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MONGOLIAN ECONOMY

The Erdenet Model

One Goal for Them All

Mongolia's Economy and Business Magazine

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A HOPE FOR COMPETITION



Шог зургийг А.Амарсайхан

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The Erdenet Model



He was appointed as head of mining research at the Mineral Resources Authority of Mongolia in 2009, and as Erdenet Mining's director general in April this year.

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The Peace Capital

Geneva is home to the United Nations and many non-governmental organisations such as the Red Cross, the World Trade Organization (WTO) and the World Economic Forum.

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One Goal for Them All

Countries with enormous mineral resources are confronted with many challenging issues to resolve. On one side there is the chance to develop their economies and societies using their natural wealth...

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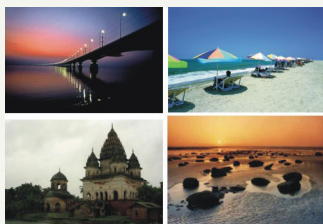
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MONGOLIA



As of April this year, Mongolia's foreign trade balance deficit extended past USD 528 million, according to the National Statistical Office. This amount was USD 269 million more than last year, or 33.7 percent. Also, total production decreased by 12.2 percent, with imports falling by 16.3 percent and exports by 5.5 percent.

The Ministry of Culture, Sport and Tourism



carried out a study on the number of foreign visitors who arrived in Mongolia last year compared with 2011. In 2012, when there was more than 620,000 visitors in total, 475,000 were tourists. That was an increase of 18,403 tourists from 2011, with tourism growing 4 percent.

The World Bank recently released its semi-annual economic review, where it reduced its growth projection to 13 percent growth. The budget deficit is highly likely to reach seven percent this year, according to the report. This exceeds the limits set by the Fiscal Stability Law that the deficit should not exceed 2 percent of gross domestic product (GDP). The deficit was 4.8 percent and 8.4 percent in 2011 and 2012, respectively.

The Ministry of Energy and German Interna-

tional Cooperation (GIZ) signed a memorandum of understanding for phase three of the the Energy Efficiency Project. This project aims to balance



the generation and consumption of electricity.

In 2012, Mongolia's balance of payments recorded a surplus of some USD 4.93 million, a 1.7-time increase compared with 2011. The added profit is mainly attributed to an increase in net domestic investments of as much as thirty times. Meanwhile, foreign investment decreased 4.6 percent, falling to USD 4.4 million, of which 67 percent is market investment and 33 percent is investment into equity

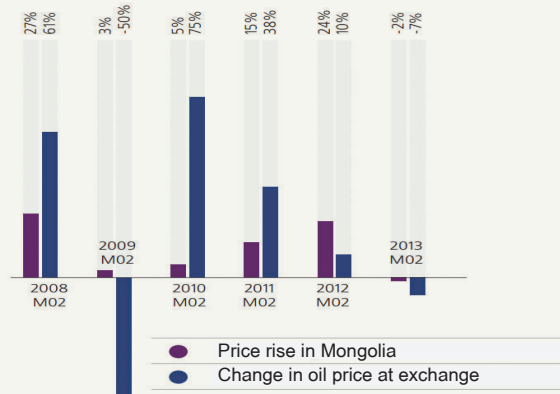
funds.

The consumer price index showed the inflation rate had increased by 1.1 percent in April from March, 4.8 percent from the beginning of this year, and 10.4 percent from a year ago, reported the National Statistical Office. The growth in Inflation has been attributed to a 2.7 percent increase in the prices of food products, beverages and water as well as a 6 percent increase in the price of meat products.



The Ministry of Mining and the Petroleum Authority concluded a treaty with Inner Mongolia, China for the purchase of a new standard of petroleum. The sale of the so-called Mongolia 93 gas is set to begin May 16. The import of 10,000 tonnes of AI-92 petroleum is expected at a price that is USD 100 to USD 150 cheaper than the current market price. This year Mongolia plans to export more than 700,000 tonnes of crude oil to China and more than one million tonnes next year.

In 2012, Mongolia imported USD 1.394 billion petroleum, or one-fifth of total imports. The 10 percent price increase this year is expected to inflict USD 134 million in total damages. Graph 1 shows that 10 percent fluctuations in petroleum prices are common, but some believe there are large inherent risks, such as a sudden increase in costs for aviation, mining and transportation, where petroleum is heavily consumed.



Source. Mandal insurance

WORLD

US retail sales rose unexpectedly in April, after falling back in the previous month. The US Commerce Department said retail sales crept up 0.1 percent during the month, after a 0.5 percent fall in March, which had been the largest in nine months. And excluding petrol station sales, retail spending rose by some 0.7 percent, suggesting consumers were increasing their spending. Consumer spending accounts for two-thirds of US economic activity.

Industrial production recorded a smaller-than-expected rise in April. Output rose 9.3 percent from a year ago, which was up from March's figure of 8.9 percent but below market forecasts for a 9.5 percent rise. Fixed-asset investment also weakened in the first four months of 2013. According to government statistics, in the first quarter of this year, the largest part of the economy was services—not manufacturing.



The ban on Russian government officials possessing foreign assets

has come into force after President Vladimir Putin signed these restrictions into law. Officials can now be dismissed for holding overseas accounts and



other financial instruments. Top state officials at different levels can be punished if they, their spouses or underage children hold any sort of financial asset abroad.

Starbucks Coffee is on track to open its 1,000th store in Japan this summer, Chief Executive Howard Schultz said. Japan was Starbucks' first international market outside of North America. Since the opening of its first store in Ginza, Tokyo, back in August 1996, Starbucks has forged a deep emotional connection with the local community and customers across 46 prefectures in Japan.

Gross domestic product in the 17-nation economy fell 0.1 percent in the first three months of 2013, a sixth straight quarterly decline, according to the median of 39 economists' forecasts in a Bloomberg

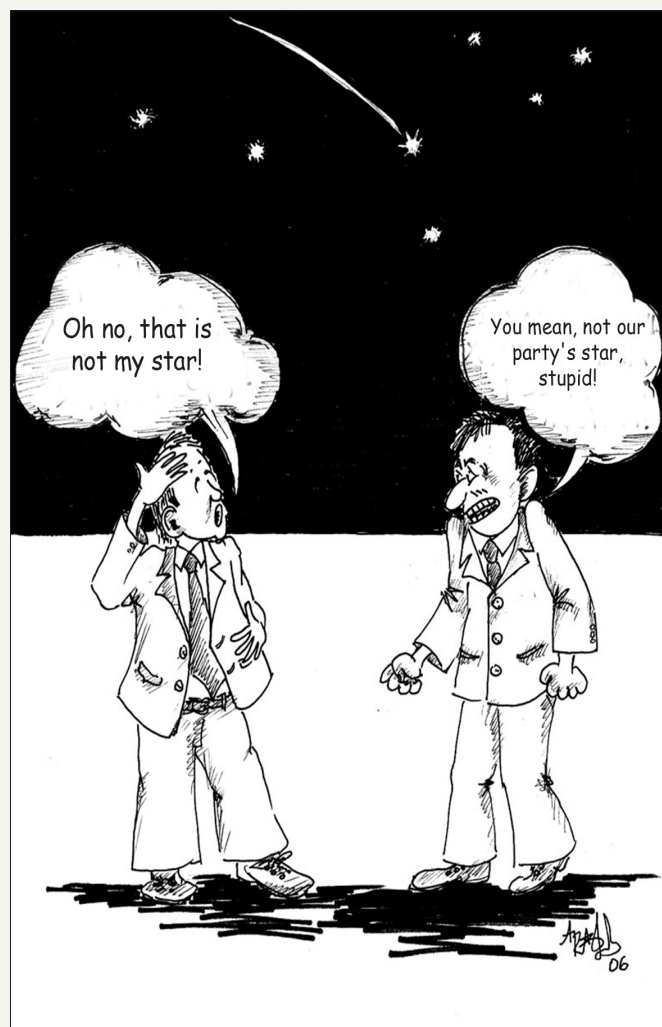
News survey. That would exceed the 15-month contraction in 2008 and 2009 during the financial crisis, and is the longest streak since the euro's founding.

