animal husbandry registration offers many advantages including the possibility of immediately monitoring the spread of cattle diseases, preventing cattle theft and increasing international exports.

Despite the implementation of governmental and foreign invested projects and programs aimed at introducing livestock registration procedures, there have been no concrete and visible results. It is extremely important to introduce suitable models of agricultural development in Mongolia based on the livestock registration practices of developed and developing countries around the world. The following activities could be implemented:

- Introduce livestock registration practices as a form of experiment regionally and, step-by-step, register horses, cows, and camels.
- Involve the totality of herder households into a system of codes, which will help monitoring livestock migration, vaccinations and health, as well as preventing livestock theft and identifying lost cattle.
- Conduct registrations both on paper-based form and electronically.
- Introduce an identification system for livestock (especially horses), such as earring and microchip (RFID), in the registration procedures.

If we are successful today in registering Mongolia's livestock according to international standards, then we will be able to continue this system step-by-step and improve products quality and output, increase the rate of the livestock growth and decrease expenditures. For Mongolia, a country with

a vast territory and an extensive experience in animal husbandry, there is a tremendous opportunity to develop this sector if the Government pursues the appropriate and long-term policies, expands the activities of the research institutions and conducts appropriate wide-ranging measures based on the results of their research. With the development of the agricultural sector the following results will be attained:

- Resolution of sanitary concerns for products of animal origin
- Eradication of diseases transferred from cattle to humans
- Growth of the national production line
- Job creation
- Growth of exports
- Improvement of the rural population livelihood
- Decrease of the rural exodus

Since the privatization of our livestock and loosening of governmental control, we have witnessed an increase in many types of livestock borne diseases. Mongolians did not regularly consume meat and milk from disease stricken livestock. I believe there is a way to solve this issue, and soon Mongolia will be able to nurture its animal husbandry according to world standards. One of the priorities would be for the research institutions to focus on developing and producing new types of compact and nutritious animal fodder. Nutritious animal fodder is of utmost importance for the development of the agricultural sector.

It is also necessary to comparatively study the history, specific features, mistakes and findings of animal husbandry worldwide in order to introduce in Mongolia only the world's best practices and policies. Finally, the outcome of this study needs to be communicated to the Government. I am a student currently working on a model of sustainable agricultural development and livestock registration that can be introduced in our country.

May our country always be prosperous and strong! ■





Organic products

A Divine Medicine

By Ts.Bolormaa

Mongolian sea-buckthorn – also called “liquid gold” and long cherished as “the medicine from the Gods” – is now exported to Japan in large quantities, having reached quality standards and international norms required for exportation.

It is not large condensed sea-buckthorn juice producing companies that started exporting the fruit to Japan but a single female entrepreneur: Mrs B.Bilgee. With over 40 years experience in the food industry, Mrs. Bilgee is accepted and recognized as a dominant specialist in her field by relevant officials at the Ministry of Food, Agriculture and Light Industry. The Mongolian Economy Magazine, whose aim is to support and promote small and medium enterprises and green businesses, paid a visit to her Eco-Erdene Company situated east of the Trauma Hospital.

Mrs Bilgee, who graduated from the Moscow State University of Food Production and Technology in 1968, developed a technology to process sea-buckthorns in 2004 - the Sea-buckthorn Condensed Juice Preparation Technique - for which she obtained a utility model patent. Although Eco-Erdene Company has only seven employees, it annually produces four types of juices and two types of jams from three types of berries such as lingonberries, blueberries and sea-buckthorns. Overall, the small company produces products approximating a value of MNT100 million. Eco-Erdene started its operations in 2000 and its products can now be found on sale in as many food chain stores as Nomin, Minii Delguur [My store] and Max, as well as food markets such as Bars and Bumbugur. Nevertheless, it is profits resulting from exports that allowed Eco-Erdene to purchase its own premises - premises it had to rent until recently.

The company's quantity of sea-buckthorn juice exported to Japan only represented 10kg in 2004, but this amount has now increased to reach no less than 33 tons! Meanwhile, Mrs. Bilgee became an active participant of the Government's Sea-buckthorn Program. After obtaining several loans, she was able to expand her company and plant 1,500 saplings and seedlings near the Ar Janchivian

region to obtain a small supply of her very own raw produce. One hectare can hold 1,200 to 1,600 bushes and one bush can produce around 7 to 10 kg of fruits. 1 ton of fruits is necessary to generate 20 to 30 kg of oil and 600 liters of juice. According to her, the company's profit will pay off its expenses and starts generating profits in two to three years time.

Mrs Bilgee also mentioned that Eco-Erdene plans to renew its equipment as well as diversify its products range. She did not omit to mention that, in comparison to commercial banks' 2% and more interest loans, the SME Support Fund's 1% interest loan for a two years duration has been a major factor in the development of her company. Furthermore, the Government has also taken the decision to support sea-buckthorn growers and producers by exempting from customs taxes all food products produced in Mongolia. It has also been reported that the country's Ministry of Food, Agriculture and Light Industry, and the Sea-buckthorn Producers Mongolian Association intend to extend the culture of sea-buckthorns by about 20 hectares for the period of 2010-2016.

