

For a green development

# MONGOLIAN ECONOMY



A Mistress Prefers Real Numbers

Export Tax: A Cure for the Economy

Mongolian Economy and Business Magazine

November, 2011. № 009

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*For a Green Development*

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## Letter from the Editor:

The ninth issue of Mongolian Economy comes to our readers during the period of approval by government for its budget and monetary policy. The copious 2012 state budget promises to increase salaries and pension by over 50 percent, along with stipends for students.

Our staff tried to cover as much as possible with plenty of useful information on the economy and finances for the

market vendors, shop assistants, taxi drivers, and department chiefs that are our readers. The growth of inflation should be on par with the household incomes, shouldn't it? Especially the matriarchs, who are confronted with the task of spending their families' budgets appropriately. Have a look at "A Family that Tightens Its Belt", which follows L.Tsetsejargal, the wife of Mongolian Economy's first guest D.Erdenetsogt, who attended Family Budget column. She can tighten the belt of a budget when necessary. You can also find some detailed information about the 2012 budget in "Year Flooded with Cash and The Oppression of Businesses is Approaching Fast".

Mongolian Economy is writing for the first time about the possibility of imposing an export tax on raw materials to products from mining and animal husbandry. We are also here to tell you that heavy industry's steps towards development are already fast approaching along with huge mineral resources. The head of the Mongolian National Chamber of Commerce and Industry (MNCCI), S.Demberel, discusses his decision to enter politics, the current state of business and the economy, and green development.

Finally, visit the studio of D.Maira, this month's focus for Made in Mongolia who has sketched over 300 felt and wool designs, and develops felt handicrafts. Finally, "Light Amid Darkness" tells the story of a blind man who is doing his best to learn and reach his dreams.



**Deputy Editor I.Otgonjargal**



## Main Topic

## A Mistress Prefers Real Numbers

### I. Otgonjargal

Huchit Shonkhor Market is about 10 kilometers from the Orchlön Micro District. It takes one or two hours to get there because of almost endless traffic, even on weekends, which makes me anxious. But it is worth getting passed all that traffic just for the supply of meat there. Meat takes out lot from my family's monthly budget. To save some money while the inflation rate is getting higher, I choose Huchit Shonkhor market. The price of meat is approximately MNT 200 to MNT 300 and sometimes MNT 500, less than other grocery store.

Besides, there are a lot of options because it is a central market for meat. Even though they sell animal products, the hygiene there seems fine. "And the vendors at the market have a better conscience than others to maintain hygienic conditions" commented my husband.

Recently, when I was picking up some meat, I overheard a conversation between three vendors

"When I turn on my TV, I always hear pleasant news about increased economic growth, and foreign investment, and coal exports exceeding copper", said the first vendor. "Is true that the Mongolian economy is getting as big as they say"?

"Definitely. I suppose Mongolia is almost leading the world economy", said the second. "Sometimes I even doubt whether journalists are telling the truth".

"Exactly. If it's true that the economy shines, normal vendors like us should have felt something", replied the first woman.

"Since they are Mongolians, I think it's just talk", said the second. "I don't believe there is anything to catch up on for this matter".

"If it's true that the economy is really growing, prices wouldn't be so high", said the third, a young woman in her twenties. "A sister of mine who works at Mobicom gets a reasonable salary. Her and her husband's salary together is almost MNT 2 million a month. Yet, she says that is barely enough. So I thought it was normal that my income isn't enough either".

"Handing out cash isn't helpful", said the first. "You have to queue for quite a long to get some money for groceries. Now that winter is coming, how are we going to get this money? I've heard they are planning to hand out even more money in 2012. I don't know whether Minister Bayartsogt is doing the right thing or not, but he seems to be criticized a lot. If this con-

tinues, handing cash out won't change anything".

"My husband said that handing out cash is bad for the economy. I heard that the IMF (International Monetary Fund) recommended that the government should stop handing out cash" said the third woman.

"What is inflation, anyway?" asked the third. "When I ask my children they don't know the answer".

"I think it's when prices get high. It feels like our customers get nervous about meat prices and blame us. If our customers had enough to make a living, they would thank the ones who provide them with food. It is different in Mongolia. They think we are the ones raising the price. It's the suppliers that are raising the price. We don't like expensive prices either".

"Who needs economic data that is no good for us? I think it's useful for authorities to attract loans and investments from foreigners. It's not like we don't need their help", the first woman said.

Their conversation was funny in some ways, but was true to life. This conversation between the ministers of finance of three different families is worth a listen for authorities. These women seemed to be living hand ▶▶

to mouth. Their conversation was an effort to find the answer to questions such as: is the average income of families rising? If so why don't we see any difference? They would stop talking if they knew I, a journalist, was eavesdropping. So I tried to behave like a normal customer buying meat.

Who needs all that these economic statistics? A mistress wants a real number. I cannot guess their education just by looking at them. We can only see public opinion in today's social and economic development. In other words, society is saying that cash hand outs are not helping. Even a family with an average income is barely able to live in this society. We do not want authorities to hand out cash in order to fulfill their election promises. Instead we want the right decisions to save the country from falling into despair.

This month Mongolian Economy discusses the 2012 budget, urging authorities to help the public next year. Our budget is increasing because of the mining sector's rapid development and increasing investment. How can people understand that the Human Development Fund's 2012 budget of MNT 477.9 billion while total expenditures is MNT 892.1 billion and the counterbalance subtracts MNT 414.2 billion? In 2012 the government plans to supply the public with cash, but knowledgeable citizens like those three vendors criticize this method. Those three vendors are the ministers of finance to their families just like Minister S.Bayartsogt is to Mongolia. They control how their husband's salary is used. They budget for tuition fees and transportation expenses. They even decide what to put on their tables for the holidays.

Mongolia may face another economic crisis like it did in 2008. I remember that the government handed a lot of money out to people, but what happened the next year? Inflation reached 34 percent. Because of the crisis, copper prices fell on the world market and Mongolia was no longer able to hand out cash. Allowances then were only a bit lower than now. Hand outs under the name The Children's Fund were only MNT 3,000 a month, but today everybody receives at least MNT 21,000 a month. Money flow won't end there. Sums of MNT

70,000, MNT 500,000, MNT 1.000.000 and even MNT 1.5 billion are waiting.

The debt crisis in Greece foreshadows the problems Mongolia can expect, but nothing will be done about it. We were lucky in 2008, but now if a crisis comes to Mongolia, its economy will collapse in no time. Experts say the Chinese economy buffered the impact to Mongolia in 2008. Now, however, inflation has reached 6.5 percent in China, the highest in 3 years. If this leads to further crisis we don't have any other defenses. I want to believe that the authorities are aware of the impending threat, but their attitude of ignoring the advice of international organizations makes me think that they might have forgotten the past.

The hostess want to know about inflation. Life is hard no matter how hard they try. So the society demands for answers to its questions.

"There are people working in government who don't even know about inflation" said S. Ganbaatar, head of the Confederation of Mongolian Trade

Unions. "There are many reasons for inflation to rise. For example, if 75 percent of the total sugar supply is controlled by one company, that company will increase the price of sugar 400 times. That is how inflation increases. When there is a lack of attention from government, people do these kinds of things. In simple words, people are buying a loaf of bread with enough money to buy two loaves breads".

Can the Bank of Mongolia and the government tackle increasing inflation like they did in 2008? After the 2008 crisis, neither moved even a finger to coordinate the government's monetary policy. The Bank of Mongolia has tried to find a way to solve the problem even with support from the media, but the Ministry of Finance so far has not done a thing. The Bank of Mongolia is doing everything it can to stabilize the tugrug and decrease inflation. However, today without support from government, it is unclear if the central bank can tackle inflation alone. ■

## Budget

# Year Flooded With Cash And Repressing The Businesses Is Fast Approaching

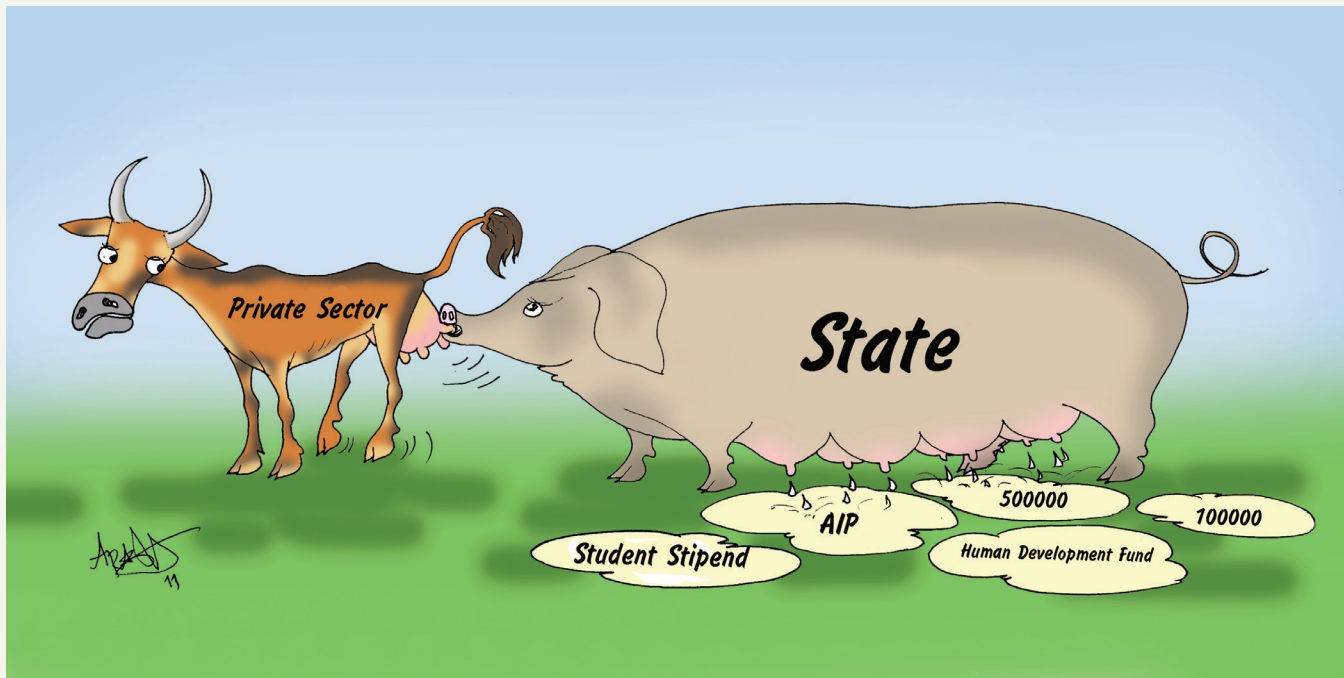
By D.Munkhchimeg

Politician election syndrome has begun its spread. After turning on the TV, one can see people full of smiles and bragging about promises for all kinds of welfare to go to thousands of citizens. It seems that the country has become quite rich. In addition to 53 percent raises in salaries and the pensions of civil servants, the disabled and retirees are set to receive MNT one million each. Students will receive stipends worth MNT 70,000 per month. Experts given an early look at the draft for the 2012 state budget were surprised and shook their heads at the spread of the populist movement growing in Mongolia.

Prime Minister S.Batbold presented to Parliament the largest budget in the history of Mongolia.

"We have mobilized all of our resources to fully fulfill the election promises", he said.

However, he didn't explain whose money the government is allocating for these programs. Businessmen owners who pay taxes and citizens have a right to know and monitor how their money is being spent. ▶



### Big Numbers

While the majority of the countries in the world has trimmed down their budgets and has prepared their earning statements in an effort to guard themselves against the impending economic crisis, Mongolia is going along a totally different path. The whole budget is based on an overly optimistic estimate that Mongolia will experience 25.6 percent real economic growth.

“Why not?” asked Minister of Finance Mr. S.Bayartsogt in response to this question about these the validity of these expectations. “This year economic growth doubled, contrary to our estimates”.

The government plans to spend MNT 7.1 trillion, exceeding its revenue by MNT 740.9 billion. For Mongolians this is a number never heard of before. Experts who criticized last year’s budget for its too-great expansion since Mongolia’s transition into a market economy with expenditures of MNT 4 million are now probably at a loss for words. Where will this money come from?

Of course, mineral resources constitute a substantial part of the budget’s revenue. Special attention should be paid to the fact that in the upcoming year 90 percent of all mining revenue will come from coal

and copper alone. The government planned its 2012 budget based on estimates that copper will cost USD 9,760 a ton, while coal prices would range from USD 75 to USD 199.90 depending on its grade. Furthermore, the government estimates gold to value at USD 1,723.75. However, currently one ton of copper is traded for less than USD 7,500 on the London Metal Exchange (MLE), while one ounce of gold is sold for less than USD 1,650 in New York.

Mineral prices can fluctuate unexpectedly on the world market. When the price of copper (which skyrocketed to USD 9,000 in July 2008) fell to USD 2,770 due to the 2008 financial crisis, the budget experienced a deficit and the economy crashed. Panicked officials have likely lost the count of the number of amendments they have passed on the budget since then. When asked what guarantees there are that a similar situation could not occur again next year, the Minister of Finance replied, “crises do not happen each year”.

### Salaries, Pensions, Cash Handouts

In order to fulfill its promise to double salaries, the government is planning to increase the salary and pension of civil servants by 53 percent. The government plans to allocate 10

percent, or MNT 700 billion, of the budget to this purpose. However, it is doubtful that raising the salary of 156 thousand civil servants, who constitute merely 5.6 percent of the total population, will improve the living conditions of Mongolians country-wide. In addition, experts warn that such a decision will deal a significant blow to the private sector because when the salary of the public officials rapidly increases people working in the private sector will likely grow dissatisfied with their wages.

“The small and medium enterprises would be compelled to lay off workers in order to raise their salaries. Dismissing one worker to raise the salary of another negatively affects smooth operations of an enterprise. As a result of this, the overall economic efficiency diminishes”; said S.Demberel, Chairman and CEO of the Mongolian National Chamber of Commerce and Industry.

“It has become certain that the government will raise salaries”, Vice President of the Mongolian Employers’ Association Kh.Ganbaatar said, to the Montsame news agency. “Therefore, let me provide an early warning to employers to be prepared for this without succumbing to shock. These are people who conduct businesses with their own money, not with the money from the government budget”. ▶

► One third of the MNT 7.1 trillion that the government plans to spend next year will go into the hands of citizens as salary and pension raises, social welfare, and cash handouts. It is doubtful that Mongolians, who import the majority of their consumer products and commodities from Russia and China, could absorb this money into the national economy. Experts explain that this will not do anything but exacerbate inflation.

"It is certain that the over-stretching of the budget by the government will escalate the rate of inflation" explained B.Boldbaatar, head of the department of monetary policy and research of the Central Bank of Mongolia. The Central Bank announced on 25 October that it would increase its policy interest rates by 0.5 percent to 12.25 percent to combat hikes to commodity prices. Undoubtedly, this will cause already high credit interest at commercial banks to skyrocket commercial banks. Therefore, there will be less room for national enterprises to grow.

## Populism

"Wonderful promise are music to the ears, but those that make no sense and have no possibility to be realized—and even if it were to be realized, it could damage the country's development—is called populism. This is cheap politics" wrote the prolific economist Baabar.

A prime example of this is the current situation at Greece. Politicians in Greece, which is barely subsisting with loans obtained from the International Monetary Fund (IMF), European Union and the Central Bank of Europe, have nowhere to hide their faces. In order to save their country from bankruptcy, its government is laying off a number of its public officials, lowering salaries and pension, and facing protesters who march on the streets in protest.

