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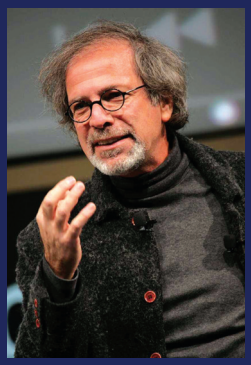
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# CONTENTS

## SOLUTIONS


10 Dutch Miracle
12 Mongolia's Challenge
15 An Economic Crossroads
18 "Don't Borrow, But Save"




## BUSINESS


22 Good Food, Good Life
26 9 Years Of Achievements And Challenges
30 Lessons to be learned from commodity crises
32 The Maestro of Motivation
34 Success Without Truth and Integrity Isn't Success
36 No Mongolian Fairy Tale
38 21st Century Monasteries


## GUESTS


42 "Women Hold up Half The Sky"
44 Rio Tinto Pioneers Mongolian Joint Ventures
48 Efficient Markets Rule
50 Beyond Resources
52 Mongolia Has Tremendous Resources of Renewable Energy


## DEVELOPMENT


56 Making The Move: A Middle-Income Country
58 Singapore: A Small Country With Big Experience
60 Young Global Leader: Intelligent City
62 Aung San Suu Kyi: Better To Lose With Honor Than To Win With Deceit


## ARTICLE


68 Unlocking Mongolia's Green Coal Potential
69 Mongolia's Looming Budget Ctisis
70 Investment Funds In Mongolia
72 Working Together To Address Development Challenges
74 The State Of Economic Relations




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# EDITOR'S NOTE



We at Mongolian Economy magazine are excited to share with you a collection of our best and most important articles and interviews from over the past three years. For this issue, we've searched through nearly 80 issues from 2011 to 2014to bring you our most select content, all of it as relevant today as it was when first published.

It has been our pleasure to share our journey with you since our first issue three years ago. Looking back, we are happy to have accomplished so much. We have profiled many diverse voices for the public through our magazine. We have interviewed a range of interesting guests on sustainable development and their resource-based development experiences. We have featured Mongolia's biggest challenges and achievements in business, the economy and governmentalcooperation.

It has been our goal to deliverto you the best possible magazine highlighting the latest happenings in business and economics on both the national and international stage as they relate to Mongolia.

In addition, we've included fascinating interviews with the very first female President of Kyrgyzstan, Roza Otunbayeva; Former Prime Minister of the Netherlands Wim Kok; and Nestle chairman Peter Brabek-Letmathe.

In July 2013, Mongolia Economy went London, where we interviewed John Edwards, head of primary markets at the London Stock Exchange; and Jean-Sebastian Jacques, Chief executive, copper, of Rio Tinto.

We invited three former prime ministers of Mongolia,D. Sodnom, Sh.Gungaadorj, and D.Byanbasuren, to sit down together, to hear their opinions, criticisms and advice. We've additionally interviewedevery CEO of Mongolia's top banks. We have always tried to serve as a bridge between the public and private sectors of society. These are but a handful of the many articles and interviews in this issue, touching on a variety of subjects from economic development to the fading of traditional Mongolian culture.

Last but not least, we would like to express our deepest gratitude to our readers, subscribers and cooperating organisations. We will continue to deliver our best work to you as an expression of our ongoing gratitude. We look forward to sharing even more with you in the years to come.

**EDITOR IN CHIEF D.BEKHBAYAR**

# SOLUTIONS

*Mongolia, shifting from its nomadic culture to mining oriented country, is on the verge of its transition point of development.*




*Total reserve of Tavan Tolgoi coal mine, located in Tsogttsetsii soum of Umnugobi aimag, is 6.0 billion tonnes. Two billion of it is coking coal with few impurities.*



Photo by B. Byamba-Ochir



GUESTS

# Dutch Miracle

*Willem Kok has been in leading government positions in the Netherlands for almost 13 years; first as minister of Finance and later as prime minister for two consecutive terms. He was invited this year to share his story of success and advice to Mongolia at the 2013 Mongolian Economic Forum as Mongolia experiences the resources curse for itself. Kok is well known as the first to initiate the "Polder Model", which was designed to curb the threat of the resource curse and "Dutch disease".*

**What was the main cause of "Dutch disease" in the Netherlands?**

The main cause of Dutch disease was the extra revenues we got from gas deposits and exploration were not sufficiently used for productive investments, including knowledge and education, and were for some period of time used just for the current budget. That was already a time the Netherlands, Europe and the world was suffering from economic crisis four decades ago.

That was why we entered into a period of prices spiraling, high inflation, and high public deficit. Unorthodox answers were absolutely necessary to find solutions to overcome the disease, and finally turn the disease into a success story because in the end we recovered from the disease and we continue now to be one of the stronger European economies. It illustrates that getting the disease is a serious thing to talk about, but you can recover from it. It's better of course to prevent it and use the mining revenues for productive reasons—infrastructure, knowledge, and investment. Investment can be financed by the extra revenues you get from mining activities.

**The Netherlands had a strong industrial sector even before the discovery of gas deposits. How was the industrial sector performing before the onset of Dutch disease and after recovery?**

Well the industrial sector has always been strong. Why? Because apart from the natural gas, we don't have any other natural resources. We are very dependent on international trade and export and import. Exports are about 50 percent of our GDP.

So, we have to be competitive and have a strong industrial base. But at the time we suffered from the Dutch disease our economic activity went down, especially in the manufacturing sector. Certain companies and even industries such as the textile industry and ship-building industry had to be closed, and many people lost their jobs. It took a long time before we recovered from that. Now, again, the industrial sector is flourishing; although we are facing a problem of an aging population and growing competition from elsewhere in the world. It's not easy but the industrial activity is at a very high level.

You have to have, of course, high quality products, services, and an excellent labour force. You need excellent education so people have the skills they need to be internationally competitive.

**How well is the Netherlands recovering from the euro zone crisis?**

Well, we are all hurt by the euro-zone crisis. We are still not yet out of the woods in Europe. The whole climate in the euro zone is significantly better than let's say half a year ago or a year ago. Then, everyone was

extremely pessimistic. Now, this growing confidence will allow us to survive this crisis.

This is also true for the Netherlands. The Netherlands is together with the Scandinavian countries and Germany. We're still one of the few countries with 'AAA' qualifications with rating agencies. Our reputation is very high in terms of stability and financial health. That's good news.

Our so-called "Polder Model" helps us to do so because we have social partners, employers, unions, and NGOs, who are really prepared to listen to each other and set a common target for the country. That's important for the Netherlands, and I would say also important for Mongolia. It would be extremely important if the government, private sector, labours unions, NGOs, and civil society organisations had some kind of common platform where they sometimes meet. They don't always have to agree—sometimes you disagree—but listening to each other, convincing each other, and identifying common priorities are extremely important for every country. I would advise you to draw that lesson also from what we have experienced elsewhere in the world.

**Is the Polder Model still relevant strategy or is it becoming outdated?**

Of course the Polder Model is not an export article, so you can't bring it to Korea or Mongolia. It has to be developed in a society. I disagree that it's something of the past, and not something for the current situation and future.

I think a social dialogue and a kind of common orientation for the future of a country is important everywhere. Everyone can do it his or her way. But I think it's worthwhile to see.

**Let's take an example. You have your revenues from mining. We talk about diversifying the economy and how to develop an industrial policy where you set priorities. Where do we want to be stronger five years from now? What are the means in order to make that work?**

It's extremely important in a society to make use of everyone's input, not only something for the government or private sector. No, it's the government, private sector, and, also, social organisations. Everyone has their input and defines their common goals. That helps because then you have a kind of framework where everyone looks into the same direction. That helps very much.

**Some have looked at Mongolia's macro economy and have concluded that it is already infected by Dutch disease. What should be the country's next step and how can we diversify our economy?**

First of all, use the extra money from the mining activities for productive investments. You have a lot of laws and budgetary rules that have already been introduced in the past. Stick to them and think about what are your priorities because not every project is of the same importance. So you have to set your priorities, and I would say knowledge, innovation, and research are extremely important. Don't forget it. Don't just think about building roads and railways, also think about how to innovate and qualify your people because only with a very qualified labour force will a country like Mongolia be able to compete internationally for the longer term.

Don't forget about investment climate and predictability for foreign investors, so that those who come into the country know what kind of fiscal cli mate it is and aren't going to be surprised by changes all of a sudden.

Clarity is very important, and promote entrepreneurship. Promote risk-taking activities from smaller and medium enterprises. Then organise a financial system that makes it possible for these companies, economic activities, and starting small companies to have loans and financial support from financial institutions because it all fits together. There's not one single element. You have to set a whole set of ideas and use them all to make the economy stronger.