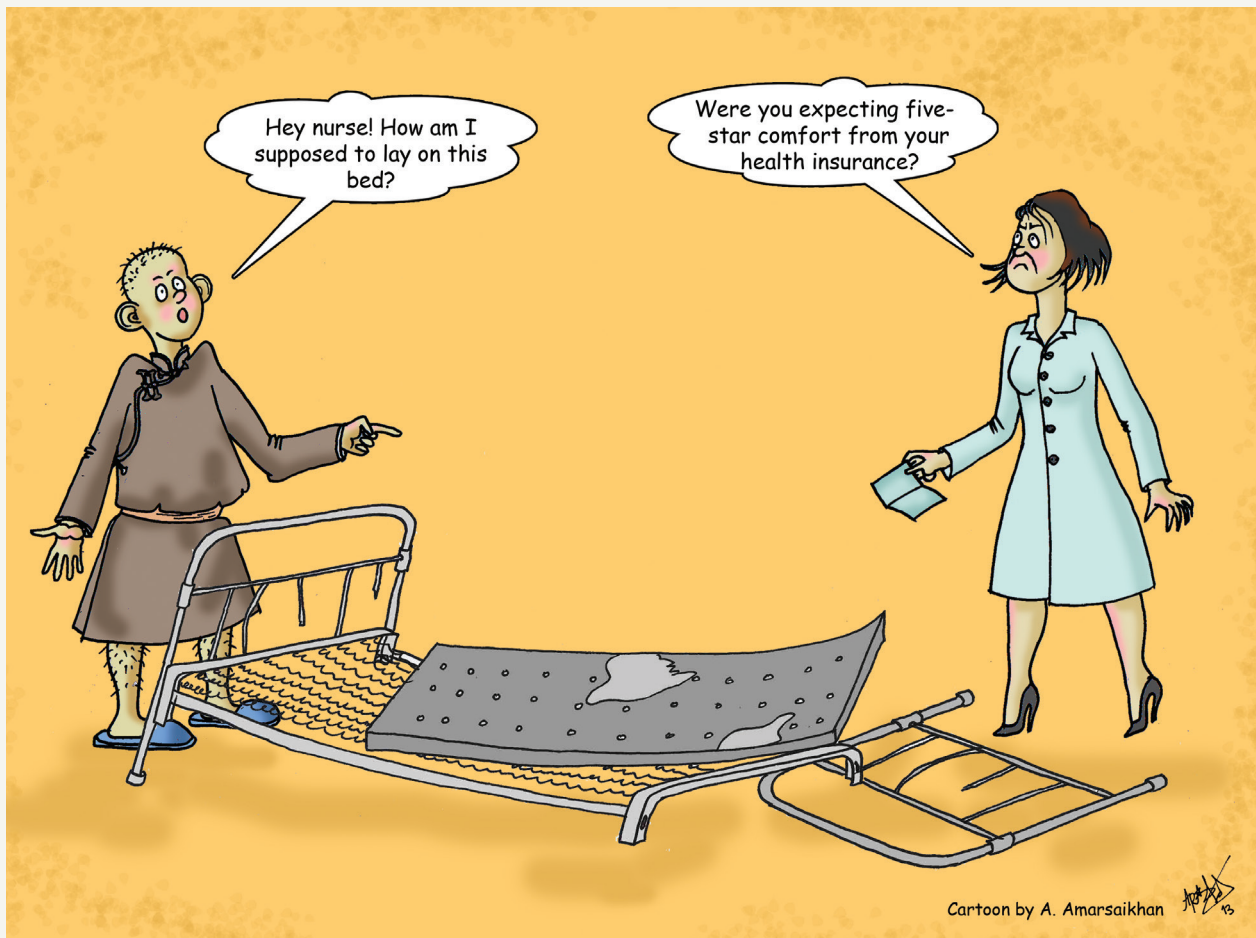
South Korea's central bank cut its key interest rate by a quarter of a percentage point to two-and-a-half percent this month – the first rate cut in seven months. Following



its monthly monetary policy meeting on Thursday the Bank of Korea slashed the borrowing cost, saying it's taking action in line with the government's drive to stimulate the economy.

A. AMARSAIKHAN'S COLUMN





LAW

A HOPE FOR COMPETITION

“Health, the reward of wisdom.” -
Pierre Jean de Beranger

B. MART

In Mongolia, some remnants of Communist-era policies and structures still exist among state ministries and agencies, and the health sector has been the slowest to develop. Its insurance system—including the Health Insurance Department—urgently needs to be pulled out of its present mess.

Many feel that the Health Insurance Department has been acting as a tax

collector even though its first priority should be providing high-quality services for its clients. For the department, tax collection takes precedence over health. When the insured visit doctors, they do not receive discounts for the monthly insurance tax they pay, and this is a clear example of the inadequacy of Mongolia’s health insurance scheme. Unfortunately, as the department is

an umbrella organisation, citizens have no other options.

“We lack mobility in the legal world”, argued Ts. Gantsetseg, director of the Health Insurance Department at the State Social Insurance General Office (SSIGO).

Proposed amendments for the Law on Civil Health Insurance have been drafted that set out to improve the system and are being prepared for discussion at the State Great Khural this month.

The Law took effect on January 1, 1994, but more recently two separate working groups, headed by parliamentarians Sainkhuu Ganbaatar and Sodmonzundui Erdene, have set out to improve upon the healthcare system. Both proposed amendments have the same goals but with different methods. Drafters are now attempting to merge the two for submittal to The State Great Khural. The main point of contention in each proposal, however, is the appointment and jurisdiction of the Health Insurance Department’s National Council.

“The National Council’s nine members should be appointed by the State Great Khural, and their duties and responsibilities also should be monitored by the State Great Khural”, said Ganbaatar. “It would be better for Mongolia to found an organisation that monitors all hospitals, does not belong to any political parties, and spends all funds according to the law. To create and manage a system which puts client, supplier and monitoring of the Ministry of Health in the same pocket would be a disaster”.

But Erdene, who is also the minister of human development and social welfare, has pushed for greater authority from the Health Insurance Department.

“While the National Council’s members should be appointed by the State Great Khural, the council will be independently organized under SSIGO; and its regional and rural branches would be best managed under the executive management of the Health Insurance Department or local governors”.

Mongolians need to feel the adequacy of their health insurance in practice, not on paper. For example, Mongolia is second among Asian countries for frequency of diseases, and fifth in the world. According to the 2013 Mongolia Risk Assessment by Mandal Insurance, it was the number one country in Asia for liver and stomach cancers, kidney disease, toothache and communicable diseases. It is believed that the actual number of people infected with HIV in Mongolia is higher than the official count of 137. A more likely figure is 674.

Those who back these proposed amendments say their aim was to increase citizens’ satisfaction

with their insurance. Policymakers may believe that people would protest an amendment that would transfer the decision-making power on how health insurance funds are spent, but people are not interested in who holds those powers. What they care about most is how they can benefit their health.