The government laid the foundation to this disaster 30 years ago. To assure their power, the two ruling parties gave out "political candy" to its people and buried them in wonderful promises. The father of current Greek Prime Minister Andreas Papandreu started offering all kinds of incentives, including increasing the number of public officials. As a result, bureaucracy and corruption flourished,

while repressing businesses, which contributed to 50 percent of its gross domestic product (GDP). They fell into huge debt after fulfilling the promises of one election after another. During this latest budget crisis, the government is faced with a populace that has become inactive and quick to protest. What will become of Mongolia, which has barely completed its transition into a developing country, if a developed nation in Europe is at the brink of bankruptcy because of populism?

"Fulfilling political promise has two sides. On the one hand, it positively affects the livelihoods of people with poor income. On the other hand, it is true that it makes the Mongolians lazy" said Bayartsogt.

"I think that if the budget is too large and the government participates in everything, then the private sector will be left with nothing to do", said Director of the Bank Supervision Department of the Central Bank B. Lhagvasuren. "Are we going back to a planned economy"?

## After the elections...

The good news is that the parties have signed a memorandum of understanding barring promises for cash handout promises during the 2012 elections. Yet, the government has drafted an irresponsible budget as if no one remembers their assurance that they would not distribute cash handouts before the elections. Experts criticize the 2012 budget as a "promissory budget" and "election budget".

"Just by looking at one year's budget, one can find criticism", said Bayartsogt. "However, political stability is very important to Mongolia. Since the situation will change completely starting from 2013, we need to finish fulfilling our promises".

Many people are doubtful that the situation will change in 2013. Although the politicians are saying that they will not make cash handout promises during the elections, who knows what will happen when that time comes. It was politicians themselves who adopted the laws. Experts also cannot believe that the government will follow the Fiscal Stability Law in 2013. According to the law, the deficit should never exceed 2 percent of the

total GDP beginning 2013. However, the leading economist of the World Bank Rogier van den Brink warns that because the budget deficit was high in previous years, this provision will be impossible to follow. The suspension of disbelief is akin to the case of the alcoholic who says, "Tomorrow I will stop drinking".

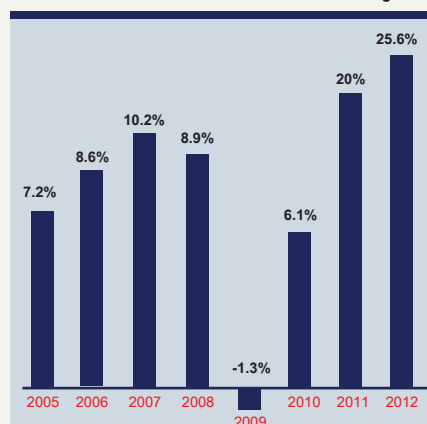
"No need to worry. The deficit is estimated to be 9.8 percent in 2011 and 4.1 percent in 2012", Bayartsogt. "Does not this show step-by-step decreases? Therefore, we believe it is possible to maintain the budget deficit to less than 2 percent of the 2013 GDP".

Consequently, standing before us are the Ministry of Finance expecting a prosperous future, the Central Bank and international organizations predicting a gloomy future, and Parliament striving to fulfill its promises and raise the profiles of individual seat holders. The time approaches when Mongolians will be discussing a budget like it has never seen before. ■

Budget Expenditure (by percent in GDP)



GDP growth



## The budget with huge volume of deficit will be approved. How it can affect the Mongolian economy?



### S.Oyun, Member of Parliament:

-The main two ruling parties has promised to distribute cash started since 2008. Thus the budget cannot bear anymore the burdens. The fur of a bear that is not hunted even, has been shared, creating unreal expectations among the public. Half of the amount in volume of MNT 120.000

distributed last year, was advance of Oyu Tolgoi. The current amount of MNT 21,000 is also the advance of Tavan Tolgoi.

Distributing cash in period of accelerated economy means harming the poor and other people with less income. Because the inflation rate affects the poor people in the worst way.



### Coralie Gevers, World Bank Country Manager:

-Mongolia has a bright economic future and people feel bolstered by the strong growth of the economy. But in economics, there is something as too much of a good thing: an economy overheating, inflation picking up, and people seeing their purchasing power shrinking.

The budget 2012, which is ambitious in

terms of spending and optimistic in terms of revenues, may contribute to the economy overheating. Without a doubt, there are many needs to be financed for Mongolia to have a better future. However, in the current environment of global uncertainty, the government would be wise to avoid tying itself to long-term commitments that cannot be undone and to be prepared to adjust its spending plans downward if inflation picks up further or revenues don't materialize.



### Kh.Ganbaatar, President of Mongolian Employers Federation:

-The State has approved this great volume of budget because it is necessary. If this budget is really required, then it shall be proposed. But that amount of money shall be spent for solving the urgent issues, confronted to Mongolia. For example: supporting the public and private partnership. The salary rate has been increased,

and great attention is paid on investment issues. All these are right. However, the small medium enterprises and the public sector seem to be ignored. The private sector is situated in difficult condition. Everyone knows it. Therefore it shall be considered on the level of the policy, and foster them with capital. I would like to highlight that an overall policy of economy and finances are lacking in this sector.



### D.Batjargal, Director of Institute of Finance and Economics:

-Approval of a budget with deficit of MNT 7.2 billion will directly affect on inflation. It means it will cause growth of inflation rate. We can see from the current world economic stand what means approval of a budget with great amount of deficit. The economic condition of Greece, Spain and Italy stands in challenging situation because of the approval of the budget with deficit for many years. This affects the European economy negatively.

Our country carries expectation to finance numerous great creation works out of Development bank's amount MNT 800 billion. However it will have negative impact on sales of the governmental bond because of the budget deficit. The investors who would like to purchase the bond, will see as first the debt of the government and the budget stand. Therefore approval of a budget with too high volume of deficit will decelerate the great construction work, and it even might cause the crisis in the economy. ■



Photo by B.Byamba-Ochir

## Family Budget

# A Family that Tightens Its Belt

By E.Zorigt, B.Enkhtsetseg

Mongolian Economy has opened a new column entitled Family Budget. For the column's introduction D.Erdenetsogt's tells about the family structure and its hierarchy.

In every Mongolian family, mothers are usually the boss. They have the right to take the fathers' salaries and spend it as they see fit. They control the family with decisions such as what food to eat, which furniture to buy, and how to spend the family's income. It would not be wrong to say mothers make the important decisions to most families in Mongolia. L.Tsetsegjargal manages her family's budget. She makes the budgetary policy no less skillfully than the central bank or government does spending a monthly income of approximately MNT 1 million and keeping a savings for all four members of the family. Her work consists of ratifying the monthly budget and calculating other expenditures for budget

amendments. She budgets about MNT 800,000 for one month.

But there are times when the budget is not enough and she has to borrow from her family's savings. When money that should be used for their children's future and the family is used for primary needs, such as food expenses, she sometimes feels stressed.

"Although the media says that the Mongolian economy is growing, we are still eating our Atar bread. Increasing inflation makes my monthly budget more insufficient" said Tsetsegjargal.

Because of double-digit inflation and increased interest rates instituted by the central bank, she must tighten her policy for budget expenses. This means she has to control her family members' consumption. For example, In order to control her daughter's cell phone usage, she is now sending phone units to her daughter from her cell phone. It is a very effective way she says. E. Uyanga, their oldest daughter, got married last October. Now they ▶

are happily waiting in their three-room flat for a new family member to soon be born.

Erdenetsogt, who used to run his own sales business, went to Korea with his wife for work in 2000. They did many kinds of jobs there, including work on a construction site, moving services, and work at a publishing company. Their son, E.Irmuun was born and raised in Korea. They came back to Mongolia about a year ago and they faced harsh times because of unemployment.

"After we came back to Mongolia, it was hard to find a job. So I decided to buy a car and run a moving business", said the head of the family, Erdenetsogt. "But in Mongolia, people are not used to that kind of service and tried to bargain which was very hard.

"Then I decided to do what I used to do in Korea and started working in construction, but the working environment is very bad. Even the minimum required equipments such as work gloves are not provided. Plus, the salary was very low. Because of these kinds of issues, everybody in Mongolia is trying to go abroad. My wife got a job at Narantuul Market as a vendor. Right now I'm working on starting a small mining project".

They now eat eggs and bread for lunch, his wife takes a taxi to her job, and they spent MNT 10 million for their daughter's wedding.

Because of their experiences, Erdenetsogt and Tsetsegjargal have different opinion on savings. "Life is hard and we don't know what might happen", said Tsetsegjargal.

"Every situation needs money as a solution. So having a savings is the smart. We cannot just think like my sister has money to give me if I become sick. We all have our own lives. But in Mongolia it is hard to make a savings, especially for people like us".

Because their money is used for food, transportation, tuition fees, and kindergarten costs, the fees never end.

"But the MNT 21,000 and MNT 500,000 to students from the Human Development Fund helps very much", she added.

Payments for housing, water usage, and electricity are the main

costs in their monthly budget, which is about MNT 150,000 per month. So they found some ways to cut their expenses.

"After I came back to Mongolia I always shopped in supermarkets. But after I started working in Narantuul I found out that there is no big difference in the quality of products there. It is only the price. For example, if you buy an egg from the supermarket you pay MNT 280 but it costs MNT 240 at Narantuul. So I buy groceries from Narantuul market" she said.

When she shops for groceries, she brings her husband and child together because she cannot carry the five-kilogram bag of rice, two-kilogram bag of flour, 10 kilograms of meat, and other groceries. This is enough food to feed her family for 10 days. Irmuun is in charge of buying daily products such as eggs, bread and biscuits. One of this family's wishes, which is barely meeting the criteria for middle-income, is to move to a cottage.

"The air pollution in Ulaanbaatar is too much. Although Ulaanbaatar

has many tall buildings, it doesn't make things any better. So we want to live in a cottage" said Tsetsegjargal. "However this wish needs money to come true."

They have many plans to cut their expense and earn savings. "If you know how to spend less than what you earn, you have the philosopher's stone" said Benjamin Franklin.

A family that has a monthly income of MNT 1 million is counted as a middle-income family. However, in today's situation, when inflation is too high, families' mothers have to be very clever. If they spend a little bit more than normal, then the financial crisis will knock at their doors and can leave one without food for days. Fortunately, the minister of finance at this household is tough. She is used to tightening her belt when needed. Also, the entire family follows the orders of their minister of finance well.

If the government had a good policy maker like this family has, Mongolia could live a worry-free life. ■

## Tax

# Export Tax: A Cure for the Economy

By B.Bayartogtokh

The products from Mongolia's mining sector are crossing the border almost entirely free of tax. This year coal dominates Mongolia's mineral exports. However, both the Asian and European markets are not yet open for Mongolian-made leather bags, boots, or cashmere goods, like they are for minerals. Specialists argue that although Mongolia's exports have rapidly increased in recent years and there are no significant improvements in quality. For example, only a few minerals from the mining sector, such as coal, copper, iron ore and fluorspar, are exported. Mineral products have accounted for almost 80 percent of Mongolia's total mineral exports. S.Bold, head of the Balance of Payments, Statistics and Research

Division of Mongol Bank, said that it is good that the foreign trade balance was diversified with raw materials, but it is critical.

Therefore, perhaps it is impossible to sit by, happy that mining exports are growing at light speed. Coal has reached 40 percent of total exports, but it is strange that the main kinds of minerals accounting for the rest of exports have no taxes imposed on them. Does this mean that there is no need for export tax as Mongolia has an abundance of valuable resources.

Everyone knows that when demand is high, prices must go up. But who knew that copper, coal and iron ore are so cheap and undervalued in Mongolia. However, countries with resources use export taxes to ▶▶

► leverage their economies. Export taxes not only bring more money to the country but also act as a sword and a shield toward importers. What did Mongolia’s northern neighbor do last spring? It suddenly stopped exporting petroleum, alarming fuel importers. Mongolia was not ready for this. After the alarm and confusion passed,

Why is it impossible to significantly increase the export tax on some products for Mongolia, but not for Russia, which often increases its export tax on petroleum products? For its membership with the World Trade Organization (WTO), Mongolia agreed not to increase its export tax to maintain flexible trade with other

fee of only a mere MNT 1,500 per tonne of in-demand products such as coal as Mongolia does. It is not enough that several “green” officials say that Mongolia benefits. Mongolia exports more minerals than ever before to sell raw material at the cheapest price on the world market.

It seems as though these small fees should be stronger: it should become a tax, instead of a fee; and gain MNT 400 billion, not MNT 40 billion. No country dislikes increasing revenue. If such a large income from taxes is unimportant to the state, let’s invest it directly into improving the roads in the capital, cleaning the city, and building up the city in general. If it did so, it would be nice to see such concrete results. Citizens of the capital would like to drive on smooth roads and live in a clean city like the citizens of Mongolia’s two neighbours do. At least, there would be one thing that Mongolians could tell the next generation: when the money from mining grew, the roads in the capital improved and the city became cleaner.

If some believe that officials do not like to tax mineral exports; then no, some in fact do. Gratitude may be needed to the staff of the General Customs Department for issuing the right proposals. Relevant officials of that department developed and submitted a bill to the Ministry of ►



more than a few discussions regarding opportunities to produce coal-to-liquid fuel took place.

**A Tariff Council**

Should Mongolia continue exporting its natural resources without tax? The state budget has a deficit and infrastructure is poor. Citizens’ lives are poor, inflation is high, and consumer goods are expensive. Much time has passed since Mongolia cut its tax on exports such as cashmere. Possibly, an environment without export taxes attracts the interest of global investors to Mongolia.

Parliament has allocated over MNT 40 billion to the state budget from mining export fees, according to data issued by the General Customs Department. Those fees include MNT 1,500 per tonne of coal and MNT 1,000 per tonne of other mining products. Perhaps it is a shame that Mongolia is so stingy with its resources. Mongolian minerals cross the border for almost for nothing.

countries and support exports. This is how the Ministry of Finance and other relevant organizations explain the lack of export taxes. However, it seems improper to sit by and collect a

Wares, imposed with export tax

Nr.	Raw material	Measure unit	Volume of customs /MNT/
1	Unprocessed camel wool /male/	kg	100
2	Unprocessed camel wool /female/	kg	200

д/д	Wares	Measure unit	Volume of customs tax /MNT/
1	Log	m <sup>3</sup>	150000
2	Timber	m <sup>3</sup>	150000
3	Plank	m <sup>3</sup>	150000

Source: General Customs Department

Finance to tax certain products. Unfortunately, it was not supported. The Customs Tariff Council headed by the finance minister has the right to do so, and is committed to discuss the issue and present a draft law to the government.

The bill for the Law on Establishing Export Customs and Different Tariffs on Products states, "It is necessary to maintain 0 export customs tariffs and impose export taxes on some products of strategic significance. This includes unprocessed cashmere and wooden crafts. Additionally, different export customs tariff on minerals that account for almost half a percent of Mongolia's total exports and are exported at much lower prices must be established under the condition that there is no possibility of tax evasion". This is a draft that is correct in the eyes of anyone, is not it? Although the Ministry of Finance received the draft more than once, it was never supported.

"Mongolia should comply with its agreement with the WTO. In fact, there is a requirement for a country to reform its tax laws to add export taxes", said J.Ganbat, the head of the Revenue Division of the Budget Policy

Department of the Ministry of Finance. "Not much experience will be incurred after hauling raw coal from mines. Therefore, the proposal to impose a tax on coal has not been approved, although the proposal was submitted to collect revenue. Export tax is a very large pillar to support an economy".

