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MONGOLIAN ECONOMY

Aspiring To Global Branding,
Expanding Domestic Sectors

Mongolia's Economy Finance and Business Magazine

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Business Profile

- TDB was established in October 1990 and over past decade has become a leading banking and financial services provider in Mongolia.
- TDB, the oldest bank of Mongolia, prides itself for its leading position in the universal banking service provider, offering a full range of services, including large corporate, SME and retail lending, deposit-taking, trade finance, remittance, cash management, treasury, foreign exchange and investment banking. TDB acts as a primary lender to most of Mongolian leading corporations as well as foreign corporations and foreign representative offices across all major industrial and commercial sectors with a constantly innovating range of universal banking products and services delivered with dynamism and excellence in service and quality. Leveraging this pre-eminent position and its long-standing customer relationships, the Bank has consolidated its market-leading position in the handling international trade finance and remittance, with access to credit lines from major international lenders and correspondent banking relationships with over 150 international financial institutions.

Always responsive to the public's various banking requirements, TDB offers over 100 types of international standard banking products, services and has about 1219 highly qualified staff providing professional and user friendly banking services through a network of 47 branches, settlement centers and teller counter, 149 ATMs, 1899 POS terminals, Internet banking and SMS banking throughout the country, which utilizes the same technology as our international partners. TDB is undoubtedly the major player in the financial and banking markets as well as a major innovator of the Mongolian financial sector.

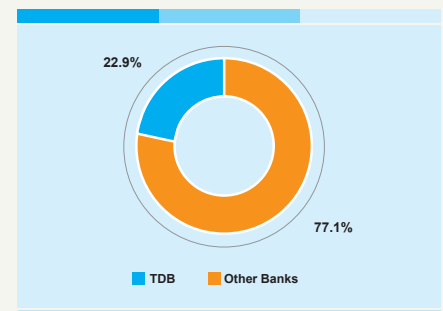
- Trade and Development Bank (TDB), the oldest and the largest corporate bank in Mongolia, successfully issued USD 300 million senior unsecured notes listed at Singapore Stock Exchange on 13 September 2012. This was the fourth time that TDB tapped the international bond markets, after two successful senior unsecured deals in 2007 and 2010, respectively, and a subordinated notes issuance in 2010. In fact, TDB is the first ever Mongolian bank to issue bonds and the only Mongolian repeat bond issuer. These successful bond issues not only affirm the market confidence in TDB's strategy, financial strength and management, but also affirm TDB's standing in the international markets.

Furthermore one of the most important highlight was Trade and Development Bank of Mongolia (TDB) signing an investment agreement with The Goldman Sachs Group, Inc. (Goldman Sachs), a leading global financial services firm. Goldman Sachs has acquired a 4.8 percent stake in TDB in January 2012. The investment assists TDB in growing its business to meet the expected increased needs of its clients as Mongolia's economy continues a period of strong economic growth.

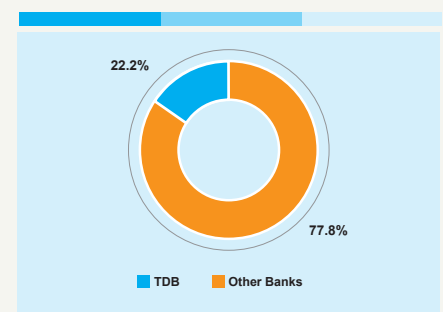
In October of 2012, TDB announced the official launch of Bloomberg TV Mongolia in partnership with Bloomberg Media Group. The launch of Bloomberg TV Mongolia signifies the introduction of the first international broadcast news organization in Mongolia, one of the fastest-growing stock markets and investing environments in Asia today.

Market Share End of December, 2012

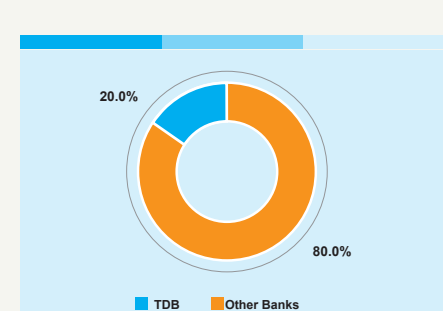
Market share of total assets



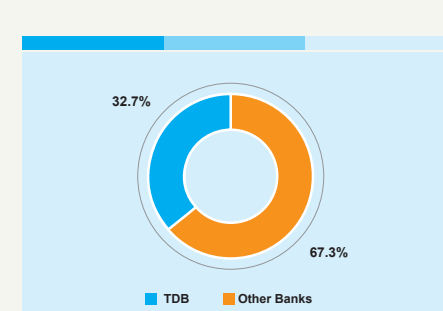
Market share of total loans



Market share of total deposit



Market share of net profit



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MONGOLIAN ECONOMY

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Aspiring To Global Branding, Expanding Domestic Sectors



...The positions of forum speakers became clearer about how the government should participate and cooperate with entrepreneurs and civil society, which distinguished it most from forums in the past...8

Liquid Economics



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How Mongolia will perform in 2013

...Around 5 percentage points decline in annual GDP growth might sound like a death sentence for some economies, however it is not the case for Mongolia. Even with this decline economy of Mongolia grew 12.3% in 2012 which places the country among top performers straight away. In these circumstances, rightful questions arise as to how solid this growth is, what factors influenced the downward move, and whether the economy can beat itself in 2013...20



Walling off your economy is not a winning formula

...This year Mongolia and Canada will celebrate the 40th anniversary of their diplomatic relations, as well as the 5th year of the establishment of Canada's resident Embassy in Ulaanbaatar...23

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MONGOLIA

Competitiveness

The Economic Policy and Competitiveness Research Centre (EPCRC) released a report on each aimags' competitiveness. The report, which was a first of its kind in Mongolia, presents 180 social and economic indicators for each aimag and the opinions and expectations of entrepreneurs. Orkhon aimag topped the index for its competitiveness followed by Umnugobi, and Darkhan-Uul aimags.

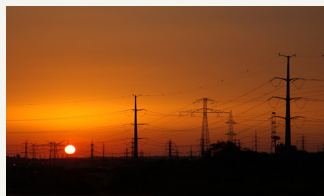
Mining

Mongolia mined 31.1 million tonnes of coal in 2012, of which 20.5 million tonnes



was exported for a total of MNT 825.5 billion. Currently, about 60 commercial entities are mining coal, with 20 exporting raw and concentrated coal.

The United States abstained from voting when the International Finance Corporation was deciding whether or not to provide a USD 4 billion loan to the Oyu Tolgoi copper-gold project, due to "environmental policy concerns and legislative mandates". The official position came after the United States reviewed the Environmental and Social Impact Assessment of the project.



Energy

Next winter, Ulaanbaatar is expected to fall short of meeting demand for heat when demand hits its peak. Government approved a proposal to renovate the US-15 heating plant at the eighth khoroo of Bayanzurkh district to provide an additional 300 megawatts of energy.

The ministry projected that

it was possible for GDP



to reach USD 41 billion by 2021.

CHINGGIS BOND

The government issued a recommendation to finance four projects using funds from the Chinggis bond. The projects aim to build roads connecting every capital of each aimag with Ulaanbaatar, build 33 four-way intersections at the T-junction intersections most heavily congested with traffic, build two highways parallel to the Tuul and Selbe rivers, build a 300 megawatt power plant near Tavan Tolgoi for the

coal project there as well as Oyu Tolgoi, and construct 1,800 kilometres of rail throughout the country and 270 kilometres of railroad between Tavan Tolgoi and Gashuun Sukhait.

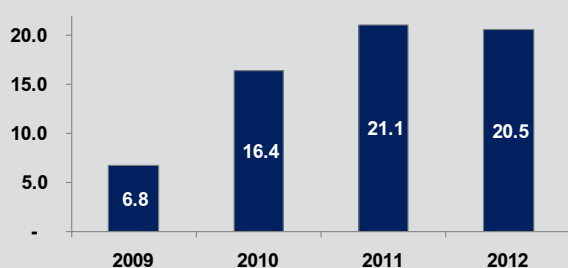
Heavy industry

The Ministry of Industry and Agriculture announced plans to pursue domestic production of refined natural resources such as copper, coal and iron ore for their added value. It also plans to focus more on developing coal to liquid fuel production capabilities and other chemical applications to coal as well as construct a metallurgical coal complex for the Sainshand industrial complex and iron ore deposits in the Darkhan-Selenge region.

Capital

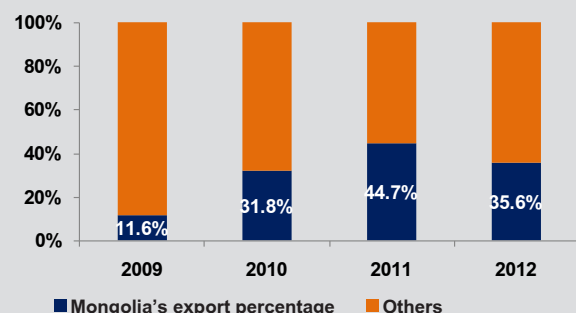
The Ulaanbaatar Citizens Council confirmed a plan to divide the ger district into three areas and manage them as 12 locations as primary and secondary targets. The primary targets cover five locations, including Denjiin Myanga and the

Mongolia's coal export (millions of tonne/s)



Эх сурвалж: National Statistics Office, Mongolian Customs General Administration

China's coke coal import structure (%)



Source: Tex Report, China Coal Resources



seventh khoroolol, that are close to city infrastructure. The secondary targets cover seven locations that lack access to plumbing and the energy grid, requiring new infrastructure, including Khailaast, the Khaniin material market, and Bayankhoshuu.