Effectively, there is a strong practical, economic and ecological incentive to increase the culture of sea-buckthorns in Mongolia. Sea-buckthorns possess a significant advantage: they can be grown on any of the country's regional zones. Meanwhile, experts believe that the implementation of the national sea-buckthorn program will bring the necessary support to enhance the culture and development of other fruits and berries in Mongolia. Consequently, the program will create a favorable environment for the introduction of green barcodes - a unique way to identify products, services, and companies that promote sustainable living - and the development of “green tourism.”

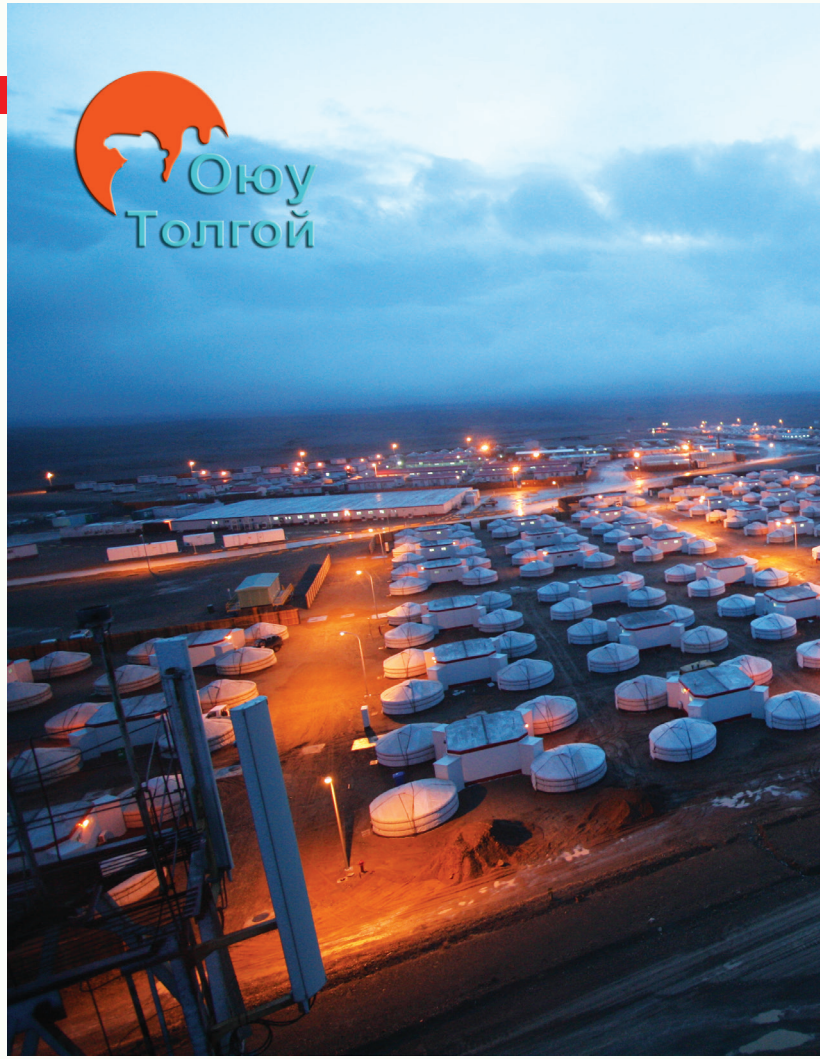
The success of the national sea-buckthorn program could well result in the creation of a Mongolian sea-buckthorn brand, the provision of no less than 30% of the Mongolia's domestic demand in fruits, and the creation of more than 20 thousand jobs. ■

Oyu Tolgoi Is already Helping to Boost the Mongolian Economy

How much bigger is it going to get? Rio Tinto has commissioned an independent economic assessment that has revealed some answers. Bridget Storrie reports.

It's just six kilometers from the President's residence on the southern edge of Ulaanbaatar to the city centre. The road takes you over the newly finished Marshall bridge, past the high-end Marshall village development, still under construction, and the new premises of the International School, already full to capacity and with plans to expand. As you go over the railway line, Mongolia's answer to Disneyworld, the Children's Park, is on your left. It was renovated last year and has rejuvenated a formerly forlorn piece of parkland. A kilometer or so later the road joins Peace Avenue, opposite the top-end Louis Vuitton store on Sukhbaatar Square. On the way you could easily count fifty or so cranes towering over the city, most of them working on mushrooming office blocks and apartment buildings. This is the rapidly changing face of Ulaanbaatar. The signing of the Oyu Tolgoi Investment Agreement at the end of 2009 has prompted an influx of foreign investment that is causing an unprecedented surge in the city's fortunes.