As for diversification, you have to make use of your strengths and what your country has already. I'm not an expert on Mongolian economy but I could imagine clustering a number of activities and export promotion would help. It takes some time; it doesn't work automatically. Also in the Netherlands, we worked for a long time to make our flowers well known all over the world. To some extent the same may be true for certain sectors in Mongolia.

**What are the main priorities for fiscal policy to a resource-rich country such as Mongolia?**

I would say fiscal conservatism. That means you don't spend what you don't have. With what you have in addition to your normal pattern of income, you should be very precise in terms of what you want to do with it. Don't just throw it away. Don't choose projects without a clear definition of why you need it and what do you want to get out of it.

**How can a country such as Mongolia avoid Dutch disease at the stage where it currently stands?**

I think Mongolia is on the right track. You have a number of institutions and a number of legislative vehicles already in place. I think Mongolia is in a phase where you develop from a very-low-income country into a higher-income country with still a lot of poverty. A lot must be done to guarantee that growth is inclusive and as many people as possible can profit from the benefits.

The country should be aware—and I think it is aware—so that the risk of very high inflation. Your governor of the central bank told us this morning that inflation levels are coming down somewhat. It's still at a high level, but they are somewhat coming down. That is of course a potential downside. The best thing to continue on the right track is investing in real priority issues that are for the longer term beneficial to the economy and large parts of the population.

**Mongolia's welfare system is growing larger year-by-year. What would you recommend for Mongolia's expansionary policy for the welfare system?**

Here, again, it all depends on the wishes of the population. In Asian countries you see nowadays that there's also a stronger wish than in the past to combine prosperity with welfare systems. You see that with Korea and the whole discussion in China. You see it with whatever form elements of social safety nets come up.

Also you must always keep in mind you cannot have that for free. You cannot have a welfare system for free. Someone has to pay for it. That would be from the total gross domestic product.

If workers, for example, find it important that some kind of unemployment benefit for those who lose their jobs then you have to put some

money aside because it has to be paid through taxes or social premiums. It is not a gift from heaven.

Welfare schemes, yes, I am very much in favor of. I am very proud of it in Europe that we have developed them; also in Holland. But you should always keep in mind that it somehow must be paid—not artificially but really paid—because what you reserve is for cases where you need the money. You cannot spend the money for wage increases.

**Where do you think a huge welfare system like that would lead Mongolia?**

I don't have the impression that there's a booming welfare state here now. You made very moderate steps into the direction of some welfare schemes and you seem to be very much aware that this is not some gift from heaven, but something you have to pay for. I think the way in which it is developing here is not very risky.

**What would you recommend for Mongolia in establishing a national brand that brings in similar revenue as the mining sector does?**

I think looking from the outside, I would say if you get extra mineral resources instead of just exporting them you can look into manufacturing them. In agriculture, for example, you can try to combine agriculture with agro-food activities. We in the Netherlands for example have very sophisticated companies who are excellent in not only increasing the output of agriculture but also having high-end economic activities translating these activities into agricultural product.

I heard also this morning in a speech by the president that he very much emphasises the importance of reforming the attitude and behavior of civil servants of the government. Don't be happy with only rules and their application—I think that's a very important message, too.

**Mongolia has the prospect of developing a green economy on its mind now. How beneficial to the economy would this be in the long run?**

I think in the long run we have to put much more emphasis on environmental sustainability. I think private multi-national companies here active in the mining industry are also very much aware of that because at the end of the day it will be their licenses to operate. If you continue damaging the quality of life and air, that will not be profitable for companies. Private companies and governments have to work together to make mining, for example, environmentally more sustainable.

Setting standards based on international agreements is very important. Mining revenue will be of importance, but better to do it in the future in a more environmentally sustainable way. That in the end of the day will be more beneficial for all of us. ■

APRIL, 2013



SPEECH

# Mongolia's Challenge

The following is a transcription of former Netherlands Prime Minister Willem Kok's address at the Mongolian Economic Fo-rum.

Mongolia is currently at the threshold of a new and breathtaking economic transformation wave, with double-digit annual growth rate in the next five years strongly driven by the expectation of mineral resources. The share of mining and GDP will grow to 20 percent, twice the ratio of about a decade ago. This offers, without any doubt, higher prospective about employ-ment levels and for raising living standards for large parts of the population in the near future.

I think at the same time it is fair to say that such rapid economic expansion, especially if this is going to be driven by the exportation of vast mineral resources, brings serious risks or downsides as well that should better not be ignored. The seri-ous challenge Mongolia is facing, like other resource-rich economies all over the world, is the following: The inflow of foreign direct investment and currency into the country will have inevitably an upward effect on both exchange rate and the price of non-fallible goods and services, including wages and salaries. And thereof, of course, higher inflation on the one hand, worsening exporting and importing firms by weakening their competitiveness and on the other hand increasing the cost of living for large parts of the population. Experiences from elsewhere across the world tells us that even if resource-rich econ-omies like Mongolia have good institutions in place in a time when resources are discovered and explored, they still have to face the challenge of managing risks like the disease also known as the "Dutch disease."

And this is a very good occasion for me to share some of my personal experiences with you on what happened to the Netherlands after we discovered large natural gas deposits in the early 1960s. When the oil prices shocks of 1973 and 1979 occurred, rising wages and on top of that rising indirect wage costs caused by higher contributions from the Dutch welfare schemes started weakening the competitiveness of traditional export sector enterprises, squeezing their profitability. The income share of capital fell from 17 percent in 1970 to less than 6 percent 10 years later. Average annual growth in manu-facturing fell from 4.2 percent in the first half to 0.7 percent in the second half of the 1970s.

Please don't get me wrong, all this was not caused by our gas discoveries and exploration only. The world economy went through a very difficult time, and by the end of the 1970s we were all suffering from a severe global economic depres-sion. But increases in public spending continued as well as social transfers. As the revenue from resources exports grew and were expected to grow further, it proved to be extremely difficult for the Dutch government to resist the temptation to spend more than they actually could afford.

Public expenditure rose from 45 percent of GDP in 1970 to 66 percent in 1982, and as a consequence public budget def-icits rose sharply. In short, the combination of high-cost inflation and the upward wage price spiral deteriorating competitive-ness of our industries and increasing public deficits as the government continued spending by making use of current and future gas revenues would become known as Dutch disease.

Large parts of our manufacturing industries had to reduce or bring their economic activities to an end. Unemployment reached dramatically high levels—especially youth unemployment. This simply could not go on. Only unorthodox initiatives could bring this downward trend to a halt. And let me briefly tell you my personal story here.

At that time in the early 80s, I was chairman of the largest trade union confederation in the Netherlands. In that capacity I had to defend the interests of our members, of course, the workers and their families. But many of them were losing or had already lost their jobs, and, moreover, the sustainability of our welfare schemes was in danger. I was and am still proud of the welfare system and high levels of social protection we have been able to create in my country over decades. The sys-tem is more or less compatible with those of countries like Sweden, Norway, Denmark, Finland, or Germany. In these days of crisis it became crystal clear however that the stagnating or even declining economy puts the sustainability of such ad-vanced social systems at serious risk. In order to turn the tides, the government imposed wage restriction by law. Strikes and heavy protests against these legal measures were organized by the labour unions, but all of these remained without any results. As a consequence the social climate became even more grim and unpleasant. A solution seemed to be far away. At the time in the end of 1982, when the government announced a new round of legal measures in order to continue freezing nominal wages, salaries and social transfers, I decided as president of the trade union confederation to initiate direct negoti-ations with the confederation of employers, coordinate bilateral agreements based on a longer-term tradeoff between, on the one hand, continued wage moderation on a voluntary basis and, to the other hand, employment including work sharing by reduction of hours and job and trading opportunities for young, unemployed people .

After a number of years, it became clear to many that our agreement had gradually started paying off. Workers were en-joying job growth and rising real income again combined with preserving their protective but costly social system. Meanwhile companies enjoyed the benefit from recovering profitability and competitiveness as well as social peace and a motivated work force. And last but not least, our economy as a whole was finally cured from the Dutch disease, although it lasted until the mid-90s before this recovery process was completed and instead became better known as a European success story called the Polder model. This model was based on a political culture of fiscal conservatism, coordinate currency and wage restraints, and a high level of social protection for those who need it, combined with labour market reforms.

In 1995, during my first term in office as prime minister, my country introduced a rather revolutionary system of so-called “flex-security” on the labour market, strik ing the right balance between flexibility and social security. That helped us enormously in helping us become one of the front runners in Europe in terms of labour market participation and employment rate. And again this was only possible with the active support of the two sides of industry: workers and employers.

