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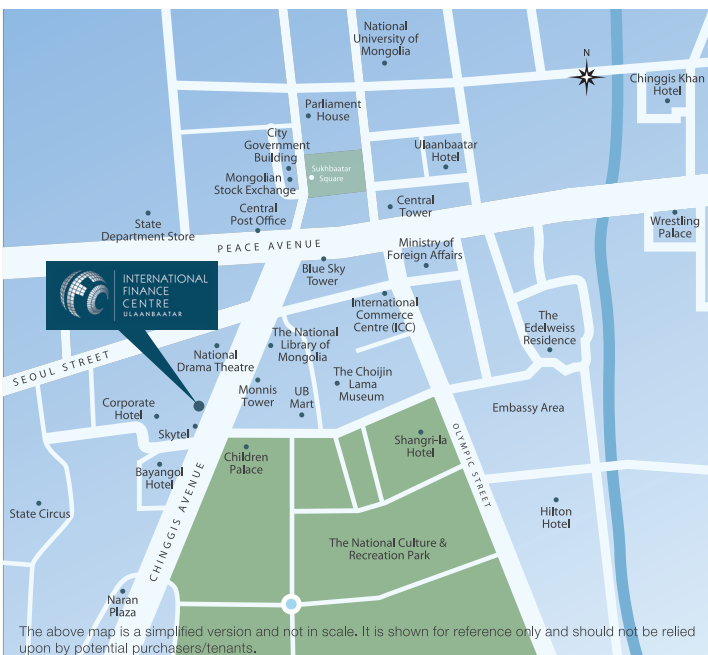


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# MONGOLIAN ECONOMY

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**Democratic Party Will Carry The Heaviest**

The fourth democratic election of Mongolia was held on June 28. The distinction between this year's elections from past years was the elimination of the hand counting system, replaced by automatic vote tallying machines, and the introduction of a mixed electorate system that asked voters to choose both a candidate who would represent his or her district and a party...9



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**SECURITIES**



The Mongolian government has decided to grant one preferred share from Erdenes MGL to every citizen. This type of share would allow its holders to receive dividends before the government and regular shareholders. Erdenes MGL has interests in two subsidiary companies, Oyu Tolgoi and Erdenes Tavan Tolgoi, as well as three special licences for the Shivee Owoo coal deposit. The grant of shares would allow individuals to benefit from the national strategic mines for their entire lives. Erdenes MGL has 100 million regular shares and 3 million preferred shares. Any registered citizens without any civil offenses will be entitled to one preferred share. However, these shares

are illegal to sell, transfer or inherit. Any change in citizenship will result in the forfeit of one's right to his or her share.

**CONSTRUCTION**

Parliament has ratified a new development plan for a community near the new airport planned for Khushig Valley in Tuv Aimag. Construction to the airport is already underway and will be completed by 2015. The airport will hold up to six aeroplanes at once and will serve 1.6 million passengers a year. The city is planned for a population of 100,000, many of whom would staff the airport. The new city will have access to agriculture, manufacturing and infrastructure from elsewhere while focusing on tourism, food and light industry, renewable energy and information technology.

**WELFARE**

The government has decided in favour

of monthly allowances of MNT 15 thousand to children under 18 years old and MNT 10 thousand for adults above 18 who are in dire need of help from the government. Around 80,000 families are expected to be included in the program.

**LIVESTOCK**

With 15 million newborn cattle this year, Mongolia's livestock population has reached 50 million. Minister of Food, Agriculture and Light Industry T. Badamjunai said it was important to improve social care and loan allowances for herders.

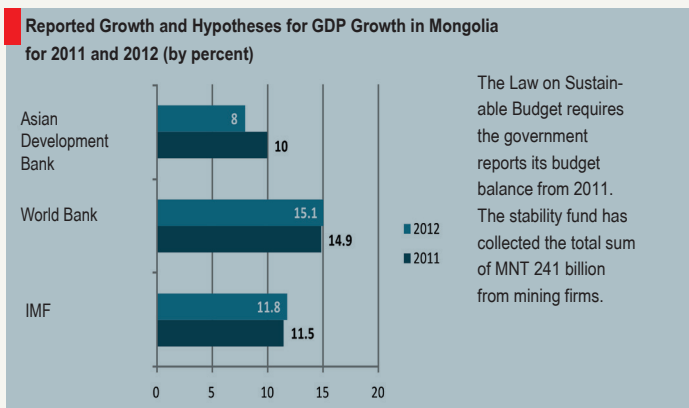
**INFRASTRUCTURE**

Parliament ratified its master plan for the Sainshand Industrial Complex, where construction began on June 25. The government plans to establish the Sainshand state-owned company, which would be responsible for the construction of the

complex. The financing for infrastructure, technical economic analysis and plans for development will be included in the Dundgobi Aimag provincial budget. The master plan is divided into 12 phases, including plans for the construction of facilities to produce coking coal, copper, iron and cement. In addition, a complete transportation network will be built in order to transport the expected 12 tonnes of raw materials and seven tonnes of processed products to come from the complex. Additional plans include for the creations of 400 new jobs as well as the construction of 7,300 homes, seven laboratories, a hospital and five kindergartens. The current estimated cost for the project is USD 9.3 billion.

**WORLD BANK**

The Mongolian economy is maintaining its fast pace of growth with 16.7 percent economic growth in the



**Hypothesis of GDP growth for 2011-2012 (by percent)**

	World		USA		Euro zone		China	
	2011	2012	2011	2012	2011	2012	2011	2012
IMF	3.6	4	1.4	2.2	1.1	1.6	9.3	9.1
World Bank	3.2	3.6	2.6	2.9	1.7	1.8	9.3	8.7
Fitch	3	2.4	1.7	1.8	1.6	0.4	9	8.5
Goldman Sachs	3	3.2	1.6	2	-1.6	0.1	9.1	8.6
Standard Chartered	3	2.2	1.8	1.7	1.5	-1.5	9.2	8.1

first quarter. Whole sale and retail trade, which grew by 51 percent, played a major role in the growth. The transportation sector experienced growth of 11.7 percent. However, the government's expenses have exceeded its own revenue growth, reflecting an imbalance in the state budget.

## FOREIGN TRADE

The volume of exported Mongolian mineral products has increased by five percent to 94 percent, while the volume of other exported goods decreased 4 percent. The four main raw material exports are coal, copper concentrate, iron ore and crude oil, which comprise 91 percent of all mineral exports and 84 percent of total export volume. The export of cashmere and wool products decreased by 26 percent, reducing total export growth by 3.4 percent, said a foreign trade review of the Bank of Mongolia.

## RUSSIA

A new World Bank survey ranks Moscow as the worst of 30 Russian cities for conducting business. The news was a major embarrassment to Mayor Sergei Sobyenin, who promised that companies would face fewer hassles. This has skewed the data for Russia's position in the

*Doing Business* global survey because it uses Moscow as a basis for its conclusions about the entire country. The latest worldwide *Doing Business* report was released in October, rating countries in 10 categories. Russia was ranked 120th out of 183 countries on the basis of ease for doing business. But Russia is also among the 30 national economies that improved most since 2005, having introduced more business friendly regulations. Constructing a warehouse and providing access to utilities required as few as 16 steps in Murmansk compared with 47 in Moscow, reported the World Bank.