WORLD

China



Patients will be able to “pay after” they receive medical treatment as part

of a new payment method, China’s Ministry of Health announced. The new payment system will be implemented across the country this year. Patients must pay their bills and then apply for a reimbursement covered by medical insurance, usually more than 70 percent of the total treatment fees.

Japan



Japan’s economy pulled out of its 2012 downturn faster than previously estimated, according to revised GDP. The government said GDP rose at a price-adjusted 0.2 percent in annualised terms in the fourth quarter, up from a previous reading of a 0.4 percent contraction.

India

“India is going to grow by 6 percent next year, and we hope for even more increase in the future,” World Bank President Jim Yong Kim said when he was on visit to India. The Economic Survey has projected growth in the 2013-14 period in the range of 6.1 percent to 6.5 percent.



Car sales in India

dropped 26 percent in February from a year earlier, the steepest fall in 12 years, as a sluggish economy, high fuel prices and rising interest rates continued to crimp consumer demand. It was the fourth straight month of decline and brought sales down to 158,513 vehicles, according to figures released by the Society of Indian Automobile Manufacturers. ■

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Шог зургийг А.Амарсайхан



For The World WATER DAY

By B.ENKHMART

In this edition, *Mongolian Economy* returns to the issue of water management. Much time has passed since water resources and sanitation sent out their SOS for help. As everybody knows water sustains everything; even a single piece of sand on the earth, which is full happiness and sadness.

There are a number of facts and figures from the United States and the research of other nations that can be quite dizzying. These all could fall on deaf ears, but the truth is that every day 6,000 children die of water-related diseases. Young children are the first to get sick and die from waterborne and sanitation-related illnesses—including diarrheal diseases and malaria. Thus, we aimed to provide brief and important reports on efficient water consumption for this edition.

In the past water was never seen as such a vital resource, consumed for drinking, washing and flushing—that's it. But today the importance of water management has raised more and more concerns. It is even classified into "grey", "blue" and "green" varieties, depending on its origin, and reused for a variety of purposes.

In this edition, the article "Liquid Economics" explains the importance of recycling water and the current circumstances of the water economy. According to a World Health Organization and UNICEF report from 2010, 783 million people do not have access to clean water and almost 2.5 billion do not have access to adequate sanitation. These numbers are unlikely to decrease in the near future, but to reach over 60 percent of the world population. We need good management to keep it at 45 percent at least.

In regard to this topic is an interview with Jan Bron, a consultancy team coordinator of the Strengthening Integrated Water Resources Management in Mongolia project.

This edition also includes brilliant ideas and initiatives in a discussion on branding during the Mongolia Economic Forum 2013 and an interview with Gregory Goldhawk, ambassador of the Embassy of Canada in Mongolia.

Also in this issue is an exclusive interview with Willem Kok, a former prime minister of the Netherlands, who spoke during the forum before more than 1,000 delegates from the government, private sector, civil society and international organisations. Here he explains how he managed to transform the Dutch disease into a Dutch miracle.

In following editions, *Mongolian Economy* will present stories on the economy and other important industries from *The Economist* magazine, translated from English to Mongolian. The story "The World is Fat" appears in this edition.

Finally, wish you have a very happy World Water Day on 22 March!

Overview

Aspiring To Global Branding, EXPANDING DOMESTIC SECTORS



BY I. OTGONJARGAL

...The positions of forum speakers became clearer about how the government should participate and cooperate with entrepreneurs and civil society, which distinguished it most from forums in the past. More than six sectors had sufficient equipment and technology, workforce and production capabilities...

Skin and hides, cashmere and wool, textiles, milk and dairy products, meat, and tourism were the industries named by government officials and entrepreneurs to help diversify Mongolia's economy away from mining. "Mongolian Branding and Opportunities" was the main theme for this year's Mongolia Economic Forum. The number of participants and their enthusiasm were no less than that of previous forums. One thing that was clear during the forum was the diversification of Mongolia's economy should be considered a short-term goal.

The mining sector comprises more than 80 percent of total exports, yet only 30 percent is processed domestically. At the opening ceremony of the forum,

Prime Minister Norovyn Altankhuyag emphasised that revenue generated from mines needs to finance development of the other sectors that will diversify the economy.

"Our aim is to create a brand not only nationally or regionally, but globally, and we want it to be focused on the concept of natural attributes. In other words, Mongolia should be branded by its organic products under the definition of 'Mongolia is natural'", said Altankhuyag.

Let us take the prime minister's advice and think about what the people of foreign countries know about Mongolia today. The country may be known to the world best for its development in mining or as the homeland of Genghis (Ch-

inggis) Khaan. These concepts could be used to brand Mongolia's products worldwide. But Mongolians would prefer to be known for their intellect and organic methodology and traditions of respect to nature. Such aspirations and expectations are already deeply rooted in the hearts of government officials, the private sector, civil society organisations and academia. This atmosphere was clearly displayed during the forum.

How far is Mongolia from the global branding markets? Does it have any products that would meet international standards to represent the country to the world? Or, should it create national or regional brands first, before moving forward to global branding? Branding is a matter of time and development. Some say, we could introduce brands comparable to those that currently top the world in 30 or 40 years, while others say Mongolia could create a brand after just two or three years, if wisely managed. ▶▶

▶ Creating a Product We Can Support

Five sessions were held for discussion on branding over the course of two days. There were more than 1,000 delegates from the government, entrepreneurs, civil society and international organisations, in addition to foreign investors such as Lakshmi Venkatachalam, president of Asian Development Bank and Willem Kok, former prime minister of the Netherlands.

The positions of forum speakers became clearer about how the government should participate and cooperate with entrepreneurs and civil society, which distinguished it most from forums in the past. More than six sectors had sufficient equipment and technology, workforce and production capabilities.

Attendees expressed a consensus that Mongolians have a drive to create a brand, any that suits them. But they asked why the forum limited the possibilities to just six types.

"Why don't we discuss IT?" asked one forum attendee. "I am sure IT could represent Mongolia as its seventh brand. Our company produces and exports laptop computers to foreign countries. Now we focus on manufacturing smart phones. Our products meet international standards".

He argued that support for this industry would also bring products such as smart phones to the market at cheaper prices. His words were met with loud applause.

But agricultural producers were just as confident their wool, skin and hide products needed the most support, arguing they had the greatest opportunities to make a grand entrance into international markets. They suggested the government provide soft, long-term loans to light-industry producers to help develop their products and create more jobs.

Lessons from the Cashmere and Wool Industries

The second issue focused upon was taxation. A number of participants suggested a higher customs tax for imports that are available from domestic producers while granting tax benefits and exemptions to those domestic manufacturers. In previous forums delegates discussed the challenges in production with only high-interest short-term loans available to them. This year, the entrepreneurs again kindly reminded government officials that there was no way it could avoid this issue if government sets the goal of creating a national brand and develop production.

In Mongolia, most garments, household and food products are imported. But the country can develop its domestic production.

"For us, it is very important to manufacture value-added end products of a good quality and design. Let us ban the export of unprocessed cashmere. We have

enough industries and workforces to fully process our raw materials", said B. Jargalsaikhan, director of cashmere producer Buyan.

He added that the cashmere industry had the potential to create 40,000 jobs and "no less than USD 1 billion in profits".

The Mongolian Cashmere and Wool Association has developed a project that supports manufacturers and submitted it to government, setting a good example that other sectors of the economy should learn from.

"Since it became clear that money will be spent, we should contribute not only to companies, but the whole sector and develop it into a big incorporation", said Cabinet Minister Saikhanbileg. "On the other hand, there is no state policy to support the herders who provide the raw materials".

He said the lack of support for the nation's herders drove them to deal with foreign merchants and send their materials abroad. He said a government program was in development that would support rural trade better.

"At the initial stage, we need to discuss our capabilities for manufacturing domestic products to replace imported products rather than talking about competing with foreign companies", he said.

Saikhanbileg's comments reflect the goals set by entrepreneurs. He is optimistic that Mongolia can create a brand in a couple of years rather than decades, if the country has the correct policy to lead it. This task will take effort from the private sector just as much as from government, however. Businessmen are the ones who can inspire such optimism and contribute creative ideas to benefit the industry.

Finally, there is the issue of support from government on casting Mongolia's image through marketing and advertising of its products and services. Mongolia's products cannot succeed, domestically or internationally, without advertising, even if it is of a good quality.

For instance, tourism is a very competitive sector that can help to diversify Mongolia's economy. Several years ago, tourism officials set a goal to achieve one million tourists in a year. But no funding has been budgeted for marketing thus far. During the "Mongolia's Tourism Branding" session of the forum, some delegates suggested revolving Mongolia's brands around its nomadic culture, paleontological discoveries and the history Chinggis Khaan.

Some good news in this respect is an advertisement for Mongolia published in National Geographic's *Traveller* magazine.

What was most important about the forum this year is how little companies complained about what had not been given to them or what more they needed. Instead they gathered together to help build a strategy that would bring a Mongolian brand to success.