According to me this short story of the Netherlands is of some relevance to Mongolia, in spite of clear differences between our two countries for two sets of reasons. Firstly, because the story illustrates how crucially important it is for a country like yours to avoid a disease like they suffered from in the Netherlands some decades ago. Your economy is highly dependent on mining revenue. My strong advice to you is not to repeat one of the mistakes we made in the Netherlands, namely spending a too-large part of these revenues for structural, nonproductive purposes.

If I’m informed correctly, your Fiscal Stability Law contains three important rules: strict limits and ceilings on the fiscal deficit, expenditure increases, and public debts. All three limit the risks of getting infected by some sort of Dutch disease. Please allow me to congratulate the key drivers behind this initiative, which was especially crafted to prevent Mongolia from getting the disease.

But more needs to be done of course to strengthen the basis for a robust, diversified and competitive economy, and to ensure that the economic transformation is inclusive and sustainable as well so that all Mongolians will have an opportunity for a better life today and tomorrow. I’ll come back to that in the final part of my speech.

Secondly, my story may be of some relevance to Mongolia because of the way we in the Netherlands were finally able to get the worst of the disease behind us. It illustrates the importance of building and strengthening institutions based on mutual respects and some kind of shared responsibility. Share responsibility for the future of the country and the well-being of its population. In the Netherlands we had to rebuild our country after its destruction after the Second World War by Nazi Germany. One of the important decisions was for the creation of institutions where employers and workers met on a regular basis in order to discuss methods of common interest and-or to negotiate. These institutions have definitely contributed to our relatively peaceful social climate. Strikes are really exceptions, and to our economic progress are high levels of employment combined with advanced welfare systems as well. Even in times of diverging opinions our social dialogue helps sometimes in realising positives and in reducing differences.

This form of cooperation creates awareness and involvement in the formulation of common goals for the country and the means for achievement. It is a modern form of politics of what I call togetherness.

I advise you to keep in mind there is little course in making growth of GDP to be an end in itself. Macro-economic growth is no more and no less than [something that is] very welcome, but only an important means for achieving things people value and for improving living standards and happiness. And this is exactly why combining economic growth with social inclusiveness, welfare policies, and social protection is so vital.

We are entering an era worldwide where we will have to move much more from more to better. A mental shift is needed. Environmental sustainability has to be part of the solution in making the turn in new ways of producing, consuming and living. One of the lessons I learned in my life is that the most successful and harmonious societies are those where all stakeholders are prepared to think and act together at all levels for the common good. This means including social and ecological areas in this cooperation as well as enabling

broad parts of society to get a fair share of the benefits. Both environmental sustainability and social inclusion are key ingredients for a better life. Governments carry the overall responsibility for finding and maintaining the right balance between economic growth, social cohesion and environmental sustainability. This has never been easy and it won't get any easier.

It's a crucial responsibility of governments to build knowledge-based economies and societies. In the triangle between education research and innovation lies the key to productivity, a diverse economy and the well-being of citizens. It is frightfully important for governments to invest in education, digital learning and training so that citizens can acquire the skills they need to compete successfully internationally. Governments can foster public-private innovation partnerships between companies, universities and research institutes. This isn't all about money, although a good budget for the ministry of education certainly helps.

There's more that governments can and should do. Crucially, governments are responsible for creating a good investment climate. This means predictable and transparent fiscal systems, contract sanctity and good governance with checks and balances against corruption and abuse of power. This is also true for Mongolia. It also means in your case investing in excellent infrastructure, developing and implementing a comprehensive industrial policy, an effective financial sector, and last but not least a sound legal framework for mining—one that's fair, one that ensures that impact on environment and people are addressed in a consultative manner, and one that is transparent so the benefits from the impacts of mining are known to all Mongolians.

If governance creates the right framework there's a lot the private sector can and must do to help spur development. First companies can bring FDI and technology to the country. In my own experiences countries with an open-door policy outwardly looking at good-looking countries attract more foreign direct investment and their companies find it easier and more attractive to develop international partnerships. Where advancement takes place one sees also the emergence of global supply chains, which means more skills and capabilities, more meaningful jobs, and more innovation; so less poverty. Companies can also develop skills and train people directly for instance, again, according to my own experience, international companies are training local nationals to take leadership positions. They offer training programs that have to help young people set up their own companies.

When it comes to environmental sustainability government has an important role in giving companies the right incentives to develop and deploy clean technologies at the lowest costs. Government can help point the private sector in the right direction, for instance, by setting clear and challenging environmental efficiency standards.

Inflationary tendencies have to be mitigated. The government of Mongolia has outlined an ambitious program focusing on creating jobs through economic diversification, bringing greater transparency and accountability within governance, and completing some large infrastructure projects. Resource and mining revenues should be used, learning from other countries, with sovereign wealth funds mainly for investment purposes; including infrastructure and research, education, innovation, and developing a knowledge-based economy and society in order to limit the risk of being affected by the Dutch disease.




Mongolia is certainly on the right path. The president talked about it, and I can only agree. It has already adopted several good reforms that set a very good regulatory foundation including the Fiscal Stability Saw, the integrated budget law, the fulfillment reform, the Social Welfare Law, and the Law on Conflict of Interests, if I am just to name a few.

The time has come now for relentless and persistent implementation. This seems to be the toughest part now. Finding the right combination of grasping opportunities and managing risk eventualities looks essential to me. Whilst your country should keep its eyes wide open for potential downsides caused by an expected slowdown of economic growth in China over the medium term, on-going uncertainties and even recessionary tendencies are imparted on the world. And for your economy, I advise you to pay specific attention to the following three policy areas. One is how to enhance Mongolia's capacity to manage the mining economy sustainably and transparently. Secondly, how to build and how to strengthen a sophisticatedly diversified basis for economic growth and employment in both urban and rural areas. Thirdly, how to realize, improve access to services and better service delivery, social safety net provisions, better access to health and education, and poverty eradication.

Progress, Mongolia, will be able in making each of these three challenges decisive for the future. The discovery of vast mineral resources and their exploration is a huge asset for this country. Learning from experiences elsewhere should be possible to limit risks and potential downsides on the one hand and spreading the benefit over large parts of the population so the economic growth will be fair, sustainable and inclusive. That is the challenge.■

APRIL, 2013


D. Sodnom


Sh. Gungaadorj


D. Byambasuren

INTERVIEW

# An economic crossroads

*Mongolian Economy magazine interviewed three former prime ministers of Mongolia: Dumaagiin Sodnom (1984-1990), Sharavyn Gungaadorj (1990) and Dashiin Byambasuren (1990-1992) on Mongolia's current economic policy and development issues. This is their first interview together. Their individual opinions have been broadcast by the media several times. Sodnom and Byambasuren are renowned economists who worked as heads of the Communist-era's Price Committee, National Statistical Office and the ministry of finance. Gungaadorj was the minister of agriculture before he served as prime minister.*



**In the past decade, Mongolia's economy has been driven by mining, with 80 percent of export revenue generated from the resources sector. There is a lot of speculation regarding diversification of the economy. On what sectors do you think our economy should concentrate?**

**Sodnom:** Important economic sectors for Mongolians are mining, agriculture, tourism as well as technology. These are four main sectors in which Mongolia would have to develop in the future. So we need a firm state policy on how to develop the mining sector sustainably, communicate with and contribute to investors and manage the situation. The initiative by the president of Mongolia towards a smart government should be enhanced and developed in the future. As a result, Mongolia's economy may develop effectively.

**Gungaadorj:** It will be difficult to develop the country without the mining and energy sectors. Mining is the leading sector, but other supportive sectors to mining and large independent sectors need to be developed. We also need to contribute to our agriculture sector. Without agricultural development, it would not be easy to imagine Mongolia. If there is no grassroots development, we can't say that Mongolia is developing.

In this sense, our government has focused poorly on rural development. Today, Mongolia seems to me a country that only consists of Ulaanbaatar. In the past, you could not imagine Mongolia without its livestock and rural areas. Livestock and land are limitless resources. I think Mongolian state officials lack the foresight on how and where to spend revenue generated from the mining sector.

**Byambasuren:** Mongolia's current economy is very sick – almost bedridden. We used to often talk about Dutch disease for some years. And now, we are suffering from this disease. Generally, the Mongolian mindset is lazy and people expect to be spoon fed. Development is about creating one's own wealth.

There is a trend in Mongolia for digging up mineral resources and wasting the benefits. The resources are from our ancestors – we did not create them. We should use these resources sustainably so they last for our future generations. Today, mineral resources are extracted everywhere. Our economy is suffering heavily from disease.