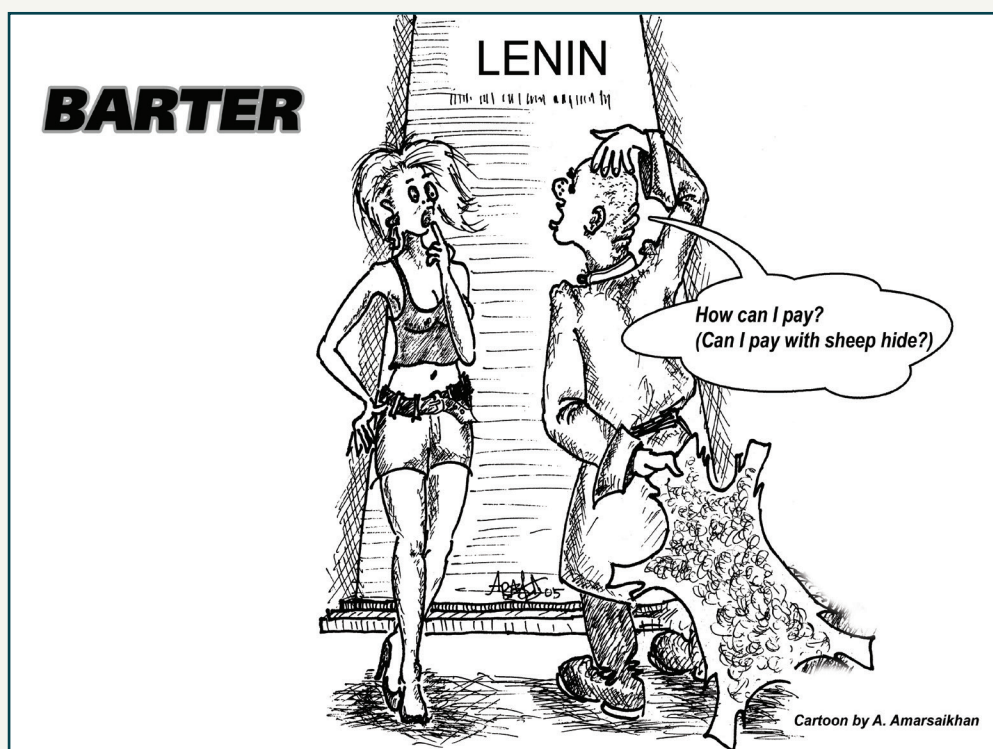
## CHINA

China has opened up its banking system to private-sector investors, the latest move by Beijing aimed at underpinning



economic growth. China said that private investors would have the same rights as state firms when trying to invest in domestic banks. Despite China's strong economic growth, critics say expansion has been hampered by an inefficient banking sector. China recently opened up other sectors such as energy and

telecommunications. The hope is that by attracting new foreign investment, China can stimulate a fresh and enduring phase of economic development. According to the new rules, private-sector investors will be allowed to purchase stakes in Chinese banks through a number of means including stock placements, new share subscriptions, equity transfers, and mergers and acquisitions. One of the areas where China has seen problems has been in the way banks lend to small and medium-sized businesses. This has seen an increase in the amount of illegal and non-sanctioned lending, a problem that policymakers have said they want to reduce.



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## POLITICS

## DEMOCRATIC PARTY WILL CARRY THE HEAVIEST

BY B. ENKHTSETSEG

The fourth democratic election of Mongolia was held on June 28. The distinction between this year's elections from past years was the elimination of the hand counting system, replaced by automatic vote tallying machines, and the introduction of a mixed electorate system that asked voters to choose both a candidate who would represent his or her district and a party.

According to unofficial preliminary results posted by the General Election Committee two days after the election, the Democratic Party took 22 seats from the 48 seats contested by direct vote, while the Mongolia People's Party took 19. The Mongolian People's Revolutionary Party (MPRP) and Mongolian Republican Party's Justice Coalition took four, and Independent candidates took three.

Although the Civil Will-Green Party (CWGP) left empty handed in the direct vote, they still have a chance to win some of the 28 seats via the proportional electorate vote. The 28 seats are to be divided among the parties depending on each party's turnout, with candidates chosen from party lists. The Democratic Party is expected to take 10 more seats, the People's party to take nine, the Justice Coalition to take seven, and the CWGP party to take two seats.

No one has official claim to the seats for the Bayanzurkh and Songino Khaikhan Districts because neither reached the 28 percent threshold needed according to the new election law. Soon there will be a recount to tally the votes and determine to whom those last two seats will go.

But the result of the recount will not change the general results of the 2012 election. Instead, it will either widen or lessen the gap between the Democratic Party's lead over the

People's Party. Like in the 2008 election, none of the parties managed to snatch enough seats to form a new government alone. But the Democratic Party has more seats than any of its rivals, and so will have the first chance at trying to strike up a partnership for a coalition government.

The lucky suitor for the democrats to woo will likely be either the People's Party or Justice Coalition, as none of the other parties have enough representatives to help it take a majority. There are a number of scenarios where the Democratic Party sides with either the People's Party or Justice Coalition, but it is clear who will have the heaviest sway.

In Ulaanbaatar, however, the Democratic Party is the clear winner, taking 26 seats against the People Party's 14 in the city council. ■

Unofficial Preliminary Election Result

Party	Direct Vote	Proportional Vote	Percent of the vote to parties	Total seats on parties	Possible seats after the recount	City Council seats
Democratic Party	21	10	35.32%	31	32	26
Mongolian People's Party	19	9	31.31%	28	29	14
MPRP-MNDP Justice Coalition	4	7	22.31%	11		4
Civil Will-Green Party	-	2	5.51%	2		1
Independents	3	-	1.36%	3		

GLOBAL LEADER

## “GREEN” PRESIDENT

Attendees from over 20 media houses from around the world proclaimed President Elbegdorj as the “Green President”. Mongolia’s president has become a green shining star.

BY E. ZORIGT

It is an honour to know that our president has been named “The Policy Leader” at this Year’s U.N. Global Leader awards.

The U.N. Environmental Programme named President Ts. Elbegdorj as the recipient of this award to the Global Leader 2012 awards held in Rio De Janeiro, Brazil. Attendees from over 20 media houses from around the world proclaimed President Elbegdorj as the “Green President”.

“We are delighted to express our deepest gratitude to President Ts. Elbegdorj, who has initiated and enforced environmental protection actions in his country and at the international stage” said Achim Steiner, director of the U.N. Environment Programme.

Mongolia’s president has become a green shining star. Previous recipients of the “Policy Leader” award are Nobel Prize holder and former Russian President Mikhail Gorbachev, former U.S. President Al Gore, Mexican President Felipe Calderon, Maldivian President Mohamed Nasheed and Monaco’s Prince Albert II. What did the Mongolian president do to be awarded with such an honourable prize?



### The Green Agenda

The change of grass and leaves from green to yellow is the first indication of autumn. But there was red, pink, white and blue everywhere as if colourful flowers were flourishing. The cheerful sounds of children are music to the world. Every year on September 1 is vibrant like this.

Pupils in their classroom wait for the bell to ring, signalling the break from classes. However, the first day of school in 2009 was somehow different and more silent. On that day Elbegdorj lectured on global

warming at School No. 3 of the Sukhbaatar District in Ulaanbaatar. Since then, every year the president speaks on global issues with pupils for the so-called “Second Hour Lesson”.

There is a saying: “Planting a tree means a blessing for a lifetime, and two trees mean a blessing for the afterlife”. If two million trees were planted, how many blessing would that make? The president has established a national holiday devoted to planting trees. It is part of an initiative to plant two million trees every year. If each person planted 10 trees throughout the world, mankind ▶

► would plant approximately 70 billion trees every single year. It is a good thought.