Only four or five goods, such as unprocessed camel wool and hair, unprocessed goat skins, and timber, are taxed. But Mongolia sends several thousand tons of wool and cashmere south to China. Another example of a sector that can be improved upon is animal husbandry and its production of wool and cashmere. The day is near when Mongolian cashmere will become a world-renown product. Certainly an export tax on raw materials will also have a positive impact on policy, expanding products to the world market and creating sustainability.

Attention must be paid to the production of high-quality goods and competition instead of supplying Mongolia's southern neighbour with world-famous raw cashmere if an export tax is to be imposed. In 2008 Parliament repealed its export tax

of MNT 4,000 on raw cashmere. Certainly, people haven't forgotten that the decision of lawmakers to increase the income of herders with higher cashmere price was a show put on for an election, rather than support for herders. As a consequence of this thoughtless decision, almost 80 percent of all processed cashmere in the domestic market flew over to China. In the end, a domestic shortage of raw materials emerged, causing buyers to obtain cashmere thread from China to produce goods. Many believe that Mongolia, which is rich in goats, did not pale before their competitor. D.Gankhuyag, a Member of Parliament and the head of the Mongolian Wool and Cashmere Federation, noted that there is a possibility that government could add over MNT 10 billion to its budget annually from taxes on greasy and washed cashmere.

A strong policy for export tax on raw materials would positively impact the competitiveness of coal and cashmere, as well as develop industry and improve employment. On the other hand, it would also be good to limit Mongolia's dependence on coal and cashmere. ■

## 20 years of ADB-Mongolia

# For a Better Tomorrow

Every time I hear the name Asian Development Bank (ADB), I remember the harsh times of our economy. This agency has worked together with Mongolia to overcome difficulties such as poverty, natural disaster, and deficient energy supplies. They have not forgotten us now while we shine worldwide with our tremendous wealth of copper, coal and ore. Together we are working to transform Asia's Mongolia into the world's Mongolia. Together Mongolia and the ADB are broadening their scope with projects and efforts such as last year's 500-thousand-dollar-project to improve information and communication technology for public transportation at Ulaanbaatar.

"I wish good luck for the cooperation of the next 20 years to turn every challenge into an opportunity" said Ts.Elbegdorj, the president of Mongolia, during the commemoration of ADB's 10-year anniversary".

I assume, however, he meant to wish luck for dual cooperation for another 50 to 100 years.

This year is the 20th anniversary the ADB's cooperation with Mongolia and the 10th anniversary of the establishment of the ADB office to Mongolia. The ADB was founded in 1966, has 48 regional members. and Mongolia is one of its 67 members worldwide. ADB is a reliable partner and gives leverage to the Mongolian economy. It has even granted USD 20 million worth of aid for the reform of university education and has concentrated on improving the quality of universities and colleges.

"When Mongolia first became a member of the ADB 20 years ago, the Mongolian economy was at a disastrous level. Without any support from the former Soviet Union, people were spending very cold winters without central heating" said Klaus Gerhaeusser, director general of ADB's East Asia Development. "Even ▶▶

▶ though Mongolia has urgent issues nowadays; compared to 1991, the Mongolian economy is at the front of the world economy's door with a more powerful and more sustainable base".

An external evaluation result stated: "ADB has contributed to the Mongolian economy and some of its high indicators of social development". In other words, the loans and aid from the ADB were spent for the creation of new work places and to make welfare services more convenient. For the last 20 years, ADB's scope of cooperation with the Mongolian government has covered health, industry, communication, energy, education, agriculture, and transportation. All have been vital to Mongolia's social and economic development. It is difficult to predict how this organization could continue to benefit Mongolia over the next 200 or 300 years..

"I can see a bright future for Mongolia, but it is vital to continue the economic reform and to provide benefits equally to the public. Even though economic development is necessary, more attention has to be paid to providing it efficiently. " said Haruhiko Kuroda, the president of ADB. He may have contemplated opportunities to create a better tomorrow for Mongolia during his four-day stay in the pleasant season of Autumn in Mongolia. Experts in the realm of economics and sociology have looked forward to new opportunities with his visit.

Last year's gross domestic product (GDP) per capita reached USD 2,200, three times more than 2004's USD 638. The ADB plans to support Mongolia's energy plan, which awaits approval from Parliament. It will renew its aids to infrastructure and Mongolia's energy sector as well. Energy is essential to the development of industry and infrastructure. The 12 projects produced by the agency and its non-refundable aid of USD 172.2 million over the last years has benefited Mongolia with assistance from small loans for micro business to loans large enough upgrade state industries and create new workplaces.

"The time has come for us to take our level of cooperation forward, ending the era of small, soft term

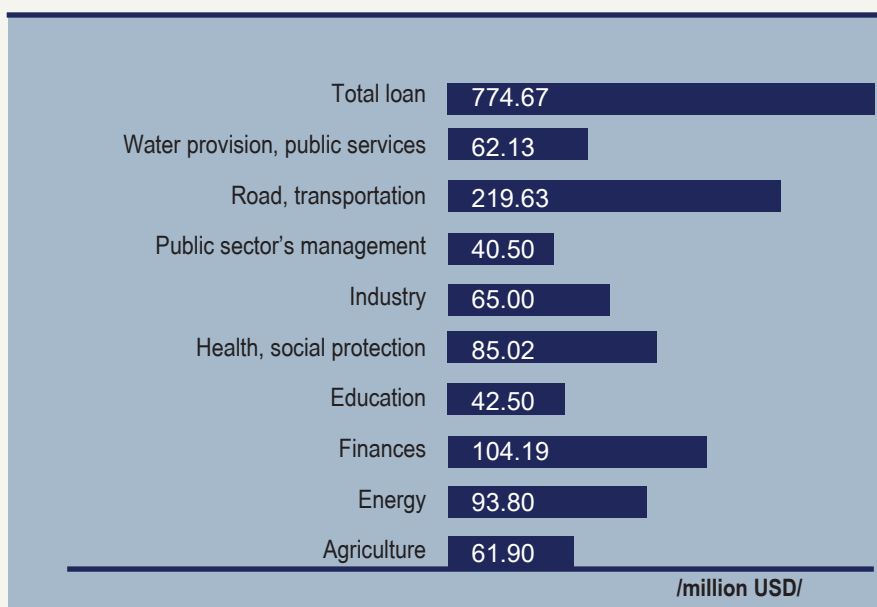


grants" said Minister of Finance S.Bayartsogt. He went on to express his interest in implementing a project for the processing of brown coal with the assistance of the ADB and the World Bank.

The ADB has granted invaluable aid to Mongolia. For example, during the 2008 world economic crises they granted USD 3 million of non-refundable aid to Mongolia for public health. This was a time when even the world's center of finance, the USA, was

struggling. Many investment banks went bankrupt and more were under great pressure. Only a few countries and international organizations could stretch a helping hand to Mongolia. Many problematic issues have created obstacles; such as harsh weather, a low capacity market, limited human resource, poor infrastructure, and corruption. However it never gave up on its investment to Mongolia. The ADB is working for a better tomorrow in Mongolia. ■

Total volume of loans, granted to Mongolia by ADB  
/By stand of 31.12.2010/





Economist

## S.Demberel: The budget of the year 2012 will be devoted for the election of Parliament

*Interview with S.Demberel,  
Chairman of MNCCI*

**-Lately analysts have talked quite a lot about an accelerated economy. As an economist and representative of the business sector, what do you think about this?**

-Today everyone is talking about the acceleration of the economy.

What does economic acceleration mean? Are we running production that exceeds our consumption? No, it is quite the opposite. The business sector doesn't feel this way. For instance, representatives from the construction sector talk only about their needs for money. It means the anti-inflation policies are lacking. If the economy has accelerated, then all sectors would be fully developing. But how does the economy stand today? We all know. A great deal of investment follows foreign loans, investment, and mining. When there is economic acceleration, it is understood to be a process that goes on its normal way. In 2006, a new theory was introduced that states if more money is taken into the economy, then the demand for money will lessen and inflation can be managed. The Bank of Mongolia tries to limit inflation by increasing its policy interest rates. However, did we rid of the double-digit figurer?

In last times, it had always been over 10 percent. This method is outdated. Instead of pouring cash out to customers, investment towards the producers and innovators is required. Only inflation is resolved, while economic growth takes a right turn. The Bank of Mongolia believes that the Human Development Fund's MNT 21,000 allowance creates economic acceleration and increases inflation. The government plans to distribute cash to disabled citizens and pensioners, as well as increase the pensions. I think it is right to give them this money because the exchange of money will increase. At one time, we used to say, we are heading towards a "rainbow economy", but in order to head into this direction, we have to conduct lots of activities, such as supporting small and medium enterprises, increasing the volume of non-mining exports. All of the things I have spoken about are all solutions. We have to solve all of these issues correctly and quickly.

**-What do you think about the huge number of inadequacies in the budget?**

-The current budget cannot and shall not be explained from purely an economic perspective. Conceptions about the cycles of political business have spread. Politicians broaden the economy prior to elections, but the day ►►

▶ after the election, they restrict it to the lowest percentage. Today's budget is following the same model. Therefore, it would not be wrong to conclude that this budget will be devoted directly to the election. However it is possible to amend the content without breaking its backbone. The state shall improve the economic framework for small and medium entrepreneurs. The main objective is to create fair competition and economic democracy. For these, innovations and an economy based on knowledge should be introduced. However, nowadays the knowledgeable are not supported. All of these are dilemmas. Even if export agreements are available, there is no cash. Probably some for the cashmere sector will be approved. Why not support sectors such as tourism, production, and software.

**-A lot has been said about improvements to the framework of business, but now there is silence. Does it mean the business environment has already been improved?**

-Only some work has been done. The government has announced the Year for Business Innovation. Currently this topic has been the subject of a lot of discussion. Afterwards, however, it stood still. But this is an issue that shall be discussed and solved regularly. It seems that after innovations to businesses have been announced, everything has become alright, so some people think. Only the Mongolian Chamber of Commerce and Industry talks about it, but the government doesn't say anything about it at all.

**-What exactly do business people want from the government?**

-First, they ask us to please provide a working environment by spending less capital and time to do so. Second, they ask us to please create opportunities to expand their businesses. There are seldom people who ask for money. Many are sincerely requesting more favourable business conditions.

Another issue is human resource. It is important to appreciate the labour market and people. Today we prepare welders for mining, but have forgotten the other sectors. Of course some can work for Oyu Tolgoi and Tavan Tolgoi, but what should we do for the others? On the other hand, there is the work

force's culture and education. People change their jobs too often, jumping from one institution to another. Instability leads to risks. Thus, it is vital to learn about those skills. Great chances for development can be expected if hints could be given to companies about what they could do. For instance, reusing water and operating environmentally friendly are all friendly to business. Such issues cannot be changed with lectures from ministers. All stakeholders should work together to introduce recycling, and efficient and eco-friendly activities. For this endeavor, the private sector should be supported.

**-The Mongolian government and its citizens have a weak understanding of eco-friendly development. You are the only one who talks about green thinking and a green economy. How could this be changed?**

-Indeed this understanding hasn't spread well. Also, citizens don't feel that the environment is confronted with big problems. On the other hand, if the Ministry of Environment and Tourism took the lead towards a green economy, then this issue would be turned into a small issue of only one sector.

What is the main principle of a green economy today? It is the 5-20 principle, which links the green economy with the Ministry of Finance. That principle has an article to turn the green purchase by 20 percent. Therefore the Ministry of Environment and Tourism cannot take the responsibility alone.

Now everyone is glad that the GDP (gross domestic product) is experiencing huge growth. We have to find an answer to the question, can this product be of good quality. First, we shall answer the question with what quality is. That definition is related to green development. It means the green economy is a network of all sectors. It can be explained with many surveys.

Environmental regression has spread to a lot of our country. Ninety percent of the population is suffering from five chronic illnesses. Deforestation leads to desertification. What is the solution to all these dilemmas? Implementing the green economy would deliver the most significant impact. Today

every Mongolian, in addition to the government, takes from nature. The State earns great sums of money through taxes, but spends very little on nature—only 10 percent. There is a lack of sustainable business and multi-stakeholder participation. For this reason, we cannot develop. If we combine the two definitions, then a new term called democratic growth comes about. It means people will create wealth when they are the owners. This type of wealth will profit the next generation. The government should implement policies in this field when the election nears. To implement them, it is essential to study the experience of other countries.

**-Speaking of the election, why did you step into politics with the Civil Will Party?**

-I have been talking a lot about what should be done. There is a need to enter the political arena because the things that I have been talking about have not been realized. No one will do it for me. I can sit here and keep talking, but it will not be enough. This is the reason I must go into politics. Thus, I became the member of the Civil Will Party, which has liberal views. Also, it is one of the few organizations to broaden the liberal view first in Mongolia in 1990. The Civil Will Party received its official membership from the Liberal international conference held in London. The chiefs initiated a law to make the party without restricting membership.

**-You are following the principles of a green economy?**

-There is no reason why these two opinions cannot suit to each other. They will match. Some years ago I started talking about the definition of organic. Today almost everyone uses this word. Even TV advertisements use it. The same is expected when the green economy and the liberal view form a close relationship to cover each side. The Civil Will Party also speaks about and implements aspects of a green economy. I am worried that citizens will become sick and the environment is being polluted. Thus, I made this decision to add my voice.

The Volk Party and the Mongolian Democratic Party have proposed that you become a member. You had the chance to enter one of these two big parties. ▶

► -Yes, I received suggestions, but it was obvious that I would not join either of these parties. I didn't want to beg for a position and fill a seat. I am happy with the choice I made based on my own view and friends' advice.

-Many politicians say they chose politics to create and implement policies. You say the same. After becoming a Member of Parliament (MP), do those individuals change their mind?

**-It depends if one outgrows that opinion. It means no one knows what to do. Of course everywhere there will be a conflict of opinions. We have to know which one is the right one. A Member of Parliament should be a bridge to the people.**

-I have collected experiences that could benefit business and small-medium enterprises. As a person who understands the joys and sufferings of the private sector, I think I can be an intermediate for the wealth of creators. In our current situation, one can realize one's own plans by entering politics. Otherwise it is useless to talk about business innovation, the public, and private partnerships. Indeed, it is not easy to speak for business to government. The government needs many people who understand the market and can lead the economy in the right direction. I have chosen this way to cooperate with such people and restrict the government, which is too bloated. People can now get money for doing nothing and become shareholders without investing. Such a society has been created and is considered just. I didn't want to passively sit and watch such flaws as an economist and citizen.

Parliament should be the arena for the competition between competent people. I wanted to clean up this filth and cooperate with the Civil Will Party. ■

## Question of "Mongolian Economy"

### Is Mongolia experiencing an accelerated economy?

#### The economy shows signs of economic acceleration

##### **B.Tuvshintugs, Director of the Academy for Economic Research, Consultant at the Bank of Mongolia**

-There aren't any theories about economic acceleration, but there are signs of it in Mongolia. In a period with high inflation, the prices for commodities rise, causing economic acceleration. Also, cash hand outs contributes to economic acceleration too.

Mongolia doesn't have any source production that can absorb the high rate of economic growth. When mining projects begin their operations, then the economy will grow. According to the International Monetary Fund (IMF), the economic growth of Mongolia will reach 30% within the next three years. The projects in Mongolia will definitely bring economic growth because they have big markets. Now we blindly believe that the economy will grow. Citizens will be employed, which means they will receive salaries. And those salaries will reduce poverty.