Some of the figures are extraordinary: According to the National Statistics Office, in comparison with January last year the production of wooden doors and windows is up 258%; production of sawn wood is up 300% and the production of cement has doubled. And it's not just construction; the net income of restaurants in Ulaanbaatar is up a staggering 800% this January compared with the start of last year. Experts have little doubt what's behind this boom. Dr Brian Fisher is an Australian economist. 'Everything you see happening is almost certainly because of the mining industry,' he says. 'There's nothing else on that scale going on here.' And it looks set to last. Dr Fisher and his Mongolian colleagues have just finished a comprehensive assessment of the impact of Oyu Tolgoi on the Mongolian economy. It was commissioned by Rio Tinto and uses a computable general equilibrium model that can analyze the intricate relationships between different sectors of the economy and predict economic outcomes. The model itself is classic in economic terms. What is unique about the way it has been applied here is the amount and the specificity of the data it has analysed. It's the first time modeling on this scale has been done in Mongolia.



What it shows is that the Mongolian economy is set to grow by over 10% a year for the next 10 years, as Oyu Tolgoi ramps up to full production. This means that by the year 2020 the size of the economy will more than double. There will be strong growth in real wages and an appreciation in the exchange rate. As Dr Fisher puts it, "this will be a tide of growth that will float everybody's boat." And it's a tide that might be unexpectedly high. The model predicts economic outcomes for certain scenarios. In one, the government of Mongolia invests all the revenue from Oyu Tolgoi that it receives in an offshore fund. Dr Tuvshintugs Batdelger is the Director of the Economic Research Institute at the University of Mongolia's School of Economic Studies, and worked with Dr Fisher to build the model. Even he acknowledges that he hadn't predicted how big this fund might become. "In general the story was what we were expecting but I was surprised by how much the wealth fund will grow. If everything is invested offshore the wealth fund is predicted to be around 31 to 32 billion dollars by 2040. I knew the potential of OT was big but this still really surprised me." For Dr Tuvshintugs, this is where much of the value of the study lies. "We have this big project coming into the economy and we all know that the economy is going to grow. The only question is by how much? Now we know how big Oyu Tolgoi going to be relative to the rest of the economy. It's made it very tangible."

So what does this mean for Mongolia? Brian Fisher believes the biggest change will be in infrastructure development and that's part of what is already being seen



in Ulaanbaatar. ‘Mining is going to transform this economy,’ he says. ‘You’re going to have much more access to regional areas as a consequence of aircraft flying in and out of these mines. You’re going to have big developments in road and rail and that means construction and construction means jobs.’ Significantly Mongolia’s airlines are already reporting huge increases in the number of passengers they are transporting. International flights are up by 38%, and on domestic routes there has been a 98% rise compared to figures for a year ago. Dr Fisher thinks the economy could grow like Australia’s; another country with extensive land, a sparse population and rich resources. “Last week Qantas announced that it was putting 747s on between Sydney and Perth. That’s pretty incredible given the population they’ve got.”

But it isn’t always the case that rich mineral resources benefit a developing country. You only have to look as far as Nigeria or Congo to see that. An appreciation of the domestic exchange rate can put pressure on some of the traditional exporting industries and make imports cheaper. The economy becomes inward-looking; dependent on imports and with little diversification. This is a phenomenon known as ‘Dutch disease’ and it’s one of the principal reasons that Rio Tinto commissioned this assessment. The quantitative data it provides should help the Mongolian government manage the economy to mitigate the risks. “There will be a tendency towards Dutch disease because Oyu Tolgoi is so big,” says Dr Tuvshin. “But if you have a smart mineral revenue management policy you can avoid it.” For Dr Fisher this ‘resources curse’ is badly named.

“How can an asset in the ground be a curse?” asks Fisher. “It’s only a curse if there is bad policy.”

As independent economists, neither Tuvshin nor Fisher are shy about offering counsel to the Mongolian government. But this is somewhere Rio Tinto doesn’t go. “We’re absolutely not in the business of trying to tell the Government what to do,” says David Paterson, Vice President of Regional Development and Communication at Oyu Tolgoi. “What we can do is hand the model over to the government, economic agencies and all other interested parties so that they can use it when they are making policy. We hope it will open up a vigorous, transparent and public debate of every aspect of Oyu Tolgoi and its impact on the economy.”

Fisher, Tuvshin and the team are now conducting training on the model for Mongolian economists. The model can be used to predict the impact of any change on the Mongolian economy and one potential use will be to help the Mongolian government as it invests in infrastructure, health and education in the future.

“Oyu Tolgoi is going to have a very big impact on the economy,” says Tuvshin, “and everything now will have to be focussed on better monetary policy, better fiscal policy and better revenue management policy.”

For now though, he is buoyed about the direction Mongolia is heading. “I speak to friends and colleagues who are working or studying abroad and they are all talking about coming back now. They think this is going to be a very exciting place to live.”



Will the “Age of Coal” bring prosperity to Mongolia?