It is sad to see nature upheaved, and images of this caused by mining can be seen almost everywhere in Mongolia. Historic places such as Zaamar in Tuv Aimag, Uyanga and Bat-Ulzii Souns in Uvurkhangai Aimag, and Yeruu and Mandal Souns in Selenge Aimag have become just memories. Seeing one's country turn barren, without flowers to flourish or water to flow, leave one with nothing more than emptiness. When 46 percent of Mongolia's territory was regulated to mining, Elbegdorj sided with the environment when he ordered a halt to license granting. Actions such as these have made the president a leader of the world.

The president has initiated many environmentally friendly activities such as his introduction and later ratification of legislation to improve air quality in Ulaanbaatar, support for

renewable energy and battle against desertification.

He is also an active member of many organizations that exist for the protection of the environment. For example, the president is a member of the United Nations' council against climate change and the water resource protection group from the Davos economic forum. In 2010, the government organised its assembly in the Gobi and sent a proclamation to the United Nations. The water resource group has since decided to include Mongolia in its research. The first steps for cooperation have been taken.

Candidates are nominated by the U.N. Environment Programme, and later the winner is chosen after leaders conduct a poll. Voters said Elbegdorj has played a great role in protecting the environment, and introducing effective policies, and has proven his abilities to act as a real leader.

When Mongolia was experiencing rapid economic development, *Mongolian Economy* magazine was born, publishing its first edition under the name "Global New Trend: Green Development".

When handing our first edition to the president during the Mongolian Economic Forum in 2011, he said, "I am glad that such a professional magazine was born right on the verge of rapid economic growth. I liked the fact that this magazine focuses on green development and the protective use of water. Write more on green development".

Now, the same people that created *Mongolian Economy* have created the Green Economic Growth non-government organization, aiming to educate citizens as well as policy makers on this understanding. We have got a lot to accomplish. Our magazine staff is glad to congratulate the president on his award. Let us create green development together. ■



## GREEN DEVELOPMENT

**GREEN COUNTRY, GREEN ECONOMY**

A researcher says that Mongolia's development policy has been going on a very bad path for the last 20 years.

BY B. UUGANBAYAR

*The whole world is hailing green economies and green development. Mongolia too faces the option of joining the global green wave.*

*A professor at the National University of Mongolia, T. Chuluun has devoted himself to sustainable development and a green future for the last 10 years. He conducts research on human nature in addition to the adaptability and regeneration of social-ecological systems at the national and regional levels. He established the Institute of Sustainable Development at the National University and the Institute of Green Development Policy.*

*Chuluun is also the senior scientific guest worker at the Natural Resource Ecological Laboratory at Colorado University in the United States until 2014: He was also a guest professor at the SUCCES center of Arizona University in the United States and National University of Inner Mongolia until 2016.*

*Chuluun spoke with Mongolian Economy on green economies and global development trends as well as Mongolia's ideology for sustainable development, its current stage and further possibilities for sustainable development.*

**You participated at the RIO+20 international forum. What can you say about your experience there?**

I participated at the sub-session on the sustainable development of science, technology and innovation. Scientists and government officials from over 140 countries attended the session to discuss national and global development.

Sustainable development and reducing poverty through a green economy and strengthened sustainable development governance were the two main subjects at the session. I introduced the Nations' Sustainable Development Index, developed by myself. I also discussed the problems Ulaanbaatar faces, such as air pollution, traffic jams and urban planning.

Other participants said that to solve those problems

we should open up opportunities to introduce high technology used in developed countries. I suggested establishing a green student campus in Mongolia with a western-technology centre. The main idea is to prepare students and young people who would create a future for green development.

One other important issue at the meeting was the official introduction of the The Future of the World programme. The 10-year programme concerns further steps for sustainable development with research from social scientists and participation from policy makers. Major changes have occurred over the last 60 years. Those changes have begun to affect human activities as well as the global structure.

Thus we continue to endanger our world. For example, climate change, adaption to global warming and reducing carbon dioxide have become critical. Environmental issues, desertification, water and ecological problems caused by mankind are increasing every year.

Participants concluded that the progress made was related to sustainable development and is what has been missing over the last 20 years. I am grateful that I took part in determining the 10 environmental problems the world is facing.

**Economic and technological development, environmental changes and population growth are rapid. Foreign countries have put green economies and sustainable development at the top of their priorities. At what stage is Mongolia's development policy?**

As a researcher, I must say that Mongolia's development policy has been going on a very bad path for the last 20 years. Air pollution in Mongolia has reached a critical level. Desertification has increased. The poverty rate has reached 40 percent, which indicates that the gap between the rich and poor is getting bigger. These are signs that Mongolia's economy, ecology and society are underdeveloped. »



► Although the country's economic growth is high, it doesn't show any effectiveness to its citizens and environmental issues are becoming dangerous. Dust and smoke are increasing due to mining activities. In addition, water reservoirs are contracting and food security is lost. Also, climate change is becoming more visible.

Supplementing human needs makes the environment suffer because of more garbage and waste. Thus, mankind is nearing ecological disaster. For that reason the issues of economic growth and the environmental crisis must be solved. On the other hand, the Ministry of Nature, Environment and Tourism and the Ministry of Social Security and Labour are not at a state to make proper decisions. So from the point of view of sustainable development, Mongolia is on the wrong side of the road.

**Mongolia developed and ratified its national sustainable development strategy over 20 years ago. Government and non-government organisations are focusing on this matter too. However, there have been no significant or visible results until now. What do think the reasons are?**

Although Mongolia has a national strategy for sustainable development, the opportunities for enforcement are very limited. As a system researcher, I think we must solve our problems by having an adjusted sustainable development

policy that aims to change the mindsets of the people.

As a researcher, I must say that Mongolia's development policy has been going on a very bad path for the last 20 years.

We must use renewable energy as much as we can. Mongolia has the capacity to build hydro-electric plants in its northern regions, wind power plants in its central regions and solar energy in the Gobi regions. One of the problems facing economic growth is the development of green technologies. Thus, it is important to introduce technologies that use natural resources.

However, we are still unable to build Power Plant No. 5 or the hydro electric plant we have discussed for so long.

Another main issue is the gap between the rich and poor. According to research, countries with less differences between the rich and poor have convenient social standards and health care systems. Crime rates and living standards are high. Countries such as Sweden, Norway, Denmark and Japan are the leaders of the Sustainable Development Index. Thus, decreasing poverty and corruption is very important. In addition, businesses operating unfairly must be halted. The nation must strictly focus on sustainable development.

**Last April, the Global Pressure scientific and research forum was held in London. The programme for the coming 10 years on sustainable development was formally approved. Can you tell about it?**

According to scientists, the so-called "new geological antropocent era" has begun. Economic and technological development as well as changes to population and the environment have started to occur more rapidly since World War II. For the last 60 years, humankind has been the main catalyst for global changes. Climate change and the global cycles have exceeded past the global danger zone.

The greenhouse effect is the main troublemaker for climate change. For that reason we have developed this programme with the aim to provide global sustainable development structures to as many as we can. Next year, we are planning to introduce all the mechanical aspects of the programme and we will start our activities in 2014.

Resolving the main problems and enforcing methods would be our priority. I personally have the duty to employ the programme for the Asia Pacific international Scientific Council. Thus, I will do my best to reach effective results.

**What rank does Mongolia have on the International Sustainable Development Index?**

When I was working on the development of the Human Development Index, I made the Sustainable Development Index 2012 especially for the London Forum. To do so I calculated the rate of GDP [gross domestic product] per capita, greenhouse gas emission and the gap between the rich and poor in countries.