**You said that there was a big divergence in the state policy. Would you please give us a little more detail?**

**Byambasuren:** Recently, we have seen a diversion in state policy. With this, I need to mention three things:

Firstly, there is a strong idea among Mongolians that they can become wealthy through debt and loans. This is an unbelievable state policy that is risking Mongolians' future lives today by saying that a good life is coming.

Secondly, the new Investment Law was introduced

during a time of crisis. In general, there is nothing wrong in the new law in terms of attracting investors, but the law has some repercussions, including exposing Mongolia's economic space and the divide between the wealthy and the poor. This law legally protects the wealthy by stabilizing conditions, however smaller entities are vulnerable.

According to clause 12.1.1 of the new Investment Law: "Foreign investors shall be entitled to own land in Mongolia for 60 years and it shall be extended by 40 years." This means Mongolia is entering a way of selling its land. This is really bad news. Another big problem is Oyu Tolgoi. According to its investment agreement, it was not clear whether foreign investors needed to pay 20 percent tax when they transferred their profits abroad. But the new law states that they are free to do so. As a result, the economic-related legal issues have turned sour, making it increasingly difficult to navigate the economy.

And thirdly, I should mention the transparent discussions by the parliament on reducing a tax to be imposed on gold. For example, there was a certain amount of tax on gold during the early 1900s when Bogd Khan was ruling the country. At that time, this tax was 16 percent. But today, tax is likely to be as low as 2.5 percent. This means that whoever wants to come to Mongolia and dig gold, they are welcome.

In the past two decades, debt has increased enormously, economic direction was lost, and Mongolia's wealth was undervalued. From this perspective, I would like to say that the current economy is toxic. I am not sure if there is enough intelligence and strength to fix it. I agree with Mr. Sodnom and Mr. Gungaadorj on the development of the agricultural sector. Mongolia should be based on mining, as it is the sector to generate the required funds at this initial stage.

It would be useless to talk about development while we cannot prepare enough food for us to eat. The number of livestock is approaching 50 million, but the price of meat per kilogram is MNT 10,000.

**The government is spending the proceeds of the Chinggis bond. It also issued the Samurai bond at the end of last year. What would you say about the spending of the proceeds?**

**Sodnom:** Misuse of the proceeds of the bonds will hurt the next generations. The government should have made a more detailed calculation on when and how to repay the loan and principal payments. When the Chinggis bond was issued, I proposed to invest in Tavan Tolgoi by using the bond's proceeds. The proceeds could have also been used to repay a part of the Oyu Tolgoi loan.

Going forwards, the government seeks more beneficial projects, and I hope that the government is heading down the right path. Drafting beneficial projects within a short period of time is difficult. Rather than starting just any project, funding should be allocated to developed projects or if possible, for ongoing projects.

Now, I am working at Mongolyn Alt (MAK) where two large projects are being implemented. For example, a feasibility study of a project for the production of one million tonnes of cement. Construction has also started, with expected operation beginning this year. Wouldn't it be possible to fund a similar large national project from the proceeds?

Large projects have the potential to generate repayments quickly. If any bonds are issued by the government, good local companies and the government need to work together. But the government should not spend the entire time deciding what new projects need funding and seeking out potential projects. There are already ongoing good projects in Mongolia waiting for funding.

**Gungaadorj:** Mongolians cannot find a smarter way of how to make the bond the most beneficial to the country. If the situation continues this way towards the future, the next several generations will be indebted.

The government's eyes have just opened to seek out projects for the replacement of imported goods. The remaining balance of the proceeds from the Chinggis bond should fund projects that will bring returns on investment as soon as possible. Hopefully this will happen.

On the other hand, we need to research the Samurai bond thoroughly, or else we'll never know why the other countries of the world have no interest in this bond. I heard that France was participating in profit-making from this bond, but it quit very soon afterwards. Thus, we need to seriously consider if Mongolia could fall into a trap after purchasing the Samurai bond. Once the purchase is decided, I would say that the profits should be used to fund domestic manufacturing. In Mongolia, there is pastoral livestock farming, or in other words a means for production.

There are no mid- and long-term plans for the development of Mongolia. The current economic system is sticking to an action plan overseen by the current government. That is why the economic policy is still an illusion. Otherwise, questions such as how to develop the mining sector and support other sectors, and where to allot bond proceeds, would have already been answered.

**The future of Oyu Tolgoi and Tavan Tolgoi are ever pressing to Mongolians. What are your thoughts?**

**Sodnom:** For the Oyu Tolgoi issue, there is suspicion among economists that the Mongolian side cannot benefit from it. The suspicion is supposed. When the initial agreement was made between Oyu Tolgoi and the government of Mongolia, 50 to 53 percent of the profits to generate from Oyu Tolgoi was available to the Mongolian side, in three ways, according to the preliminary feasibility study. This included 5 percent royalties and 25 percent tax that was supposed to be collected as well as dividends for its 34 percent [interest].

After the agreement the issue of greater initial investment arose. If this additional investment issue is not resolved, Oyu Tolgoi's underground mining operations will be delayed. In this way, the situation looks a little more difficult.

This trend is likely to continue in the future. These complications might finally lead to a mere 5 percent royalty for Mongolia. Dividend and tax imposed on total profits are unclear. So, what needs to be done about this? The profiting from the sales revenue at Oyu Tolgoi needs to be clarified.

For Tavan Tolgoi, the investors need to include representatives of Russia, China and a third neighbour, such as Japan. Investment from each

country should be 16 percent, which would comprise 48 percent of total investment. That would leave 52 percent ownership of Tavan Tolgoi to Mongolia. The reason for this is if the two neighbours become a part of Tavan Tolgoi, they would keep the price of transport in mind.

**Gungaadorj:** The Oyu Tolgoi issue is now more complicated. At first, the issue was understandable. A number of ambiguous issues appeared during what has unfolded. It would be very difficult to describe it from the outside. It would be bad for us if the situation grows worse for the Mongolian side.

Thus, it is important to reach a deal as soon as possible on where foreign investors and Mongolia interests intersect. How about refusing the 34 percent? This is just my thought. But we should not leave Oyu Tolgoi.

There are a number of external factors surrounding Tavan Tolgoi. Thus, I would say that the proposal by Mr. Sodnom needs to be considered. In doing so, ownership by China and Russia of Tavan Tolgoi should be exactly the same. Otherwise, the situation will become worse.

**Byambasuren:** Oyu Tolgoi and Tavan Tolgoi can be said to be a reflection of various things. Oyu Tolgoi had been under discussion since 2005, but the government has not acted as a wealthy owner. It is acting like a pauper while it gives away the wealth to others.

I said before that Mongolian politicians crawled to foreign investors and kissed their shoes in order to make agreements with them. Why do Mongolians always make concessions when they come to Oyu Tolgoi?

I made several calculations using the data and information posted on [Oyu Tolgoi's] official website. According to the current calculations, Mongolians will give its wealth to foreign investors free and, in turn, we will remain indebted. I think that this complicated situation is due the conflict of interests and all kinds of greed that gathered in and around Oyu Tolgoi. If the government intended to improve the agreement, it could have selected one of the proposals made by Mr. Sodnom and Mr. Gungaadorj.

The problem is complicated and it is likely to worsen in the future. Rio Tinto is now looking for a loan at the risk of Mongolia's resources. This is unacceptable. But the Mongolian side is already sitting behind the negotiation table. Thus, our side should stop making conclusions and start talking.

Tavan Tolgoi is just a coal mine. Mongolia has enough human resources for hire to run the operations of both an open pit and underground mine shaft. The only problem is the investment. Although there have been great opportunities to attract investment, Mongolia's high public officials have divided Tavan Tolgoi into several pieces and, finally, this issue became controversial. Tavan Tolgoi was supposed to be just another coal mine, but what's happened is chaos.

When Tavan Tolgoi had no income, it distributed free money and stocks to all Mongolian citizens—neither of which has resulted in success. Hopefully, it's learned from its mistakes from the past. Thus, every aspect of Tavan Tolgoi must be considered, including society and infrastructure.

**Last question: What are your opinions on Mongolia's current state policy and foreign relations?**

**Sodnom:** For international relations, Mongolia should be very precise and careful when communicating with foreign business communities, especially at this time when foreign investment has become an idol in Mongolia. The "economic hit man" could possibly come to Mongolia. There is no hesitation if some of them are already in Mongolia.

The way that ministers in the government are involved in the process of making agreements with foreign companies is wrong. The president said: "Agreements should be made by professionals who are specialised and are knowledgeable in economics and other related areas." I agree with him. The economic hit man could enter Mongolia in the form of professionals. Therefore, we should be extra vigilant all the time.

Besides that, Mongolia should be smarter when communicating with China and Russia. Mongolia's economic relationship is being developed very well with China. China is also supporting its companies to work with Mongolia through its state policy.