There is hope that this forum and those in the future will help bring about development to Mongolia's industry and brands that Mongolia can claim as its own. ■

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HOW TO CREATE A BRAND

BY B.UURIINTUYA

This year's theme to the Mongolia Economic Forum 2013 was "Mongolian brand and opportunities". Participating in the forum were representatives of Mongolia's public-private partnerships and various sectors of the economy. Here Mongolian Economy asks delegates about their thoughts on branding.

B. Jargalsaikhan, Director of Buyan
We have skills, practice and experiences

Before creating a brand, one needs to understand [the product] well. A brand is defined by the history, culture and customs of a certain country. For instance, one cashmere sweater from Louis Vuitton costs USD 1,000 on average. The net price to produce that sweater is USD 100. The remaining USD 900 is the value of the culture, history and development of that particular country [where it comes from]. We have to create that.

For Mongolians, it is a little bit early to talk about branding. Yet, we can export garments with the label "Made in Mongolia" through world-renowned brands. We have the opportunity to export global products based on our country's specific character and its resources. For that we need time and a sufficient amount of financing.

Today, Mongolia is not among developed countries. A national brand will need to span two generations to succeed. The wool and cashmere sector needs USD 350 million to create a national brand and develop the sector. We should become an exporter country that creates products with added value

instead of a raw materials supplier. In addition to skills, we have plenty of practice and experience.

O. Amartsengel, Head of the Mongolian Milk Association
Brand creation through the cluster

The creation of a Mongolian brand is an important [goal]. If the outcomes issued by the forum are implemented then it would be a big success. If the framework is formed for producers and the financing issues are also solved, then this cooperation would be fruitful.

I consider the national brand with the motto of Mongolians: "let us become producers". Although we cannot create a worldwide known brand today or tomorrow, we can become a producer country. For that, a cheap source of financing is required.

Mongolian business entrepreneurs don't have the capital funding, basically. Therefore financial sources such as loans and the stock market are needed. For instance, capital from the Chinggis bond could be that source. On the other hand, we wish the government would distribute that financing correctly and pay attention to its development.

Milk and dairy products should be branded. But aside from support to this

sector, logistics is also challenging. Supporting the branding of an industry through cluster development would be the most appropriate method.

B. Indra, Director of the Governing Board of the Mongolian Tourism Organisation

The message in branding should be communicated correctly

Tourism is a risky industry. Theoretically, this sector consists of 16 sub-sectors. It is a pity that the foreign market defines Mongolia's tourism. It is very difficult to evaluate risks today or tomorrow. A survey for risk analysis of the target market is necessary.

About branding: Mongolia has huge potential within its traditions and cultural heritage. Prior to its promotion, Mongolia should be advertised. However if looked at from the perspectives of a tourist, Mongolia is known to the world for its mining. Mongolia is one of only three countries where nomadic culture is alive today. The rich historic culture, the tremendous number of paleontological resources and archeology should be promoted to the foreign market. For that, the public-private partnerships together with regional representatives should create a united brand image. To form that image, we should know our wealth and send a message linked with the needs of the foreign market. Then we can promote this industry. »

► First a brand titled Mongolia should be created; afterwards sub-brands with titles such as “dinosaurs” could be formed out of that. A brand, image, and slogan should not be rushed. The final message should be issued and developed based on survey results.

M. Bold, Chief Executive Officer of Tenger Financial Group
Brands financed from the pension fund

Development financing is based on long-term loans with less interest. Today, Mongolia doesn't have such a system. There is a figure that MNT 11 trillion is circulating within the banking sector. But that is financing for one year. In other words, it's the citizens' personal savings over a period of one year.

There is very little possibility for financing a long-term project with such little savings. Many factors affect this—state and monetary policy, unstable economic conditions, and etcetera. Yet, there is the possibility to use the money from retirement funds for the financing of a long-term loan. In Mongolia, this very little capital is collected there.

For instance, last year this fund could have accumulated MNT 5 trillion or MNT 6 trillion, but it was used for the budget's operational expenditures. The commercial banks could have provided long-term project financing or a financing source from the foreign market. For instance, there are bond issuances or the sale of shares on the foreign stock exchanges that could be used as sources of capital. The export of products that fulfill international-standard requirements using the raw materials available within the domestic market is the start of the creation of a national brand. Mongolian animal husbandry products can stand out for their natural features.

D. Gan-Ochir, Secretary General of the 2013 Mongolia World Economic Forum
The role and attendance of the private sector is important

The public and private sectors, civil

society, associations and non-governmental organisations took active participation [in the forum]. The activities of the forum this year were very efficient. Creation of a national brand should be done mostly by the private sector. The main objective of the Mongolia Economic Forum is to let business entrepreneurs understand the opportunities and discuss solutions. The private sector should find what is necessary for its businesses instead of sitting and waiting. The outcomes of the forum should be introduced at the forum.

A brand is the promotion of what you can do, making the right marketing and defining that product. Worldwide, everyone is going towards the green brand. The national brand should be made just as when Mongolia is being identified with nature.

B. Tumurchuluu, President of Ser-gen Mandal
Create sources for finance

The Mongolia Economic Forum is discussing how to create the best national production. Mongolia does have the capacity and production opportunities to influence the global market. But the long-term policy and a vision are missing. This should be fostered.

Global capital is needed to create a brand for the foreign market. In history, worldwide-known brands were not created using financing from commercial banks. It is essential to provide state support for the promotion of a targeted national brand. In that case, the requirements should be enhanced and areas of competition should be freed up.

Today many countries lack natural foods. Mongolia should open the doors to this possibility using its resources.

Coralie Gevers, Country Manager and Resident Representative of the World Bank
Debates should focus on how rather than what

The Mongolia Economic Forum is evolving very nicely over time. Initially, it was an event where lots of foreigners

took part in helping and organising. Now it has become more a Mongolian event that is led by Mongolian policy makers.

It really shows that the Mongolian government values that dialogue which takes place here. People expect decisions to come out from such events. Frankly, the Mongolia Economic Forum is about consulting and brainstorming meetings.

It is a good topic in the sense that it is useful for Mongolia to have its own brand. The debates should focus on how to create such brands instead of what could be selected as brands. It is really about how to bring the will and the discipline of various producers of those brands. They should set themselves very high standards and abide by them.

Randolph Koppa, President of Trade and Development Bank
Mongolia's blue sky is a brand

Mongolia's blue sky, clean environment and vast land are brands. And from that, organic and natural products, which are still prepared in traditional—therefore healthier ways—could be named as brands. In addition, the remoteness, the uniqueness and the exoteness that Mongolia represents to the rest of the world could be used as well.

Earlier at the forum, there had been discussion about what could be branded and how. Mongolia should look at what the demands are. It should seek its markets, where its brand products could be sold to and fulfil the demands. First, you have to understand the market to promote what you have to offer. Mongolia has to know its advantages. The whole idea of branding takes a while before you pick up a name and it becomes a brand. It starts with a quality product, and then continues to production that meets the demands of the market. Then it can become a brand.

In my opinion, the sector that is closest to becoming a brand is wool and cashmere. Other sectors are equal competitors. However, issues related to logistics, infrastructure or hygiene are causing major problems for Mongolia. ■



Liquid

By E.Zorigt

During the recently held 2013 Mongolia Economy Forum, a break-out session titled “Mongolian Brand and Opportunities” focused on how to take Mongolia as a brand worldwide.

Participants unanimously agreed opportunities existed for branding Mongolia’s agricultural products such as meat, milk and dairy products, skins and hides, and cashmere and wool.

“Mongolia has an opportunity. A brand is an endless resource and is the resources fund for our future generations. Thus, our discussion on this issue today means it will be done in the future”, said Ts. Davaasuren, a member of the State Great Khural and the chairman of the Standing Committee on Budget.

The prime minister and other delegates expressed their like-mindedness. If there is no water and no grass, there would be nothing for livestock. Mongolia’s brand cannot be created without its livestock. This makes water a priority to the country. At the very least, herders

need to be trained to use technology to dig wells. There are plans to drill some 6,000 wells beginning this year to create safe water sources for rural people and their 40 million livestock. Officials at the Ministry of Industry and Agriculture said the plan is likely to be delayed until 2020, due to troubles with finding investment. However, there is huge demand.

But the people of the countryside, their livestock and the pastures they roam face difficulties unless this issue is tackled. Construction will require over MNT 100 billion of investment.

At the forum researchers suggested a number of techniques and practices such as making use of surface water from rivers and lakes, building ponds for water collection, and construction of dams and irrigation channels for agriculture.

The Water Footprint

To give some perspective into how much water is consumed during production, one study revealed that production of a pair of jeans required 11,000 litres

of water in total.

“The whole world is now focused on how much water is used in unit production”, said G. Dolgorsuren, director of the Tuul River Basin Administration and a consulting engineer. “This aims at reducing inefficient water use and consumption while acting as an approach towards water pricing”.

“For example, according to a joint study by the international organisations of Asia, Mongolia has the largest water footprint”. She added, “According to this criterion, the agricultural products should be more expensive”.

Today, Mongolia is listed as the third in the world for its water footprint. How many industrial entities and policy makers in Mongolia know anything about their water footprint? How often is this aspect considered in decision making?

Though officials of the Ministry of Environment and Green Development admitted this was a new concept to the country, they said they were pursuing a detailed study on Mongolia’s water footprint. Delegates at the forum said this idea must be specifically linked to ►



PHOTO BY B.BYAMBA-OCHIR

► how it might affect branding efforts in the country.