No matter who holds the power, the insured should have some gain and be able to choose their preferred doctors, hospitals and medical service packages. Some say allowing the Ministry of Health to become both client and supplier creates a conflict of interests. The lack of oversight could lead to an abuse of powers—admittedly an on-going problem—but the priority is to make clear who will be responsible for monitoring and implementation. Otherwise, there will be longer queues inside and outside hospitals, and the rate of disease in Mongolia will climb to the top of the ranks in Asia, and maybe even the world.

In addition to the Health Insurance Department are some private insurance companies in Mongolia. Many say that it would be more efficient if the state promoted private insurance to encourage competition among companies.

“Enabling citizens to choose doctors and hospitals would result in competition between the hospitals”, said Dugar Jargalsaikhan, president of MIH Group. “They provide services for the insured before thinking about money. This would lead to improvements in the current health insurance system”.

Parliamentarian J. Batzandan added, “Now it is time to remove the system in which the health insurance fund is used to recover deficits caused by SSIGO”.

He said, “There should be some amendments made to the legislation that strengthen the entire system by bolstering supervision over income and expenditure, auditing on a quarterly basis, and supporting citizens who have paid fees but who have not benefited for years; thus enabling free competition as a way of properly directing a prevention policy”.

It is good that, for the first time, there is clarity being made regarding the rights and duties of the insured in the proposed amendment. When finished, the proposed amendment is expected to include a health insurance card service, prevention methods, expansion of medical service packages, introduction of promotion methods, and monitoring of the insurance database.

However, new attitudes and laws will not be enough to address the issue at hand. Lawmakers should not waste time squabbling over powers and authorities while so. ■

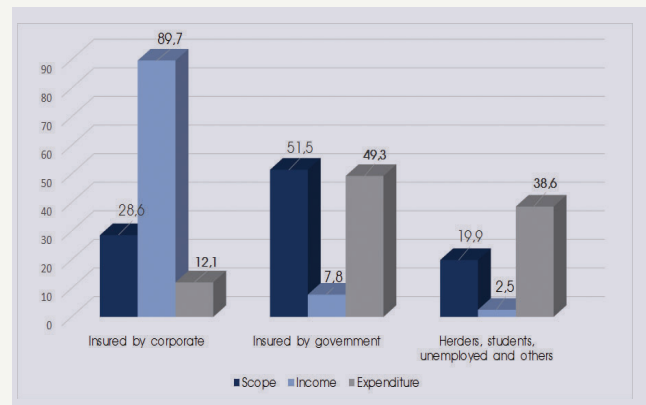
CHARTS AND GRAPHS

The balance of income and expenditures in the Health Insurance Fund:

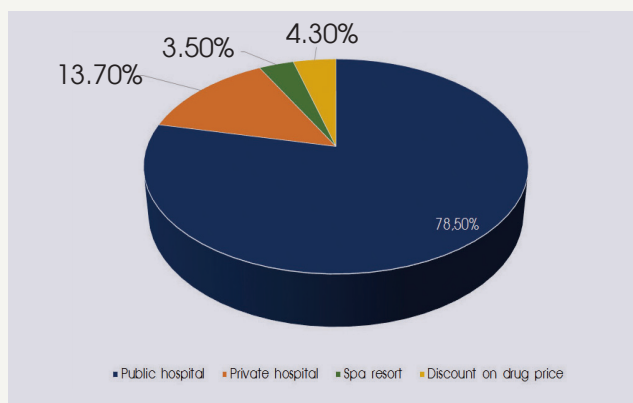
Health insurance fund's main indicators (2005-2012)

		2005	2006	2007	2008	2009	2010	2011	2012
Number of the insured /thousand person/		1988,4	1932,0	2152,9	2296,2	2174,4	2331,3	2793,2	2593,6
Percentage of the insured		77,6	74,5	81,7	85,6	79,5	84,9	98,6	90,4
Income of Health Insurance Fund (million MNT)		32574,2	40268,0	55155,9	64558,9	72359,7	90131,9	121576,4	166500,8
Expenditure of Health Insurance Fund (million MNT), in total:		23581,3	26528,2	26187,6	50840,4	56942,6	78128,4	87182,5	114396,4
Of this	Public hospital	18406,4	21977,1	22500,3	44125,4	48916,3	64258,1	69899,9	89809,4
	Private hospital and spa resort	2616,7	2941,4	3122,9	5830,6	6540,1	11824,9	14294,3	19662,0
	Discount on drug price	571,1	564,4	564,4	884,4	1486,2	2045,4	2988,3	4886,3
	Family healthcare centre	1987,1	1045,3						
Balance of Health Insurance Fund (million MNT)		30316,0	41753,5	62846,7	67112,2	83961,6	96297,2	133956,2	172621,2
Of this	Government bond (million MNT)						20000,0	25000,0	68969,4

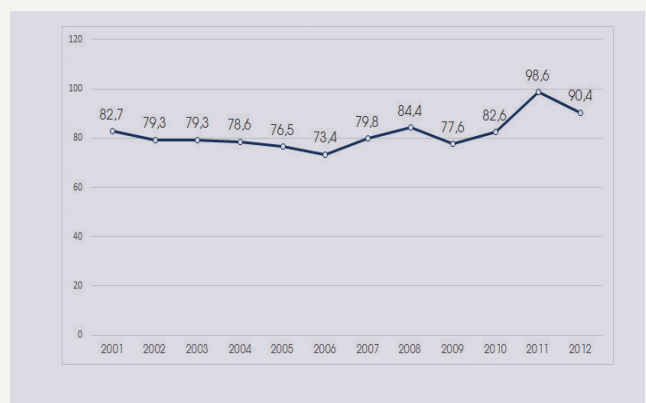
Number of people who received service from Health Insurance Fund, 2009-2012 (thousand/s of people) Insured's income and expenditure (%)



Details of costs for health insurance service 2012



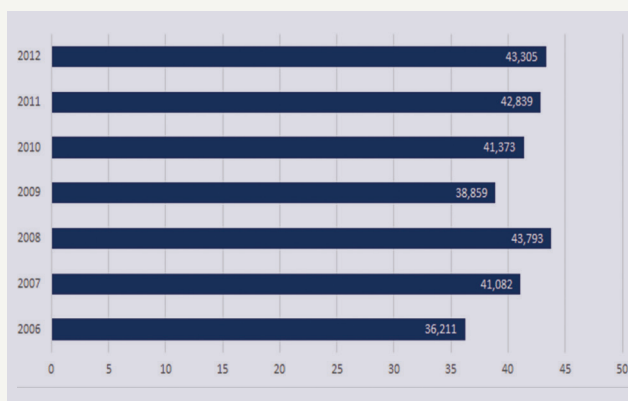
Number of insured among population (%)



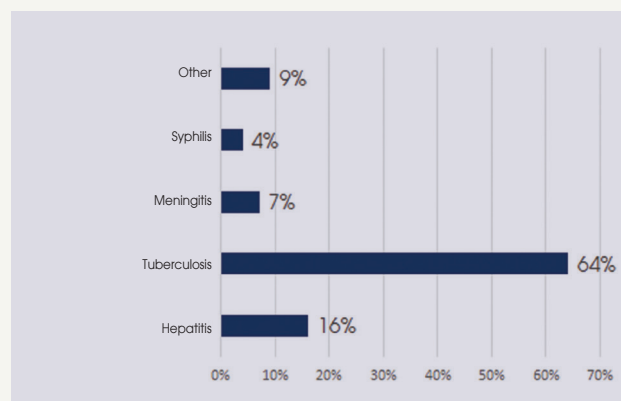
Source: State Social Insurance General Office of Mongolia(SSIGO)

The reasons to strengthen health insurance system are “required” by the following indicators.