When Mongolia's economic ties come to Russia, smart policy is needed. Five percent of exported goods are exported to Russia, while 60 to 70 percent of all imported goods including petroleum and electricity are imported from Russia. Thus, government-level meetings and discussions need to be held between Mongolia and Russia to further economic relations between the two countries. It means that smart state policy on how to develop the economic relations with Russia is still missing.

**Gungaadorj:** Mongolia has no way but to follow the same strategic policy of communicating with its two neighbours.

When I served as a chairman of the ministers' council in 1990, the US Secretary of State James Baker paid an official visit to Mongolia. I told him that Mongolia wanted to become the third neighbour of the US. "That is fine, but you will have to cross over the two neighbouring countries first so that the third neighbour becomes available", he answered.

In the past, there might be some things that we missed out on by keeping balanced relationships with China and Russia. This should not continue on this way into the future. Economic security needs to be a serious consideration.

**Byambasuren:** Mongolia lies at the intersection of three great civilisations. To the north, it borders Russia where Christianity is dominant; to the south is China where Buddhists reside; and on the west are Muslim communities through to Bayan-Ulgii aimag, or western Mongolia. Economic relations need to be developed at every direction.

Regarding international relations, Mongolia's economic policy has been subpar. For example, in 2011, Mongolia increased the volume of coal export, breaking the world's coal market.

The price was so high then and it was good for Mongolia. How about now? We should think on it.

Now we are about to break the world's copper market. We need to be smart about this. Mongolia needs to improve its relations with production manufacturers and the regulations also need to improve. But it is good that Mongolia's reputation expanding internationally. Now we can proudly say that Mongolia is a democratic country.

JANUARY, 2014.

GUESTS

# “Don’t Borrow, But Save”



*Hans-Werner Sinn, 65, is a renowned economist in Germany and worldwide. He is a professor in the faculty of economics at the University of Munich and president of the Ifo Institute for Economic Research. British newspaper The Independent named Sinn among the ten most influential people to change the world in 2011, and he was included in Bloomberg Markets Magazine’s 2012 “50 Most Influential” list. In 2013, the Frankfurter Allgemeine Zeitung placed him first on its list of economists with the greatest influence on politics.*

**Is this your first trip to Mongolia? What is your impression?**

Yes, it is my first visit in Mongolia. I am impressed with its wideness and the energy of the people here—a wonderful country.

**What is the current status of the economic crisis in Europe?**

The European crisis has two facets. It is a financial crisis and it is a real crisis.

The financial crisis has calmed down due to the promises of the central bank to buy government bonds if necessary and the risk measures taken. The real crisis is unmitigated. Southern Europe has lost its competitiveness and is suffering from huge unemployment, in particular among young people.

**What countries are most affected?**

The six crisis countries. I call them GIPSIC: Greece, Ireland, Portugal, Spain, Italy, Cyprus.

**Which challenges are confronting the global economy?**

The global economy is suffering from a slowdown of the emerging countries China, Russia, and Brazil, so there is a downturn in the business cycle. But I don’t think it will be a major crisis. Neither do I think that it will be a long-term interruption of this fantastic growth the emerging countries have had. So for Mongolia, it is of course a negative sign that the Chinese buy less goods (coal in particular) from Mongolia, but I think that the demand will recover.

**What do you think of the double-digit growth experienced in 2011 and 2012?**

Yes, that is fantastic. It follows the Chinese growth. In economic terms, Mongolia is an attachment to China, with 90 percent of exports going there. I find the process a little bit too tempestuous and think it could be organised better. I find certain disproportions between the tempestuous growth of the private economy, the lack of government regulation and public infrastructure.

Also Mongolia has too much capital imports. It is too dependent on the inflow of goods and services from other countries. The trade deficit is 30 percent of GDP, which is astronomical. I think that is not sound, and Mongolia should definitely stop that.

Given that it has natural resources to sell it should



not also sell government bonds. In particular, things like the Chinggis bond, and everything that allows for capital import and goods imports are dangerous because you borrow in a foreign currency, in dollars, and your currency inflates and depreciates. So you will have enormous difficulties in repaying that debt.

**Do you see any solutions for this situation? What could the government do?**

Austerity is necessary. You cannot spend more than you earn. And the government should not counteract the policies of the Mongolian central bank. The Mongolian central bank increases the interest rate, and the government gives interest subsidies from the Chinggis fund. This is contradictory.

The growth process should be slowed down. It is too overheated and artificial. It is a bubble.

**How can we remove the bubble?**

By not spending so much now. You should not give people cash. Instead you should build up a pension fund so that they have something for the future.

**What would you recommend to readers for the current economic situation?**

People should be saving. Expenditure is definitely too high. Bubbles can burst, as we saw in Europe. Don't borrow but save, not necessarily by putting money into bank accounts but by buying shares of companies.

**What is the role of an economist to the country?**

The economist considers the macro-economic relationship of individual behaviours. Their role is to set rules and institutions for the economy which makes private agents. It is like how the policeman prevents traffic jams. The private economies are the motorists and the economist is the policeman who regulates the traffic.

**The theme of your dissertation was "Economic Decisions Under Uncertainty". What can we apply and learn from that paper today?**

One of my main themes was excessive risk taking when equity is small and liability is limited. I heard of the Mongolian bank bankruptcies and the bail-out activities of the government. This is the sort of problem that has to be avoided by forcing banks to operate with the multitude of the equity they are holding today. Otherwise they gamble at the expense of tax payers.

**What from your body of work has most reformed German governance?**

My work on activating social aid influenced the Schroeder reforms assumed under the 2010 title agenda.

The idea was to bring wages for the less qualified down to generate more jobs without reducing their living standard. This was achieved by reducing the unemployment benefits and paying work subsidies. The policy was an employment miracle, especially for the non-skilled. The jobs brought them a modest labour income, and the government subsidies were added to that income. It was better for the less-qualified and the rest of society. It makes no sense to build a welfare state on the idea of paying people for not working.

**Germany has taken it upon itself to support the flagging countries in the European Union? Is this a long-term role for Germany?**

It is a long-term process because the prices that went up too much have to come down. We need a re-alignment of the prices of goods between the countries. This is a very difficult process.

Either you inflate the Northern countries or you deflate the Southern countries. But the Northern countries don't want to inflate because people are afraid of losing their savings, and the southern countries don't want to deflate because debtors would not be able to repay their debt.

**What is the function of the Ifo Institute for Economic Research?**

The Ifo Institute is one of five publicly financed institutes in Germany. It conducts significant economic surveys. We ask 7,000 firms every month about their business status and their expectations.

We cooperate with many researchers throughout the world. In our research network there are over 1,000 economic professors worldwide.

**What political reform do you think is needed in Mongolia?**

In my opinion, the dual education system is notably required here. There are over 100 universities in Mongolia, which is obviously too much for 2.9 million people. I think two or three would be sufficient. Instead technical schools where the technical professions can be learnt are needed. Every job requires lots of know-how and detailed knowledge. The dual education system can be implemented in collaboration with firms.

I think law and order should be established. That is essential. The city cannot be built without any planning and strict zoning rules. To give an example, the government should tear down one or two illegal buildings. After that, people will stick to the rules.

Ulaanbaatar, and the country as a whole, urgently need better infrastructure. There has been too little public infrastructure investment relative to private consumption.

Everyone has mobiles and flat screen TVs. The electronic gadgets are really astonishing. I would recommend buying fewer Japanese cars and more and better streets, parks and other public spaces, like city parks and recreation spots between the buildings. More hospitals would also be more necessary. I think living infrastructure is missing here. ■

OCTOBER, 2013.

# BUSINESS

*Every country's success is related to the hard work of business leaders and creators. With the booming development in the recent years, Mongolian businessmen are facing big challenges and new opportunities.*






Photo by B. Byamba-Ochir

# Good Food, Good Life

*Peter Brabeck-Letmathe was born in 1944 in Austrian Villach. He studied Economics at the University of World Trade in Vienna. Brabeck-Letmathe joined Nestle in 1968 as a salesman, and later became a specialist for new products. His career within the group included a span of almost 10 years in Chile (1970–1980), first as national sales manager and later as director of marketing. In 1981, he was appointed managing director of Nestle Ecuador and in 1983, President and managing director of Nestle Venezuela. In October 1987, he was transferred to Nestle's international headquarters in Vevey. In 1997 he was selected as chief executive officer of Nestle S.A., and had acted in this position 2008. Currently he works as a chief of the board of directors.*



*Peter Brabeck-Letmathe, Chairman of Nestle Group, visited Mongolia in 2012*

**Describe the start of your career.**

When I started at Nestle 44 years ago (I have been with this company for almost my whole life) I started as an ice cream salesman In Austria, which was not abnormal at that time because there was one of the these good old principles that that was where you started in business in a fast moving consumer good company. Business is on the sale side.