Ranking 147 countries according to these factors, Sweden, German, Japan and Norway lead the list. Regionally, African countries are ranked last, while European and Scandinavian countries are at the top of the list. Mongolia is listed as below average ranking. ■

## HISTORY OF A COMPANY

## FROM A PRIVATE ENTERPRISE TO A TRANSNATIONAL BUSINESS

BY B. ENKHMART

It is the 20th anniversary of Nomin Holding Group, Mongolia's best taxpayer and the firm that established modern manufacturing and services in Mongolia.

The government's 20th Resolution caused many families to sleep on empty stomachs and households to bleed sweat and tears in the early 90's. There was nearly no food to be found in the shops, and prices rose minute by minute. At that time, A. Shagdarsuren's wife, R. Sodnom, saw an opportunity in an old sewing machine that she had been using for a decade. She made some clothes to sell at a cheap price. However, it was not enough to make a living.

One day Shagdarsuren decided to do a little research on what people wanted and what they bought most. A chat he had by coincidence with someone at a well-known local shop changed his life forever. He heard that this store, which traded in U.S. dollars, had many customers

from America, Europe and Japan who spent outrageous sums for national Mongolian clothes and souvenirs. He next went on a quest to find leather and cotton.

He started by making pouches and hats made from fox, mink and marmot furs. He also produced some souvenirs of traditional goods such as deels, jackets, bags and purses. Both foreign and Mongolian costumers were delighted to buy these extravagant goods. Shagdarsuren, his wife and three children used everything they had to establish the basis for Nomin Holding 20 years ago. On July 11, 1992, they registered Nomin-5 as a company.

It has been over 90 years since trade was established in Mongolia. However, its developing pioneers are those five people who started Nomin Holdings. They made copies of songs and videos, introducing the sale of electronics. Mongolians used to market these products for homes or as presents. But when Bayarsaikhan, »





▶ Shagdarsuren's second eldest son, went to see his idol, Michael Jackson, tour in Singapore, he brought back with him watches, photo cameras and music players to sell.

Next they rented a small place at shop No. 60 in the third micro district, where they sold electronics. At the time Nomin Electronics was entering a rather new field for Mongolia, and customers loved it. Bayarsaikhan spent entire days busy advising and instructing customers on how to use the vacuum cleaners, refrigerators, washing machines and televisions he sold.

Business became a success in the blink of an eye. They soon after opened the Nomin Electronics department store. Afterwards, in December 1995, they opened their own Nomin Holding shop, behind Sapporo Centre. It was the first of today's many Nomin stores.

## Ideology in Fair Privatisation

Nomin-5 was running successfully with its all-in-one-stop business model. Shagdarsuren and his family knew their business would help save people time and create new jobs. However, they needed more space to expand. The State Property Committee organised Mongolia's first public auction in November 1996. Shagdarsuren and Bayarsaikhan participated at the auction and bought a 260 square meter estate at 40 Myangat for MNT 145 million, their first real estate purchase. Shagdarsuren's actions gave many people new ideas. Those at the State Property Committee noted that he actually introduced auctions to Mongolia.

Registering Nomin Trade established Mongolia's biggest electronic store, National Panasonic. In addition, they bought the right side of shop No. 60, where they rented out a small place, and opened another store in the third micro district. Also, Nomin-5 had become a licensed company. Knowing there were opportunities for food trade as well, they bought the building housing store No. 56 for MNT 320 million by auction.

The owners of Nomin wisely expanded their operations by delivering electronic goods to rural areas with the Mongol Post. The company also re-exported cars to South-Korea and Russia and imported food and construction materials from Kazakhstan, Germany and China. In addition, it started importing mobile phones and sold personal computers that the company made. It also pioneered the production of computer networks for companies to use.

In 2005 the very first Nomin warehouse opened. The company has pioneered many fields. In 1998 the company opened a 170-seat movie theatre, which was regarded as a big cultural and educational investment for young people. It has the Nomin food store chain, the National Panasonic centre for goods by Matsushita Electric of Japan, a service centre, and a Switzerland's Royal Ice Cream, a Swiss chain of ice cream parlors.

A small family enterprise that started from sewing clothes has become a transnational corporation with 12 sister companies in trade, construction, finance and insurance that employs 4,000 workers. The Nomin food store chain has established over 21 stores in Orkhon, Darkhan-Uul, Umnugobi and Dornod. ■

BANK

## L. BOLORMAA: CREATING A HAPPY SOCIETY WITH JOBS AND EDUCATION IS THE DUTY OF THE DEVELOPMENT BANK

The Development Bank is the key to development. Thus, this ticket must be guarded with care. If that ticket becomes invalid, then huge risks await.

BY B. TOGTOKH

*Luvsandorj Bolormaa has faced many challenges to reach the position of administrator to the Development Bank of Mongolia, leading undertakings such as conciliating investors. She has been working in the banking sector for the last 15 years. Prior to her position at the Development Bank, she acted as deputy director of the Broker and Dealer Department of Deutsche Bank in North-America.*

*When she was appointed as first deputy director of the Development Bank, many disparaged her, saying that she could not handle such a tough job. But now Mongolia has a Development Bank that is globally recognised.*

*It has been a year since Mongolia's Development Bank made a home on the global market. Bolormaa has formed a team with 40 young active and creative members. A woman's knowledge, experience and sensitive mind has determined the goals and aims of the Development Bank. With only six personnel, the Development Bank opened its door last year. Now the organisation has become a big family.*



PHOTO BY E. ZORIGT

**It has been a year since the Development Bank was established. What changes have been made so far?**

The Development Bank has enabled for the necessary financial resources

for Mongolia. With these resources we aim to implement big development projects. Last year we collected financial resources through bonds with 5.75 percent interest for five years. Further assets will be easier to find if ▶

▶ domestic macroeconomic is stable and the state budget is set wisely. If the monetary policy is right, we have the possibility to release bonds with 10 year terms beginning in 2013.

Our bank has successfully enabled us to finance and implement important economic projects during such turbulent times of the financial market. We concluded that we would need to finance MNT 415.6 billion for 662 kilometres of road. The contracted companies have started their construction work.

Additionally, the Development Bank has decided to finance another 13 road construction projects in the city. Also, starting from next year we are going to finance a project for the construction of around 3,300 kilometres of roads. The Development Bank has agreed to finance the first three phases of the Buyant-Ukhaa 2,000 Homes project, which is to be employed by the Housing Finance Corporation.

Also, MNT 50 billion was transferred to the central bank for the first payment for the financial aid that will be used to allow low and medium income families to take out mortgages with 6 percent annual interest. At present, we are working to raise MNT 50 billion for the creation of new jobs in rural areas with the Small-medium Enterprises Fund. Furthermore, we aim to solve financial issues for other road and railroad projects, plans to build factories in Sainshand and other tender decisions.

Creating a happy society with jobs and education is the duty of the Development Bank. With its purpose to establish an independent and diversified economy, the bank aims to support strategically important sectors, thus creating new jobs.

**What are some of the successes the bank made this year.**

As the main executor of projects in Mongolia, the Development Bank needs to develop its relations with other banking, financial organisations as well as foreign investors. Collaborative agreements and memorandums were made with the world's leading organisations, banks and funds, such as Japan's Sumimoto Mitsui Bank, the

Development Bank of China, and the American and Chinese Export-Import banks.

Behind each signature on those agreements are plans and priorities. We intend to introduce high-tech equipment from Japan to the Sainshand factories.