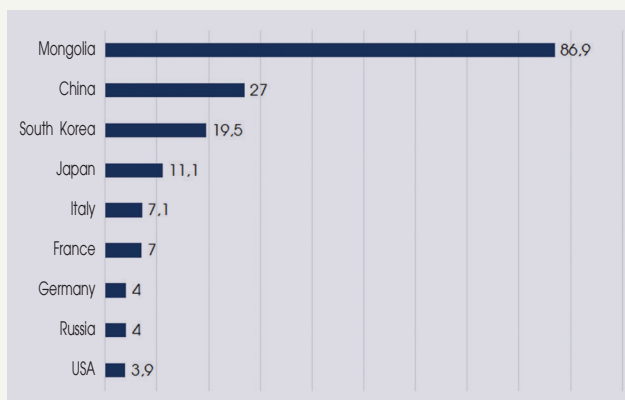
Number of communicable disease (by year)



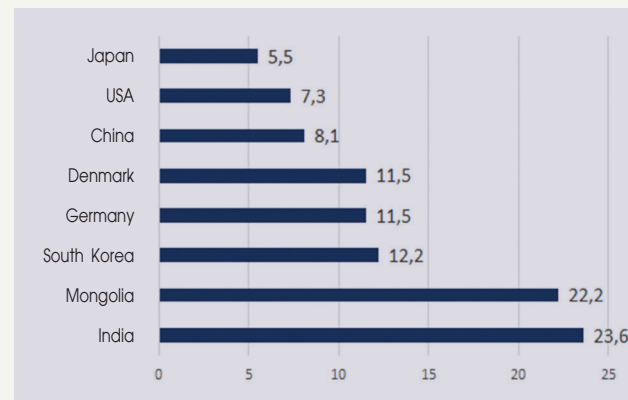
Death rate due to communicable disease (%)



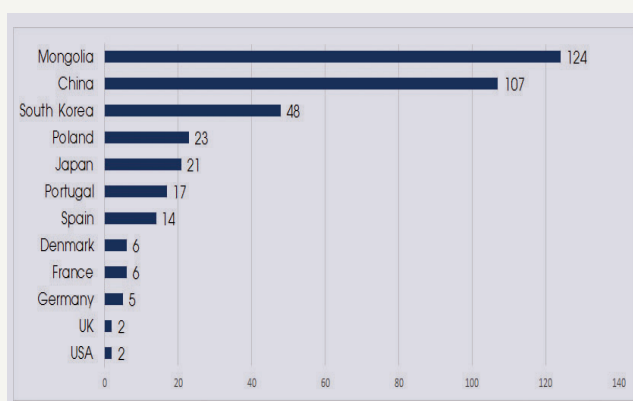
Death rate per 100,000 people due to hepatitis (%)



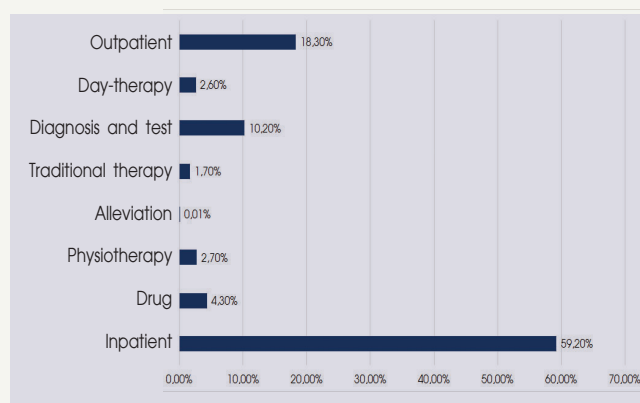
Death rate per 100,000 person due to liver cancer



Tuberculosis per 100,000 person



Details of costs for health insurance services in 2012 (%)



Source. Mandal insurance

HEALTHCARE REFORM



Ts. Gantsetseg, director of health insurance at the State Social Insurance General Office discusses two bills concerning the Law on Civil Health Insurance that are to be presented to the State Great Khural.

KH. BURTE

What are you trying to improve upon from the current law with these amendments?

The main function of the civil health insurance is to protect those who paid for their social and health entitlements while coping with financial pressures and the challenge of getting quality and secure medical services. But according to the World Health Organization, some 41 percent of medical service and treatment fees are paid for by patients.

Another study also reveals that some low-income citizens spend 50 to 60 percent of their monthly incomes solely on drugs and medications. This shows that some of the insured cannot really benefit from their health insurance and that the Health Insurance Department has failed to relieve them of their financial burdens.

Another issue is that the size of insurance fees varies while they are paid by both the employed and unemployed. Every year, the government of Mongolia pays MNT 8,040 in health insurance costs for each of the 1.3 million unemployed, in addition to the elderly and children. Meanwhile the employed are subject to MNT 200,000 in insurance fees on average.

Although some 80 percent of the Health Insurance Fund is generated from the employed, they constitute a very small percentage of overall costs that are spent for health insurance services. Thus, this sort of widespread state-run insurance needs to be directed towards targeted groups who are in urgent need of social welfare.

As the State Social Insurance General Office collects insurance fees from the employed citizens, it has to select hospitals that provide good and quality medical services. Also it needs to set the fees for medical services and treatment, as well as the service packages and payment methods. And it should have legal and institutional capabilities that regulate all these activities. But the State Social Insurance General Office has no legal right to do so. The finances provided to hospitals and pharmacies are regulated by the Health Ministry, based on the policy of the Health Ministry of Mongolia. Thus, it is important to deal with these issues

and to strengthen the capabilities of the State Social Insurance General Office and Health Insurance Department. As a result, it would have to create an opportunity for getting quality, secure and satisfactory medical services and treatments for the insured.

Do you really think that two bills can reform such a chaotic health insurance system?

These proposed amendments that are to be presented by the two parliamentarians S. Ganbaatar and S. Erdene were developed to deal with the aforementioned issues. Previously, these two proposed amendments were not backed by the State Great Khural as they needed integration. But now the State Great Khural will discuss the merger of these two pieces of legislation.

Therefore, I believe the proposed amendments will become good legislation.

What should citizens expect from this bill?

For the insured, some important issues will be tackled, including expanded medical service packages; the inclusion in health insurance of some expensive diagnoses, treatments, prostheses and orthopaedic treatments; set fees; the transference of insurance between household members; the introduction of the insurance card; and creating the opportunity for the insured to select their doctors and hospitals. In this way, there would be a good opportunity to reduce the amount of payments the insured are responsible for. Enabling the insured to choose his or her doctor and hospital may result in doctors changing the way they treat their patients and improving the quality of medical services, which would finally lead to competition among the hospitals. ■

CRITICAL ISSUE

THE ERDENET MODEL

D. BEKHBAYAR

A new director general at Erdenet Mining Corporation, the company that contributes the most to the state budget, discusses his fight against corruption, improving Erdenet Mining's contributions to the country, and shutting down unfair business practices. Such daring public announcements do not often come from directors, but they define Erdenet Mining's policy of combating corruption.

Every director has been appointed by government officials in Ulaanbaatar. But the recently appointed Director General Ts. Davaatseren has a different sort of education and work experience. He graduated from the Mongolian University of Science and Technology in 1984 with a major in mining engineering. He started his career at Mongolian-Russian joint venture Mongolroostvetmet as a repairman for 10 years before he was promoted to deputy work manager. He served as director of state-owned Berkh Uul from 1997 to 2001 and the Darkhan metallurgic plant from 2001 to 2006. In 2006 he started his own business, Urguu Management.