By D.Munkhchimeg

The coal market has been expanding in Mongolia, where the mining industry was until recently reliant upon copper and gold excavations. The buzz surrounding Tavan Tolgoi and other coal deposits has drawn the attention of transnational corporations which have been attracted by the Gobi region like magnets. As for national companies, they have been growing and started investing into coal-breakers and infrastructure development. The words of Ivanhoe Mines CEO Robert Freedland that Mongolia will become the “Saudi Arabia of Coal” have started to become reality with the organization of the Coal Mongolia 2011 Forum. More than 450 people, including representatives from the Government and guests from 12 countries, participated to this Forum, a symbol of the country’s dynamic entrance on the coal world market.

Mr Batkhuyag, director of the Mineral Resources Authority, explained that investors were not so much interested in finding out the benefits of investing into Mongolia as to identifying the advantages of the Mongolian coal sector in comparison to that of Australia. “If the eyes of the world are set upon China, Mongolia is located just next to it and has vast resources. In other words, there is enough attraction to appeal to investors,” he said.

It has been estimated that Mongolia’s resources approximate 162 billion tons. A quantity which allows it to rank 10th in the world – a position it shares with Australia. Although according to some experts, Mongolia’s coal resources amount to 200 billion tons. In any case, as the country is about to witness the largest investments ever made in its coal industry and a sharp intensification of prospecting operations on its territory, it is likely these numbers will grow up. For

instance, world mining giant “Vale” is planning to spend USD5.5 million on the implementation of five coal prospecting projects. “The Mongolian coal industry has a bright future,” declared Mr Paul Sullivan, the company’s project manager.

The advisor to the executive director of the Energy Resource Company Mr R.Sundui remarked that although “Mongolia relied upon the excavations of the good old copper,” the profits resulting from the exports of coal have now surpassed those from

copper. “Due to the global economic recovery in the world, especially in Asia, demands in coal have increased. This is, of course, good news for Mongolia whose coal sector is experiencing a revolutionary upsurge,” Mr Sundui added. If in 2010, Mongolian exports of copper concentrate amounted to USD770.6 million, then exceeded that amount by more than USD100 million to reach USD877.6 million. If in 2003 Mongolia exported a mere 500 thousand tons of coal, in seven years time, these exports have been



multiplied by 33 and approximate now 16.6 million tons. According to Mr R.Sundui, the situation is completely different from a decade ago. "In 2000 Mongolia deliberated how to put the Tavan Tolgoi coal deposit into economic utility. We asked many countries to invest into the deposit, but nobody responded," he said, "however, today's leading companies in the world are competing to invest in Tavan Tolgoi." Apart from announcing Mongolia as the "new world energy player," participants to the Coal Mongolia 2011 Forum also warned that there was a substantial amount of work that still needed to be done in the country's coal sector.

Today Mongolian coal has China for only buyer. The International Atomic Energy Agency estimates that for the People's Republic of China, which relies on coal for about 70% of its energy needs, its demand for the mineral will substantially increase. According to experts of the Japanese Nomura Bank, by 2020 China will double its coal production capacity. US Citigroup also estimates that China will import 233 million tons of coal this year, an amount which will exceed the annual capacity of the world's largest coal ports such as South Africa's Richards Bay and Australia's Newcastle, investment specialists at the Deutsche Bank affirm. Mr Randolph S.Koppa, President of the Trade and Development Bank, declared in a speech that "50% of Chinese coking coal imports can be supplied by Mongolia." In 2009, China imported a total of 34.5 million tons of coking coal, of which 66% came from Australia, and 11% from Mongolia. However, in 2010 Mongolian exports of coking coal to China surpassed 30%. An increase which might let think that Mr S.Koppa's prediction could well soon realize.

However, it would be a mistake to assume that our southern neighbor will always be a large coal importer. Chinese leadership has set the goal to decrease its reliance on coal as its main energy source by 63% by the year 2015 in order to reduce its levels of greenhouse gas emissions. It should be reminded that, in order to reach this goal, they intend to diversify their energy sources and develop their nuclear program. Meanwhile, they are doing their best to "denigrate" the quality of Mongolian coal to lower its value. Therefore, it would be wrong to assume that we can achieve development by relying on a single buyer only. Mongolia needs to follow experts' advice to diminish its reliance on China by increasing its number of buyers, and start exporting coal to countries such as Japan and South Korea who both buy coal at a high price.