The Valley of the Tuul River

One concern for many Mongolians who are directly dependent on and have a great respect for the country's river water is concentrated on the fate of the Tuul River. The State Inspection Agency found the river met the fifth tier of pollution criteria in 2011. Meanwhile 60 to 70 percent of Mongolia's GDP is produced in the Tuul river valley.

Last year, the Law on Water Pollution Fees and the Law on Urban Water Supply and Sewage were approved, but have done little to force people to respect their water resources more and use them more wisely. In any case, the laws are not even enforced very strongly. To do that precise measurement of water usage and ways to identify who is consuming water from where is needed, but water authorities lack the equipment and skills to do so.

The River Basin Organisation was

established by the Environment Ministry to help identify who is polluting the country's water sources. Yet, it is difficult for them to fine offenders and collect those fees because they are not able to administer fines without a detailed assessment of the reason for the fine.

"The polluters are varied, including tanneries, car washes, and hairdressers. That's why there should be a fining system that suits each [industry]. We want to carry out a study to calculate this, but we are not able to do so", said Tuul river authority Dolgorsuren.

Both foreign and national legal entities should use water efficiently, and those who fail to do so should be risking have their operations shut down or facing enormous fees.

G. Munkh-Erdem, director of watering and coordination at the environmental ministry said the Law on Natural Resource Utilisation had introduced a number of new concepts for regulation. He said efficient technology should be used for production and water should be recycled using treatment processes that

meet global standards, while failing to do so should be at the risk of accepting steep fines.

"It is important that large organisations such as those for mining use water efficiently. They should reuse their water", said Munkh-Erdem.

Companies that are able to comply with this law will avoid harsh punishments and, instead, will receive subsidies and assistance.

Housing projects for the city's ger districts have been included in the urban development plans to span to 2030. Though this sounds like good news to most, it could mean disaster for water supply. Water consumption is far less in the ger districts than in apartments, with water usage ranging eight to nine litres and 100 to 120 litres, respectively. With about 60 percent of Ulaanbaatar's population belonging to the ger areas, the consequences could be dire if they all became apartment dwellers without learning the importance of proper water usage. ■

EXPERT

FUTURE OF WATER

BY CH.LUTAA

Jan Bron is the consultancy team coordinator of the Strengthening Integrated Water Resources Management in Mongolia project. The project, which ran from 2007 to 2012, implemented integrated water resource management (IWRM) to create greater capacities for universities and professional institutions as well as the development of a national water management plan and plans for the river basins of the Tuul and Orkhon rivers.



What is Integrated Water Resources Management (IWRM)?

It is easier to say IWRM than to explain IWRM.

Let me first emphasize what IWRM is not: IWRM is not something you can buy or build; it is not possible to do a project and then you have IWRM. IWRM is not something that will ever be completed because IWRM is not something physical with a plan, a design, a construction period and a completion date.

So, what is it? IWRM is a different way of doing things, more specifically a different way of doing water management. But why do we need a different way of doing water management? Well, in our rapidly developing world, with its populations increasing fast, industries developing everywhere, and the demand for food and water becoming more by the day, we found out that the conventional way we used to manage our water resources are not deal-

ing very well with these new challenges. Because of resources and in particular water resources becoming ever more scarce, conflicts over these scarce resources become more and more frequent to an extent that these conflicts even threatened the availability of the very resource even further.

The new way of doing water management should therefore focus on dealing with all these conflicts that arise when a resource becomes scarce. IWRM is thus primarily a conflict management approach. And here we have the keyword: approach. IWRM is an approach! A new approach to water management, but not one single fixed approach; there is not one standard recipe to deal with a problematic water management situation.

What measures need to be taken to develop the water management in Mongolia?

Due to its extreme climate, Mongolia's ecosystems are very vulnerable. As

the growing seasons are very short the environment takes a very long time to recover from damage. Therefore protecting the water quality in the natural water systems should be Mongolia's prime concern.

The rapid socio-economic development of the country tends to concentrate in a few places-Ulaanbaatar being one such a place. Water demand sharply rises there, but at the same time waste production also increases rapidly. Locally the water resources meeting the demands may not suffice, and infrastructure needs to be put in place to transport water from other locations to these socio-economic growth-centres.

But at the same time the waste production and release of pollutants in such centres very soon exceeds the quantities the natural systems can cope with and measures need to be put in place to prevent poisoning the surrounding environment in an irreversible way, as that »



- ▶ would place a very high cost and burden on our future generations and pose a serious threat to the water resources itself.

At the moment, the mining industry is booming in Mongolia. Meanwhile the water issue is becoming more of a concern, especially in the Gobi where water is already scarce. What are your thoughts on this?

You are mixing issues here. The lack of surface water in the Gobi is not a cause of mining causing ecological problems. Look at the mountainous areas further north where there is plenty of surface water. Mining there is causing major ecological problems (maybe even more than in the Gobi).

But, yes, the mining in the Gobi requires considerable amounts of water and the only reserves available that are enough to meet those needs (for the time being) are the deeper groundwater deposits that contain non-renewable

geological water. Moreover that water is not of very good quality. Using that water for mining is not necessarily bad.

First of all mining actually does not consume that much water. Most water for mining is processed water that can—with some investment—be reused over and over again. Using that groundwater for this purpose, this water does generate quite some added value, while there are not that many alternative uses for this water anyway.

Water supply for villages and herds in the Gobi is drawn from the higher fresh water aquifers that are recharged by seasonal streams. Often there is no link between the deep aquifers and the high aquifers, but the geology in the Gobi is extremely complex. And locally there can be great differences—water levels in the higher aquifers could be affected by withdrawing water from the deep aquifers, which that needs to be investigated on a case by case basis, but you will only know for sure when you start pumping.

I consider using the deep groundwater in the Gobi for mining to be justifiable, but you require a very good monitoring system to detect any effects on the higher aquifers and immediately take appropriate action when it does.

Large infrastructural development has been planned for areas in the Gobi, beginning with the Sainshand industrial complex. Are there any experiences from foreign countries Mongolia can learn from?

Examples of somewhat similar situ-

ations, like in the Gobi with its planned developments such as in Sainshand, would be the water supply for California State in the US, mining sites in central and east Australia and in South Africa; but also in locations in Alaska and Canada.

Recently there has been large discussion in the country concerning the use of water that exits Mongolia's borders. This has brought about the concept of "patriotic water"—the practice of conserving the water that runs in the country for domestic use. What is your opinion on this?

Honestly speaking, I find this not a very constructive approach. We all live together in one world and some (usually quite arbitrary) state boundaries should not define ownership of water.

Water in cross-boundary rivers should be shared in a fair way between the riparian countries. I don't think that countries where rivers originate can claim ownership of all the water. In that case a country like Egypt would not have a drop of water if Ethiopia and Uganda would claim all the water in the Nile River.

Just imagine what would happen if we turn this issue completely around and countries would refuse the water coming into their country from their neighbours. Suppose the Netherlands and Germany told Switzerland to keep all the water that flows through the Rhine. Where would they keep it?

Rivers don't respect state boundaries and we have to learn to share rivers»

Definition of:	in wastewater terminology	in virtual water terminology
White water	fresh, potable water	
Black water	sewage water that contains human waste	
Grey water *)	recyclable household wastewater not containing human waste	the volume of fresh water that would be needed to dilute pollution to agreed water quality standards
Blue water		The water in freshwater lakes, rivers and aquifers.
Green water		the soil water from precipitation that is available for plant growth
* Note: "grey water" has two different meanings in water management.		

and their waters in a fair way. The concept of patriotic water is not very conducive for good neighbourship. Besides that, why be so possessive? Mongolia has much more water than it needs also for the far future.

There is not a great deal of awareness around the idea of “grey water” in Mongolia. For instance, fresh water is used to flush toilets. Could you explain what grey water is, as well as other classifications of water?

For nearly all products used in daily life water is utilised to make that product. Some products require much water; others less. The water that is used is more or less embodied in that product. This is referred to as “virtual water” or the water footprint of that product. The water footprint shows volumes of water use and pollution.

A water footprint breaks down into three components: the “blue”, “green” and grey water footprint. Blue water is freshwater that is used from the blue water resources (water stored in water bodies like lakes, rivers and glaciers as well as in ground water aquifers). Green water is water evaporated from the green water resources (rainwater that is retained as soil moisture and used by plants to grow).

The water footprint approach also includes grey water. Grey water takes into account a side effect of producing goods, which is pollution. A very large proportion of domestic water supplied is returned to the system as sewage water. Agricultural and industrial production also causes pollution. The grey water demand can be seen as the volume of fresh water that would be needed to lower the concentration of these pollutants to the standard allowable levels of contamination.

For example, on average, the production of a pair of jeans takes about 6,000 litres of green water and 3,600 litres of blue

water. To reduce the concentration of pollutants from the production processes to permissible levels, another 1,400 litres of fresh water would be required, called grey water.

It should be noted that the term grey water in the virtual water terminology is not the same as what is meant with grey water in terms of wastewater.

You could also say that a certain kind of pollution makes that the volume of water that is needed to dilute that pollution to within permissible levels cannot be used anymore for other purposes, such as drinking water. The concept of ‘grey’ water is a theoretical one that provides an understanding in quantitative terms how pollution affects water availability. Grey water is the volume of fresh and clean water that would be needed—you need to dilute the concentration of pollutants to within standard levels. A major part of the water resources are thus claimed for this purpose.

Obviously treatment of waste water before it is released back to the water system would reduce the grey water demand and leave more water available for other purposes. Depending on local conditions, this grey water can be much higher than the blue water demand (well up to 10 times).