#### The economy is experiencing minimal acceleration

##### **O.Chuluunbat, Member of Parliament:**

-Economic acceleration is hyper activity, and rapid increase to the money supply. Inflation happens because money supply is one of its attributes. An economy with inflation over 10 percent is experiencing economic acceleration. But in a country with a small market like Mongolia, the impact will not be noticed significantly. Especially when the wares supply is dependent on imports, the economy will not drive strong acceleration. Some of the few products that bring money are coal, iron ore, and cashmere. The economy accelerates when the sources of work increases, labour efficiency is high and becomes industrialized, foreign trade solutions emerge, and a large deficit appears in the budget. The approval of a budget with a deficit will be one reason for acceleration. In general, it seems that our economy is on the way toward acceleration.

#### The economy is not accelerated, but has a deficits

##### **L.Oyun, Lecturer at the Mongolian State University:**

-Economic acceleration means the supply of products to the market are above the purchasing power of people. During such a period, sales get worse, the economy enters into crisis, and factories close. How many producers does our country have? What percent of products are made in Mongolia? In Mongolia's case, there is no reason for economic acceleration. Yet, our economy has a structural deficit. The high rate of inflation is a deficit. It doesn't mean that the economy is accelerated, nor product sales are weak.

#### Economic acceleration will grow worse

##### **B.Zagal, Vice director of Golomt Bank:**

-Acceleration can become a big issue in countries where economic growth has grown stagnant. Imagine economic acceleration is a vessel. If water pours down over it, then it means there is acceleration. The volume of water to such a vessel in Mongolia is growing large. Thus, it is right to compare the growing vessel with economic growth. If the current economy experiences this phenomenon, then next year it will turn into nothing. In other words, the current acceleration rate is not as bad as 2012 and 2013 will be. The Mongolian economy is experiencing a little bit acceleration. A developing country like Mongolia cannot compare its data from the past and present. It shall be linked with future development.

## World History

## To Rule the Earth...

By B.Enkhtsetseg

*No one person has ever achieved rulership over the whole planet. Which states have come closest to this measure? What follows is a table of the largest states and empires to have held sway over the earth at one time or another. They are organized based on "greatest extent" - that portion of their history in which they possessed the largest amount of territory at a given time; but note well, in many instances a larger number is given afterwards, reflecting regions held at other times. The figures are approximations for the most part - many of these states held only vague or ill-defined frontiers. As a comparison to the land surface that is available, note that the habitable portion of the globe (i.e. excluding Antarctica) extends over roughly 52,677,000 square miles (136,433,400 sq. km.): so, the largest of these entities reached about one quarter of the whole.*

### 1 The British Empire and Commonwealth



The "greatest extent" of the British Empire was achieved between 1917 and 1922. The figures for "grand total" include the eastern seaboard of the United States, as well as other miscel-

- **Greatest extent**  
14,157,000 sq. miles  
(36,666,630 sq. km.)

- **Grand total, all eras**  
15,370,228 sq. miles  
(39,808,890 sq. km.)

laneous regions held by Britain, and subsequently lost or discarded before the expansion within the 19th and early 20th centuries.

### 2 The Soviet Empire



The Communist states were never entirely under a single ruler, although Josef Stalin probably came closest 1948-53. The main division was between the Soviet Bloc, led by Russia, and the Eastern Bloc,

- **The entire Communist world**  
13,800,000 sq. miles  
(35,742,000 sq. km.)

- **The Soviet Bloc (incl. Cuba)**  
09,883,591 sq. miles  
(25,598,500 sq. km.)

led by China. The area given for the whole Communist world does not include later, semi-nonaligned states such as Angola, Tanzania, or Laos.

### 3 The Mongol Empire



- **12,800,000 sq. miles (33,152,000 sq. km.)**

The greatest extent of the Mongol hegemony was reached in roughly 1238-68. Some historical maps show the Mongol Empire in control of all of Siberia, but this is not so - a branch of the Mongols, The White Horde, did penetrate considerable portions of western Siberia, but no Mongol troops were sent into Yakut or Magadan, or anywhere near or above the Arctic Circle.

4

## The Spanish Colonial Empire

• 7,500,000 sq. miles  
(19,425,000 sq. km.)



At its largest reach, roughly 1740-1790 Spain controlled about half of South America, more than a third of North America, and had significant holdings in the Pacific basin. It is sometimes asked: "Should not this figure be much higher, inasmuch as the Spanish and Portuguese colonial holdings were under a single authority at one point?" The short answer is: no - the Spanish and Portuguese crowns were united 1580-1640; at that time, Portuguese holdings in Brazil covered only the coastline, and some interior districts in the south. The entire Amazon basin was terra incognita, not even explored, let alone settled. The same can be said of Portuguese holdings in southern Africa.

5

## The Russian Federation

• 6,592,000 sq. miles  
(17,073,280 sq. km.)



Russia is, of course, a subunit and the core of the Soviet Empire noted above. Even in its reduced state, it is still by far the largest single state on the planet.

## The Fascist Axis



• Japanese territory  
and conquests 2,864,000 sq. miles (7,417,760 sq. km.)

• German territory  
and conquests 1,505,000 sq. miles (3,898,000 sq. km.)

• Italian territory  
and conquests 1,451,066 sq. miles (3,732,341 sq. km.)

• Other Axis allies ,249,800 sq. miles (646,982 sq. km.)

**total 6,069,866 sq. miles (15,695,083 sq. km.)**

The Axis powers of the World War II era were never under a single ruler, they were a group of three major powers and a handful of minor ones. Some of the lesser states were, in fact, only nominally associated with the Axis, owing to the needs of defence against mutual foes (as in the case of Finland, which I do not include), or outright intimi-

ation, as in the case of Thailand (which I do). High tide of the Axis was during Aug.-Oct. 1942, when German troops were at the gates of Stalingrad, and less than 70 miles from Alexandria, Egypt; and Japanese troops had not yet been driven off Guadalcanal.

## 6 The Uighur Khaghanate



- **Greatest extent 3,000,000 sq. miles (7,770,000 sq. km.)**

A vast, territory in southern Siberia, Mongolia, Manchuria, eastern Kazakhstan, and parts of Xinjiang, the Uighurs (an early Turkic people) ruled this region after the disintegration of the Guk Turks (#30) in 630 CE. The era of their greatest influence was roughly 760 to 795 CE. The disintegrated themselves in the 850's.

## 7 Timur's Empire



- **Greatest extent 1,445,000 sq. miles (3,742,550 sq. km.)**

Timur the Lame was a tribal leader of Mongol extraction who set up a Middle Eastern empire centered around Transoxania and Iran in the period between 1380 and 1405.

## 8 The Golden Horde (Ulus Juchi)



- **Greatest extent (independent) 1,400,000 sq. miles (3,431,750 sq. km.)**
- **Greatest extent (as Mongol Imperial vassal) 1,565,000 sq. miles (3,431,750 sq. km.)**

This was the western Horde of the Mongols, which conquered most of Russia and the Ukraine, and penetrated central Europe. The two figures given reflect, first, the maximum size of the state after it had broken from the Imperial line but before it began to fragment, approximately 1300-1380; and second, the maximum size while it was still an arm of the Imperial Mongols, Feb.-Dec. 1241.

## 9 Chagatai Horde (Ulus Jagatay)



• 1,300,000 sq. miles (3,367,000 sq. km.)

Emerging as a particular sub-horde under the Mongols, in 1227. They remained within Mongol hegemony until unity shattered c. 1335. Afterward, the Chagatai briefly held most of Xinjiang, about half of Kazakhstan, Kyrgystan, and much of Uzbekistan, before fragmenting into Eastern and Western Hordes in 1348.

## 10 The Guk Turkiut



• 1,160,000 sq. miles  
(3,004,400 sq. km.)

These were an early Siberian Horde, successors to the Juan-Juan (#35). They were the direct ancestors of subsequent modern Turkic peoples, and ruled the southern Siberian and Mongolian Steppe in the late 5th, 6th, and early 7th centuries CE, before disintegrating into Eastern and Western Hordes, each later to be subsumed by neighbouring enemies. The Turks re-emerged as a major force with the Seljuqs (# 17, above) in the 11th century.

## 11 The Huns



• 1,100,000 sq. miles  
(02,849,000 sq. km.)

The Huns were the western horde of a numerous group of Central Asians - in China they were called the Hsiung-Nu, and an Indian group was called the Hunas. The Western Huns migrated across the Volga in the 4th century and into the Ukraine, thence into Europe. They were at their height under Attila the Scourge c. 450-455. They can only with difficulty be called an Empire - the frontiers were quite amorphous, there were Hunnic groups which were not under the hegemony of Attila, and the Huns can scarcely be said to have set up a working infrastructure. Still, for what it's worth, they did seize a wide stretch of territory across central Europe and the Balkans, and controlled the destinies of many tribes and nations for a time. ■

## News

## Passing on Experience



<http://www.mongolianeconomy.mn>

Infrastructure is essential to reaching the rich world, said Suresh Kumar, assistant secretary for trade promotion and director general of the U.S and Foreign Commercial Service, during his first visit to Mongolia.

“If the infrastructure of Mongolia is advanced enough, it will allow this country to deliver its production from the mining sector not only to China but also to the rest of the world”, he continued. “Peabody Energy has been quite interested in the TavanTolgoi project ever since its tender was declared to mining companies all around the world.

“We have good ideas for the project and advanced technology as well. That makes us a very potential bidder to win as long as there is fair competition during the process to choosing the right partners”.

Peabody has already started business in Mongolia. If chosen, In addition to the implementation of the project, it also plans to invest into the country’s infrastructure

Kumar is accompanied by a delegation of mining and energy specialists from General Electric, Rio Tinto, Philips Machine Service, Kress Corporation, Geonano Technology Corporation, and The Agency of Regional Economic Development. They will collaborate and exchange information; introduce new possibilities; and meet authorities from the private sector in addition to the Ministry of Mineral Resource and Energy, Ministry of Foreign Affairs and Trade and the government cabinet. It was no secret that everyone had their minds set on TavanTolgoi. By this time, several U.S companies had already expressed their interest in working as a supplier or operator to the project.

“We have a great opportunity to build a collaborative partnership between our two countries”, he said.

His stay was a sort of continuation of U.S Vice President Joseph Biden’s visit to Mongolia this past summer. However, it might be different in a way that leads to deeper talks with the government about the work we can do.

“Mongolia has come so close to the important time when it steps forward toward historical development. Development of the mining sector should stand well on good foundation. There is a great chance for us to become a major contributor to the country’s GDP [gross domestic product] growth.

“U.S investors think it showed trustworthy commitment when the Mongolian government decided to follow through with the investment agreement of OyuTolgoi. But Mongolians have to be well aware that their agreement must be definite, and clear on time and date, in addition to being publicly open to investors”.

They spoke proudly and said that there are many prestigious companies from other sectors such as health care, finance and insurance, and so on ready to cooperate. For instance, General Electric, which is working towards the proliferation of wind energy, expressed their interest in cooperating to improve agriculture and health in Mongolia. For a brief time, the United States is open to providing the necessary services and products Mongolia needs if it agrees to cooperate. Imports from United States totaled USD 40.000 in 2009 and USD 150.000 last year.

This year’s total will likely reach USD 300.000, not including the cost to rent a Boeing-767-300.

# THE NATIONAL FEATURES

## will be reflected in its buildings



Interview with **Mr. HUANG JIAN**,  
The architect of CSCEC that  
completed the design and  
architecture of "ICC",  
International Commercial Center  
of "Tsast Holding" LLC

**Your company had already become well known by its achievements on the national and international markets. Can you share with us your memories looking back on your way to reach this peak?**

Any business has to overcome the numerous obstacles and challenges devoting time, efforts of many people and using the efficient management. Here, the quality issues are the image of all factors. In addition, it is crucial to feel the time. The priorities for our company are the perfect design devoted to human demands and customers' satisfaction and these efforts could make the name CSCEC being remembered. The quality is always following the name CSCEC. Therefore, we have been remaining constantly among the international leading construction companies since 1984 to date and could become the well known company in the world.

**How do you assess the current trend of the world construction sector?**

- The criteria of being friendly to environment are becoming the priority for many sectors, for the new technologies and equipment during XXI century. Likewise these sectors, the construction sector is implementing the technologies, which fulfill all various requirements of human health, and the technologies without negative impacts on environment and working under the highly professional teams. Simultaneously with these conditions, the energy saving is being concerned more than before. Further, it is apparent that the ecological buildings and constructions will expand substantially and their designs will become more classical and notable.

**During recent years, the numerous buildings have been damaged and devastated by earthquakes and lives of many thousand people are being sacrificed. Following these conditions, the resistance of buildings to earthquakes is becoming the priority issue. How**

**does your company paying attention to these problems?**

- Our country has many active earthquake-active zones and many earthquakes are occurring. The special concerns must be paid to such problems and the most careful planning was carried out while we were preparing the architecture of buildings. The resistance standards of buildings to earthquakes have been updated, amended and improved several times. Therefore, the standard parameters of the strength are very high. Especially, the strict requirements are dedicated to the high buildings. We estimated the earthquake resistance of ICC equal to eight degrees and it is higher than the standards of your country by one degree. In addition, we paid the detailed attention to the security while we estimated the construction structures.

**The buildings and constructions with glass and mirrors are becoming the modern trend. How do you paying attention to the warranty of the tolerance and quality of such buildings to the weather changes?**

- Yes, the buildings with the glass and mirror filling are the image of this century. The local weather conditions shall be carefully considered in order to select the façade of glass building. The quality of glass façade shall be assessed by the several parameters below.

- First of all, the most suitable façade system shall be selected for the environment and weather conditions.

- Next, it is important to use the system that fully meet the security requirements. The high quality of every detail of the particular façade system is crucial.

- Further, the key issue is the selection of glass and its protection. The façade system of the tall glass buildings must be protected from lightning.

Furthermore, it is important to clean and wash during the particular periods and inspect the bases and connections in order to ensure the durability, appearance and security of the buildings.

**CSCEC produced the architectural design of ICC, International Commercial Center of Tsast Holding LLC.**

**What are the features of this architecture?**

- ICC is a fairly massive, voluminous building with the combination of the trade, services and office. Although this building will not occupy the extensive space its capacity of functions is really high. To perform the architecture and design of this building I devoted lot of time and the enormous efforts. The city planning of Ulaanbaatar has



21 storey commercial office ICC building, under construction in Ulaanbaatar

been quite destructed and these conditions affected this design. In addition, the poor possibility to make the distribution of roads and areas also affected. On the other hand, the selection of materials was restricted comparatively depending on the natural and weather conditions. However, even though we needed to make changes such as making down the floor and cutting from side etc this building could be harmonized with its environment and it is expressing own specific image.

**How were the meteorological conditions considered in the architecture of International Commercial Center?**

While we prepared the architecture of ICC the meteorological changes have been our first concern. All the weather changes such as the sunlight, wind, snow, rain are affecting the buildings and constructions. The snow and ice cover the buildings continuously depending on the long period of cold seasons. In addition, there were the issues of strong winds and we sufficiently considered these weather conditions.

The glass façade system has been selected depending on the extreme differences of the external and internal temperatures in order to accumulate sunlight during winter, keep the warmth equally and save energy.

**The construction sector of Mongolia is growing more intensively than before. Have you been thinking about the collaboration to implement the new projects and constructions?**

- Our two countries are being developed similarly. If there

would be the proposal for me to collaborate, I would be pleased to cooperate.

**What are your ideas and thoughts about the volume of the Mongolian market?**

- Mongolia has a vast territory, numerous livestock and the mineral resources. There are substantial opportunities to develop the tourism sector due its natural landmarks. In addition, your country has wide possibilities to attract the significant foreign investments due to your free, democratic economics. During such a period when the great future is being expected the key point of development shall be the urban development. Your country has the numerous possibilities of space and of time allowance. It is very clear that Ulaanbaatar city will develop rapidly and achieve the level of metropolitans. I think there are the sufficient spaces for construction sector following the development of society. Furthermore, I would like to add that there are the necessities to learn the technologies of other countries regarding urban planning and make the necessary changes in current city planning and land distribution. In addition, it is also important to reflect the history and culture of the country in the architectural solutions and designs.