He was appointed as head of mining research at the Mineral Resources Authority of Mongolia in 2009, and as Erdenet Mining's director general in April this year. »



Фотог Э.Зоригт

► **Many politicians see Erdenet Mining as a cash cow. With this in mind, are you nervous about the reaction you'll face from your campaign against corruption?**

I am not afraid of pressure. There would be no need for me to do this job if I was afraid of pressure. I have been working in the mining sector for 20 years, which means I am familiar with the principles followed in mining operations. Erdenet Mining will be managed in the same way.

Investors' common interests are to have their industries run at the highest level of productivity at a minimal cost. I will follow this principle.

Mongolia wants greater profits as it exploits its resources. From this perspective, we have to increase the amount of tax paid to the state budget. The more profit we can generate, the more tax that should be collected. But on the other hand, the time has come for us to refuse to finance unnecessary things. Also, we need to support domestic entrepreneurs. Any investment made here needs to be absorbed here, locally. There is a lot to be done.

What are some of the challenges you expect to face as you take on unfair business practices?

Of course, there will be some difficulties. Because every worker here at Erdenet Mining is already accustomed to working in their own particular way, there is likely to be opposition if anyone starts saying that what they've been doing is wrong and begin cutting costs. For instance, I intend to purchase every product at the cheapest possible prices, without any third-party procurement. The other businessmen had conflicts of interests and started arguing against it. But as there is the country's interest behind it, there is no other way then to overcome this sort of irrelevant issue. It means that the view of Erdenet Mining through the coin hole is about change.

The business plan for this year has been already drawn up. But the plan needs to be reviewed and revised with cuts to some useless costs amounting to over USD 40 million. It means there was USD 40 million in redundant expenses in the company's business plan. Thus, we need to stop this sort of inappropriate action and increase the benefits that Erdenet Mining provides to the country.

Today, the state budget is experiencing difficulty, as we all know. At the moment, as Erdenet Mining is one of the biggest taxpayers in Mongolia, we have to be more responsible and work hard. This would be a significant investment into the country.

How much does Erdenet Mining pay to the state budget annually?

Erdenet Mining pays over MNT 540 billion in taxes every year. Annual dividends account for approximately MNT 100 billion. Last year, Erdenet Mining made a net profit of more than MNT 190 billion.

Given that Erdenet Mining has a reputation for benefiting politicians in power, what is your approach to its management?

I was thinking about it when I was appointed. As I am a civil servant rather than politically motivated, I took this appointment as a difficult duty and the responsibility to run Erdenet Mining more efficiently and profitably. I never thought of any desire of becoming wealthy.

Compared with the previous government, this new government views Erdenet Mining from a more correct perspective. When I was appointed, the mission given to me was to run Erdenet Mining for the long term in a more sustainable way. I want to fulfil this mission.

But my appointment was not made for any political purpose. Thus, I will put my effort into running an operation that will be more supportive to Erdenet Mining's future. I had no right to be afraid or discouraged, as the state has put its trust in me. I will be working to rid of today's economic difficulties.

What do you expect for the price of copper this year?

This year's business plan has a copper price of USD 8,152 per tonne. This is the average price for global markets since last autumn. But today's price is falling to USD 7,000, USD 6,800 and USD 6,500.

In past years, the copper price was much higher. Last year, the maximum price reached was over USD 9,800, but today's price is much lower. Thus, there absolutely is a challenge. But throughout this crisis, we will have to overcome whatever happens. Erdenet Mining has a history of surviving at a time when the copper price fell to USD 1,600. That is why I am not very much concerned about the current environment, as we have very experienced, capable and trustworthy colleagues who worked during that time.

You once said that two large Oyu Tolgoi and Tavan Tolgoi deposits could learn from the experience of Erdenet Mining. What cooperation do you expect between Erdenet Mining and these other two nationally important operations?

It is very important that investment be properly absorbed by the country. Erdenet Mining is absolutely a good example of that. In this sense, I asked them to learn from Erdenet Mining.

The establishment of Erdenet Mining has created Erdenet, a town with a population of more than 100,000. Everything has been resolved here, including infrastructure, energy, a satellite town and so on. Thus, Oyu Tolgoi and Tavan Tolgoi need to operate according to the same principles.

The urban cultures and settled lifestyles of highly industrialised countries have already been developed. But Mongolia is different. It is developing the mining sector without separating itself from its nomadic tradition. Thus, the towns and settlement which follow the development of mining infrastructure need to be created.

Development will come there, spontaneously. ■

THE PEACE CAPITAL



BY B. TSETSEE

Geneva is home to the United Nations and many non-governmental organisations such as the Red Cross, the World Trade Organization (WTO) and the World Economic Forum. It is known by many as the “Peace Capital” or “Geneva international” because of its reputation as a global centre for diplomacy. The city has a silent, calm atmosphere, and hosts numerous international events for ongoing discourse of the world’s most challenging problems.

Journalists from emerging economies around the world were brought together by the WTO and Friedrich Ebert Foundation in Geneva. English speaking reporters from Asia and Africa who focus on economic and trade issues gathered to participate in a seminar that aimed to provide a better understanding of the WTO and the negotiation process its 158 Member states take part in.

The direct contact with the WTO secretariat and representatives of diplomatic missions delivered first-hand insights into the inner workings of this organisation. They also presented an opportunity to exchange expertise for a bet-

ter understanding of the process of multilateral trade negotiations.

Sixteen journalists from the developing world gathered in Geneva hailing from leading press agencies of the world such as China’s Xinhua News Agency, The Times of India and Singapore’s Channel News Asia.

As world affairs continue to shift from developed powers towards the developing, the perceived importance of gathering of journalists from emerging economies is no surprise. While countries must enhance their participation in international affairs and join the world economy, trade issues are becoming more complex. The transition taking place in the world and new trade trends offers the developing world more opportunities and challenges.

For instance, WTO statistics show that the United States and Europe are embroiled with the most trade disputes between themselves because of their high volume of trade. But these days trade disputes between United States and China are becoming more commonplace with growing trade between the East and West. »



The 16 journalists from Bangladesh, India, Indonesia, Laos, Mongolia, Nigeria, Samoa, Singapore, Sri Lanka, South Africa, Tanzania, Vietnam and Zambia attended a training seminar at the WTO on trade issues. They met WTO experts and had a chat with the Director-General Pascal Lamy.

► “The more you trade, the more trade disputes you will have. That is natural”, said Jorge Castro, a counselor at the Legal Affairs Division of the WTO. “Only countries that have no trade have no trade disputes”.

Though trade is more complicated for landlocked countries such as Mongolia, according to the WTO these circumstances are not a dead end. The WTO sets trade regulations for all its members, and any disputes over noncompliance can be settled by the trade council. The best advice legal counselors such as Castro have for landlocked countries is “know your rights”.

“Good skills and education will drive trade in the right direction”, Pascal Lamy, director general at the WTO, told journalists.

Countries have many opportunities to lead development through the expansion of trade and the global value chain. When developing trade, there are a few crucial steps that must be taken, including trade facilitation, the transfer of skills and technology, promotion of e-commerce, trade safety, and value-added export trade.

Today the label “Made in” is outdated as many products are produced through an international supply chain. A label that reads “Made in China” only means China

was where the last step in a long global process of production took place. “Made in the world” is a better adaptation to the present reality of global production.