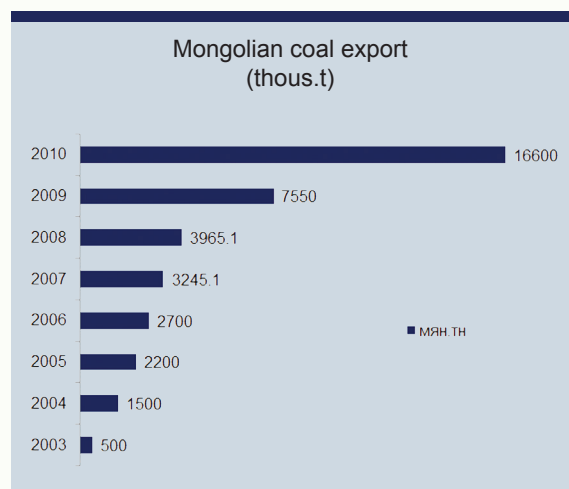
Nevertheless, Mr D.Achit-Erdene, President of the MICC Investment Bank, warned "of the current disadvantages of transporting coal to third markets such the Republic of Korea." "Of course, if the price of coal increases, there is no denying it will be a profitable operation," he said, "it is necessary to conduct an expert assessment of the economy first." Mr J. Gankhuyag, director of the Ulaanbaatar Representative Office in Tianjin, remarked that Tianjin was the shortest route for Mongolian natural resources to reach the international market. But coal miners expressed their concern over the high cost of transportation via roadways and railways, which are the only ways to reach Tianjin.

"The issue of transportation logistics is extremely important for coal exploration and its supply to the world market. Transportation of coal mineral resource by trucks is

expensive businesswise and damaging to the environment. Actually, coal should be transported via railway," Mr R.Sundui affirmed. Mr Graeme Hancock, Senior Mining Specialist at the World Bank, cautioned that "the Government did not approve the proposal for the construction of a railroad through private sector's investments." "Therefore, the Government should take responsibility for the environmental consequences of coal transportation via roadway," he said. Member of Parliament Mrs D.Oyunhorol emphasized that, in view of the current geopolitical situation, it is necessary to build a railway to the South. Mongolia's Government approved the construction of railroads with wide tracks on its territory, and in doing so, has obstructed the construction of railway tracks to the South. Specialists also criticize the fact that the Government is also failing to accelerate the construction of a railroad to the North, which represents, according to them, a major impediment to the supplying of Mongolian coal to the world market.

"The construction of railway tracks will definitely begin within this year. At first, the railroad will be built towards Sainshand. The work will require two years to complete. The construction of a railway to the North via Choibalsan will start after this. Once the railway tracks reach Sainshand, it will be possible to transport coal towards the North and South via the main railway track," the State Secretary of the Ministry of Roads, Transportation, Construction and Urban Development Mr J.Bat-Erdene claimed. Since the railway construction has not started yet, it is impossible to say whether or not it will come into operation in two years time. Consequently, state-owned Erdenes Tavan Tolgoi will have to transport coal via roadways for the time being.

"More than 1,500 trucks heavily loaded with coal regularly transit through our soum. Consequently, dust has become an important issue," Mr G.Tsog-Urnukh, Governor of the Tsogsetsii soum of Southgobi province, explained. He also announced that the Energy Resource Company is building approximately 250km of tarmac road from Tavan Tolgoi to Gashuun Sukhait in order to resolve this issue. Nevertheless, there is plenty of evidence that show a certain lack of Government policy when it comes to roadways. Today, as well as construction works of roadways to the South by Oyu Tolgoi, Energy Resource and Chinhua Mak, plans to build roads have also been made by Erdenes Tavan Tolgoi. "Should we build 10 roads to transport our wealth to the South? Will many trucks race next to each other?"



Mr R.Sundui asked. It is obvious that Mongolia needs a common policy for the development of its infrastructure.

"It is our goal to increase production of coal and value-added products. Currently, the large domestic companies have started to utilize coal washing technologies; they will require more thorough processing at the Sainshand industrial complex," Minister for Mineral Resources and Energy Mr D.Zorigt said. Energy Resource Company is putting into operation a coal-breaker and plans to extract seven million tons of coal and export five million tons of coal concentrate. Of course, all sides of the economy will profit from the export of value-added products. Jobs will be created; there will be an increase in the prices of coal and a decrease in transportation costs. Experts approve the governmental policies supporting this development. Such policies as royalty for the right to use resources and the adoption of the Law on Air Pollution Payment, which decreases taxation for the increased processing

of coal, demonstrate the Government's commitment.

It is a positive development that business entities start to wash and process coal. Scientists note that Mongolia's future goal should be to produce final products, export fuels and energy rather than raw coal. "Due to the increase in oil prices, expenses on extracting liquid fuel from brown coal have become acceptable. Our scientists have studied this technology a long time ago, and now it is time to put it into practice. As a result of the extraction of liquid fuel from coal, many types of complimentary products will be produced," Prof. S.Tserendorj, director of the Mining Project and Research Center, said.

Of course, at a time when the coal industry is rapidly growing in Mongolia, the the consequences of coal mining on the environment will become a critical issue. Member of Parliament Mrs D.Oyunhorol said that "the majority of companies operating in the coal sector do not conduct sufficient land rehabilitation activities

and do not send their activity reports to the relevant authorities," further adding that "the Ministry of Mineral Resources and Energy does not have the authority to close down business entities that break the law." "All this shows that our policies for the mining sector are unfit and underdeveloped," she concluded. Every speaker reminded that now was the time to pay attention to environmental protection issues. Member of Parliament Mrs S.Oyun announced during the Forum that she was drafting a law on the establishment of the rehabilitation fund.