You don't make the money when you produce a product or administer, you make the money when you sell the product. That is where we started

**Today Nestle is the one of the leading companies in the world? What is the secret to its success?**

Well, there is no secret. I think there are several important factors which have led to success. The first one is a long-term vision. You have to ensure that decisions are in favor of the long-term development of your company. Not the short term profit maximization, but the long term creation of value, both for society and shareholders.

The second one is that you should have a deep respect for your consumers. There is no global consumer. You

cannot read the consumers of the world as if they were the same. There is a huge difference between the consumers of Mongolia, China, and Japan. They are not the same; therefore you have to have a high level of decentralisation in decision making. The decisions which are affecting consumers are all made on the local level. The third one is that you need to have a very strong financial basis.

**What principles does Nestle conform to all of its products for all demographics?**

Nestle stands for good food and good life during your whole life. As matter of fact, we care about the people even before they are born. The pregnant mother is already a consumer of ours.

Then afterwards we assure that children have good starts and therefore good lives. We have infant nutrition and accompany you through your youth with products like Milo, which helps you develop yourself. And then we move up through the whole life span through coffee and culinary products. At the end of the day we also have products which are more for the senior population. We really care for all stages of life

**Mongolia's longest running company is only 20 years old. What kind of experiences from Nestle's long history can you share with Mongolian companies and entrepreneurs to ensure a similar lifetime of success?**

There are two or three main aspects which make a success of a company. In our case, it was certainly also an approach to disruptive innovation. We did not accept that what was and what existed was necessarily the best. We looked into something that was on purpose disruptive, and this can be applied to every part of your organisation.

If you take VR for example, it is the world's leader of soluble coffee. We invented Nespresso, which is a completely disruptive approach to how to sell and serve a coffee. Or we have in a similar way a disruptive innovation in the tea system, which we have just launched.

But you can also apply it to the organisation itself. I think this idea about disruptive innovation and creating gaps for your competitor is something that is valued for any company, even a Mongolian one.

**In Nestle's four decades of operation, what kind of troubles has it experienced that it was able to overcome?**

When working for 44 years there are an enormous number of obstacles, like we all must face in life. By keeping a constructive approach, even to obstacles and risks, you always find a way to transform an obstacle into an opportunity. Risk and opportunity are very close together and sometimes it just depends on your mindset. If you look at it positively, you might find an opportunity in even the biggest obstacle.

**What makes someone a true leader in business?**

For me, a successful business leader is the one who helps his company progress from one stage to the next one. A successful business leader is the one who will assure that the company he is servicing will continue to succeed even after he is gone. That is what I would call a successful leader.

**Mongolian professionals are talking about corporate responsibility now. Mongolia looks to be at the beginning stages of this development. They feel that social responsibility is supplying monetary contributions and producing events. What do you think this concept means?**

I would say it is certainly not philanthropic, to give away money. We have a primary responsibility to our shareholders and I don't think a CEO has the right to spend the company's money on philanthropy. Philanthropy can be done by those who have ownership over the money, so shareholders themselves. If the owner wants to do something with his own money, that is okay. But it is not okay for the CEO to use the money of the shareholders.

I consider real social responsibility when a company embeds in its main strategy the creation of value for both the shareholders and society at the same time. We call this creating shared value and this is the concept of corporate social responsibility that we are moving forward.

**Can you name an example?**

It's very simple. If you take a factory in an emerging market outside of a city, in a small village, the impact you have on society is very big because probably you won't find any prepared people. You have to start training people before you even begin building the factory. You will not find suppliers. You will not find the mechanics and electricians you need. You have to train and prepare them, and work with the suppliers that are around to assure that you have a good supply.

The social impact that you would have would be very big, and you would create value to that society. Operations must have a waste water plant, for example, and perhaps the village doesn't have one. You could allow the village to put all of its water into your waste water treatment, and then you have a society. By doing what you're doing, but consciously theorizing the concepts that best optimise the value for society, this is how a company should take care of its corporate social responsibility.

**What opportunities do you see for Mongolia?**

I've been here twice as the chairman of the German Water Resource Group, which is a public-private partnership housed in the World Bank in Washington. I've been here mostly to discuss with the Mongolian government opportunities and how to support the government in their strive to improve water management. It was not as the chairman of Nestle.

Having said this, I of course had the opportunity to see the political, social and economic development of Mongolia, which is very encouraging. This also brings to my mind new opportunities for Nestle in Mongolia.

**What do you think of water protection in Mongolia? Who is responsible for its protection?**

Water is the most precious raw material for humankind; therefore everybody has to protect water. This is not the responsibility of just one or an institution. It is the responsibility of every single one who has the privilege to live on this planet. Unfortunately, we do not respect water in the manner that is necessary to assure long-term sustainability. That is why we are so worried about it.

**Mongolia is now considering its transition to a green economy. What thoughts and advice can you give on this?**

The so-called green economy is a trend you will see in many economies of this world. As a matter of fact, I've participated in the green week of the Copenhagen government, the worldwide green summit, and I think this is now a shared preoccupation. What we are realising today is that the way we use natural resources is not sustainable. We cannot feed and keep happy 10 billion or 11 billion people on this planet if we continue to use resources as we do today. We have to get into a new economy which is resource-lighter. We have to dematerialise a part of our economic development and that is what is basically behind the slogan of the green economy. We have to be more efficient in resource usage and dematerialise economic development.

**Yesterday you met Mongolia's policymakers. What do you think their attitude towards water policy is?**

Well, I was very impressed. I met the president of Mongolia the first time in Davos in a panel on natural resources, and I talked about water and his immediate reaction was to turn around and say, "look what you've been saying is so relevant to Mongolia that I want you to consider becoming a partner". It was out of this conversation that the Mongolian government thought to organise a forum on water on 3 June last year, where I participated to give an overview of the challenges Mongolia faces. Over the next year we got a bit deeper into the subject. I was very happy to be able to sign together with the Prime Minister this declaration to the environment.

I think with everyone I have spoken with, I was absolutely impressed by their understanding of the importance of the water issue to the future of Mongolia, but also their political and emotional commitment to water.

**Where do you think global business trends are heading?**

We are certainly in a very vulnerable time. Changes are happening which were not foreseeable. I could talk about the Arab Spring, for example, or the different crises. That's one aspect. The second is a more positive one and that is we have very strong democratic growth, and this means new opportunity and obligations to ensure that everyone on this world has access to the right nutrition. Coming from a company that focuses on good food leading to good life, I feel positive about the next coming years.




**Who do you feel are your competitors in the Mongolian market and how do you compete with them?**

We are without a doubt the biggest coffee company in the world by quite a big distance. Today more than 25 out of 100 coffee cups in the world are NesCafe. We are continuously growing our business substantially above the market and continuously improving our leadership position.

The other companies are perhaps more focused on coffees, but there is still a big trench. We have a leverage that is quite unique, and I'm sure we'll keep up this leadership. We have also launched new coffees like Nespresso and coffee systems like NesCafe Dolce Gusto, and different longer-lasting coffees, such as cappuccinos. We cover all coffee consumption in the most of the different manners they are drunk.

**What book has most impacted your life and perspective?**

Every book has its own merit. I'm reading, but I would not be able to identify any one book that really had the biggest impact. I have learned more from direct conversation with politicians and business leaders. I have also learned from leaders elsewhere, such as artists. I have very good friends in both the music world and painting world, from whom I am learning just as much as I am from business people. There is no one single fountain of wisdom. The more spread out from where you get your ideas and the more you listen, the more likely you'll have your own creative ideas.

The last book I read was Investing in Change /by Gowers Andrew/, which was about investing in the financial system and what would be needed to change the financial system. It gave me some new perspective.

**Do you like drinking coffee?**

Oh yes, of course that is my breakfast. First thing is a cup of coffee and a little drop of chocolate. ■

APRIL, 2012.