**Does the bank sometimes have to forfeit its independence?**

Our main policy is to keep our independence. The Development Bank will show more of its contributions to the economy if that independence is kept intact. As a financial organisation, the risks have to be considered in order to maintain its stability. Financing effective projects will improve the bank's financial capacity, and a diversified domestic economy will lead to sustainable development.

In addition to legalising the bank's independence through law, the government must make a contract with the Ministry of Finance every year, strengthening its independence. The Development Bank is the key to development. Thus, the ticket must be guarded with care. If that ticket becomes invalid, then huge risks await.

**What is your opinion on corporate governance? Are there any good examples of corporate governance in Mongolia.**

The Development Bank was finally established after many years of discussion. Thus, we strive for good governance with strong viability. If the Development Bank is taking too much risk, the situation is handled at the administrative level. Thus, the Ministry of Finance, the Bank of Mongolia and the government have to support the Development Bank with a wide policy. If they each carried on towards their own paths, the economy would be in great danger.

It is the same fate for development as well. Countries like Germany, South Korea and China have managed to develop their countries supporting their own development banks. Governance is the secret. We lack the financial luck for good governance. We need an exact destination.

Every country has different regulations for their policies. Mongolia needs a straight medium-term economic policy that is not constantly revised, as we have now. Many resolutions targeted at our bank and constant changes in the laws make it hard to function stably. Furthermore, the bank is not being allowed to choose its own projects at the moment, which was a chief element to its inception. In some countries the government has defined the strategic sector for their development bank. Then the bank may independently choose which projects it will invest in. That allows the organisation to be the main force behind the economy.

**Do you feel politics interfere with the Development Bank's business?**

There is much less politicisation in developed countries. Singapore and Switzerland are great examples of this. Although political parties have their rhetorics, politicisation disappears when it comes to the related sector. But in Mongolia, involvement from political parties slow down development.

Of course, the elected party should hold on to its economic policy. However, in terms of implementation and enforcement, they should leave it to the professionals. The government must make requests and hand down responsibilities.

Political involvement won't solve everything. People need to be educated before politics get involved. They must be specialised. Each and every person must fill themselves with knowledge. A country will develop only when its youth strives to achieve something for their future.

**Your contract with the Development Bank is nearing its end. What would you say your biggest achievement was?**

It wasn't an easy job to put the Development Bank on its feet. I, personally think that we have managed to create a good bank. We have done so much in such a short time. But from all this hard work we have gathered together colleagues with just one wish and a united goal. That is the biggest success. ■

## THE MEAT INDUSTRY

# THE MEAT INDUSTRY: WELL DONE

BY B. TSETSEE

**W**hat specific actions has your organization done to improve the quality and efficiency over livestock?

It's a good question, and we're often asked that by many different people. First of all, it has to be remembered that our project is not a civil engineering project. We're not constructing a school or airport. Fundamentally, it's technical assistance, and technical assistance, by definition, means provision of information, advice, and so on. A lot of our work is teaching, training, and the dissemination of information.

But I think what that EUR 9.3 million budget, a large portion—EUR 3.4 million—was specifically for equipment. The equipment was various types ranging from computer hardware and software, laboratory wares, freezers and refrigerators, up to very high-tech analytical equipment used in state laboratories, for example. Now that equipment complements a technical assistance that was primary aimed at improving the production of supply of livestock products: meat, milk, hides and skins, wool, even cashmere.

That's the objective, to try and improve the production and therefore the markets and incomes for herders and herder households. Those contributions sometimes directly working with herders themselves, but very commonly indirectly by working with veterinarians who treat animals that belong to herders, and to changers and traders who buy some livestock products and the processors of livestock products, including the processor operators, the slaughterers, meat processors, dairies and so on.



So we have direct and indirect inputs, such as teaching training to veterinarians. We've provided a lot of training to veterinarians to improve their skills. It's not just generally, but to enable the skills so they compare more similarly to international standards. We try to provide levels of skills which are defined by international organizations. The most important one in the livestock sector is the OIE, The World Organisation for Animal Health.

**Do you believe your goals are being achieved well?**

The monitoring and evaluation is done by various people.

Some of it's done internally by the Ministry of Food, Agriculture and Light Industry; some of it's done externally by the government's audit department.

We also do our own internal monitoring. We have our own short-term specialists working in that capacity. But perhaps most important, there is within the EU a special department whose own responsibility is monitoring and evaluating projects. That employs specialists trained in their areas who use fairly sophisticated methods to determine what's been done. It's not just to check that the money's been spent, not just to check that teaching and training courses have been presented, but to go a bit further, and to measure not just to measure the inputs, but the actual impacts. The presentation of a teaching and training course is nice, but did that teaching and training result in something. Were the people on the training able to take advantage of that

► information and do something better that would not have been possible before?

That type of very sophisticated monitoring has been undertaken three times, 2008, 2009 and just recently in 2011. So far, the project has been rated very highly. And it's not just in terms of efficiency and effectiveness, but, most importantly, in terms of sustainability. All projects expect to complete what they've been contracted to do. But if they can do something extra to provide for longer-term impacts and sustainability, that's even better.

#### **How would you rate the level of laboratory testing on livestock?**

The short answer to that is it's improving all the time. Some of the laboratory resources in Mongolia are very good and compare to international standards. The State Central Veterinary Laboratory in Ulaanbaatar has very skilled staff and some very good physical resources, including some of the equipment I mentioned from our project, and so on. With their resources they are able to examine samples of livestock products and determine incredibly small levels of contaminants, whether they're antibiotics or residues of various sources in the meat.

Some of the provincial laboratories are now very good. In the places where we've been working - Bulgan, Darkhan, Erdenet, Sukhbaatar and Zuunmod - the provincial laboratories are now able to make determinations of things like Brucellosis, and so on. Perhaps it's not as many samples as they would like, but that's a problem anywhere in the world. I think any laboratory you would speak to would like more resources, more money, more staff, and more time. These resources are always limited, but the fact is in Mongolia they are getting better. If I compare the situation in Mongolia four years ago, at the start of our project, and think about the state of the laboratories where we work, it's completely different. I should mention at the places where our project has been working there has been a lot of support from the provincial administrations, who have both provided extra funding (not our project funding) and have provided their own resources to refurbish laboratories, increase their size, increase the standards, and so on.

#### **Can Mongolia attract consumers**

#### **worldwide?**

Yes, it can, and our project has done a lot of work on this. It's not a simple problem nor a simple opportunity to take advantage of if you're talking about meat for the catering trade within Mongolia, for tourists and people at expensive restaurants and hotels. There is perhaps potential for an export market but there's got to be a lot of development in meat inspection. Most countries, certainly in Europe, if the meat is imported from other countries, the meat has got to be accompanied by some sort of certification to ensure that it has been inspected by qualified veterinarians, that has been produced with approved processes, and, perhaps most importantly, that there is some scope for traceability.

That takes me back to one particular point in our project: The project has provided a computer-based identification and registration system, which is a little bit like the identification system that was introduced last year for the general population.

There is something like that available in Mongolia now for animals where they can be tagged with plastic label under the ear or a microchip under the skin. The information about the animal can be etched on a computer and in the future if there is a problem with the meat or the milk, it could be traced back to a particular animals and owner. That system is not being used at the moment, but the facility is there. I think in the medium-term future that will be introduced in Mongolia. That is essential for providing quality assurance, whether it is provided for consumers in Mongolia or consumers in export markets.

#### **Meat production is still very low and many ask why can't Mongolia export its meat products to other countries. What is your take on this problem?**

I think a lot of the problem is this distinction between productivity and production. There is a lot of meat produce in Mongolia, but then there are a lot of animals, so of course a lot of meat is produced.