When you add up all the water that is used to produce the things we use and consume, we get the water footprint for consumption.

The table below shows the water footprint of Mongolia’s consumption per capita, shown by major consumption category and by national production (internal) and import (external) compo-

nents. (Period 1996-2005. Source: Mekonnen & Hoekstra, 2011). It shows that 99 percent of Mongolia’s water footprint is due to the consumption of goods and products purchased from markets while only 1 percent of that is due to the direct water use at home.

When we only consider the blue water that is used within Mongolia, the domestic water supply amounts to about 5 percent of the total use of internal blue water. This includes the flushing of toilets, which again would be a fraction of that 5 percent. Although being careful with water at home is helpful and should be encouraged, one could wonder whether recycling domestic waste water for flushing toilets would be an effective water-saving measure. In particular, when prioritising investments and the treatment of domestic and industrial wastewater could potentially decrease the grey water component with a quantity that is at least 10 times larger than what can be gained from the reuse of domestic wastewater.

It is also interesting to note that a massive 93 percent of the water footprint of consumption of Mongolians is from green water; mainly this is moisture from which the grass in the steppes is growing that the animals eat—from which we eat the meat, drink the milk and make our leather and cashmere. This water would evaporate anyhow and could not be used for anything else and would otherwise be lost. This illustrates how the concept of virtual water provides a good understanding of how we use our natural water resources. ■

Water footprint (m ³ /yr/cap)	Internal			External			Total			
	Green	Blue	Grey	Green	Blue	Grey	Green	Blue	Grey	Total
Related to consumption of agricultural products	3327	71	30	197	18	53	3524	89	83	3696
Related to consumption of industrial products	0.0	1.4	23	0.0	1.1	15	0.0	2.5	39	41
Related to domestic water supply	0.0	3.7	34	0.0	0.0	0.0	0.0	3.7	34	37
Total water footprint of national consumption	3327	76	87	197	19	68	3524	95	155	3775



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L. Byambaa's Column

HOW MONGOLIA WILL PERFORM IN 2013

Around 5 percentage points decline in annual GDP growth might sound like a death sentence for some economies, however it is not the case for Mongolia. Even with this decline economy of Mongolia grew 12.3% in 2012 which places the country among top performers straight away. In these circumstances, rightful questions arise as to how solid this growth is, what factors influenced the downward move, and whether the economy can beat itself in 2013.

The main question for passing 2012 was whether developing countries can stay resilient in the declining environment of developed economies. Unfortunately, 2012 has shown that developing countries including China are not that immune to global slowdown, resulting in less than expected growth in China, especially during summer months. Euro zone crisis and U.S. fiscal cliff problems were not resolved, and solutions are not found fast enough resulting in a sluggish global growth at around 3 percent in average. Forecast from major international and financial institutions is given in the table on the right.

Mongolia in 2012

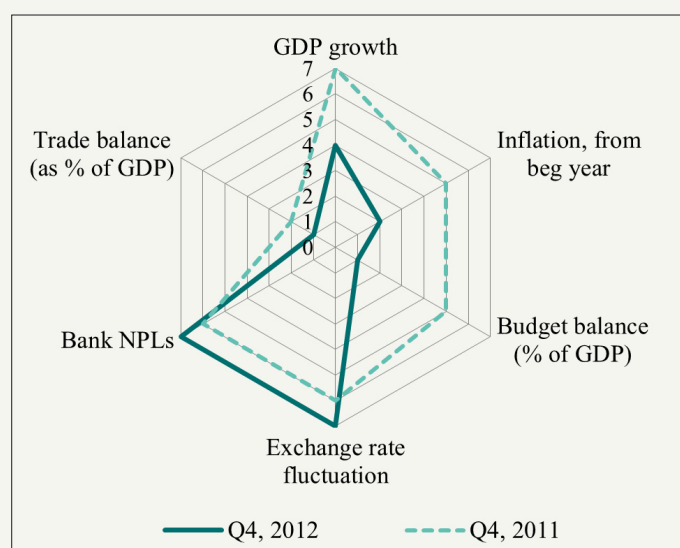
Mongolia was able to stay fairly resilient to a deteriorating external environment, however it couldn't stay totally intact in conditions of turbulent international markets. While some setbacks can be attributed to global, and specifically to China-related factors, it can be concluded that most of downward moves pertain to domestic events. The chart on the right shows a snapshot of the macro-economic health by six major indicators on a scale of seven points (seven being the best and one being the worst score with break even at four) for last quarters of 2011 and 2012. Based on fourth-quarter 2012 preliminary estimates, health score stands at 3.7 points in average which is a decline compared to 5.2 of the same period last year. Out of six indicators, Four have declined and two have performed slightly better year-on-year. Huge fiscal deficit as an outcome of election and social welfare spending and trade deficit resulted by decreased export were the prime reasons that dragged the score down. In addition, inflation that spurred to 14 percent nationwide had a negative effect on the overall economic health. Meanwhile the banking sector has shown improvement measured by the level of non-performing loans and exchange rate stability.

GDP growth forecast in 2012, 2013

	World		US		Euro zone		China	
	2013	2012	2013	2012	2013	2012	2013	2012
IFC	4	3	2.5	1.7	0.8	-0.5	8.1	7.9
World bank	2.4	2.2	2.2	1.8	1.5	-0.4	7.9	9.3
Citibank	2.6	2.5	1.6	2.2	-0.4	-0.7	7.8	7.7

Source: cited institutions as Nov-Dec 2012

Macro-economic health matrix



What are the main factors that will shape the economy in 2013?

- There are several factors that will have a major influence on the economy in 2013. One of those will be political stability in the country and the ability of the government to implement its platform continuously. The role of the government in the economy is growing as the government pursues a policy to increase the size of public investments from the state budget funds, and government eurobond proceeds are about to be allocated to major infrastructure and development projects boosting growth in those sectors.

Another key factor in 2013 will be obviously the Oyu Tolgoi mine and its operations. There will be a drag on the performance of the economy if unsettled issues continue to trigger uncertainty around this mine. The difference of the full impact from Oyu Tolgoi on the economy may account to almost 7 percent of the economy.

In addition, unless enforcement is made clearer, the Strategic Sector Investment Law is likely to curb FDI in the mining sector, having the most impact on new exploration projects. This decrease in FDI might erase the spillover effect mining sector previously had on the private sector.

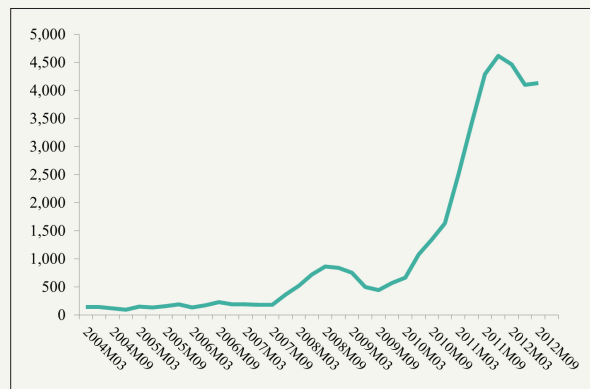
What are the key trends?

We expect that GDP growth in 2013 will remain at similar to 2012 levels. While Oyu Tolgoi production will contribute substantially to GDP, other mining especially junior mining and exploration projects, may shrink with a few exceptions. However, growth in infrastructure and infrastructure logistics sectors will have a replacement effect. In the agricultural sector some decrease may be observed due to harsh winter conditions and consequential livestock loss. Overall, there will be a shift from mining and exploration to infrastructure, logistics and construction sectors. There are number of mega infrastructure projects lined up to start in 2013.

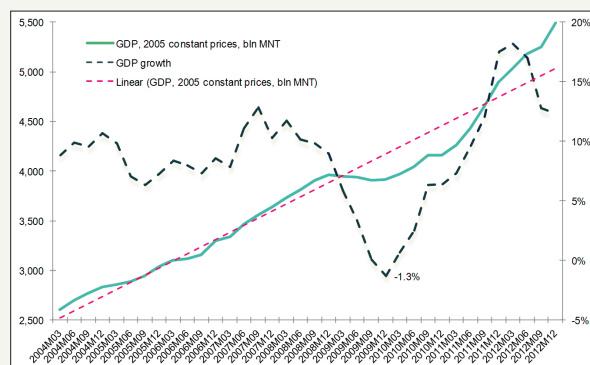
Monetary policy announced by the new Governor of the Bank of Mongolia is likely to have a positive impact on the economy through a subsiding inflation rate. In 2013, it is believed that it may get closer to reaching its target rate. The reason is that the monetary policy coordinated with government action is directed at restricting budget expenditure by capping non-investment expenditures at 40 percent of the GDP and budget deficit at 2 percent of GDP respectively. Also, the Bank of Mongolia has initiated and started to implement several actions directed at smoothing imported inflation specifically related with fuel, construction and consumer goods.