### Renewable Energy

## Mongolia Has Tremendous Resources of Renewable Energy

*At the invitation of Newcom Corporation, Steve Sawyer, the secretary general of Global Wind Energy Council (GWEC) paid official visit to Mongolia for four days in October.*

**-Good afternoon. Can we start our conversation with your first impression of Mongolia?**

-I haven't seen over the city well because it has been only three days since I came here. But I like the sunny weather here so much because I just came from very cold weather. I found the Mongolian similar to Alaskan dialect which is so surprising. I got a chance to see the monument of Chinggis Khan on the way to the new wind power park of Newcom. Furthermore, I found the traffic in UB and road obstacles weird but I like it to be here.

**-What do you think of Mongolian development since upon your first visit?**

-The Mongolian economy is connected closely to the mining sector. It bringing

lots of foreign investment and economic growth. But using that wealth effectively is a major problem. Mineral resource are limited and could bring about the "Paradox of Plenty", which is followed by corruption, inequality and environmental degradation like what has happened in some African countries. Also many negative impacts can occur due to environmental pollution and ecological imbalances. But while I met the authorities of your country, they were aware of the situation and focused on a long term development plan. The most important thing is spending the income from mining effectively.

**-Development and investment to the mining sector is growing rapidly but renewable energy has just been added to the agenda. What is your opinion on this matter?**

-Yes, but I suppose private companies such as Newcom, are changing this situation. If Newcom completes its wind power plant project, it will be one of the major creations of Mongolia; and this ►

▶ project shall lead many other projects for renewable energy. Even though Mongolia has a rich resource of mineral, it will end someday. However, renewable energy sources, like wind or the sun, are limitless. So not only mining, but also renewable energy matters have to be considered for long-term development plans.

**-Could you give some information about the new trends for green development?**

-Basically, on this matter every country is on a different level. Germany and Denmark have followed green development the longest. Denmark had to follow this route due to the oil crisis of the 1970's, when economic and environmental sustainability was vital to them. Germany supported green development because of climate change. The Kyoto Protocol of the United Nations Framework Convention on Climate Change is one reason for countries to follow this path. The Kyoto protocol was initially adopted to focus on climate change and concentrates on economic development.

There are 5 principal arguments for the use of renewable energy instead of solid fuels. These are: 1. Climate change; 2. Environmental degradation—the massive use of solid fuels in China and India has created volumes of Carbon Dioxide in the air to become very high and harming to health and ecology; 3. Energy security—the economy will grow bigger if its dependency on solid fuel decreases. Dependence on materials harms economies; 4. Dependence on the macro economy; 5. And renewable energy.

Because of these principles, many developing countries, for example China, Germany, India and Brazil, are pursuing the path toward green development.

**-What do you think about air pollution? It is an urgent issues to Mongolia. What about its increasing dependence on coal fuel?**

-I think Mongolia has a big opportunity with its highly demanded mineral resources. This demand will not lessen in the following years, because the transition from solid fuel to renewable energy is slow in addition to its rich resource from the sun and wind, Mongolia has a big opportunity, but the technologically for connecting

energy with two neighbors is difficult. Urban planning matters are inevitable. For example, population growth in Ulaanbaatar will be a big issue. These concerns require the right investment in the right time.

**-What progress has been made for the development of wind energy?**

-Wind energy is developing faster than any other renewable energy sources. It is producing barely three percent total energy worldwide, however. Europe used to lead the development of wind energy, but today Asia, especially China, leads and recently Latin America is entered the field. Brazil and Mexico especially are being called the new fields for business in this sector. Brazil stepped onto the field eight years ago. For the last 2 years, its development has been rapid. By 2015 it will be possible to produce 10 thousand megawatt's power.

In Europe, 17 percent of total renewable energy is produced by wind power and it aims to increase that by 20 percent. With this support support, wind energy is on its way toward development. Basically there are two things that need to be highlighted regarding wind energy. First: North America used to be the leader in this field, but due to the governmental structure of the United States and Canada, some successful projects were dropped when authorities changed, which makes demonstrating long-term development plans complicated. Second, the disaster in Fukushima, Japan made the development of wind energy possible. Authorities are more interested in renewable energy instead of nuclear power. But this process will bring lots of debate.

**-While Japan supports renewable energy politically, Mongolia talks about using nuclear power. What do you think about this?**

-Nuclear power is the most dangerous and most expensive thing that mankind has ever made. I think if your country doesn't intend to use nuclear weapons, using nuclear power is not necessary.

**-The use of renewable energy is just beginning here. What would you suggest for the creation of a legal framework?**

-I haven't seen Mongolian laws,

but people I have met spoke about the law of renewable energy. In my own experience and that of other countries, the rights and duties of government and the private sector must be determined with detail. Entering the renewable energy sector is praiseworthy and will probably attract foreign investors, so principles for cooperation must be well set. Another issue is long-term planning. I've heard that Mongolia aims to increase its energy production by 20 percent by the year 2020, which is a good thing. However, the problem is how to implement this project. I think infrastructure issues have to be solved first.

**-What do you think about the wind plant Newcom is building?**

-All the preparatory work was done well. However I think there could be some logistic problems. They said they have considered all problems and determined their solutions. Wind fans and turbines are very big and difficult to freight. Transporting them by road is almost impossible, and the only way is by train. So how it will connect the train to the road to the plant is another issue. The plans and survey on wind reserves have been conducted well, so I believe this project will succeed.

**-What is the purpose of your visit, and what does your organization, the Global Wind Energy Council, do?**

-There are several indicators that can define our scope of work. The first is to advocate renewable energy, especially wind energy, worldwide. Second is to support regional development. In accordance with this duty, I met B. Byambasaikhan, director of Newcom, while participating in an international forum, which took place last June. He introduced the wind energy project to me and invited me to come see. However, the main purpose of my visit is to identify opportunities for renewable energy and to study resources. Also I will promote opportunities for Mongolia to rise to an international level. There will be a conference on wind energy held in Beijing, and our board members and other delegates will come. I'm planning to introduce this project to that conference, but I think the companies subsidiaries of Newcom have good information already. ■

## Fairy tale Mongolian turnip



“Discover Mongolia”

## A Game of Patience

By D.Munkhchimeg

The Mongolian economy is on the way to further development”, said Prime Minister S.Batbold. “It’s not only us saying this, but outside world admits it too”.

Until recently the state budget was almost insolvent and unable to even pay wages and pensions. Yet today the state budget is counted not by billions but by trillions. Mongolia used to request loans from whoever would even look in its direction, but now Mongolians talk about building capital playing on the market with Tavan-Tolgoi stock. Mongolia has outgrown its status as a “poor-income-country” and is now known to the world for its mineral resource.

Mongolian officials can now go abroad with pride when they meet with foreign authorities. They can even invite big fishes back to Mongolia. A few years ago, they would not dare invite the vice president of the United States or the Chancellor of Germany.

The Mongolian economy is expected to expand 20 percent this year

and 25.6 percent in the next, adding MNT 18 trillion to its gross domestic product (GDP). The Mongolian reserve of foreign currencies, which was almost insolvent three years ago, has grown to USD 2.6 billion. Who would say Mongolia has not grown rich?

Even though the world’s view of Mongolia has changed, our attitude has not changed in the slightest. Lately some politicians have started to interfere with the Oyu-Tolgoi investment agreement. Since then nine MPs have staged a drama calling for the resignation of Prime Minister S.Batbold and to dissolve the government. If the expression “eating too much makes a stomachache” is true, would not a sudden expansion of the economy and all that cash result in crisis?

### It’s not our fault

As the mining sector expands in Mongolia, its opposition grows too. Social movements have criticized

miners and their firms for destroying the environment and not contributing to society. Rather than make a difference, they make public appearances and spout slogans, they say. The upcoming election is obviously stirring up politicians, but they only pass the blame to an undeveloped legal framework to encourage restoration activities. The first to blame is the government for attracting investors and signing the Oyu Tolgoi contract. Next are the investors who send minerals abroad. Now they have their targets. So it is time to make a move!

The Law to Prohibit Mineral Exploration and Mining Operations at Rivers, Protected Water reservoirs and Forests (the so-called “long name law”), adopted 2 years ago was the first attack. The government is now revoking the special licenses they awarded to companies for exploration and excavation. Through the long name law, the government has canceled 254 special licenses permitting miners to mine for gold ▶

▶ of the over 1,700 licenses due for cancellation. In reality, however, the government has not yet enforced the law. Some officials have estimated that it would need to spend MNT 2 trillion for reparations to the license holders; while others estimate MNT 500 billion is needed. The Mongolian government cannot repay this much money, so it is unclear whether the law will ever be enforced.

Some say the highest law over the mineral sector, the Minerals law of Mongolia, needs amendment. However, it's been a year and half since the government halted the issuance of special licenses for exploration until they can better understand what exactly it needs for the change. Last summer the government announced the investors it selected for the Tavan Tolgoi coal project, which included 15 companies from around the world. But they changed their decision soon after and acted as if nothing happened. Of course investors would not take this kind of decision making from the government and its authorities calmly.

Did Mongolians not think through the consequences of attracting foreign investment to Tavan Tolgoi and Oyu Tolgoi? Mongolia is playing a game of cat and mouse with foreign investors. Who benefits from this?

### Playing with Fire

"As Rio Tinto, the world's second largest mining company, enters, Mongolia attracts other investors without spending money on advertisements" said S. Bayartsogt, minister of finance. "This is the indirect benefit of the Oyu Tolgoi project".

Indeed, the Oyu Tolgoi's investment agreement delivered the idea to investors with deep pockets that "Mongolia is a place for running a business". The fact that Rio Tinto believes in Mongolia and cooperates with the government for the privilege to use its mine with 70 years of resources elevates Mongolia higher in the minds of investors. This is Mongolia's first signed contract with a world heavyweight player. This year 2.3 billion was spent towards the development of the Oyu-Tolgoi mine before the mine was 50 percent complete. Recently, however, the

government suggested changes to the agreement.

"Lots of money is spent on this project", said Edward T. Story, chairman of the North American Mongolian Business Conference (NAMBC). "So investors take the news about changing the contract with fear, including me. The situation in Mongolia is unclear. It might lead investors to run away".

"An agreement is not going to change in a year or two, or even 20 years. It must be in effect for the lifetime of the mine" said Bernard Guarnera, president of Behre Dolbear. "If the Mongolian government intended to amend the Oyu Tolgoi's investment agreement, investment to mining in Mongolia would disappear".

In the first half of this year, FDI to Mongolia multiplied 2.9 times to reach USD 1.8 billion. Of that sum, 80 percent was for the mining sector. The mining sector makes up 30 percent of Mongolia's GDP and 90 percent of its exports. Meanwhile, the law overseeing this sector is unstable. So what would happen if the Oyu Tolgoi project failed because of politics?

"They would sue us before the international court", said Bayartsogt. "So what happens next? Investors would lose their USD 5 billion and make a joke out of us on the international field. Our dignity would fall to the floor. The result is a loss of billions of U.S. dollars we could have gotten".

### The Beginning of the End...

Many countries have used their minerals effectively, while many more have failed. Take Hugo Chavez for example and how he destroyed Venezuela's economy with his decision to eject investors and distribute the profits from oil to the public. Cuba, Bolivia, Zimbabwe and Iran all have similar stories. Officials from these countries always follow the same path. They just hand out cash to the public to gain fame, but when the economy worsens, they blame investors and international organizations again, and send them away. If things get worse, they start behaving like a dictator. This is how populism goes; easy and simple. Mongolia has followed this path since 2007.

In order to fulfill their promises from

2004, politicians initiated the 68 percent windfall profit tax in 2007. All of the funds earned from that tax were placed under the Children's Fund, but 2 years later when the government faced a huge deficit, economic recession, and fluctuations in exchange rates, they could not even offer any of the money from the Children's Fund any longer. As a result, 2 commercial banks and many industries went under, while Mongolians went unemployed.

It is difficult to say whether Mongolia could have developed like it has today if Parliament did not repeal that tax, sign the Oyu Tolgoi investment agreement, and receive an easy-term loan from the International Monetary Fund (IMF). Perhaps Mongolia has found a cure to the "Dutch disease".

There are many countries, such as United States, Australia, Canada, and Chile, who successfully reached sustainable development using their minerals.

"They all have something in common", said Bernard Guarnera. "They truly have a free economic system, a free political system, and stable taxes and regulations. That gives investors the comfort and the confidence they feel they need to put more money into the country"

Unfortunately Mongolia has none of those aspects.

After discussing amendments to the Oyu Tolgoi investment agreement, the Mongolian government made a joint statement with Rio Tinto and Ivanhoe Mines that everything is going fine.

"This statement shows our authorities are half-headed," pointed out columnist D. Jargalsaikhan in an article. "This situation makes Mongolian and its government a laughing stock to the world".

The president of Mongolia once said, "Nowadays, Mongolia is always being seen by world". It is true. Everybody is eager to see if this country can either develop like Australia or fail like Venezuela. Testing the patience of investors until they reach their limit is growing tougher as election grow closer. So when will they run out of patience? If it ever reaches that point, the "boosted development" to Mongolian may leave Mongolia exactly where it started. ■



Ch. Otgochuluu's Column

## Questionable Benefits from the Mining Sector

A lot of people have said that Mongolia is at a crossroad. The first road seems to lead toward wealth for Mongolian citizens, a democratic government, a powerful economy, good governance, and a protected wild environment. The other road points to poverty, intellectual enslavement, corrupt government, and devastated nature. The latter seems to be the road Mongolia is heading. However, it is Mongolia's leaders rather than the road that matters most. Although Mongolia has a unified government, there are signs that its economy and market are splitting into two separate independent spheres. Those divisions range from the formal and informal, urban and rural, as well as the mining and non-mining sectors.

Although it seems that the economy is growing, in reality even the small and medium entrepreneurs' registration cannot be performed. The government cannot measure or monitor what is their contribution to the economy or how much damage they are inflicting upon the environment.

Disparity between urban and rural society is growing. While the populations at frontier locations are growing scarcer, the living conditions in Ulaanbaatar are worsening due to overcrowding in the city. Although the government is supposedly conducting egalitarian policies, in reality it seems as though inequality is on the rise in educational and health services.

It is becoming apparent that our economy is being divided between the mining and non-mining sector. Mining companies are exporting the majority of their products while importing the majority of their equipment, material resources, as well as human resources. However, non-mining sectors (trade, services,

agriculture, animal husbandry, and so on), which have the capacity to create large numbers of jobs, are conducting their operations under the tremendous pressures of rising inflation and fluctuating exchange rates. They are also faced with the difficulty of either raising salaries or risking the loss of capable personnel to the mining sector. These sectors can barely subsist under the shadow of the mining sector.

Pro-mining publicity is on the rise, arguing that the mining sector will alleviate all obstacles related to poverty and job creation. It also promises to elevate the standards of living for Mongolians to a level comparable to that of citizens of countries in the Mid-East, where citizens can live well without doing much work. Mongolia's political leaders succumbing to election fever are utilizing their experience in politics to promote such a misconception as well.