But individually, if you look at the amount of meat produced per animals, the production per animal is rather low. There are a few reasons for that. Generally the environment in Mongolia is

marginal. You don't have a lot of rainfall and you don't have very abundant pastures. The environment in Mongolia is good for keeping animals but only at a certain level. And in winter if you look at most livestock they lose some 30 to 35 percent of their bodyweight when they lose access to the pastures. So if you have an animal, perhaps a 150 kilogram cattle, which goes, over the course of the winter, to only about 100 kilograms—it's lost a third of its body weight.

That's meat which might have been exported. If you work out the amount of meat lost over winter across the whole country because of the animals losing weight, any economist would see that as a huge waste of meat.

#### **Do you think Mongolia's problem with prices will be a problem when it begins to export to other countries? Are Mongolian meats too expensive for markets abroad?**

The topic of price is very important and the fact is when Mongolian producers see the price of meat in Europe they see a very high price. Then they look at home and see the price is very low in Mongolia and think, well if the price here is very low and the price in Europe is very high then it's a good business. All you have to do is move it from here to there and you have a very big profit. I think at the moment things like high-quality beef is around MNT 65,000 a kilogramme [compared to MNT 7,000 in Mongolia]. Can you believe that? It's a big difference. There are even higher prices. There is a very famous Japanese type of cattle that is called Wagyu. It's very famous because it's quite distinctive. This is MNT 336,000 a kilogramme. Then you have to think, why is the price so high in Europe? The price is high because production costs are much higher. When you go to a supermarket in Europe to buy a kilogram of meat, you're not just buying a kilogramme of meat. You're buying quality assurance. If you buy a very expensive car, you're buying a reputation that goes behind it. When you buy a brand new BMW or Mercedes you know that car will last you a very long time, and if there is a problem there is a guarantee and you can take it to garage to have it repaired.

In Britain when you buy a kilogramme of meat you have this quality assurance, ►



► which you are paying for, that provides you with assurance that if there is a problem with this or that, the problem can be traced back to the company, to the slaughter house, and to the original owner of the livestock.

#### **What markets can Mongolia target?**

We shouldn't forget about Russia. Russia has been a target for export traditionally in the past but that is a rather low-quality, low-value market. But if Mongolia wants to market high-value meat then that will be a challenge because you're talking about markets in Europe. There are markets in the Middle East, but those are thought of as middle level in terms of value. On the export of meat,

I think one thing should be added. Understandably there are some concerns. Of course for many people in Mongolia, herders and so on, the prospect of exporting meat is attractive because they should get some good, high prices. But if meat is being exported, then because production in Mongolia is limited, there could be some impact on the amount of meat available for the local market and the prices could go up. Exporting meat is attractive but it could have implications on the domestic market.

With respect to this incident in February when meat prices went up, doubling, the government introduced a prohibition on exports of meats. These things are not simple problems. Promoting one sector of an industry can have an impact on other sectors. It's complicated.

#### **What measure should be taken to promote this industry?**

In my experience the fundamental problem for all businesses in Mongolia is the cost of borrowing. About six months it was about in the region of 23 or 24 percent a year. That interest rate is very high. There are not many countries in the world where you have to pay so much for borrowing

to run a business. Most businesses need to borrow money because it's just a part of business. If you're having to borrow at 24 percent and you're competing against other countries where they can borrow money at 8 or 9 percent then that makes a big difference on your profitability. This is a problem in particular for Mongolia because in China I believe they can borrow at 5 or 6 percent. That makes a big difference to your profitability even before you start to produce meat or milk. The cost of borrowing is very important and I think that will be the number one problem.

Things have improved. I think four or five years ago the cost of borrowing was even higher. It's an example of things that are improving, but it's a factor.

#### **What can Mongolian producers in Mongolia interested in attracting international buyers do to promote the export of their products?**

The priority issue is to look at the marketing and the markets. In our project, when we work with the private sector, we always promote the preparation of a business plan. Part of a business plan is development of a marketing strategy. That process of preparing a business plan gives you an opportunity to go through various things in your mind. Then you can start to think about where you will get your materials from.

Going back to the meat sector, in most business one of the most important considerations of the cost of borrowing, is secure access to raw materials. If you are running a business, you need to be able to best sure you can get to your raw materials. In Mongolia the supply of meat is rather seasonal, with most animals being slaughtered in late autumn or early winter. That immediately makes a problem for any normal commercial enterprise. It means you're only working for a few months every year, and that's true for most slaughter houses in Mongolia. ■

DISCOVER MONGOLIA-2012

## ANY FUTURE FOR MONGOLIA'S COAL

Coal has lit a fire under Mongolia's economy, but the heat may be dying down.

BY B. BAYARAA

The strength of Mongolia's economy comes from coal. Today coal feeds the state budget instead of copper. The export of coal has increased rapidly, comprising 98.5 percent of the foreign trade of mineral resources and 46.8 percent of total exports.

Coal-mining firms are prominent taxpayers that act as a main pillar to the economy and create new jobs with high salaries. It is, therefore, undeniable that the coal sector has become the driving force of the economy.

Participants at the Coal Mongolia-2012 expo called coal the speedometer of Mongolia's economic growth. However, society demands answers to questions regarding coal production, its effect on the environment and rural development from the owners of those companies. As we already know, Mongolia has become the closest and the cheapest coal distributor to China.

China, the biggest market for raw materials in the world, is a leaking pot. Currently Mongolia does not have any other options for export other than China.

"There are reports of around 23 mining resources and 7.8 tonnes of coal reserves that had been legalised last year", said Ts. Garamjav, vice minister of mineral resources and energy.

Mongolia's estimated coal reserves are 175 tonnes. The minister of the minerals sector noted this figure could grow in the future. Mongolia is ranked 15th in the world for coal resources. Could you confidently say that Mongolia could become the Saudi Arabia for coal?



There are 85 officially registered coal mines in Mongolia, however, the quality of coal varies. Neighbouring China has always been particularly interested in Mongolia's coal. But

China will keep the fires burning even if Mongolia decides to no longer sell to it because China has other suppliers such as Australia and Indonesia to rely on as well. What would Mongolia gain ▶

- if it no longer exported coal to China? As executive director of the Mongolian National Mining Association N. Alгаа said, Mongolia's economic growth would slow down and the country would suffer.

## Caution

In his speech "The Strategic Development of the Coal Market", Randolph Koppa, president of Trade and Development Bank of Mongolia, said that in the coming years the future of Mongolia's coal will depend on the development of China's economic and industrial growth. He also predicted by 2016 Mongolia would be able to export 50 million tonnes of coking coal to China. At present, a tonne of coal costs USD 50 compared to USD 100 last year. Koppa said if the Chinese economy keeps growing this way the price for coal could rise above USD 100.

China is the world's leading consumer of coking coal. China's iron industry last year grew by 9 percent compared to 6 percent growth worldwide. The Chinese economy grew by 8.9 percent while Mongolia's economy grew 17.5 percent last year.

The amount of coal exports has stirred growth in national foreign trade. However, growth is always accompanied by a fall, said Koppa. The question is whether Mongolia can have a soft landing. Coking coal prices are falling on the global market. The Central Bank of China has adjusted its policy rate. The growth of manufacturing in China is also contracting. These could affect Mongolia's coal sector as well. Thus, the coal kingdom might be short-lived. But those setbacks might also be temporary.