While tight monetary policy will help to reduce inflation, it may not have a positive impact on financing conditions, as it reduces opportunity for loan rates to go down in general. But those sectors that receive policy loans most likely will be able to benefit through decreased financing costs. The ever increasing trade deficit is unlikely to have a steep reversal. Although imports of heavy mining machinery will decrease, it might be replaced by increasing imports of construction materials and road equipment ▶

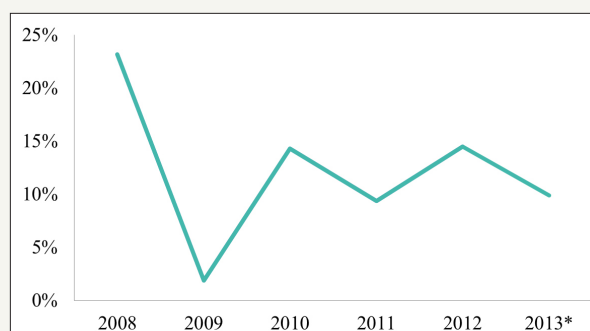
FDI, mln USD



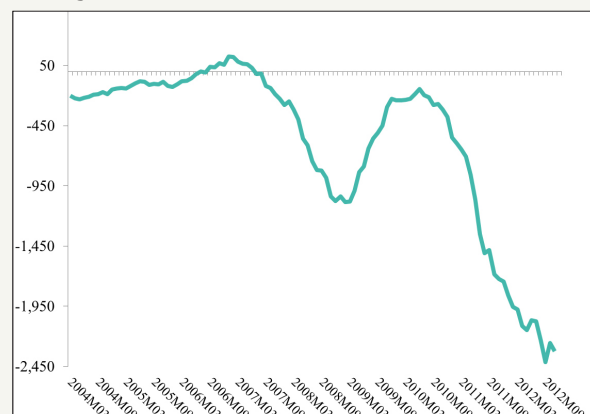
GDP, bln MNT current prices



Inflation rate, %



Foreign trade balance, mln USD



► and machinery. Imports will be supported by increased fuel consumption. It is possible for the trade deficit to stay at the 2012 level, even though coal export volumes remained the same and copper concentrate volumes almost doubled, which will be supported by Oyu Tolgoi production offsetting potential decrease in commodity prices. Although FDI decreased during recent months, reducing inflow of foreign currency, recent government bond proceeds of USD 1.5 billion have set the trend once and for all. As a result, it is expected that throughout 2013, national currency will appreciate slowly and USD-MNT rates will balance

at around 1,250 by the end of the year. Also credit lines by the central bank offered to fuel importers have smoothed sudden foreign currency demand hikes commercial banks used to experience.

Conclusions

2012 has reminded us once again how incredible growth potentials are for Mongolia, but at the same time how fragile the economy is. It is not immune to external shocks and doesn't have thick enough buffer to ease or navigate through cyclical or populist policy movements. It seems that 2013 will mark

a higher growth triggered primarily by public funds investments in infrastructure and construction and, of course, by Oyu Tolgoi. If not carefully managed, this may result in a crowd-out effect of the private sector by the government. Substantial shifts are likely to occur, from private sector to the increased role of the public sector, from mining sector growth to larger shares of infrastructure, logistics and construction, from predominantly an FDI-and international financial institution-financed economy to commercial bond funded economy. ■

Main macroeconomic risks in 2013

Negative consequences	High	<ul style="list-style-type: none"> Increased FX fluctuation Rising inflation Outflow of investment 	<ul style="list-style-type: none"> Harsh winter and massive loss of livestock Distress in construction sector High fiscal deficit, leading to fiscal instability 	<ul style="list-style-type: none"> Heavy involvement of the government in private sector (crowd out effect) Deterioration of investment environment leading to shrinking of mining sector
	Medium	<ul style="list-style-type: none"> New Chinese government policies not favorable for Mongolia 	<ul style="list-style-type: none"> Worsening liquidity of banks Scarcity of loans, reducing turnover of the economy Increased NPLs 	<ul style="list-style-type: none"> Plunging global commodity prices Increase of trade deficit
	Low	<ul style="list-style-type: none"> Epidemics and pandemics in neighboring countries Natural disasters 	<ul style="list-style-type: none"> Increasing prices of imported fuel from Russia 	<ul style="list-style-type: none"> Slow recovery of the global economy
		Low	Medium	High
Probability of occurrence				

Forecast for key indicators in 2013

Үзүүлэлт	2012*	2013**
GDP growth, percent	12.3	10***
Inflation, percent	15	10
Loan interest rates, percent	18	18
USDMNT exchange rate, end year	1390	1250
NPL rate, percent	4.7	8

*2012 preliminary outcome

**2013 forecast

***With Oyu Tolgoi full effect may reach to 17 percent

AMBASSADOR

WALLING OFF YOUR ECONOMY IS NOT A WINNING FORMULA

BY B.ENKHTSETSEG

This year Mongolia and Canada will celebrate the 40th anniversary of their diplomatic relations, as well as the 5th year of the establishment of Canada's resident Embassy in Ulaanbaatar. The second biggest investor of Mongolia after China, Canada's relationship with Mongolia went far beyond mining. For this edition of the Ambassador column, Mongolian Economy invited J. Gregory Goldhawk, Ambassador of Canada in Mongolia, to talk about the current and future opportunities of the two countries. He has been living and working in Mongolia since 2010.

This year Mongolia and Canada will celebrate the 40th anniversary of their diplomatic relations, as well as the 5th year of the establishment of Canada's resident Embassy in Ulaanbaatar. The second biggest investor of Mongolia after China, Canada's relationship with Mongolia went far beyond mining. The column, Ambassador, of Mongolian Economy magazine invited J. Gregory Goldhawk, Ambassador of Canada in

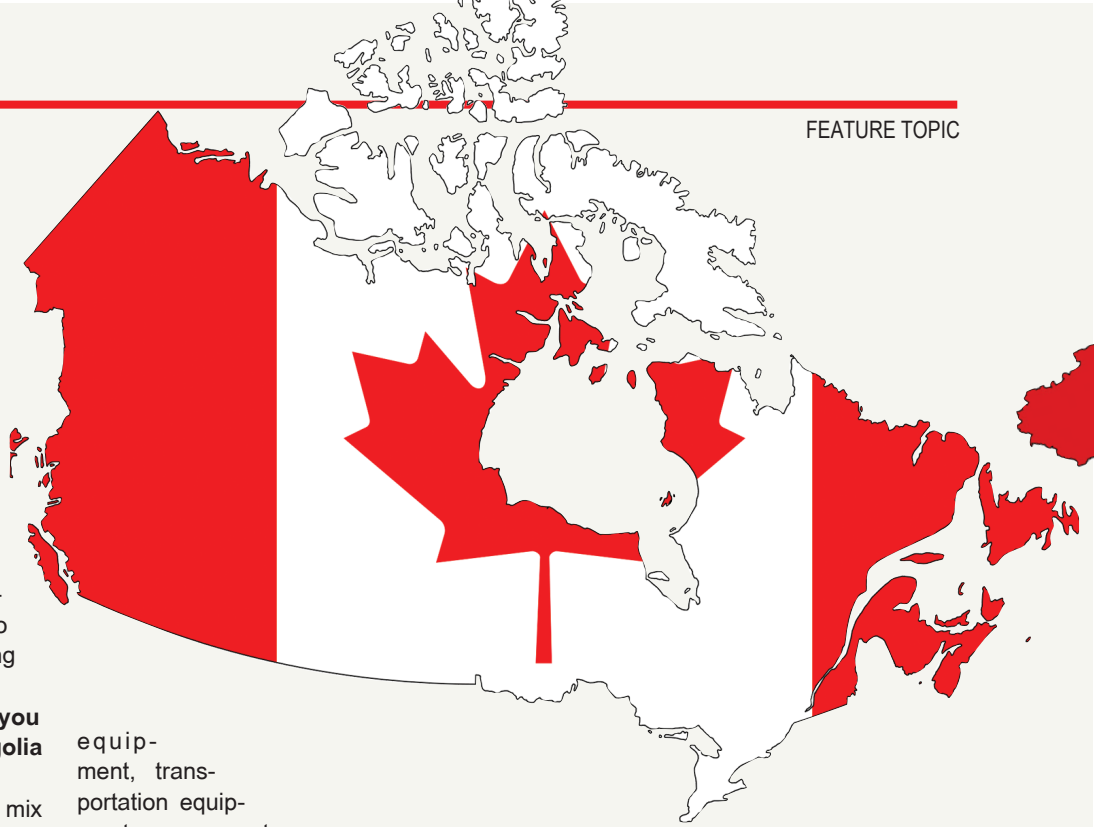
Mongolia this time to talk about current and further opportunities of two countries. He has been living and working in Mongolia since 2010

How did your career lead you to your role as ambassador to Mongolia?

I've always had a strong interest in the international environment, even as a small child. By combining the international affairs with business, my hope at

the time was to position myself to work in an international business environment. I've had a career as a public servant. I've been at the department of foreign affairs and international trade of Canada. I've been a Canadian diplomat since 1981 and have been around the world in the service of my government.

My career mostly focused on commercial files but also general relations. My posting in Mongolia, which I started ▶▶



▶ in August 2010 is my first positing as an ambassador.

I must say I was very excited to come to Mongolia and I'm very excited to be here now because it's a country with a very long and interesting history. It also has a very interesting recent history, with the transition to a different kind of country in 1990. It's a very exciting time to be here in Mongolia today. Everything changes so quickly.

What were the challenges you considered about living in Mongolia before taking your post?

All of these things go into the mix when you're thinking about where you want to be. I certainly knew that coming to Mongolia would be very exciting and challenging for me professionally because of the growing relationship my country has with Mongolia and the pace at which this country is changing. I knew it would be very exciting for me.