“Measuring where value added comes from is today very important. It helps governments and analysts understand better the relationship between trade and development”, said, Hubert Escaith, chief statistician at the WTO.

Reconstruction and Reform

During the seminar one of the WTO buildings was under construction to build a new office. It was fitting, as many argue that the entire institution needs to be gutted and rebuilt in much the same way.

A press conference was where a panel of high-ranking business and state officials as well as high-level international authorities discussed the “Defining the Future of Trade” report. The report aimed to provide feedback for sustainable development, growth, job creation and poverty alleviation, while looking “at the drivers of today’s and tomorrow’s trade”. However, panelists noted that a great deal of the report focused on the future rather than in the immediate term. ►►

▶ “I am sad that I must conclude that it [the report] is more of a reflection of the secretariat’s continued emphasis on helping developing countries achieve their negotiating goals, simply expanding trade liberalisation for the benefit of corporations rather than addressing the serious issues of complying with the multilateral trading system of today to change the system for countries to be able to use trade for development and job creation”, said Deborah James of the Our World Is Not For Sale coalition.

The press conference did more than cover the future of trade but also the future of the WTO’s wavering reputation and slow progress.

“I don’t think that a report like this can be implemented without reform by the WTO.” said, Talal Abu Ghazaleh, a panelist and chairman and founder of the Talal Abu Ghazaleh Overseas Corporation in Jordan.

He said, “It took half a century to give birth to this organisation. I hope it does not need another half century to reform in this chang-

ing world. Without reforming the WTO, not much reform can be done to the world trade agenda”.

The WTO established the Doha Development Round more than 10 years ago, with a deadline of completing 21 tasks by 2005. However, eight years since that deadline passed, the Doha Round has still not yet achieved that goal. And today the United States, Europe and more recently Japan have looked increasingly more to regional trade agreements for the creation of new trade opportunities.

The WTO appointed Roberto Azevedo of Brazil as its new director general, replacing Pascal Lamy. Azevedo has the misfortune of stepping into his role during a precarious time as regional trade agreements seem to make more sense than WTO negotiations. He will have to prove himself by December this year when the Bali ministerial meeting is scheduled to be held. If that meeting is seen as a failure, many more will be questioning the relevance of the WTO today, and whether it has become a relic of a time long since passed. ■



VISIT



TWO STRONG NEIGHBOURS FACE OFF FOR THE RAILS

Last week from May 8 to 12, Yang Jiechi, the Foreign Minister of China, and Vladimir Ivanovich Yakunin, president of Russian Railway, paid official visits to Mongolia. The purpose of their visits was to meet with Mongolia's president, parliament speaker and prime minister to discuss plans for the expansion of Mongolia's railway network.

For Mongolia the question is whether to build its new railway using the broad gauge that is standard in Russia or the narrow gauge used in China and is the international standard. Although Mongolia's state policy on rails adopted the Russian standard, a resolution passed by the State Great Khural allows for some leeway for debate concerning this issue. The issue has been one of heated debate that has parliament strongly divided. While some argue for the broad gauge in the interests of national security, others say the narrow gauge is in Mongolia's best interests economically as most of the minerals exported by rail will be sent there. However, for the moment, parliament has settled on Russia's broad gauge.

Mongolia is caught in the dilemma over choosing between its long-time standard from Russia or the one that will allow it to best connect to China's 91,000 kilometres of rail. However, it is not public what exactly Yang Jiechi and Yakunin discussed with Mongolian officials.

The Mongolian-Russian strategic partnership for rail started long ago. Russia owns some 51 percent of Ulaanbaatar Railway with the Mongolian government.

Prior to his visit, Yakunin sent an official letter to Prime Minister Norov Altankhuyag indirectly through the Minister of Road and Transportation to communicate Russia's interest in investing into the new rail lines and increasing its stake in Ulaanbaatar Railway. Yakunin came to Mongolia hoping to meet the prime minister in person, and, according to a source, promised his superiors that he would push to amend the 1949 Ulaanbaatar Railway investment agreement so that it reflected Russia's interest in participating in the construction of new rails. If Russia gets its way it will hold onto its 51 percent ownership of Ulaanbaatar Railway.

With each passing government, Mongolia has sought the

opportunity to update their agreement, but its motions to do so were not much acknowledged by Russia. Now, however, Russia is eager to cast out any competition it may find in the way of Mongolia's rail project.

The new railway will link with the existing rail owned by Ulaanbaatar Railway. Yakunin has voiced his concerns over the stagnating activity regarding the construction of another railway in northern Mongolia running from Erdenet to Murun soum. He asked Altankhuyag to set aside the differences between Mongolia and Russia for now and give extra attention to cooperative construction of both railways.

The strategic partnership between Mongolia and China is much younger than the one with Russia. Yang Jiechi, therefore, said he hoped the strategic partnership ties of "China and Mongolia would benefit from their relations".

Over the past five years, China has already spent USD 182 billion for the expansion of its railway network, which uses its 1,435-millimetre standard gauge. The closest link to Mongolia is the 833-kilometre Jinbao railway located between Beijing and the city of Baotao in the Inner Mongolia Autonomous Region. Yang said China would allow Mongolia to use this rail path to send its minerals to third-neighbour markets, such as Japan and Korea. This would provide Mongolia with access to new markets without having to travel through Russia. However, the agreement was based on the condition that China be allowed to participate more in the construction of Mongolia's roads and railways.

As China is the main consumer of Mongolia's mineral resources, the Chinese delegates argued that China was Mongolia's best and most strategic option for the transport of its goods.

The railway man sent by Russia has close ties to Russian President Vladimir Putin, while China sent one of its top ten officials. Though at the surface it seemed these officials were merely discussing the details concerning the construction of a new rail, what was really on everyone's mind was the valuable Tavan Tolgoi coal deposit. Both neighbours have the chance to win a more favourable outcome for themselves, but only one can succeed and take home their Tavan Tolgoi prize. ■

CORPORATE SOCIAL RESPONSIBILITY

ONE GOAL FOR THEM ALL

BY KH. KHULAN

Countries with enormous mineral resources are confronted with many challenging issues to resolve. On one side there is the chance to develop their economies and societies using their natural wealth. But the mining sector conceals also numerous risks. Only a few countries have created positive outcomes from their mineral wealth.

Thus a study of the successes and failures of other countries is essential to Mongolia.

Delegations of the mining ministries and companies of Mongolia, Vietnam, Kyrgyzstan and Laos attended a regional conference on corporate social responsibility in May in Ulaanbaatar. Delegates from Asia discussed the similar challenges they faced regarding the mining sector, solutions, legal frameworks and how to develop a responsible mining industry. These countries have the same goal of developing their respective mining sectors and attracting investors.

The mining sector has raised high expectations for job creation and government revenue for development in emerging economy countries. But

they also are responsible for ensuring that mining develops responsibly in their countries as well as avoid the so-called “resource curse,” a pattern where countries end up creating greater income disparities and stalling development rather than reach the lofty goals they set out to achieve.

Participants of the conference stressed the importance of close collaboration between the managements of mining companies and local communities. The foreign guests visited Mongolia’s two largest mining projects, the Oyu Tolgoi copper-gold mine and Tavan Tolgoi coking coal mine, and met with the regional administration and local residents.

“The Oyu Tolgoi company performs its operation at the international level”, said a Kyrgyz delegate. “They found a solution for environmental protection issues. Moreover their relationship with the state and the local community is good”.