If only all these issues are properly regulated by the Government, then Mongolian coal will be able to fully and truly reach the world arena, and Mongolians will firmly establish their place on the international coal market. May the "Age of Coal" bring value-added products, appropriate infrastructure policies, rehabilitation regulations and the creation of jobs! ■

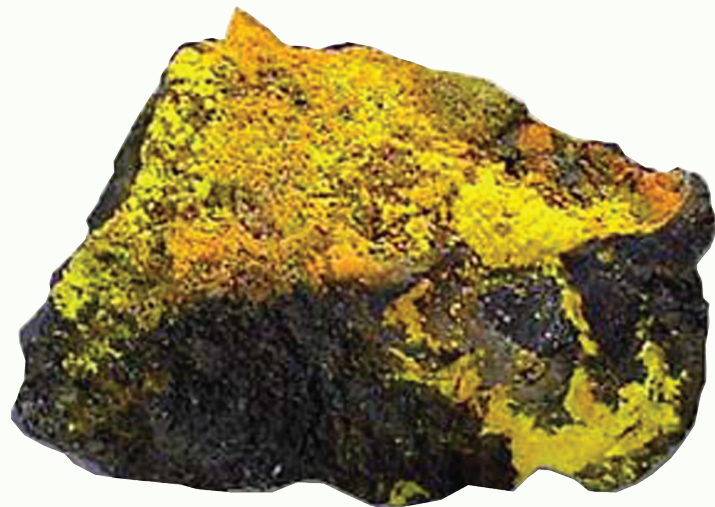
Minerals

Uranium Price Rise Makes Mongolia's Reserves Attractive

By M.Chimeg

The Dornod aimag in the eastern province of Mongolia is also called the cradle of uranium. There, relatively well-studied deposits such as the Dornod, Gurvanbulag, and Mardain uranium deposits can be found. Between the years 1988 and 1992, the Erdes mining of the former Soviet Union excavated 550 tons of uranium from the Dornod uranium deposit, and to processed the mineral at the Krasnokamenskii processing plant.

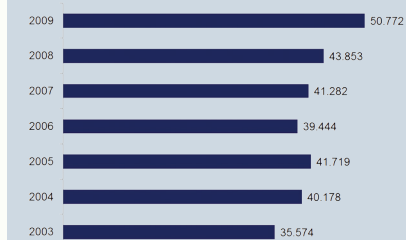
Although some scientists assert uranium explorations in Mongolia started as early as 1948, official explorations only intensified in the 1970's. During this period, experts from the former Soviet Union explored more than 70% of the Mongolian territory. They



determined the existence of six large uranium deposits, with at least 100 occurrences and more than 1,000 radio geochemical anomalies, and

conducted many drilling and excavation activities. According to Russian estimates based on industrial grading technique, uranium reserves

Total world production



in Dornod, Mardai, Gurvanbulag, and Nemer deposits amount to 49 thousand tons - an evaluation which allows Mongolia's proven uranium reserves to rank 15th in the world. However, the International Atomic Energy Agency has since concluded that Mongolian uranium reserves approximate in fact 62 thousand tons.

Nevertheless, Mongolian deposits are considered to be quite small and some experts warn that the reserves' life span is only estimated to be 10 to 15 years. In other words, if we start to conduct mining operations in the country's uranium reserves, it will be 20 years at most before they are depleted. In that matter, experts urge to continue uranium prospecting and exploration to increase Mongolia's amount of proven reserves. Mr P.Ochirbat, Director of the Ecology-Sustainable Development Center of the University of Science and Technology, declared that it was now necessary "to expand uranium prospecting and locate more uranium deposits due to the increase of the demand on the world market." "Investors will not hesitate to finance such projects," he continued, adding "We need to conduct uranium mining and processing operations. Governmental policy should focus on attracting technologically advanced nations to cooperate in the field of uranium exploration."

Uranium price sharply rises due to floods in Australia

During mid-2007, the spot price of uranium-oxide concentrate reached its peak and 1 pound (0.45kg) sold at USD136. However, that price was divided by three within a year. Experts concluded that the uranium price drop - as well as the world financial crisis - had contributed to the "freezing" of many uranium prospecting and exploration projects, which in

exchange, resulted in a scarcity of uranium on the world market.

According to Ux Consulting Company (UxC)'s website, the price for pound of uranium-oxide concentrate sharply increased during the onset of 2011 to reach USD73 in February. For Bloomberg, this is connected with the January announcement made by Rio Tinto Group to shut down operations at the Ranger Uranium Mine in Australia, which represents 9% of the world's uranium exploration. The decision was made to shut the mine for a period of three months due to severe floods there.