At the time I had worries about how well my family—my wife and daughter—would adapt to here because there are different climate challenges and environmental challenges. But everything here has worked out really well. My daughter is in a school she loves, my wife is very involved with the arts community here. We're very happy here. Ulaanbaatar feels like home to us, it really does. When we go away we're happy to come back.

What are the main areas of mutual cooperation between Mongolia and Canada?

The foundation of the relationship is commerce. Mostly that is expressed in Canada's quite significant investment in the mining industry here. We have, according to our statistics, about 30 companies here either in mining or in mining support. There are different ways of account these things, which you'll appreciate, but our estimate is we have accumulatively about USD 5 billion of investment here. We are the second-largest investor after China.

We also have a growing trading relationship, with products and services going back and forth. It's growing quite strongly, about 200 percent over the last year, and increasingly very diversified in the terms of the mix of products going in each direction. It's not just mining equipment now, it's pharmaceuticals, medical

equipment, transportation equipment, garments, and metals. It's becoming more interesting and more diversified.

One of the things that's become more clear to me over the last two years, and particularly the last year, is the relationship is advancing beyond just commerce and mining. We have a really incredibly growing relationship with Mongolia on a wide range of things that don't necessarily involve mining. We collaborate on things like the development of Mongolia's military capacity and peacekeeping capabilities. We're working with our Mongolian friends on the reform of public service.

It seems like I discover every day a new area where some Canadian entity, whether commercial or noncommercial, is building a relationship with a Mongolian counterpart in ways that I didn't know.

I think the fact that our relationship about more than mining and commerce makes it a more robust, stronger, and interesting dialogue between our two countries.

How would you comment on the current political and business atmosphere in Mongolia?

There's one thing that's clear to me having lived and worked around the world. In Asia, America, and Europe the commercial and political environment interact very closely. If one is bad, the other is not likely to be good.

Part of my job is to understand the commercial and political environments because they interact very closely. When I'm talking with companies here—and not just Canadian or even foreign companies, but also when I'm talking with large

Mongolian companies—I'm getting a consistent message that in the last 10 months or year they've sensed a sort of uncertainty rising in the policy environment here. We've seen a steady accumulation in things in the political environment: the foreign investment law, the rhetoric surrounding the election, the call after the elections by some parliamentarians to re-open the Oyu Tolgoi agreement. Now we have the draft Minerals Law.

I'm not saying they're negative or positive, but they certainly have created a lot of uncertainty in the minds of a lot of investors. I think this has impacted business confidence.

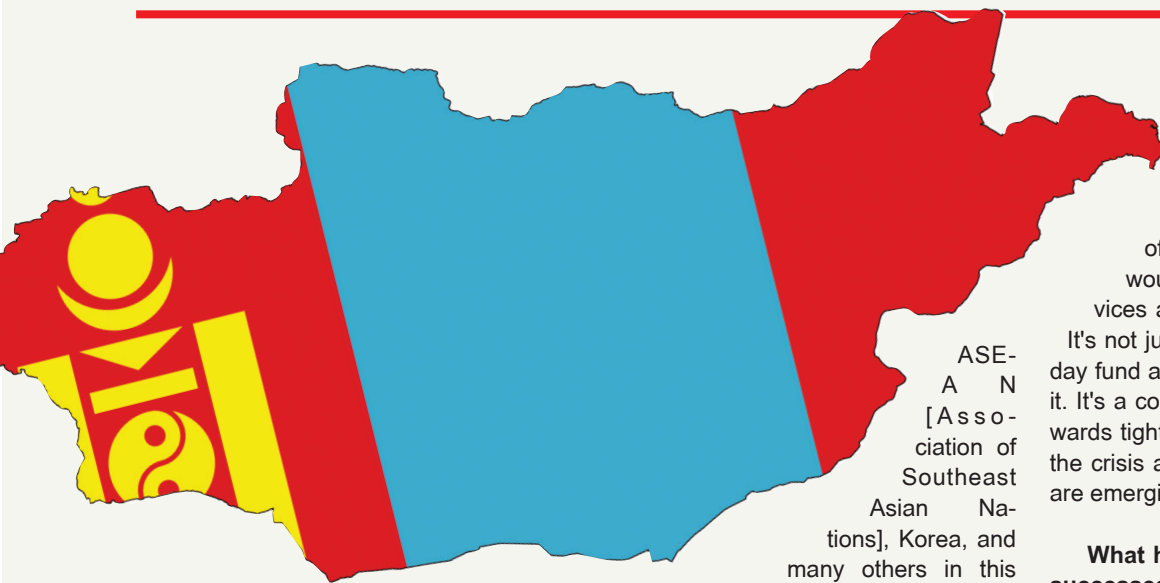
"Should We come to Mongolia now or should we wait? Should we come to Mongolia or someplace else?"

That's what I'm hearing, not just from Canadians and not just from other countries, I'm even hearing that from Mongolian investors now. That uncertainty is affecting their plans to expand their businesses, hire people, and pay taxes.

What experiences can Canada share with Mongolia?

I would say that stability counts. Business confidence counts. It sounds ephemeral but it's real. When businesses feel confident they make decisions they think result in economic growth, employment, tax revenues, and others kinds of things we would hope for a growing economy.

In Canada we built out our economy, like Mongolia, on the foundations of natural resources. In the course of the evolution of our economy we have made mistakes and tried to learn from those mis- ▶▶



ASEAN [Association of Southeast Asian Nations], Korea, and many others in this part of the world.

We may have gotten off to a slow start, but we're running very hard now, I would say.

takes. Hopefully, we can share with our Mongolian friends our own experiences. Not that every experience we've had is relevant to Mongolia, but maybe there are lessons in there that can be applied to the Mongolian case. That's what we're trying to share. We've had our own very long, very turbulent, and very recent debate about the role of foreign investment, and the role over state-owned foreign investors in our economy. I'm not going to pretend that in Canada the debate about investment and what kind of investment we want and where it's coming from is over.

It continues to evolve but we're hoping we can share some of our experiences as a country that shares a lot of similarities with Mongolia: big country, small populations, challenging geography and climate. We come from resource-based countries. We're coming from the same starting point. Maybe there are some things we can share with Mongolian policy thinkers and avoid some of the things that we had done in the past that we maybe wish we hadn't done.

How would you describe Canada's development of interests in this part of the world?

Canada has in some respects been slower than some Western economies and slower than many academic and business communities would like to recognize the increasing importance of Asia. That having been said, my prime minister has certainly made it very clear that for Canada a reorientation of Asia as the emerging global engine of world growth is important and probably inevitable. So we've been investing more and more in diversifying our economic contacts as well as our political contacts with Asia, the

Mongolia is now struggling with maintaining strong fiscal policy. Does Canada, too, suffer from these challenges? Does it manage with a fiscal stability fund or any other mechanisms?

In a way, the global financial crisis never happened in Canada. Our banking and financial regulations did not permit a lot of the financial risk-taking that made financial institutions in other countries, most notably the US, so exposed to a downturn. We just didn't permit them to invest in the kind of products and the kind of behaviors that put our banks at risk in a way the banks in other jurisdictions did.

We didn't have the degree of downturn that some economies did. Housing prices stayed quite strong in Canada, unemployment, though it went up, stayed relatively low vis-a-vis the US, for example. We pass through the period of the global financial crisis quite well.

The other thing that helped us do that was a very strong degree of fiscal discipline on the part of our national government. Prior to the financial crisis we had quite a long succession, either eight or 10 years, of budget surpluses, which help cushion us through the crisis a little bit. The government currently has in place a deficit reduction action plan (DRAP) designed to further tighten down budgets and control spending with the objective of keeping our fiscal situation in a positive balance. It's an on-going objective we have.

We don't have a stability fund nationally. We don't have a rainy day fund. For us it's a continuous process of trying to keep budgets down, keep budgets in balance and derive the maximum amount

of efficiency as most Canadian would want out of the public services at the minimum possible cost.

It's not just a process of here's a rainy day fund and we'll dip into it as we need it. It's a constant process of evolving towards tighter fiscal discipline throughout the crisis and now, as we're hoping, we are emerging from the crisis.

What have been Canada's biggest successes and achievements in its history?

When I think about it, one of the lessons we had to learn as a country was that foreign investment is good. We have gone through a national debate in the past in which there was strong public focus on the level of foreign investment. We've had national debates on whether or not the level of foreign investment in industries was compromising our political sovereignty.

For us the focus of some of these worries has been the US, which is an economy 10 times the size of us and a population 10 times the size of us. For a lot of Canadians there were huge debates about whether or not we were losing our political sovereignty as a consequence of heavy foreign investment in major industries.

I think at a certain point in time in our history we enacted laws and regulations that had a very bad effect on foreign investment. It sent the signal that we didn't really want foreign investment. We enacted laws that put fairly heavy regulatory burdens on companies. We lost out on a lot of investment that might have been good for our economy, created a lot of jobs, and a lot of wealth.

A couple of decades ago we went through some new thinking about it. We tried to create a business environment that welcomed foreign investment because we came to a recognition that we need foreign investment to achieve our economic goals.

More recently, to assure you that this debate has not completely gone, we recently went through a big national debate on two very big investments on two state-owned foreign firms. One was SENAC, China's national oil company, in our oil-sands project. Another was a similar investment by Malaysia's state-owned petroleum firm, Petronas. These ▶▶

▶ two sparked a lot of debate. Canadians have spent 20 years reducing the level of government involvement in our economy. As our prime minister said, we didn't make big sacrifices and work hard to get the Canadian government out of our economic activity just to give it to foreign governments.