Mongolia, Vietnam, Kyrgyzstan, Laos and Myanmar plan to maintain a long-term dialogue on social responsibility and governance in mining. ▶▶



MINING PRACTICES FROM THROUGHOUT ASIA



Mongolia

The mining sector has been developing here for the last 20 years. The first Minerals law was issued in 1994. Mining exploration was carried out without any control from the citizens and the local community for the first 10 years, causing numerous negative impacts on the environment. The reputation of the mining industry started to decline because of irresponsible mining companies and artisanal miners. Today the process of improving this situation continues steadily.

The government and mining companies are cooperating for responsible mining development. The taxes paid from the mining industry accounts for 40 percent of total state revenue. Mongolia has achieved compliance with the Extractive Industries Transparency Initiative (EITI), which strives for transparency and enhanced governance within the mining industry. EITI was initiated by Tony Blair at the World Summit for Sustainable Development in Johannesburg in 2002.

Vietnam

The most striking topic discussed at the conference was occupational safety and health. Vice Minister Bui Hong Linh of Vietnam's Ministry of Labour, Invalids and Social Affairs introduced discussion on the current standings of occupational safety and health in the mining sector.

Vietnam is endowed with mineral resources such as coal, oil, gas, iron ore, bauxite, and limestone. The mining sector constitutes about 25 percent of GDP. There are 29 opencast-pit coal mines and 14 underground coal mines with around 140,000 employees. In Vietnam, 40 percent of coal produced is mined from underground mines. Total coal production is some 47 million tonnes annually, and is projected to reach 55 million tonnes by 2015.

The number of fatal incidents in the mining sector ranks second after construction there. Mine workers typically face the risks of falling from great heights and gas explosion. Many people suffer from occupational injuries and illness, especially silicosis.

One unique characteristic of Vietnamese

mines is that the majority of them are small-scale operations. Some mines have unauthorised private ownership, where compliance with occupational safety regulations are low.

The government of Vietnam sees the implementation of corporate social responsibility as the right tool to promote occupational health and safety standards in the mining industry.

Kyrgyzstan

Around 90 percent of Kyrgyzstan's landmass is tall mountains. The country has a territory six times smaller than Mongolia, but it contains a tremendous variety of mineral resources. Its main minerals are gold, coal, underground water, mercury, tin, rare earth elements, and tungsten. Up to 15 percent of its GDP is generated from the mining industry. Kyrgyzstan was awarded the 2013 "Mining Country of the Year Award" for its newest mining law. This law is more liberal compared with the country's previous legislation, and reflects more environmental consciousness concerns rather than administrative control.

The nomination was given for Kyrgyzstan's outstanding tax regulations and transparency. The government taxes mining licenses in disuse more highly than licenses for land where operations are active.

Laos

Laos has a long history of artisanal mining. Its first mining law was issued in 1997, and was revised in 2008. The government has recently granted 99 mining licenses to 64 companies. The mining industry is a main contributor to its GDP and grew from 0.5 percent in 2002 to 10.3 percent by 2011. Over 60 percent of total exports are gathered from this sector. Major commodities exploited are copper, gold, tin, iron, potash, lead, zinc, gypsum, and coal. According to Laotian law, mining enterprises are obligated to pay into its Community Development Fund, Environmental Management Fund, Human Resource Development Fund, and Project Management Fund. The corporate social responsibility of mining companies is focused on the Community Development Fund. ▶

“WE HAVE A LOT TO LEARN FROM YOUR EXPERIENCES”



Chunuev Ishimbai Karybaevich has been director of Kyrgyzstan's State Agency on Geology and Minerals since September 2012. Karybaevich was born in 1956 in the Issyk-Kyl region. He has worked as a mining engineer, starting his career at the Jergalan coal mine. Later he held high-ranking positions at the Kumtor mine and Meks-Resource gold companies. Karybaevich has published over 70 academic papers.

Are you coming to Mongolia for the first time? What do you expect from the Regional Corporate Social Responsibility and Public Governance Conference?

Yes, it is my first visit in Mongolia. But I have studied a lot about the rapid development of the mining sector of your country. I like Ulaanbaatar and Mongolians. I have also read books about your history and watched the film about the life of Chinggis Khaan. Also, it can be said that the Mongolian and Kyrgyz people are relatives.

In our country, many mining licenses have been granted. Unfortunately, these licenses were sold again. The government is working on this issue now. The mining industry also represents an important economic sector for our country. We have a lot to learn from your experiences. We would like to apply your practices in [our] mining sector.

What is unique about the mining industry in Kyrgyzstan?

Mining is the main sector that generates the most revenue for the state. We have 2,500 tonnes of gold reserves. We need responsible investors to exploit it.

What can Mongolia learn from your country's tax policies?

In the past all the taxes paid by companies went to the state budget. Now we have two tiers for tax payment: local and state. A certain portion of the tax accumulated from mining exploration is paid to the local budget. Additionally, companies that have purchased licenses but don't use them see their payments go 100 percent directly to the local budget.

The fee for not using a license increases year by year. We are aiming to cooperate with the community closely.

In which sectors do you think Mongolia and Kyrgyzstan could cooperate, apart from mining?

We could cooperate in tourism and cattle breeding. For example, you have some bottled water from Italy. Drinking water can be imported from our country at a cheaper price.

In general, our ancestors have the same roots. Even the gers in both our countries are similar. I have been working with Mongolian young people for 40 years. They are kind, but the main fact is you are hospitable.

Mongolia is a great country. We should cooperate and exchange experiences with each other. ■

MONGOLIAN ECONOMY'S PROFESSIONAL COUNCIL

Mongolian Economy media group introduces its Professional Council as it approaches the third year since its establishment. Most of the subscribers of *Mongolian Economy* are economists, politicians, financiers, businessmen, NGO workers, scientists, researchers and university lecturers and students. Our other subscribers are diplomats, embassy workers, international agency professionals, and foreign investors. It is clear that *Mongolian Economy* has been accepted as a magazine for professionals among Mongolian society. In order to strengthen the capabilities of the magazine and further specialise it, the magazine and its staff introduce the Professional Council, which is a body of economists, lecturers and researchers from schools of economics and finance, businesses, and capital markets.

The Mongolian Economy media group has three main branches: the magazine *Mongolian Economy*, the website MongolianEconomy.mn, and the Mongolian Economy television studio. The mission of the magazine is to produce professional, independent

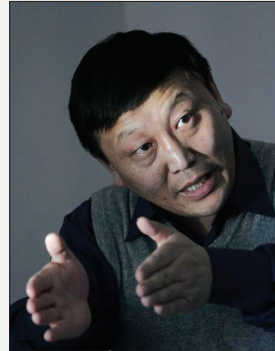
and economically sound journalism for Mongolian and international audiences. We aim to regularly deliver to both local and foreign readers news and analysis focused on the economy and business with emphasis given to accuracy and truth on a bi-monthly basis. '

The Professional Council has seven members that run the group based on principles that include political independence, transparency, equality, and non-intervention. The Professional Council held its first meeting on April 16, where it appointed as chairman Bayanjargal Byambasaikhan, who also serves as chairman of the Business Council of Mongolia.