However, according to the Canadian Scotiabank Group, the increase in the price of uranium reflects its scarcity on the world market. In 2010, uranium demand reached 82.5 thousand tons, whereas production amounted to a mere 63.5 thousand. Specialists caution that uranium is usually sold based on long-term trade agreements - just 10% of the uranium commodity is traded on the world market and UxC and TradeTech publish the prices - and that such a drop in value also affects these long-term agreements.

Experts from the British CRU Group estimate that in five years' time the price of 1 pound of uranium might well exceed USD100. The World Nuclear Association noted on its website that by 2030, 158 new nuclear reactors will be put into operation worldwide, out of which almost 50% will be built in China. It is likely that our southern neighbor will become a very active player in the field of uranium exploration. The Wall Street Journal informed that in 2010 alone, the People's Republic of China multiplied its uranium imports by three, importing over 17 thousand tons, mainly from Kazakhstan, Uzbekistan, Namibia, Australia and the Russian Federation. According to the predictions made by UxC, by 2020 China will have increased its uranium consumption by four.

Australia's proven uranium reserves rank first in the world, while Kazakhstan ranks first in its production

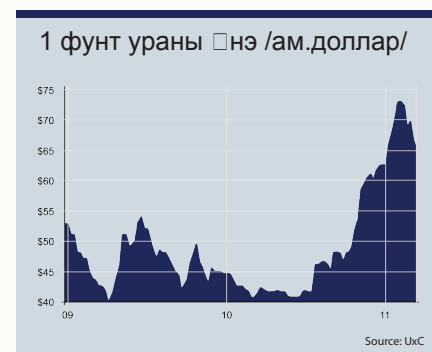
The World Nuclear Association highlighted that experts estimate that the world total proven reserves of uranium amount to 5.4 million tons.

Australia's reserves - which rank first in the world - represent 31% of this total, or 1.67 million tons. As for Mongolia, its proven reserves amount to 49 thousand tons and it ranks 15th.

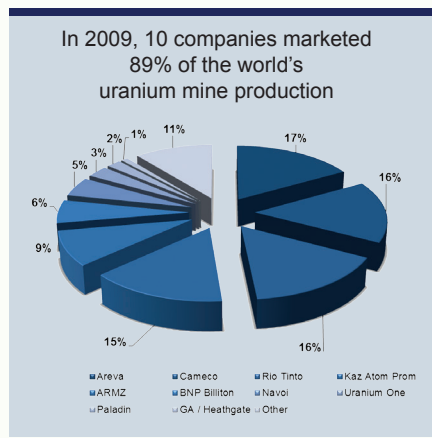
In 2009, uranium explorations reached 50,772 tons worldwide, showing an increase of 15.8% in comparison to the previous year. Experts point out that despite a regular increase in the explorations of uranium resource, production still does not meet the demand.

Currently, more than 60% of the world uranium mining operations are run by Kazakhstan, Canada and Australia alone. Kazakh Kazatomprom Company's CEO Mr Vladimir Shkolnik announced that the company - which conducted uranium mining operations amounting to 17,803 tons - will increase its capacity by 10 percent this year.

The World Nuclear Association's official website (<http://www.world-nuclear.org>) informed that 89% of the total production of uranium is in the hands of only 10 companies. As shown by the graph, in 2009, 17% of the total quantity of uranium mined was constituted by Areva, Cameco and Rio Tinto companies alone, each amounting to 17%. In addition, 59% of the world uranium supply originates from mining companies such as Canadian McArthur River and Rabbit Lake, Australian Ranger and Olympic Dam, Namibian Rossing, Russian Krasnokamensk, Kazakh Tortkuduk and Budenovskoye and Nigerian Arlit and Akouta. However, experts from the Business Resource Company assert that large mining companies are 'getting old' and their production costs are increasing. The numbers of economically sound mining companies - where the cost of 1 pound of uranium production does not exceed USD40 - are decreasing, which in turn tends to increase the price of uranium.



As a matter of fact, the majority of companies occupying a substantial position in the uranium sector have already set foot in Mongolia. Since 2003, Canadian mining companies - such as Cameco, East Asia Minerals, Khan Resources, Solomon resources limited, Mega uranium and Western Prospector Group - have entered Mongolia's uranium sector and added to the number of top ranking uranium mining companies such as Areva, BHP Billiton, Rio Tinto and Rosatom already operating here.



“a detailed infrastructural feasibility study to determine the capacity of a power plant suitable for Mongolia, as well as its construction requirements” will be conducted, and that “work is scheduled to be completed in three years’ time.” From this, it can be concluded that Mongolians will not enjoy the benefits of a nuclear power plant in the near future. Specialists remind that the Government urgently needs to resolve the issue of nuclear power reactors at a time when the country’s thermal power plants lay flat. They point out that in terms of security, this work needs to be operationalized extremely carefully. As the proverb goes, “measure seven times, cut once.” But that does not mean it needs to be prolonged for seven years.