We did approve those two investments, two multi-billion dollar investments. But the whole debate has sparked new rules about the terms under which we're willing to allow foreign state-owned entities to invest in Canada versus foreign commercially owned companies.

The other lesson we've learned over the past couple of decades is one of the things that was a big economic debate was the free trade agreement with the United States first, then the North American agreement that now embraces Mexico as well. There was huge debate in our economy about free trade. There were arguments we would lose our economic sovereignty in the face of this much larger economic partner and we would suffer massive disruptions in our economy as a consequence of adjusting to a free-trade regime.

We did go through some very wrenching adjustments with free trade. Whole industries disappeared, but whole new industries appeared. Industries that we thought would disappear actually became stronger. In fact, since free trade Canadian exports have increased. Free trade was a really winning proposition for Canada. It fundamentally restructured our economy in a way that made it much more internationally competitive than it was when it was sitting behind barriers to commerce. It was painful but the end result was a much more internationally competitive economy that what we had before free trade.

For Canada in the last 30 years, those were the two lessons we had to learn. Free trade can work. Walling off your economy is not a winning formula in an economy that is becoming increasingly more globalised in the terms of financing, products, and innovation.

What kind of investments most interest Canada regarding Mongolia.

Mining predominates for the moment. I can see that it's beginning to diversify more. Canadian companies are starting to express interest in education. We've

seen recent influx of interest by Canadian companies in the medical area. I only learned just recently that Canada is funding a very large number of research studies in Mongolia on health with the objective of trying to provide good advice to policy makers here for things like pollution and prenatal care.

We're forming partnerships with teaching institutions here to share curriculum and share teachers. A lot of the Canadian companies here have their own trading training? programs for their own staff. But we're starting to see interest by Canadian teaching institutions to come here and make partnerships. For example, right now we have one between the university of British Columbia and MUST to share curricula, teaching materials, and students on mining engineering, among other things.

We're hoping to have the first-ever

3,700 Canadians, I think, came here last year. That's actually an increase of almost 50 percent over the previous year. It's really growing really fast.

The first barrier is awareness. Canadians until now haven't been focused on Mongolia as a place where something interesting is happening. But more and more in the Canadian consciousness, we're seeing people coming to the understanding that there's this place called Mongolia in north Central Asia and there's something really interesting happening there. I think some of that growth is just coming from people becoming more aware of Mongolia as an interesting partner for Canada.

I used to joke that I had to show people in Canada where Mongolia was on the map. I don't have to do that anymore. People know where Mongolia is on the map. They can find it; they don't need my



Canadian education fair, which we hope will bring some Canadian institutions here, not just to look at recruiting students but also as a place where they can implant a campus or make a partnership with a local firm that will improve the capacity of Mongolia to produce the labour force we think it will need in the coming years.

What barriers do Canadian firms find most troubling when trying to conduct business in Mongolia?

First of all we get a fairly modest number of Canadians who come here each year. It's growing really fast. According to your own government's statistics, about

help.

For a lot of people that come here and want to do business, we still have a long way to go here in terms of creating a regulatory environment and legal environment that is more predictable and stable that would give business persons from around the world the confidence that they can be a part of this economic success story called Mongolia.

The barrier is in part psychological and in part the current state of the legal and regulatory infrastructure of Mongolia that make it sort of difficult to start to sustain a business here. We're trying to help with that with our support for public reform. ■



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 March:

BUSINESS

U.S. RAISES SERIOUS CONCERNS OVER OT'S ENVIRONMENTAL, SOCIAL IMPACT

World number two miner Rio Tinto PLC has suffered another setback at the Oyu Tolgoi copper mine in Mongolia after the United States refused to vote on World Bank funding to expand the massive copper-gold project in Mongolia.

Operator Turquoise Hill Resources, which is controlled by Rio Tinto, has already spent more than USD 6 billion on the mine in the south Gobi Desert, where it hopes to start commercial production by June. The additional USD 4.5 billion debt package being negotiated with the International Finance Corporation (IFC), the World Bank's private sector arm, the European Bank for Reconstruction and Development and several private institutions is needed to develop Oyu Tolgoi to full capacity with an underground mine to complement the open pit.

The Inter Press Service reported Friday the U.S. decision to abstain from voting would not derail IFC funding of the giant mine, but would add further pressure to make substantial changes to the controversial project.

"[T]he United States' review of the Environment and Social Impact Assessment (ESIA) for the project has raised concerns in a number of areas," a position paper, dated last February but publicly released this week, states.

"First, the United States believes the ESIA has gaps in critically important information, particularly related to the operations phase of the project and mine closure... Second, the ESIA does not provide a sufficiently detailed analysis of associated facilities and cumulative impacts.

"In particular, the policy statement notes that the impact assessment, which currently focuses almost exclusively on the project's construction rather than its potential operation, covers this planned expansion 'only lightly.' The document also draws attention to long-standing complaints from local herder communities, currently pending before a World Bank Group auditor. The U.S. says it is 'keenly interested in the outcome' of this review."

Source: Mining.com

ECONOMY

Mongolia to ease investment limit in SEFIL

Mongolia will ease limits on foreign investment that

requires parliamentary approval even as it restricts overseas ownership in industries such as mining amid a dispute with Rio Tinto PLC.

"Today at the cabinet meeting this issue will be addressed and there will be changes in the law in the near future so that the international community and investors will be happy," he said.

Mongolia passed a law last May restricting foreign companies from buying control of assets in industries including mining, telecommunications, media and financial services. The law blocked Aluminum Corp. of China Ltd.'s plan to buy coal miner SouthGobi Resources Ltd. The change "will start the deal flow from investors, which has been stopped since last May," said Jim Dwyer, executive director of the Business Council of Mongolia (BCM), which represents more than 200 organizations and companies working in the nation. "It's good for the country to have foreign investment start up again after some nine months."

The Strategic Entities Foreign Investment Law (SEFIL) required any deal worth more than MNT 100 billion involving the transfer of more than 49 percent of a Mongolian company to a

foreign group to be referred to parliament for approval. SouthGobi later came under Rio Tinto's control after the London-based company took a majority stake in the coal miner's parent company.

Source: Bloomberg

POLITICS

GOVERNMENT MAKES DEMANDS FOR OT

Though the government has taken time out again from its Oyu Tolgoi negotiations with its private partners, it has released a number of requirements it says are needed for compliance with the 2009 investment agreement and Mongolian law.

The Mongolian government has demanded from investors an explanation for increased investment into the project and proper implementation of the feasibility study. It believes that investors have deliberately breached the agreement made on 2009, claiming costs had soared USD 2 billion above the initial USD 5.1 billion projection. Government has also demanded a breakdown of all expenses.

The added costs would have the government wait longer before it could collect dividends for its shares from the original expected date of 2019.

Another allegation is ➤

▶ that management costs are two to 2.5 times higher than international standards. Although spending for management was originally projected at USD 321.4 million for the 2010-2013 period, that figure nearly doubled to 321.4 million. The investment agreement mandates management costs stay below 3 percent of investment.

The government has also claimed that prime investor Rio Tinto PLC hid a point of conflict of interest regarding its legal advisor Goldman Sachs Group Inc. Government laid fault onto Rio Tinto for not informing it that Goldman Sachs held shares of 66 percent-stakeholder in the Oyu Tolgoi project Ivanhoe Mines Ltd. (now called Turquoise Hill Resources Ltd.)

and its majority stakeholder Rio Tinto while acting as its legal advisor.

Another claim alleges that Entree Gold Inc.'s 30 percent ownership of special licenses held by Oyu Tolgoi LLC was in breach of Mongolian law. Under the 2009 investment agreement, the former minister of mineral resources was permitted to transition the 3148X and 3150X licenses for exploration to mining, which took effect three weeks after signing of the agreement. However, the government has found this to be in violation of the Minerals Law, which only allows for such decisions to be made by the Mineral Resource Authority. Acting in this way resulted in a stake of 26 percent

rather than 34 percent, which would eventually mean a loss of USD 1.4 billion for the Mongolian government in dividends earned.

Rio Tinto must operate in line with projections outlined in the feasibility study, said the government, and in full compliance with the Minerals Law and Companies Law. That includes mining the deposit without exhausting its resources and abstaining from mining activity at select areas with high-grade mineralization. The feasibility study outlines the extraction of a quarter of copper reserves and a third of gold reserves. It has also alleged that investors constructed concentrate containers in China without permission from the Representative

Leading Council and is in violation of Clause 8.1 of the investment agreement by not providing equal payment to Mongolian and foreign employees.

The government has also called for talks to address the issue of Resolution No. 57, which would allow it to increase its stake in the project from 34 percent to 51 percent. It also feels it is owed compensation for Rio Tinto's USD 4 billion in purchases for 51 percent interest in Turquoise Hill Resources Ltd. (then called Ivanhoe Mines Ltd.)

The compound violations are reason enough for review of the agreement, said the government. ■

Source: Cover Mongolia

KHATAN TUUL
Pure Water

Packaging quantity of Pure water:

0.35 L /bottled/	Маркетинг: 99071655
0.6 L /bottled/	Захиалга авах утас: 70173386
1 L /bottled/	Факс: 976-11-70174494
19 L /ballon/	

Produced and bottled by "Welmon Trade" Co., Ltd of Mongolia