However, what is the true situation? Irresponsibility and disorder are taking hold of the mining sector. The incompetence of government can be seen simply from how it has handled the issuance of licensing. The government has issued many thousands of licenses for exploration and excavation throughout country, but the government has concentrated complete authority under itself. It has become unable to monitor operations at all sites with mining activities, but continues to expand its authority over all parts of the country because it does not trust its citizens and the local provincial governments.

Due to the government's inability to manage the huge inflow of money from the mining sector, people are being put under greater pressures from inflation.

The foreign trade deficit has reached USD 1 billion. Mongolians are buying more and more from abroad. Because the Southern and Gobi provinces trade only with foreign countries, Mongolia will very soon lose control of this region.

Wealthy mining companies larger than the government and able to outspend its budget are entering into politics as well. A country with an annual budget of USD 2 billion cannot compete with firms able to raise USD 25 billion on the foreign market.

In addition, there is a rising trend in the amount of foreign investments directed towards the establishment of medium-level companies that do not conform to the environmental and occupational safety standards on a regular basis. Meanwhile, national companies are starting to lose their status as medium-level companies. On the other hand, the mining sector, which employs a large concentration of Mongolians, is inhabited by "ninja" artisan miners.

All of this leads to a picture of three completely different worlds within the mining sector. There are powerful foreign investors, followed by medium-level investors, and finally small-scale mining entrepreneurs (the Mongolian "ninjas").

During this year of globalization, Mongolian business entities and companies can grow and acquire the capacity to compete internationally. However, the reality is quite the opposite. Foreigners are forcefully entering and driving Mongolians into the second and third world. They can do this because they have the money, knowledge, and access.

It can plainly be seen that the world industry is starting to grow thirsty for raw materials. Certainly, ▶▶

▶ the growth of the world population will create an increase in demand for coal and copper. Supply cannot surpass demand. By correctly assessing the external environment, it is possible for Mongolian miners today to grow into large investors rather than work as ninjas. In other words, if we can direct the wealth of mining from a totally different angle, then Mongolia can become one of the world's largest players. Otherwise, if Mongolia focuses only on its internal structure, it could fall victims to the resource

curse.

The most important thing is to determine what are the benefits of growth to the mining sector for ordinary citizens and society at large? Today we should not just sit still, waiting for benefits to come to us. Instead, we should establish the appropriate conditions.

The main tools to rid Mongolia of its mining dependency are diversification to the economy, good governance, and offering new opportunities for citizens to participate in governance.

Establishing citizen halls at the provincial and local level and creating community-run associations are the healthiest, most appropriate, and most effective measures to monitor the mining sector and contribute towards the development of responsible mining. In addition, it is important to learn from the experiences of large foreign mining companies, and improve governance and management structures in order to open the door to the world market for other sectors as well. ■

## Heavy Industry

# Iron Ore leaves Dust in Its Country Of Birth And Continues to Flow Out to The Southern Neighbour

...Let us start the era of industrialization and reap the fruits in the future. How long should we sell our wealth under the soil in raw form and shy away from our good fortune. Mongolia has been transporting its mineral wealth to any of the places that asked for it for the turn of the century. However, now let us build a national metallurgical plant that is of utmost benefit to us. Let us look after our nature, cover the smoke hole and bring a light. Mongolia has enough raw materials to turn the wealth into a value-added wealth.

### The reasons to demand the metallurgical plant

It has been more than three years since "Altain Khuder" company has been extracting iron ore from the "Tayannuur" mineral deposit situated at the Tseel soum of Gobi-Altai aimag and exporting it to the People's Republic of China. On a daily basis about thirty 80 tonne capacity "Nord Benz" model trucks roam around the Altai's Inner Gobi part and the Burgastai border point making the Gobi soil "weep". Even though the local people are agitated saying, "Our land is being destroyed..." their voices disperse into the mountains. However, the iron ore leaves dust in its country of birth and continues to flow out to the South. The extracting of the iron

ore by the "Altain Khuder" company through the dry concentration method is reminiscent of the "Stone Age". In other words, the iron ore extracted from the mineral deposit is crushed to a half size, then grinded to make it the size

and its beneficiary content increases by 15-20 percent. Generally, at the global level the iron content ranging to 65-68 percent is considered to constitute the iron ore concentrate.

The wet processing recovery method



of the rice, which then are separated through dry concentration method or with the aid of the magnetic equipment. After the dry concentration method the value of the iron ore, which stood at 30 percent of iron content prior to processing, increases to 40-51 percent,

of iron ore includes the washing and separation, while floating concentration constitutes another of its techniques. It means that now our iron ore extracting companies utilize only dry concentration method. Actually, the utilization of wet processing recovery method makes ▶

► sure that there is no loss of iron ore. It has an advantage for increasing the economic efficiency, and improving the mining processing conditions. Koreans build ships with iron and steel, while Japanese produce steel wire cables. Therefore, it is certain that the iron market has a future in Asia. In terms of iron production it is not too early to talk about the second and third markets in addition to the Chinese market. Even though it seems that it is too early for Mongolia to start building ships and steel wire cables there are opportunities for us to make final products.

Deputy Director of the Mining Project and Research Center at the University of Science and Technology Mr. M.Davaa pointed out that the future socio-economic benefits of the iron industry are tremendous.

Is the responsible mining being developed in Mongolia? Where did the talks on the industrialization reach and "became illusionary". Even though the Government included in its 4 years' action plan the establishment of the metallurgical complex it did not surpass the words. Then where can we find the long-term goals and vision for the construction of the metallurgical plant? Mongolia continues to supply to China, our Southern neighbor, coal, spar, iron ore as if our country constitutes the "center of raw materials". The transportation continues for days and nights. Why are we reconciling with the "destiny" of being the extractors rather than the producers?

Let us leave aside the issue of extracting 25 million tonnes of coal per annum. Why should we "make up our face" when the US "PeaBody Energy", Japanese "Mitsui &Co" companies consortium, and the Republic of Korea's "Kores" Group have arrived following the "Oàvan Tolgoi" mining deposit. However, let us find ways to put into economic exploitation our long lost ferrous metal deposits and build a metallurgical plant. Currently in the iron ore sector more than six thousand people are employed, and there is an estimate that with the building of the processing plant and production of final products the number of jobs would increase in the minimum by three times. For instance, the Darkhan Metallurgical Plant alone has around 700 employees. 300 people are employed at the "Oumurtei" ore mining deposit, while more than 1,000 people work at the "Bold Tumur Eruu Gol".

Currently, the main hardship faced by the construction sector seems to be the iron. It is not a rare occurrence for the increase in the amount of cargo turnover at Zamin-Uud creating a traffic jam during spring and autumn seasons. At such a time how will the iron demand be resolved with the implementation of the programme of "100 thousand household housing"? A key out of this situation is the processing of the iron ore ourselves and the production of final products. The annual domestic demand for iron products in Mongolia constitutes more than 300 thousand tonnes; however, more than 80 percent of these are imported from China. There is a Mongolian saying that states, "Look into Your own chest rather than asking the neighbours". Even though it is stated that we have opened our mineral resource reserves when will we open the reserves of iron sector?

Experts explain that the steel plant capacity requirement for Mongolia ranges from five hundred thousand to one million tonnes. There are more than 10 specialists on black metallurgy in Mongolia, the majority of whom conduct their own businesses, while some work at the Darkhan Metallurgical Plant. In other words, after building the metallurgical plant there will be first of all a shortage of experts and consultants of this industry.

### Illusionary policy

The major reconstruction works will start with building the "New Railway", and continue with "100 thousand household housing" programme and "Sainshand industrial complex". The relevant officials at the Ministry of Mineral Resources and Energy state that there is a market tendency for the increase in the demand of iron whether we want it or not and the rapid growth in the imports of iron from China. Ministry of Roads, Transportation, Construction and Urban Development also agree with this prognosis. Since the profits generated from the production of value-added products would in return feed back the state budget the Ministry of Finance should not hold back the capital towards the development of the metallurgical plant. It can be heard that once the reconstruction programmes start to be translated on the ground the demand for the iron will reach one million tonnes, and the demand for the

construction reinforcing would grow by 70 percent.

Should we trade our mineral deposits to purchase iron? Or should we continue to transport the iron ore in raw form? Mr. M.Dagva pointed out that in order to get out of this situation we have an opportunity to re-process the iron ore domestically, produce the final product and energetically move forward our reconstruction works with that. Currently, the representatives of the iron industry in Mongolia are Darkhan Metallurgical Plant and Chinese investment "Dul Tushig" company. Thinking about the Darkhan Metallurgical Plant makes us "proud" that, at least, we have one such plant. However, despite the fact that this plant, which constitutes the object of our pride, has the capacity to produce more than 40 types of cast iron products for 100 tonnes of building its equipment, techniques and technologies are not up to the standards of the current century. Even though it was built with the Japanese technology the issue of plant's equipment renovation has been forgotten for a long time. If one carefully studies the national factory with a "boastful name" it merely melts the iron waste, and produces building reinforcing, and 4-5 types of products. In other words, steel smelting technique is far from the Darkhan Metallurgical Plant. However, for a country that boasts in its 80 types of mineral resources in the world there is an urgent need for the plant that does not merely conduct melting processes of the iron waste and moulds it into a particular shape but rather the one that produces the final products such as iron and steel.

President of the Mongolian Exporters' Association Mr. D.Galsandorj points out, "It can be stated that the Government lacks a medium and long-term policies on the development of the metallurgical plant. The iron ore is being exported in the raw form. Therefore, the export duty of the raw iron ore should be increased by 30, 40 percent. On the other hand, there should be preferential taxation on the exports of semi and fully processed products". He further states, "Re-prospecting of iron ore mineral deposits should be done so that there could be made a final assessment of the iron ore reserves".

The experts of the financial sector state the need for the assessment of the iron ore reserves of Mongolia according ►►

to “JORC or 43101” international standard for the assessment of mineral resources. In such a case it would aid in attracting investments to this sector as well as the production of the technical and economic specifications. Or otherwise we would be provided with an opportunity to invite best technologies, new management and investors to Mongolia.

No major reconstruction works in the infrastructure sector including the railway, housing, bridge, and pipe lines are possible without utilizing iron and steel. In short, the era of iron has arrived. The representatives of the iron industry agree on the need to build a metallurgical plant that conducts all the processing stages starting from the initial phases down to the production of the final product.

### Is Mongolia rich in iron ore?

How many tonnes of iron ore reserves does Mongolia have? Without the establishment of the accurate assessment there could be variety of differing numbers ranging from small to large. On the other hand, our Southern neighbour China leads the countries in the world in its iron ore reserve. Despite this it continues to import iron ore from Mongolia. According to the official data this country holds the reserves amounting to 1,940 iron ore mineral deposits. Out of these 99 deposits are considered to be the large mining deposits, where the reserves of iron ore amount to more than 100 million tonnes. The amount of the reserves of approximately 500 medium level deposits fluctuate between 10-100 million tonnes of iron ore. In other words, the total amount of the iron ore reserves of China amount to 9.6 percent of the global proven reserves.

Then what is the amount of the iron ore reserve in Mongolia? Head of the Department of Mining and Heavy Industry Policy at the Ministry of Mineral Resources and Energy Mr. B. Batkhoo says, “The estimate of our iron ore reserves comes close to two billion. Currently, the amount of the proven reserves amount to more than 600 million tonnes. Out of these 450 million tonnes are concentrated in the region of Darkhan and Selenge aimags. On the other hand, a small amount of iron ore deposits were discovered in Gobi-Altai and Dornod aimags”. Last year the

majority of iron ore were exported by “Bold Tumor Eruu Gol”, “Altain Khuder” and Darkhan Metallurgical Plant. Currently, out of 30 companies that obtained their licenses for exploration of iron ore 15 companies have been fully utilizing their mining fields and conducting their mining operations.

The scientists of the Academy of Science explained the need to conduct explorations, concentration processing, production of cast steel, cast iron, steel and ferro-alloy in order to develop the iron and steel industry. In addition, they stated the need to establish the metallurgical and energy complexes that require domestic industry technologies such as the production of coking coal, fire-resistant material, extraction and processing of magnesite and limestone.

Last year Mongolia exported three million 584 thousand tonnes of iron ore, where one tonne of iron ore was exported for the price of USD 80. The representatives of the ore extractors state, “Through utilization of the dry concentration method we separate the extracted ore from the dust and sand, and clean it up to increase its iron content up to 30-40 percent”. Some mining deposits do not even utilize flawlessly the dry concentration technology. However, it is notable that several companies are planning to establish industrial units for the wet processing recovery method of iron ore. Recently, “Khukh Gan” company has been implementing a project for the concentration of iron ore and the production of the separated iron. It seems that even though they produce the separated iron due to the fact that the iron content is quite small it comes close to reaching the international standard.

### Large proposals for the construction of the metallurgical plant are continuing to come...

Darkhan Metallurgical Plant in 2008 added MNT 8.2 billion to the state budget, and operated with the net profit worth MNT 5.3 billion. While the price of the copper fell during the world economic crisis the iron ore successfully fulfilled its obligations. Only last year there were produced 30 thousand tonnes of semi products, and 21 thousand tons of cast iron. There are Tumortei, Tumor Tolgoi and Bayangol deposits at the regions of Darkhan and Selenge aimags. Apart from these three main deposits, where

the mining operations have started, five companies are conducting their operations on around ten prospecting fields.

Tumor Tolgoi mining deposit was put into economic exploitation two years ago, while the Tumortei strategic deposit will be put into operation from this year. From next year the soil removing operations will start at the Khust-Uul mining deposit. Korean “Fosko”, Japanese “Gobi Steel” and Chinese ÎNC Corporation have sent their proposals to build a metallurgical plant in this area. Chinese and Indians have exchanged their opinions for the construction of the metallurgical plant that employs traditional cast iron production method and separated iron production technology respectively with the Ministry of Mineral Resources and Energy of Mongolia. The relevant officials at the Ministry refused the proposal on the construction of the metallurgical plant that employs cast iron production method as it requires a lot of initial investments and is environmentally hazardous. On the other hand, they set their eyes on the proposal for the separated iron extracting technology as it is generally considered to be the “third generation of steel”. Such plants exist in Japan and the USA.

Mining officer of Darkhan Metallurgical Plant Mr. Î.Bolor-Erdene says, “Darkhan and Selenge aimags’ regions have coal mining deposits such as Sharin Gol, Tsogtin Gol, and Ulaan-Ovoo, which are appropriate for the building of the metallurgical plant that employs the separated iron extracting technology. Therefore, it is beneficial to build such a metallurgical plant in the regions of Darkhan and Selenge aimags”. He further stated that the Darkhan Metallurgical Plant utilizes two iron ore mining deposits, where the primary processing occurs, and the products are exported. Next year it will open a one million tonne capacity plant that uses wet processing recovery method. The cost of building such a plant amounts to six billion tugrugs. It is very good to learn that the Darkhan Metallurgical Plant is going to renew their equipments. If we have the money, capital, state policy and efforts of the specialists then the iron ore processing plant will be easily established. Therefore, let us put into economic exploitation our long lost iron industry. The opportunity is open to us. ■



Photo by E.Zorigt

Made in Mongolia

## A Perfect Design

By Kh.Khulan

**M**ongolians are known as a “felt nation”. They have a long history of making felt out of the wool from their livestock and have applied traditional methods of turning this white gold into household items. Felt making is a tradition that has been developing for thousands of years as an essential part of nomadic culture. In this issue *Made in Mongolia* introduces the art work of felt artist D.Maira

D.Maira’s grandmother was well-known for her embroidered handicraft in Altantsugts Soum, Bayan-Ulgii Aimag. Her granddaughter, who used to spend her summer holiday with her grandparents watching granny stitching embroidered rugs decorated with multi-coloured patterns, probably never imagined that she would one day become a felt artist herself.