Erdenes Tavan Tolgoi, which holds a coal resource of 6.4 billion tonnes, has plans to offer its shares on the foreign market by 2013. The company's reserve is just a fraction of Mongolia's 162.3 billion tonnes of coal. China has always been a big investor in Mongolia, investing USD 6.3 billion last year.

"About 11 percent of China's coal imports come from Mongolia. Coal exports to China rose by 23 percent in 2011, compared to 2010", said Wang Xialong, the Chinese ambassador to Mongolia during the Coal Mongolia conference.

China would like to increase its coal imports from Mongolia, but the growing price of coal and export taxes has given coal producers cause for hesitation. Greater taxes on coal would likely reduce trade. In addition, Chinese importers would lose interest in Mongolian coal products.

In addition to taxes, the coal industry is growing anxious about the heavy clouds forming over the Chinese economy. They are afraid that its pace of coal consumption might be coming to an end.

However, taxing coal seems like a good idea to many.

To increase its competitiveness in the world coal trade, Mongolia should develop its infrastructure for transportation instead of putting export taxes on its valuable coal. In addition, the country must expand its coking factories to create value-added products, say investors. Although the Mongolian government has said it would support the export of coal production, no significant actions have been taken yet.

## A Dim Light in the Darkness

Mongolia's coal exports might slow in coming years as China loses interest in buying Mongolia coal. However, there are signs pointing to the contrary as well. According to China's development plan for 2012 through 2017, construction will exceed that of the United States by eight times. As urban development grows to 54 percent, construction will grow as well.

"According to China's five-year plan, steel demand is expected to rise by 6 percent annually," said Koppa in his speech on the development of the coal market. "Although some of its economic factors might face some turbulence, as mentioned in

the hypothesis of China's coking coal imports, the country's domestic coal exploitation will reach its peak".

China's steel industry consumes 380 million tonnes of coking coal every year. Most of its mines are open-pit. However, China's desire for imports will not wane. It is expected to import 100 million tonnes or even 200 million tonnes of coal. India is set to import up to 60 million tonnes and could be the next big coal market after China.

However, Mongolia could focus on China exclusively and secure its profit by reducing transportation expenses and producing higher quality coking coal.

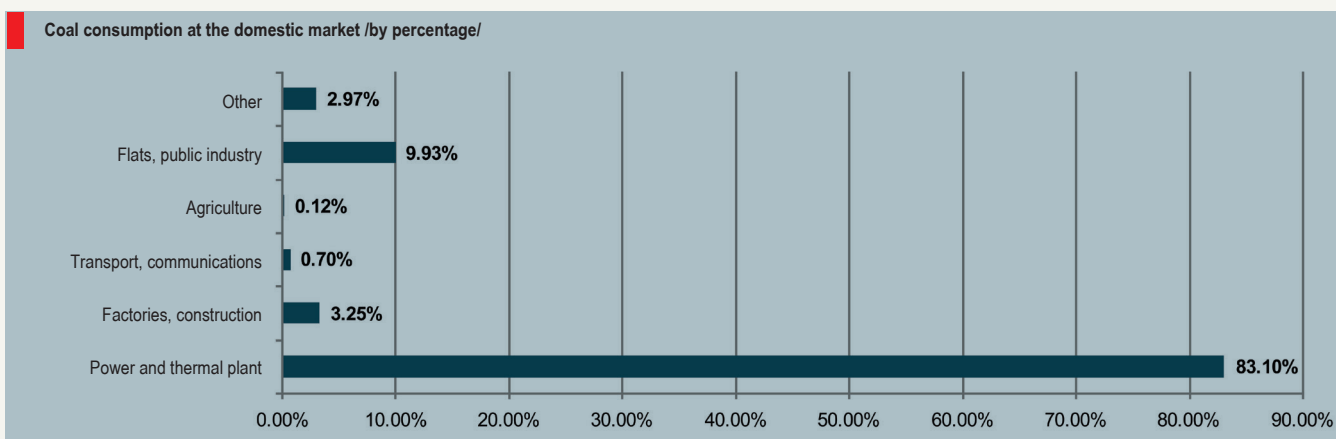
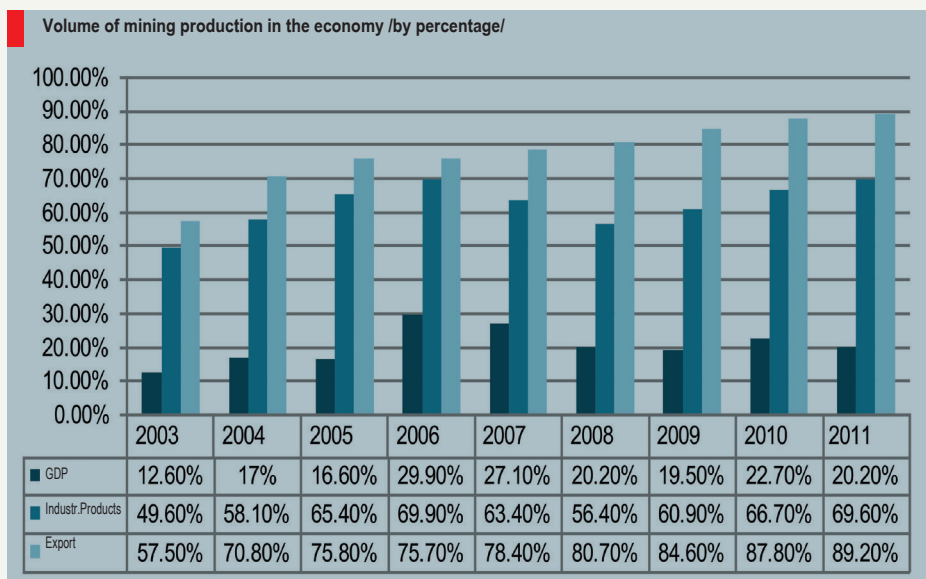
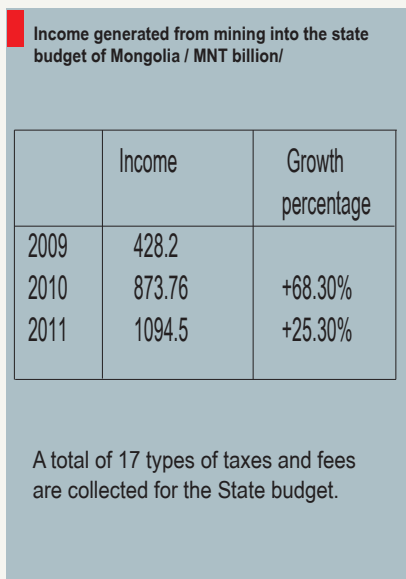
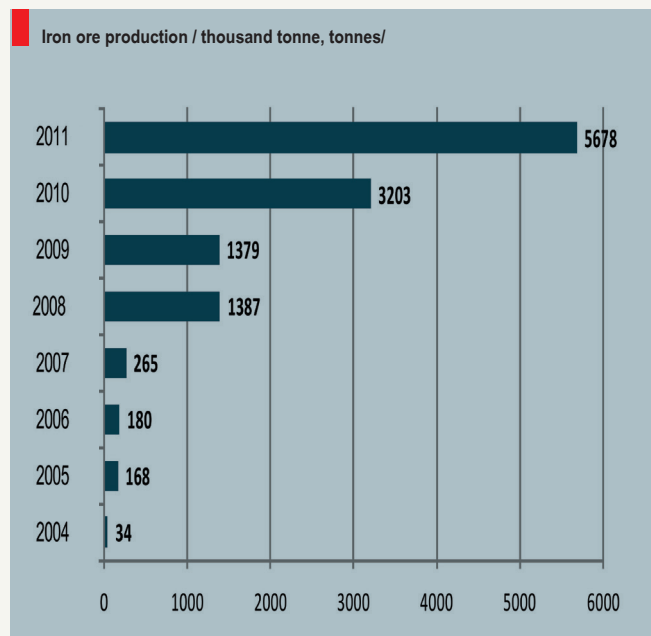
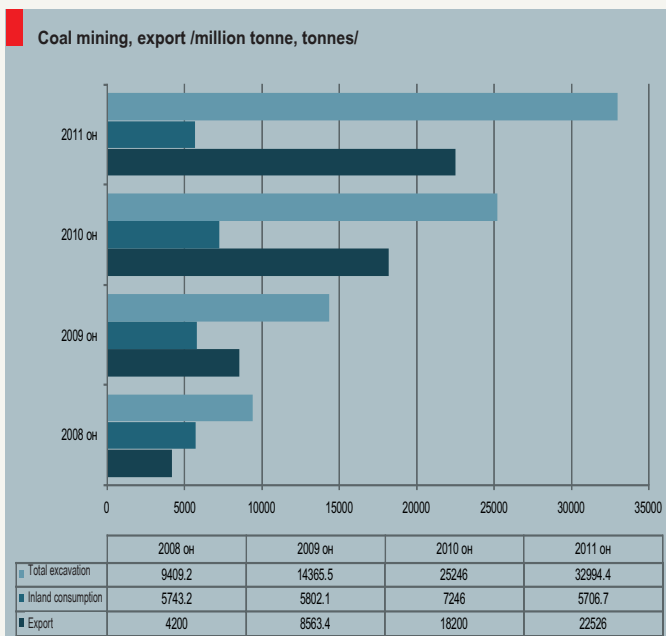
At the Coaltrans Mongolia international conference Arshad Sayed, president of Peabody Energy of India and Mongolia, said that although other energy resources are available coal remains firmly seated on the energy throne. He added, "50 percent of the world's energy is provided by coal. Nuclear and gas fuels supply the other half. Coal has been the main supplier of energy for the last 10 years. About 30 percent of preliminary electricity usage is derived from coal".