Is there any news on the creation of nuclear power plants in Mongolia?

As it was mentioned earlier, it is planned to be put into operation 158 nuclear reactors by 2030. The World Nuclear Association showed that construction of 62 nuclear power reactors in 2010 alone has been a record since 1992.

Academician Kh.Namsrai once declared, “Scientists have no doubt that the most appropriate choice of energy supply for Mongolia - which is environmentally friendly, does not pose a threat to humans, and is cost effective -is nuclear energy.” Actually, three years have passed since talks and discussions about nuclear power consumption and nuclear power plants in Mongolia took place. After an official visit to Mongolia in April 2009 by former director of the International Atomic Energy Agency Mr Mohamed ElBaradei, Mr S.Enkhbat, director of the Mongolian Nuclear Energy Agency, gave an interview to Reuters. “We will build a nuclear power plant starting from next year,” he said. However, two years have passed since this interview, and little happened except for the feasibility study on the location of the nuclear power plant.

At the end of last year, the first fieldwork experiment and research forum was organized for the Preliminary Study for the Construction of Nuclear Power Plant in Mongolia Project. Scientists and researchers concluded that a nuclear power plant could be built in the Malkhiin Plain in the Bayanjargal soum (Tuv province). A 100 km square area near the lower Kherlen Bridge is also believed to be a suitable location for building a nuclear reactor. Mr S.Enkhbat declared that

	Ton	Percent
Australia	1673000	31%
Kazakhstan	651000	12%
Canada	485000	9%
Russia	480000	9%
South Africa	295000	5%
Namibia	284000	5%
Brazil	279000	5%
USA	207000	4%
China	171000	3%
Jordan	112000	2%
Uzbekistan	111000	2%
Ukraine	105000	2%
India	80000	1,5%
Mongolia	49000	1%
Other	150000	3%

Rosatom Company's CEO Mr N.N.Spaskii remembered that since the Chernobyl crisis, rigorous safety measures and monitoring have been put in place. “If a nuclear power plant is built in Mongolia, then I can assure you with full responsibility that it will be completely safe,” he said. Is it not about time Mongolia speeds up its use of natural resources and creates alternative sources of “clean energy” in order to walk in line with world development? ■



Starting from this edition, *The Mongolian Economy* is going to run a new column titled *Opinions*. This column will be led by recognized Mongolian and foreign experts from all sectors of society. The first to lead the *Opinions* column for this edition is Ts. Tumentsogt, an infrastructure expert.



Ts. Tumentsogt
/Infrastructure expert/



UB: How long before levels of air pollution be acceptable?

Ulaanbaatar city is the coldest capital city in the world and is the most polluted in terms of air quality. Though the levels of other pollutants already exceed national and international standards, the levels of particulate matters (PM) are of major concern. For non-experts, the particulate matter (PM) is harmful to human health. Fine dust particles cause various health diseases, including respiratory, cardiovascular, and shortens life expectancy. Recent measurements show that annual concentrations of PM in Ulaanbaatar exceed 6- 20 times Mongolian National Air Quality standards, which are already higher than the World Health Organization (WHO) standards. According to international experts, health costs associated with this level of air pollution represent 12% of Mongolia's gross domestic product (GDP) and about 27% of Ulaanbaatar's GDP. In recent years, hospital admittance due to increased respiratory diseases shot up dramatically. These numbers are astonishing and it really undermines Ulaanbaatar's livability. It's clear that there is no time for complacency and there is urgent need for coordinated actions from the Government, private sector, partners and citizens. Learning from experiences of other countries as well as educating households is also important.

The sources of air pollution vary from emissions from households' stoves, heat only boilers, power plants, unpaved roads, waste, lack of greening as well as weak urban planning and enforcement, and chaotic settlements adds to this problem. Thousands of households are migrating to Ulaanbaatar every year and this trend will continue unless

a strong urban planning is enforced.

Coordinated efforts to tackle air pollution started in 2007. Since then the Ministry of Mineral Resources and Energy, UB city Government in cooperation with responsible agencies did an excellent job in terms of establishing air quality baseline, air pollution causes and possible actions and their impacts. There is no silver bullet action which will solve the issue and all possible measures needs to be deployed.

There are different possible actions with different timelines and costs. Although it's desirable to get rid of air pollution as soon as possible, it is a necessary to take into account funding availability, time required for implementation and households' income. The situation is such that all possible measures to address air pollution should be deployed. Short term actions include the promotion of cleaner stoves, improvement of insulations of gers and homes in ger districts and switching to cleaner fuels. These measures can be implemented in two to three years. The World Bank estimated that providing heating in ger areas will improve air quality by about 50%. In the meantime, the Government and Ulaanbaatar City should focus on medium and long term measures which include the expansion of infrastructure services and the creation of incentives for private sector developers to build low cost and affordable houses and buildings. Though housing programs may take years to implement due to the low incomes of ger districts residents, improving livability of the city shouldn't be abandoned. ■

For a green development



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