Maira founded her art studio Felt Mongolia in 2008 and decided to develop her felt art as a freelance artist in 2010. Her wish is to promote mod-

ern-designed, high-quality Mongolian felt products on the global stage and sell her goods. Upon entering her studio, one can see a large volume of sorted, fluffy wool atop the wooden shelves in the workroom. She plans to convert the little room in the corner into her shop. The Felt Mongolia art studio is located on the way to the city checkpoint No. 22 on the west side of Ulaanbaatar, just behind the Monos medical institute. Shoppers may purchase products or create their own felt masterpieces at a felt-making workshop. Placed in the corner room are ready-made products such as felt slippers, rubber-soled shoes, and fancy nuno felt scarves and casually-designed felt scarves.

Her fine wool felt products are thick, and the slippers and shoes of there can be washed in the washing machine. Maira’s latest designs are doubled-soled shoes. Most of one’s body weight is concentrated at the heel of the foot where slipper usually

wears out. Therefore she decided to put a second layer there. People like consuming popular brand products because of their good quality. Many people would definitely love to dress in premium quality felt garments that suit their uses. A pair of handmade stylish felt slippers with rubber sole costs MNT 37,000; children’s shoes are MNT 18,000; and the unique nuno felt scarf is about MNT 64,000. Thin wool layers and mulberry silk can create marvelous textures for the nuno felt scarves.

She produces her products based on their usage and design surveys. Maira mentioned that a well thought out design contributes to 80 percent of a successful product, while the remaining 20 percent is pure production process.

When asked how she comes up with new ideas for her products, she replied, “Ideas can be found everywhere. Recently I watched the film *Avatar* with my children, and came up with an idea to make a scarf with big round patterns. Another example is when I tried to recreate the shape of sea-buckthorn with wool”.

The first green leaves in spring, white snow, soft rain, and other natural phenomena are inspiration to a designer who uses her emotions to create her work. Several years ago Maira ▶▶

- ▶ saw Indian moccasins and thought she should create comfortable and warm slippers, leading her to produce her “Khalzan” slippers in 2003. This product was involved in the list of the “Best Products of North-Eastern Asia” by UNESCO in 2010.

Maira started her first work as a felt trainer in 2001 for the project, Wool Processing and Marketing, sponsored by the Norwegian Lutheran Mission until its end in 2007. The project was implemented in Ulaanbaatar and Darkhan. Its main impact was the founding of the cooperative union “Nooson Zangilaa” and the opening of the wool shop Tsagaan Alt (Mongolian for white gold). The Wool Processing and Marketing Project has been held for almost ten years and has contributed to the sale of felt products. It also helps to promote of Mongolia and the development process to felt art. One of its merits that must mentioned is the project’s successful resurrection of embroidered felt art to fashion. The coarse wool of the sheep is considered to be the best material for making a ger (the traditional dwelling of the Mongols) and carpets, while the fine and semi-fine variety is suitable for all types of felt garments and other various items.

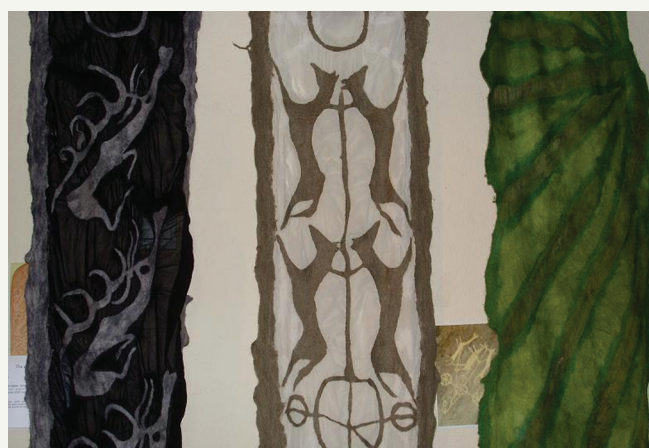
“In the beginning of the project, the fine and semi-fine sheep wool was used for handicraft”, said D.Khishgee, who has worked for many years at the WPMP as a manager and has seen a decline in the number of fine wool products left in Mongolia. “It was widely available at that time. But now it might have become so less because many people use it for handicraft activities. For the future, policies for the improvement of sheep with fine wool breeding is necessary. Wool can sometimes be scarce, but this could be solved blending wool with other materials, or by applying innovative technology. If cooperatives want to maintain their resources themselves, then they could even breed their own cattle”.

Maira has sketched over 300 felt and woolen design; from slippers, to rugs, bags, and hats throughout her time working for the project. She received 20 patents for products and two technological innovations from the Office of Intellectual Property. In order to export her products, an official patent is necessary. The first technological innovation is a technique used to dye wool efficiently. The second is a process for printing on felt. For the first Discover Mongolia conference, the event facilitators ordered felt bags from the producers of the Norwegian project. One of the individuals responsible for those felt bags for investors was Maira.

On the back of the bag, the bag makers had to place the logos of the companies who participated at Discover Mongolia, so they attempted something that had never been tried before: they printed logos on the felt. This story is the beginnings of a new technology, and since then this method has been widely used.

Her slippers “Khalzan” and “Helena”, and baby boots “Uyanga” and “Emma” are the main sample products for the public. The original names of the felt slippers are “Haliuna” (Helena), “Tsagaadai” (Emma), but these were changed because of a big order from the Norwegian company XinCon that requested names more familiar to Europeans.

Maira organized her first exhibition, “Felt Inspiration” last



July at the Fine Arts Museum of Zanabazar in Ulaanbaatar. She created unique felt art works inspired by museum exhibits such as the deer stones, rock paintings, and the elements of water and fire. She sells her art products not only within Mongolia, but also can deliver products through her website.

What separates handmade goods from mass produced good is their value, time, labour, the heart and soul put into them, and their perfect design solutions. ■

## Investment

## What's Left for Mongolia?

Mongolia is able to finance the Oyu Tolgoi project for only 2 weeks even if the Central Bank and 14 commercial banks operating in Mongolia combine all of their funds together. So the only way to finance projects such as Oyu Tolgoi and Tavan Tolgoi is through foreign investment. In addition to investment, if the government can generate income through the sale of government bonds, it could come out ahead.

During the 14th Investors Conference of North America-Mongolia Business Council (NAMBC) Conference held in October to discuss how a nation can spend the profits from mining most efficiently. Furthermore, when government is handing out MNT 21,000 in the name of the Human Development Fund, issues such as which sector needs investment and what will be left for Mongolia after it has exhausted its minerals have also been highlighted. Most delegates agreed investing into real creations rather than hand outs is a better option and named in demand for investment. Suggestions included upgrading health services, establishing an industrial park, supporting education, and solving logistical matters. Also, during the forum MCS introduced its world-class hospital and industrial park in Sainshand. But these projects still lack the funding they need.

Everybody expressed their worries about the poor development of the Mongolian Stock Exchange (MSE).

"Nothing is going in the right direction in MSE. It is not transparent, human resource development is weak, it's technologically outdated, and the bartering process is too complicated", said MSE President Bill Gorman. However, he went on to explain he is confident that the MSE and London Stock Exchange (LSE) can work together to improve upon it and create a joint network through cooperation. Edward T. Story, chairman of the NAMBC:

The most distinguishing feature of this year's conference was that discussions focused not only on investment needs but also on sustainability. After concluding a contract after investment is received, all sides must respect the terms of the contract. Mining itself requires a large amount of investment and lots of time. You don't need to rush. For example, if you start a mining business, it takes up to 10 years just to [open] it. All sides in this business have to be very careful about making a contract and working toward progress. As soon as you start to use it, capital flow pours in. So for Mongolia, learning to use it efficiently is the most important thing. It is essential to invest into public health, education and infrastructure, which are very important. I'm glad that important issues like these were discussed.

"Knowledge about Mongolia was very limited to the world 14 years ago. Therefore we used to focus on spreading knowledge about Mongolia and its investment opportunities at conferences like this. But nowadays the agenda has changed" said Ts. Tumentsogt, president coordinator to Mongolia of General Electric International.

During the conference, due to distress caused by the amendment to the Oyu Tolgoi contract, delegates also discussed what bad news was obviously for investors.

## Life

## Light Amidst Darkness

*Although life in Mongolia seems to be developing in the right direction for most, a blind man can see clearly the inadequacies of its development.*

## E.Zorigt

His life is within darkness. There is no light and no shadow. He has never seen himself in a mirror. This man who has locked away the slightest memory of life at 7 years old has no colour in his life. But there is a sparkle...

Aggressive drivers speed by on city roads, grumbling about something and honk loudly. They wouldn't pay any attention to a man who cannot see the world. For M.Tsengel, a blind man, this is the most dangerous moment.

"I don't like to call some drivers "drivers" because they cannot drive a car the way it's meant to be driven. Plus they are without consciences", he said. "My crutch, the main guide to my life, gets broken several times a year because of them. Some of the mean ones even yell at me, accusing me of doing it on purpose for money".

Tsengel reaches the bus stop after crossing a highway relying on his luck and his ears. After a bus braked to stop, he asked where the bus will go, but nobody answers. He is looking for a bus heading towards the Airport-Pedagogical Institute. Although he cannot imagine the faces of the waiting passengers in the darkness, it is a sunny day for the rest of us. If a conductor yelled while standing at a bus stop to give a bus directions, it might seem rude to most people. But for the blind, this is an important service.

Each day Tsengel takes two buses to work, a branch of the D.Nagsagdorj library for the blind called "Daisy". First, he checks his Yahoo mail and visits his Facebook. He has received a great deal of mail from local and foreign friends. Some business mail from some international organizations is also there. It takes some time to read all of them and reply. He works just like a normal person with eyesight. There is no problem working on a normal computer with a special monitor and voice reader for the blinds installed. But to work on such a computer, one needs a lot of practice. »



► Tsengel wanted to major in IT since he was a little child. Even though he had lost his eyesight at 7, he never stopped dreaming and worked very hard toward his dream. There were times he had second thoughts, mourned the loss of his eyesight, and even felt anxious. He never gave up on his goal, however. In Mongolia, books for the blind are very rare, especially in IT. So he decided to learn more English and surf the Internet to achieve his goal. Tsengel has been learning English since 2000. The Mongolian-American joint organization Santis language center helped him learn the international language. They did not have any special training methods for him, but the teachers recognized him as a good student.

"I believe that God helped me. I met with Director Ts.Orgilmaa in 2002 when I was thinking about learning English" said Tsengel. "When I heard the director of the Santis center was there, I almost tackled her to tell her I wanted to learn English and asked for her help. Luckily, she agreed and she even allowed me to study for free. I am really grateful to her for allowing me study at her language center to bring light to my life"

"He never misses a class", said Orgilmaa. "When there is harsh cold weather, he comes to lessons, even

after falling down several times. Meanwhile, there are many lazy students who could have the world, but don't struggle to learn".

Now he can surf the Internet and get any of the information he wants. That has allowed him to achieve his goals. He is the first computer teacher for the blind. With support from the international organization ADRA Mongolia he has created a collection of audio books for blind children next to the 116th School. He has participated in many trainings for IT in various countries with support from the Mongolian National Federation for the Blind. In 2008, when he was in Thailand participating in a lecture, he learnt about the Daisy book and its technology. This audio book allows blind people to feel as if they are reading a normal book, featuring easy ways to select chapters and pages. Because of a lack of funds, he could not introduce these audio books to this library that he heard about in 2008 until 2010. However, he heard about a library project announced internationally by a library-support fund from Slovakia in January 2010 on the Internet. He wrote a proposal with some of his friends. He said he couldn't sleep until the decision was announced, but eventually the project was accepted and today he manages it.

The fund awarded him with 40 pieces of equipments to read books along with the programmes they need. So far, 25 of them have been distributed to libraries for the blind in provinces and other institutions for the blind. Another 15 are at his Daisy library, but he said it is not enough. He worries that blind students cannot learn properly and keep up with their peers, so he continues looking for organizations and individuals to help him. Neither does he hide his disappointment with the development of his country nor people's behavior.

"There are no roads and crossroads for the disabled, especially for the blind", Tsengel said. "In most foreign countries the road lights have features announcing when traffic has stopped and lower curbs on the roads. On TV news I always hear about the development of my country, but for people like us that development cannot be felt. People don't have good communication skills, especially in public places. People don't even ask what we need when I and my wife go to a grocery store. Both of us are disabled".

Today Tsengel is an IT expert, the developer of a Daisy library, a speaker of English, and a good husband and father.

"I understand life is a time to create", he said. "Yet I'm disabled. I try not to ask for help. Instead I try to help others."

At age 30, Tsengel has a lot to learn and much more to do. He met his wife T. Munkhtuul at the Center for the Rehabilitation for the Blind. Compared to her husband, she can vaguely see. They have a beautiful daughter attending second class. Even though he cannot see her, he is happy that his daughter can see. They wish to have four children while raising their daughter to become a good person. It is admirable that he sees the world with his inner illuminating light. He is a man achieving his dream through sheer will. ■



## NewsWire Highlights:

**NewsWire is a weekly news feed sponsored by the Business Council of Mongolia. Each week, NewsWire delivers breaking and significant news from local and international news sources for a Mongolian and foreign audience alike. The following are news highlights from October.**

### TT LARGE-SCALE PRODUCTION TO OPEN 1 DECEMBER

Production overseen by the two contract miners hired by Erdenes MGL will begin 1 December. Last August Erdenes contracted both MacMahon Holdings and BBM Opera Group to develop the East Tsankhi site of the Tavan Tolgoi coal project.

“We have all the all the necessary rights to start production on 1 December,” said Wolfgang Peters, chairman of Germany’s BBM Opera Group. Peters, who was in Mongolia as part of a delegation accompanying German Chancellor Angela Merkel said output from the block is expected to reach three million tons in 2012 and eventually rise to 15 million tons a year.

Mongolia plans to list the East Tsankhi site, covering about 40 percent of the total area of the estimated 7.5 billion ton Tavan Tolgoi deposit, in a multibillion dollar international initial public offering (IPO) scheduled for the first half of next year. However, political developments could still further delay the project. Parliament must approve a politically contentious agreement for the West Tsankhi site. Complaints from excluded bidders of nations such as Japan and Korea drove Parliament to cancel its agreement from last July. Now it must reevaluate who the investors should be and how interest will be divided.

The government would like to have a deal settled for both the eastern and western blocks of Tavan Tolgoi as soon as possible to fulfill its 2008 electorate promises. However, a growing number of voices have called for a delay to the project until next year’s parliamentary elections because political pandering to populist notions could harm decision-making.

*Source: Reuters*

### ULAANBAATAR HAS WORLD’S WORST AIR POLLUTION, SAYS WHO

The World Health Organization (WHO) ranked Ulaanbaatar number one on its list of the world’s most dangerous places to breathe. The WHO monitored nearly 1,100 cities in 91 countries between 2003 and 2010, with the majority of values for the years 2008 and 2009.

The list ranked 17 cities with the highest annual mean concentration of fine particulate matters- particles smaller than 2.5 microns. Some cities, however, do not collect information or report on its outdoor air quality and so some cities with terrible pollution are perhaps absent from this list.

“Cities that collect and disseminate information on outdoor air quality need to be praised for their action, which is the first crucial step to identify if there is an outdoor air pollution problem and to begin to take corrective action”, said the WHO.

Particle pollution contains microscopic solids or liquid drop-

lets that are so small they can get deep into the lungs and cause serious health problems. Numerous scientific studies have linked particle pollution exposure to issues such as aggravated asthma, chronic bronchitis, irregular heartbeat, and premature death in people with heart or lung disease. Although people with heart or lung disease, children, and older adults are most affected by particle pollution, a healthy person may experience temporary symptoms from exposure to elevated levels of pollution.