The members of the council are Ts. Batsukh, PhD, professor and dean of the economic faculty at the Institute of Finance and Economics; Baatar Bold, chief executive of Altan Dornod Mongolia; S. Bekhbat, director of innovation and public private partnerships at the Ministry of Economic Development; Dugar Jargalsaikhan, president of MIH Group; B. Tuvshintugs, PhD and dean »



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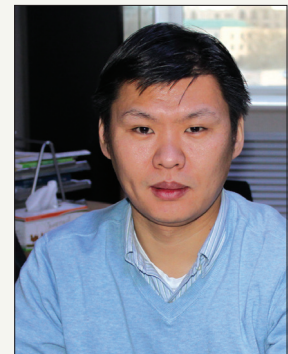
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J. Sunjidmaa, manager of corporate and public affairs at Peabody Energy



B. Tuvshintugs, PhD and dean of the Economic Research Institute

► of the Economic Research Institute of the School of Economic Study at the National University of Mongolia; and J. Sunjidmaa, manager of corporate and public affairs at Peabody Energy.

The Mongolian Economy media group is a proud recipient of the Mongolian

National Chamber of Commerce and Industry's 2011 "Entrepreneur" award and "Media Group of the Year" award from the Business Council of Mongolia. It has a policy of promoting green development and implementing green practices in business. ■



NEWSWIRE HIGHLIGHTS

NewsWire is a weekly news aggregate 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 the month of May:

BUSINESS

TURQUOISE HILL TO INK \$4BN FINANCING FOR MONGOLIAN FLAGSHIP

Canadian miner Turquoise Hill Resources Ltd. and its majority owner Rio Tinto PLC expect to sign a USD 4 billion project financing plan and term sheet at the end of June, which will allow for the necessary future financial flexibility to develop the second phase of the giant Oyu Tolgoi mine in Mongolia.

Turquoise Hill late on Monday said it was actively engaged with lenders to finalize the financing deal. By February, it had secured debt approval from the European Bank of Reconstruction and Development (EBRD) and the World Bank Group's International Finance Corp. (IFC). During April, Rio Tinto had also signed commitment letters with 15 global banks that locked in pricing and terms for financing. The boards of Export Development Canada, Australia's Export Finance and Insurance Corp., and Export-Import Bank of the United States also conditionally approved Oyu Tolgoi's project financing. Turquoise noted project financing was still subject to board approval, which included representatives from the Mongolian government.

Meanwhile, the Mongolian government, Turquoise Hill and Rio Tinto remained in disagreement over taxes and rising costs at the project, which Mongolia feared would erode prospective earnings. While the issues were being ironed out, the Oyu Tolgoi board had approved a temporary budget for the mine, which is ramping up to commercial production.

Source: Mining Weekly

KHUSHUUT DECLARED STRATEGIC RESERVE

The government has officially added Mongolia Energy Corp.'s Khushuut coal deposit to its list of strategic deposits.

The decision follows an investigation led by a working group appointed by parliament. The working group found the mine has a proven reserve of 85.7 million tons and probable reserve of 1.8 million tons, or a 88 million-ton JORC reserve. That compares with a 2.4 billion-ton reserve MEC reported to the Hong Kong exchange.

Source: Zuunii Medee

ECONOMY

GDP GROWTH SLOWS TO 7.2 PERCENT AS COAL EXPORTS DECLINE

Mongolia's economic growth slowed in the first quarter after coal prices fell and moderating Chinese demand

reduced the nation's exports.

Gross domestic product (GDP), as measured by production in constant prices, grew 7.2 percent from a year ago, the National Statistical Office said on its website. That compares with the 16.7 percent pace of expansion for the same period last year and a 12.3 percent annual rate for 2012. The World Bank last month cut its forecast for 2013 Mongolian economic growth to 13 percent from 16.2 percent, citing declines in exports and foreign investment. Economic growth in China, which buys more than 90 percent of Mongolian exports, slowed to 7.7 percent in the first quarter from 7.9 percent in the last three months of 2012.

Mongolia's exports for the first four months of this year fell 5.5 percent from a year earlier, the statistics office said. Shipments of coal, the nation's biggest export, fell by volume to 5 million tons from 5.3 million tons in the same period in 2012, the agency said. The value of the coal exports fell to USD 338.9 million from USD 580.3 million a year ago, according to a statement. The volume of copper concentrate export was little changed at 186,000 tons in the first four months compared to 186,500 tons a year earlier. The value of the shipments rose to USD ▶▶

- ▶ 276.6 million from USD 269.5 million a year ago.

Mongolia's trade deficit narrowed to USD 528.3 million, 33.7 percent smaller than a year ago. The nation's consumer prices rose 10.4 percent in April from a year earlier and gained 1.1 percent from March, according to the agency.

Source: Bloomberg

GOLD PRODUCTION SEES GROWTH

A head of macro-economic statistics at the National Statistical Office reported on the first four months of 2013.

The gold mining sector experienced the highest growth during the period, with 2.2 tons produced compared with 1.2 tons in the same period for 2012, although the mining sector experienced a drop off in exports, said B. Badamtsetseg. Iron ore production fell significantly, while petroleum and other products stayed relatively the same [the source does not provide figures -ed]

Mongolia experienced 7.2 percent growth in the four-month period, falling behind that of previous years. Meanwhile inflation saw a slight increase in April after three months of decreases. Inflation stood at 10.4 percent compared with 9.8 percent in March. Inflation is also much higher in the countryside than Ulaanbaatar.

Foreign trade has fallen off since the beginning of the year and is expected to fall further. Imports fell in terms of petroleum, automobiles, and car parts. Exports fell due to

effects from transportation, specifically rail.

Source: Undesnii Shuudan

POLITICS

THREE PRESIDENTIAL CANDIDATES NAMED

This year's presidential election has become a three-way race, with the first female presidential candidate in Mongolia's history.

The Mongolian People's Party was the first to announce a candidate to oppose incumbent president Tsakhia Elbegdorj. MP B. Bat-Erdene won the nomination after four party votes, with three consecutive ties with MP O. Enkhuvshin. Bat-Erdene beat his opponent by nine votes during an MPP assembly. The presidential hopeful is seen widely as an opponent against illegal mining activity.

Natsag Udval received the Mongolian People's Revolutionary Party nomination on Saturday May 11, making her the country's first female candidate for president. She is currently serving her second appointment as minister of health and is secretary general of her party.

Elbegdorj is seen as the front-runner for the election and is portrayed as the most experienced of the three with two non-consecutive terms as prime minister. The Mongolian National Democratic Party and Civil Will-Green Party have opted not to endorse any of their own candidates, instead throwing their support behind Elbegdorj.

Source: News.mn

USD 85 MILLION FROM CHINGGIS BOND DELIVERED FOR RAIL DEVELOPMENT

Economic Development Minister Nyamjav Batbayar signed a contract with the Development Bank of Mongolia, cementing USD 85 million for the New Railroad project.

The project will be for the construction of 267-kilometers of rail between Tavan Tolgoi and Gashuun Sukhait. The USD 85 million is the first sum allotted for the rail as well as a 450-megawatt power plant and 60 kilometers of highway in Ulaanbaatar and the renovation of over 30 intersections. The head of the governing board of the Development Bank, B. Shinebaatar, also signed the contract.

Source: Zuunii Medee

TWO NEW MEMBERS OF PARLIAMENT FILL LAST VACANT SEATS

D. Zorigt and D. Sumiyabazar took oaths to enter the State Great Khural, filling the final vacancies.

The disputes had kept the 76-seat Parliament incomplete, starting from June 2012 with last year's parliamentary elections. Zorigt of the Democratic Party (DP) contested election results in favor of his opponent for Uvurkhangai Aimag, S. Chinzoig, with final results of 23,000 against 16,000. The matter was brought to an Uvurkhangai court, but it was the General Election Committee that finally ruled in favor of Zorigt.

D. Sumiyabazar was the winner of a run-off election for the 26th electoral district.

Source: Udriin Sonin, Eurasia Capital ■