"In Asia coal is the main provider of energy. At present, coal makes up 49 percent of global energy. Coal is an important fuel. Thus, an energy paradise could be built in Mongolia", said Sayed.

N. Enkhtaivan, director of the foreign trade and economic cooperation at the Ministry of Foreign Affairs and Trade explained how Mongolia's coal trade is too narrow: "Mongolia was admitted to the World Trade Organisation in 1997, allowing the country to trade with 157 countries. However, Mongolia has never been more open to other countries than China".

"China itself is a big market for raw materials, especially for mining products. The world is rushing to export their products to China. If Mongolia decides to cut its supply to China, then we will lose our good fortune. We don't even have the capacity to supply its huge demand. The most important policy is to have added value on our products". ■

STATISTICS



Source: Ministry of Mineral Resources and Energy, Ministry of Finance

## OYU TOLGOI

## 90+

BY B. ALTAI

To Mongolians the number nine is auspicious. They worship their national emblems of nine. The Great Chinggis Khan, who made Mongolia known for its power and strength, had nine knights. He established the Great Mongolian Empire. Nine is a lucky number for Mongolians.

There following are nine contributions of the Oyu Tolgoi project to Mongolia's economy and future. In Mongolia, where wrestlers and bowmen show their excellence, an old melody resounds inside of the white ger.

**One:** Mongolia has 50 million cattle. It is ranked 10th in the world for the number of cattle per capita and 11th for meat consumption per capita. It is ranked the same for its mineral resources as well. The public offering of Erdenes Tavan Tolgoi will reach the financial market by the first quarter of next year. The operations of Oyu Tolgoi will begin early next year. The time when Oyu Tolgoi sends its first product to the global market is nearing. At present, construction of Oyu Tolgoi is 90 percent complete. The current construction policy is "90+".

**Two:** Only 32 days are left before people begin to cheer for the Olympics and the completion of the Oyu Tolgoi project's development. Just as the Mongolian flag waves in the city sky of London, the construction will be rushing towards 100 percent completion. This historic project that promises to lead Mongolia towards development is finally becoming a reality. It is time for Mongolians to own both the London Olympics and Oyu Tolgoi.

**Three:** Mongolia's rapid economic growth continues. In the first quarter of this year, the economy had grown by 16.7 percent. According to the World

Bank, development of Oyu Tolgoi is a main contributor to Mongolia's economy. Furthermore, the opportunity to invest in Mongolia will remain just as high as it is now.

**Four:** As mentioned above, development of the Oyu Tolgoi project has reached 90 percent completion. Construction is six months ahead of the schedule laid out in the investment contract and Oyu Tolgoi is to begin initial production in August this year. Of course, this production will be written as a part of Mongolian history.

**Five:** Investment into Mongolia reached MNT 7.8 trillion prior to the launching of the Oyu Tolgoi mine. Up to 30 percent of investment circulating within Mongolia's economy is derived from Oyu Tolgoi, where over 1,900 domestic supply companies participate. Those companies have delivered procurement services worth MNT 1.7 trillion. Quality, efficiency and security is the motto of Oyu Tolgoi.

**Six:** Sustainable development means a long-term vision. It also means supplying current demand without affecting future demand.

As written on the official website of Oyu Tolgoi: "Sustainable development is an essential part of our goal. By providing a balance between environment, society and economy, we strive to reach sustainable development".

Keeping its word, the company has invested over MNT 30 billion. It has invested sums into rural areas that nearly equal the state budget. In addition, the company has started the construction of 70 kilometres of water pipes, an international airport and a 36-megawatt power line. The MNT 1.6 trillion ore-enrichment plant planned for the site will create new jobs for many people.

**Seven:** According to the Bank of Mongolia, Mongolia's international trade circulation increased by 42.4 percent in February 2012, compared to the same month last year. The average prices of Mongolia's 10 main export goods rose by 11.8 percent. The import of main goods and raw materials increased by 43.8 percent.

Mining products represent a major part of this export. Coal and minerals comprise 40.6 percent of total exports, enriched copper is 22.5 percent, iron ore and enriched ore are 12.2 percent, and 22.5 percent is crude oil. »



► Analysts say that Oyu Tolgoi would bring prominent changes to Mongolia's export trade when it begins to operate at full capacity. They noted that there is plenty to benefit from with trade of added-value products.

**Eight:** Although Oyu Tolgoi is not yet fully commissioned, it generates MNT 1 for every MNT 3 circulating in the market.

"I am not here to justify that cash distribution is the right thing to do. But the money that is being distributed now, isn't that money from Oyu Tolgoi?" asked publicist B. Baabar. He added

"This is no sort of domestic investment. It is the same as taking money from one pocket and putting into another. So there's no investment here."

"If you want to open a shop, you will have to sell your house or get a loan. On the contrary, foreign investment means that some unknown person has dropped money into your pot. And when you start to profit, it is beneficial for you as well as your investor. For that reason, every country should rush to attract foreign investment. Currently, the United States is the leading country for attracting investment and China is

second".

**Nine:** The Oyu Tolgoi project is not a risky game for Mongolians. However, for investors it is going to be tough. Mongolians are expecting to gain more from the project in order to develop their economy because they are the owners of this wealth. Their will and desire is more powerful than possessing 51 percent of the Oyu Tolgoi mining company. The company will start production from the fourth quarter of this year, reaching completion in just 27 months from a 33-month plan. ■