Data indicates that the air in Ulaanbaatar carries an annual concentration of 63 particulates smaller than 2.5 microns. Ulaanbaatar was joined by Antananarivo, Madagascar; Kuwait City, Kuwait; Mexicali, Mexico; and Accra, Ghana as the top five on the list.

*Source: Forbes*

### MONGOLIA ABANDONS NUCLEAR WASTE SCHEME

The government officially declined to participate in a program to store and dispose nuclear waste from Japan and the United States. Apparently opposition from the public made the program impossible to implement for the Mongolian government.

Negotiations on a Mongolian nuclear project began when U.S. Deputy Secretary of Energy Daniel B.Poneman visited Mongolia in September 2010. Japanese, U.S., and Mongolian officials held their first round of talks regarding the project in Washington in February this year. Eventually the United Arab Emirates also joined talks. Last May the Japanese newspaper Mainichi Daily News reported on the talks between government officials, however the Mongolia government has officially denied ever participating in those discussions. The report sparked large protest from Mongolian citizens and a string of reports in the media.

After months of protest, President Ts.Elbegdorj issued a presidential order banning the cabinet from negotiating nuclear energy issues with the foreign governments, and discharged government officials such as A.Undraa who attended talks. Meanwhile, the Japanese government communicated to the U.S. Department of Energy that negotiations were not going well in light of the Fukushima nuclear crisis in Japan.

Reports from the International Atomic Energy Agency (IAEA) indicate the existence of large deposits of uranium in Mongolia, estimated at 1.4 million metric tons. As Mongolia began to explore its options to exploit these resources, it began to explore the idea of introducing a “lease” program. The program would have allowed governments to procure uranium from Mongolia and later return the spent material to Mongolia.

*Source: Business Mongolia*

### REAL ESTATE IN UB EXPERIENCES 55 PERCENT GROWTH

High capital growth in Ulaanbaatar has demonstrated trend towards urban living over the suburbs. Indications of this growth ▶▶

initially appeared last winter when the normally stagnant market continued at above average levels.

The most growth witnessed is at the 40K State Department Store area with nearly 55 percent capital growth on average in the last six months. Rentals have remained consistent at an average between 8 percent and 12 percent.

The prices of these apartment shot up to an average 68 percent from last year and 50 percent for monthly rent.

Growth in the financial sector has been a major driving factor to the increase in property value in addition to “natural growth” stemming from both the emerging Mongolian middle-class and those seeking to relocate to the city from the suburbs. Increased traffic conditions and the convenience of living within walking distance to the city center also draw people to the city center.

The 40k apartments are some of the best constructed building found in Ulaanbaatar featuring thick walls, high ceilings, and large windows. Expats also enjoy the close proximity to restaurants, bars, and shops while Mongolians prefer the comfort, convenience and safety there. However poor maintenance and plumbing issues raise their own challenges. They also lack heated garages, fire exits, and lifts.

Rumours have persisted that the 40k apartments may be demolished for better housing, but laws and current market prices make that that has become nearly impossible. Landlords have opted to renovate their areas to add value to their properties.

The increase in value has been spreading to the rest of the city center. The high cost for homes at these older buildings has resulted in a greater expense in newer ones and it is likely the 50K apartments near the Ulaanbaatar Department Store and behind the Bayangol Hotel will see a similar growth in value.

*Source: M.A.D. Investment Solutions*

## **MONGOLIA CLIMBS TO “MIDDLE-INCOME” COUNTRY PER WORLD BANK AND IMF**

Mongolia has been officially declared a “middle-income” country by the World Bank and International Monetary Fund (IMF).

Mongolia’s upward movement from a low-income to middle-income is a result of its rapid development and economic growth. Much of this wealth and improvement comes from the mining sector, industrialization, and strong annual gross domestic product (GDP).

The economic growth increased 20 percent this year, and could grow as high as 26 percent next year. According to experts, not many countries have managed to reach 20 percent growth. Better still, Mongolia may be able to consistently maintain double digit growth over the course of the decade. Inflation, however, is hot on the heels of all this growth and is also expected to stand in the double digits. The World Bank and IMF both suggested that the government toughen its current monetary policy.

*Source: Montsame*

## **INVESTORS QUESTION POLITICAL STABILITY IN MONGOLIA**

Rio Tinto and Ivanhoe Mines have had to suffer increasing political pressure regarding their Oyu Tolgoi project. A contro-

versy seems to be an effect of the turbulence within Mongolia’s mining sector as the 2012 elections approach. The government announced its interest in raising its stake in Oyu Tolgoi to 50 percent ahead of schedule. The news brought discontent to Mongolia’s mining sector just when the global economic crisis was beginning to affect mining firms. Rio has warned that the demand for commodities may fall and a drop in production in its biggest copper mine in Chile.

Although Mongolia has managed to come out unscathed by economic perils thus far, investors are fearful about how a change in the political environment may impact resource projects. “An unstable environment, where changes to agreements are forced, leads to investors being very apprehensive and uncertain,” said Cameron McRae, Rio’s country director and the head of operations at Oyu Tolgoi. “Therefore the stability of this investment agreement sends a very important signal from Mongolia to the world.”

Discussions over the Oyu Tolgoi copper and gold project only touched on the stake, said D. Zorigt, mining minister. A change in politics could mostly seriously impact the Tavan Tolgoi coal project as well. The government is selling the rights to half of the deposit to foreign investors, while the other half will be under the control of the state-owned firm Erdenes Tavan Tolgoi. It is possible that firm will list on markets in London, Hong Kong, and Ulaanbaatar by March next year. Both Oyu Tolgoi and Tavan Tolgoi are enormous deposits of copper and coal respectively. The development of these mines has already brought enormous economic growth to Mongolia.

*Source: Financial Times*

## **MONGOLIA SORE ABOUT KHURTS ARREST**

The release of a Mongolian official extradited to Germany on kidnapping charges has created tensions between Mongolia and the Britain. B. Khurts was reportedly on official business to discuss bilateral cooperation with British officials when British authorities sent him to Germany for his arrest in August. Germany last week withdrew charges against B. Khurts who had been imprisoned at Wandsworth prison. The release came two weeks before German Chancellor Angela Merkel’s official visit to Mongolia, but Germany insists her visit had no influence on its decision. German diplomats in Ulaanbaatar insist his release was based on decision by German courts.

Khurts’ trial was planned for 24 October. Khurts was charged with the kidnapping of D. Enkhbat, who was under suspicion for the assassination of S. Zorig. Enkhbat’s children, who are German citizens, blamed Khurts for the death of their father. They claim their father’s death was a result of the harsh treatment he received in Mongolian prison and the violence against him from special agents led by Khurts. The visit of Khurts was arranged by former Ambassador to Ulaanbaatar William Dickson and Mongolian officials. However, the Foreign Office later insisted that it offered no formal invitation and Khurts had traveled without any diplomatic status. The Mongolian government fought against the extradition in London’s High Court and accused British officials of entrapment. The controversy has created a rift between Mongolia and Britain. The government described Khurts’ arrest as a “grave discourtesy” and officials warned that British business would be frozen out of lucrative contracts.

*Source: The Independent* ■

## Health

# What is Stress?

Modern life, the pressures of society, and traffic jams are creating stress every step of the way. In some ways stress is not a bad thing and to a certain extent it could even become the impetus for achievement. However, constant stress has a physical price on health. If you notice you are constantly worrying, unstable, anxious, and agitated it is time to relax and bring your life back into balance. You can protect yourself by learning to recognize the signs and symptoms of stress, and taking steps to reduce its harmful effects.

## What kind of chemical reactions occur in the human body during stress?

Stress is a normal physical response to any type of external influences. When you perceive a threat—real or imagined—your nervous system responds by releasing a flood of stress hormones, such as adrenaline and cortisol. These hormones rouse the body for emergency action. Your heart pounds faster, muscles tighten, blood pressure rises, breath quickens, and senses sharpen. These physical changes increase strength and stamina, quicken reaction time, and enhance focus—preparing the fight or flight response. The stress response is the body's way of protecting itself. When working properly, it helps one stay focused, energetic and alert. In emergency situations, stress can maintain your life force and offer extra strength for defense. For example, if you lose control of your car, your response is to slam on the brakes to avoid an accident.

Stress response helps you rise up to meet day-to-day challenges. Stress is what keeps you on your toes during a presentation at work, or drives a student to study for state exams when they would rather be watching TV. However, beyond a certain point, stress stops being helpful and starts causing major damage to your health, mood, productivity, relationships, and quality of life. Therefore, it is important to learn how to recognize when your stress levels are out of control. Unfortunately, it is quite common for stress levels to overload before you notice, bringing you to the point when you shout, "I am stressed"!

## Signs and symptoms of stress:

At the cognitive level, the symptoms of stress include memory problems, the inability to concentrate, poor judgment, focus on the negative aspects of a situation, and constant worrying. Emotional symptoms include a sense of loneliness and isolation, feelings of being overwhelmed, and depression or general unhappiness. Physical symptoms include diarrhea, nausea, aches and pains, chest pain, rapid heartbeat, loss of sex drive, eating more or less, sleeping too much or too little, frequent colds, and sweating. Behavioral symptoms include isolating oneself from others, and using alcohol or cigarettes to relax.

Keep in mind that the signs and symptoms of stress can also be caused by other psychological and medical problems. If you experience any of the warning signs of stress, it is important to see a doctor for a full evaluation to determine whether or not your symptoms are stress-related. Just how much stress is varies from person to person. Some people tolerate stress situations for long periods of time, while others crumble at the slightest frustration. Your ability to tolerate stress depends on many factors, including the quality of your relationships, general outlook on life, your emotional intelligence, and genetics. People who do not easily succumb to stressful situations have an optimistic outlook on life. They tend to embrace challenges and accept it as part of their lives.

Psychologist Connie Lillas uses a driving analogy to describe the three most common ways people respond when they are overwhelmed by stress.

**Foot on the gas** – An angry or agitated stress response. These subjects were over-heated, overly emotional, and unable to sit still.

**Foot on the brake** – A withdrawn or depressed stress response. These subjects shut down, spaced out, and showed very little energy or emotion.

**Foot on both pedals** – A tense and frozen stress response. These subject looked paralyzed, but under the surface were extremely agitated.

## Causes of stress or stressors:

It is a misconception to think that all stressors have a negative effect. However, even the happy moments in our lives can be stressors. For instance, going to university for the first time, meeting someone new, getting married and having children, buying an apartment or a car with a loan, and starting a new business or joining a partnership can all induce stress. Not all stress is caused by external factors either.

Common external causes of stress include being too busy, relationship difficulties, developments in one's personal life, and major life changes.

Common internal causes of stress include lack of assertiveness, unrealistic expectations, perfectionism, and pessimism.

The body does not distinguish between physical and psychological threats, and when you are stressed over a busy schedule, an argument with a friend, a traffic jam, or a mountain of bills, your body reacts just as strongly as if you were facing a life-or-death situation. If you have a lot of responsibilities and worries, your emergency stress may be turned on most of the time.

Long-term exposure to stress can lead to serious health problems. For example, it can raise blood pressure, suppress the immune system, increase the risk of heart attack and stroke, speed up the aging process, contribute to obesity, result in the loss of weight, create digestive problems, initiate sleeping problems, and create skin conditions.

## How to prevent stress:

1. Learn how to manage stress - You may feel like the stress in your life is out of control, but you can always control the way you respond to stress. You could reduce your workload, deal with issues as they arise, make changes to your environment, or change your outlook on life.

2. Learn how to relax - You cannot completely eliminate stress from your life, but you can control how much it affects you. Relaxation techniques such as yoga, meditation, sports, creating a relaxing atmosphere, reminiscing on wonderful memories, and spending quality time with family could all help you to withstand against stress and control yourself during stressful situations.

3. Learn quick stress relief mechanisms - Everyone has the internal power to reduce and halt the impact of stress. With practice, it could give you the confidence to face challenges and help to bring yourself back in balance.

Supportive family members - friends and the environment around you constitute an enormous buffer against life's stressors. The ability to control life situations, and persevere through challenges could help you from reaching high levels of stress. Knowing how to control your feelings of sadness, anger and fear as well as the internal and external causes of stress could aid you against stressful conditions. In conclusion, it is much easier to prevent stress than dealing with it when it has become chronic. This is the only way to protect yourself and the people you love. ■

## Business Break

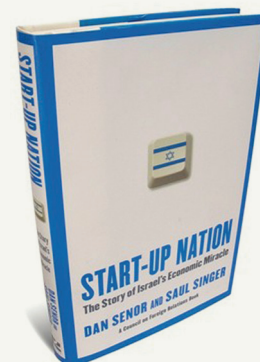
## What Are You Reading?

### S.Oyun, Member of Parliament:

-At the moment I am reading the book Start-Up Nation: The Story of Israel's Economic Miracle by Dan Senor and Saul Singer. Israel is a country of 7.1 million people, only 60 years old, in a constant state of war since its founding, and has no natural resources—but it produces more start-up companies than large, peaceful nations like Canada, Japan, China, India, and the United Kingdom. Following the examples of the country's foremost inventors and investors, geopolitical experts describe

how Israel's culture fosters innovation and entrepreneurship. The authors interviewed over 100 people to write this book, among them are leading Israeli investors, historians, U.S. military leaders, and Israeli heads of State. Together, the author and his subjects outlined the conclusion: "while Israel has much to learn from the world, the world has much to learn from Israel".

Start-up nation reached the business bestseller lists of The New York Times and The Wall Street Journal.

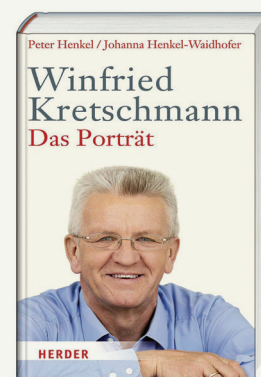


### Dieter Salomon, Mayor of Freiburg im Breisgau:

-I can recommend to you to read the biography of Winfried Kretschmann. He is the Minister-President of Baden-Wuerttemberg and became the first ever representative of the Green Party to hold this post in Germany since May 2011. Peter Henkel and Johann Henkel-Waidhofer, authors of the book Winfried Kretschmann - The Portrait are experienced in regional politics. I like this book because I have known Winfried Kretschmann for many years and appreciate him as an honest, straight-lined, sincere and very modest person. Exactly this fact

makes him so credible to the public. Winfried Kretschmann has been a member of the state parliament, the Landtag and is the founder of the German Green party. We have not only been colleagues at the Landtag, but stayed good friends as well. I wish him all the best and a happy hand.

I strongly recommend this book to all people who are interested in learning the reasons for the success of the Green party in Baden-Wuerttemberg, and the development of the green politics since it started 30 years ago until today.



### N.Batbayar, Director of Department for Environment, Tourism, Geology and Mining Inspection at General Agency for Specialized Inspection:

-I have read the book Technical and Economical Analysis of the Mining Industry recently. The mining industry is a science that has been developing for many years. Mining means taking a big risk. Therefore, prior to the purchase of a mine, one should be aware of the environmental damage they may cause during their operation and make decisions after carefully calculating profits and the cost of rehabilitation. In other

words, a comprehensive analysis is required to find out how profitable your investment is in reality. Otherwise it will only increase the number of abandoned mines without any rehabilitation. I recommend this book to holders of mining licenses.

The book Technical and Economical Analysis of the Mining Industry by J.Byamba-Yu and S.Tsedendorj was published in Ulaanbaatar in 2009.