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### End The Rail Gauge Debate

For eight years, Mongolia has debated which gauge the rail transport system should adapt—Russian or Chinese, a difference of 85 millimeters. During recent visits to Mongolia, both Russian President Vladimir Putin and Chinese President - **en/p/7027**



### Housing Construction To Increase In The Foreseeable Future

Everywhere across the city in recent years, Central Bank backed housing construction projects have been sprouting up, as the government continues a supply side supportive policy. Since last year, MNT 582.8 billion in mortgage loans have been issued - **en/i/7008**



### Moving Into Mongolia's Health Insurance Market

Laurent Pochat-Cottiloux, Managing Director at AXA Healthcare Management based in Singapore, has spent 18 years in the private medical insurance industry. With an MBA from the London Business School, he has worked both in start-ups - **en/w/6859**

## ECONOMISTS' COLUMNS

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**Jargalsaikhan D.**

### Frantic Taxers

Why must there be taxes? It's because it was decided that citizens were all to contribute to financing the government, whose primary role is to organize security to protect the three basic rights of people: life, liberty, and property - **en/b/6962**



**Masa Igata**

### Mongolia's Achilles Heel

Even though the data from the National Statistics Office shows that the trade deficit in the first quarter has improved quite significantly, we maintain our cautious stance on the outlook of the Mongolian Economy - **en/b/5684**



**Jan Hansen**

### Mining-Driven Economic Development: The Key Role of Sound Fiscal Policy and Sovereign Wealth Funds

Mongolia's medium-term economic prospects are widely regarded as very favourable with commercial production from the Oyu Tolgoi copper and gold mine scheduled to begin in mid 2013 and the Tavan Tolgoi coal mine in an - **en/b/4433**



**Byambaa L.**

### Bank Expansion Strategies For The New Banking Market

Mongolia's current banking sector has been fundamentally cemented to the point where it now plays the main role in the financial sector. Banks currently supply the majority of private sector, business, and citizen demand - **en/p/6669**



**Stefan Hanselmann**

### Innovation in Mongolia – Many Small Steps Make a Big Leap

It is common place that the only constant thing in life is the permanence of change - and change harbours opportunities. And what could be better proof of this than this very country? - **en/b/4257**

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*Mongolian Economy invited the president of the Mongolian Bankers Association, M. Bold, and the chief executives of State Bank, Khan Bank, Golomt Bank, and Trade and Development Bank, D. Batsaikhan Norohiko Kato, G. Ganbold, and D. Khurelbaatar, repsectively.*



*M. Bold, President of Mongolian Bankers Association*



*G. Ganbold, chief executive at Golomt Bank*



*D. Khurelbaatar, deputy chief executive at Trade and Development Bank*



*Norohiko Kato, chief executive at Khan Bank*



*D. Batsaikhan, chief exective at the State Bank*

# 9 Years Of Achievements And Challenges

**Before we start the interview, we would like to congratulate you on the 90th anniversary of development in Mongolia's banking sector. In observation of this milestone, bank workers have planted trees at the Ulaanbaatar national park to establish new green space, which leads into the first question. What is the role of the banking sector in green development?**

**M. Bold:** Yes, bank workers created the green space at the Ulaanbaatar national park on May 16 this year. This initiative has revealed how the banking sector is not only for profit. We consider this a symbol of how it can provide the public with more services while creating environmentally friendly areas and protecting the environment.

Last year, Mongolia's banks launched an initiative called "stable funding." Under this initiative, the main requirements for issuing loans would change beginning next year, based on whether a company's activities are environmentally friendly or not.

**D. Khurelbaatar:** Congratulations for the anniversary, bankers and bank staff! Green development is not only an issue for Mongolia. Instead, it is an issue that is attracting global attention. The Mongolian Bankers Association (MBA) has initiated work with the Ulaanbaatar City Council on this issue and will make a memorandum of understanding.

**G. Ganbold:** Banks' policies for loans and other liabilities, protection of the environment, and environmentally friendly businesses will be priorities. The same policy was in effect among banks before, but now it's deeper and more support can be given to environmental rehabilitation activities while mining is booming in Mongolia.

We will focus on creating a new green environment. For example, Golomt Bank is planning to fund some projects aimed at contributing to the development of greenhouse farming. The bank's policy particularly focuses on funding winter greenhouse projects with advanced technology that would be environmentally friendly.

We need to work with the relevant governmental organisations. It is important for organisations to budget for the costs of environmental protection and rehabilitation activities in their financial plans when they start planning.

**D. Batsaikhan:** People think about money when they see banks. A bank should be a business that directs the flow of money while implementing corporate social responsibility. So, it is important to play a certain role in society in terms of CSR.

The banks' green areas is an example of a number of projects that were jointly done by Mongolia's banks for the sake of society. The banks are working together to protect the environment. Also, banks have their own CSR tasks, respectively. For example, State Bank has just launched a project to support environmental protection and green development.

**Norihiko Kato:** Over the past 90 years, the Mongolian banking industry has accomplished tremendous growth and robust change, especially in the last 20 years or so. During my limited experience here – I have been in Mongolia for three years now – I really have felt that the banking industry has changed very rapidly with the introduction of new technologies and attempts to achieve global standards, transparency and other advancements.

We have been so busy focusing on our own situations in the past, but now, as my colleagues here have just mentioned, the banks are talking about green development and sustainable financing, and are starting to take some collaborative approaches. Mongolia's economy needs a very strong financial industry. So we need to go forward together.

**What has the development of the banking sector been like? At what stage of development does it stand at today?**

**Bold:** There are more than 10,000 people within the banking sector of Mongolia today. There are 1.2 million deposit holders at the banks and 690,000 citizens who have received loans from banks, in total. It appears that every family received loans from banks. Almost everybody has an account with a bank. There are more than 1,500 bank branches in Mongolia, of which more than 1,000 branches are based in the countryside. More than MNT 20 trillion is circulated within the banks, which is equivalent to 119 percent of GDP.

There are some indicators that Mongolia's banking sector is approaching the level of developing countries'. We are aiming to increase these numbers. Mongolia's banking sector could be thought to have made a substantial step forward.

**Khurelbaatar:** The Monetary history of Mongolia is measured by four events, in 1227, 1924, 1954 and 1991. In 1227, the first paper money was issued.

In June 2, 1924, the Mongolian-Soviet Union's joint trade and manufacturing bank was established with some 22 employees. In 1954, the Soviet Union believed Mongolia's banking system could have its own employees and allowed for independence. After this, the Bank of Mongolia was established and has operated ever since. In 1991, a new Banking Law was approved which created a new era for development in this sector. Ever since then, state-owned and

commercial banks have been established and developed.

**Batsaikhan:** I would like to talk about the products and services of banks. In the past 20 years, banks worked hard to introduce products and services that meet world standards. They worked well. Now we can send and receive money to and from every country in the world.

New Internet-based products and services are being developed. Last year, the MBA initiated and hosted the Asian Bankers Association's meeting in Mongolia. The representatives of the event said that Mongolia's banking system had reached the world standard. This was an international assessment, made by the representatives of foreign banks.

**Ganbold:** The 90-year history was a period of both achievements and challenges. Banks have created thousands of new jobs and contributed to the economy by funding a number of past and ongoing projects. Infrastructure projects are a result of these projects and citizens have been employed for these projects.

Money, products and services together create wealth. The banks are most actively engaged in wealth creation.

It means that banks are wealth creators, I think.

The banking sector comprises 95 percent of the finance sector of Mongolia. This is an achievement of its development over other sectors. Also the banks are now providing financial services that meet international standards. Over the most recent four years, some representative offices of large foreign banks have been established in Mongolia, which has created competition among commercial banks in Mongolia. It has created the opportunity to fund the expansion of projects.

**Kato:** I think the main factor of this development is competition among the banks. When Khan Bank was privatized, Agricultural Bank of Mongolia had a total of 260 branches but only two branches in Ulaanbaatar. Khan Bank, under our previous management, worked very hard to expand its network of branches, both in Ulaanbaatar and the countryside.

Now we have 530 branches throughout the country. Meanwhile, our banks made the same effort and here in UB. Now customers can choose whichever bank. Even in the countryside there is not just one bank but two or three banks in a single county.

Since shifting to the free-market economy, I think that policy makers and regulators have taken a wise approach by allowing the banks to compete. As a result, this market has become very competitive and each bank quite freely tries to do its best in its own way. With this competition, the banks have developed swiftly and now provide global-standard products and services to their customers.

**You applaud the fact that the banking sector comprises 95 percent of Mongolia's financial sector, but many experts say alternative options are needed to expand the economy. How do you respond to this argument?**

Bold: Banks comprise 95 percent of the financial sector because of their good performance, I would say. The other side from the banking sector is a deficiency within the capital market. Some three things are needed to develop the capital market: an improved legal setting; a fair judiciary system; and financial resources. Capital can be grown from a combination of these three.

There is a lot to be done for the banking sector. For example, the banks need to develop the capacity to issue large loans. On the other hand, banks still lack the capacity to fund mega projects in Mongolia. So, the banks should increase their capacities to attract more investment.

**Many in business criticise a preference for lending to mining operations. For example, people who run businesses in livestock or farming complain they have not been able to receive funding from Chinggis bond proceeds. How do you respond to this criticism?**

**Khurelbaatar:** Every bank has its own character. Also there are some common services provided by banks. Trade and Development Bank mainly focuses on providing services for large companies. Mongolia's political and economic settings have a substantial impact on raising funds.

Our bank contributes to the economy, ranging from attracting investment to issuing bonds. But assessment over the banks depends on the assessment of the country.

**Although banks have attracted investment in the past, credit raters have downgraded Mongolia's sovereign credit rating as well as its banking sector. What have been some of the consequences of this?**

**Khurelbaatar:** The government's 100-day action plan has been approved by the the State Great Khural. The hope is that this plan will be fulfilled. Mr. Bold is one among its working group.

The banks raise funds by issuing bonds in foreign markets. We pay taxes for the interest on those bonds. If the plan included a reduction of interest rates, then the interest rate of our borrowers could also be reduced. The hope is that everything will be fine if the plan is implemented.

**Batsaikhan:** I would say several things on the future development of today's banking system. It is said that the sector has reached a relatively high stage of development because it comprises 95 percent of Mongolia's financial market. From the point of international standards, Mongolia's banks are still small. As the economy grows faster, more requirements will be required for the banks for the need to grow their assets.

Also, it is important to have strong legal coordination for further stable development of this sector. The development of this sector is already overtaking the development of its legal setting.

Internet-based solutions have already been developed and are being used by banks while the legal setting that should be regulating these processes is still insufficient. Mongolia is creating difficulties for itself for the issuance of loans.

It is necessary to reduce inflation and introduce innovations for registration. When a loan is issued in a foreign country there is no need for an asset guarantee. Instead, the account is leveraged. No money is circulated outside the account for foreign banks. This is because of clear and accurate registration, so the account is more efficient than real assets.

In Mongolia's case, banks ask companies for real estate guarantees. This is because of the large size of the black economy. This means some transactions are not processed through official bank accounts. According to unofficial data, some 40 percent of Mongolia's economy is involved with the black economy.

**Ganbold:** I am optimistic that the future of Mongolia's banks will be bright. We know what wealth we do have, and we are learning how to trade our wealth at an international level and make it valuable. When the country's economy expands, it is believed that banking and other sectors will be developed.



Businesspeople say that it is hard to get a loan from the banks. There are two sides: On the one hand, the main product provided by the banks is loans, which is meant to profit. It means that the banks are interested in issuing loans. On the other hand, the banks have to be responsible for the loans because they use the deposits of companies and individuals to lend. Because this is the case, we cannot issue loans to irresponsible citizens or companies.

The government bond works the same way, giving all the risks to the government because it has to fund companies with the proceeds of the bond and repay it after two or three years. So, Mongolia's manufacturers need to meet the same requirements of the banks.

**What should be done to stabilise foreign exchange rate fluctuations? And is it fair that companies are prohibited from selling products in exchange for foreign currencies while banks are able to lend in foreign currencies.**

**Bold:** The weakening of the local currency against the US dollar means, in plain words, that US dollars are absent from Mongolia's market. The currency is one of many products in the market, just like bread. If there is a lack of bread in the market, its price goes up. The only solution is to get out of this situation.

Mongolians should learn to manufacture products on their own. We need more than talk. We should at least learn to manufacture food products and garments. In this way, we could overcome the challenge of the exchange rate.

Mongolia has a very small reserve of foreign currencies. The national reserve itself is quite small so that the government and the banks mainly aim to attract sources for lending from abroad. This sort of loan arrives via foreign currencies. So, the banks were given the privilege to issue loans in foreign currencies, in accordance with the relevant law.

If other organisations and companies in Mongolia started setting the prices for their products and services with foreign currencies, then Mongolia would not need a local currency.

**Batsaikhan:** Every business has risk management. It is up to the company if it wants to obtain a loan in a local or foreign currency. If it wants a loan in the local currency, we cannot force it otherwise. Depending on the purpose of the spending for the loan, the banks have to decide which loan is suitable. The exchange rate does not always increase, sometimes it decreases.

There is a story that businesspeople were profiting from the depreciation of the exchange rate. On the other hand, there is a misunderstanding among the public that the banks earn more profits when the exchange rate increases. The banks also sees losses from this because the banks' financial resources belong to somebody. So, the increase in the exchange rate goes to deposit holders.

In the future, we need to reduce the interest rate on savings. This would benefit the capital market. These factors are interrelated and it would not bring good results if this issue was explained from any one perspective.

**Kato:** I have nothing much to add. I think we have to be fully aware that most ordinary people's earnings are in the Mongolian currency and they spend in the tugrug. Those people should be aware that loans in foreign currencies are associated with foreign exchange risks.

As Mr. D. Batsaikhan has just mentioned, it is up to the judgement of a business to generate revenue in foreign currency or to trade actively using foreign currency loans. They can use foreign currency loans at their own financial risk. If you are aware of it, you won't be very surprised about these circumstances.

As for interest rates on loans, the interest rate on banks' timed deposit are still above 15 percent which is higher than the inflation rate. We would like to encourage people to save more as deposit rates are still beating the inflation rate. Then, eventually, it will reduce our interest costs and lead to a reduction in interest. The more we produce domestically, the more inflation falls. The Mongolian tugrug will continue to be weak and buying other countries' products will be more expensive until we achieve this. So let's focus on domestic production and savings.

**Some foreign banks are opening representative's offices in Mongolia. They are expected to open branches soon, too. What would these bring to the economy, especially to the banking sector?**

**Bold:** Currently, there are five foreign banks with representative offices in Mongolia. So far, Mongolia's private companies have received USD 2 billion in financing from these offices and some foreign banks without offices in Mongolia.

They have shown the possibility to carry out a study on loans and provide their services via the offices, without establishing branches in Mongolia. This is just the beginning.

There is a great opportunity to continue this in the future. In addition to the representative offices, there are also plenty of opportunities for other foreign banks to invest in Mongolia through the purchase of shares of Mongolia's commercial banks. So, banks consider all these opportunities as more suitable for the current economy and legal setting. ■

JUNE, 2014.




Swiss Watch Shop I Наран Пойнт, Хувьсгалчдын гудамж 9 Утас: 326435
Swiss Watch Shop II Наран Молл, 2-р давхар, Сөүлийн гудамж 42/1 Утас: 70136918



Photo by B. Byamba-Ochir

# Lessons to be learned from commodity crises

*T.Lkhagvadorj, CEO of Hunnu Coal, talks here about the current situation of the mining industry, the future prospects for the sector, and Mongolia's investment environment. T.Lkhagvadorj also holds positions in management at Wolf Petroleum, Hunnu Resources and Harrison Capital.*

**Low commodity prices, especially those of coal, have harmed the economy of Mongolia. What are the main factors that lead to this situation?**

Worshipping mining products as they become a trend has caused issues. When copper was in high demand, everyone rushed for copper. In addition, we don't really know what mining is. We don't know how to develop this sector, nor do we have the experience. This is a big problem. The current crisis in the coal sector has taught us a lesson. If we couldn't sell our already exploited coal, that would be a bit of a problem. But the crisis hit when Mongolia was just beginning to explore and exploit its coal. This is a huge problem, since the country's economy is so dependent on mining. The crisis is a big warning for us. I think a long term sustainable business policy and plan is necessary for the country's development. The economic fall also contributed badly to the mining sector. Investors are confused whether or not to invest in mining. It is not that the money is gone, or that the world has a money shortage. There are interested potential investors. However, they are waiting for profitable investments. They want big, far-sighted projects instead of smaller ones. China is auditing all national companies. Why can't Mongolia do the same and learn?

**Australia is Mongolia's main competitor on the Chinese commodity market. What policy should Mongolia take to compete?**

Economy wise, China is a huge market. Almost every country is striving to supply China. Even remote countries are using their brain on how to get closer to China. If so, how clever is it for Mongolia to ignore this huge potential that is right at its border and search for third markets? In addition, Mongolia has weak infrastructure development. Infrastructure is important, because mining requires exports in millions of tonnes to have profit. In this sense, developing and improving the railway system is crucial. One of the important cooperation policies with China is the provision to become a constant supplier of quality products. If Mongolia is able to deliver quality products on a frequent basis, then it will have the possibility to sell its mining and export products and make profits, which can be spent on the health and education of its citizens.

**What is the current situation of Mongolian coal companies?**

Their activities are idle. This is not only for Mongolian companies; most foreign companies are experiencing the same. Even companies that have long-term contracts and the right infrastructure are tightening their belts by cutting expenses.

**Is there any solution?**

According to the Ministry of Mining, selling VAT-included (value added tax) produced and enriched coal is the most suitable solution. The Ministry also advised companies to research a possibility to work together to increase the quality of exports to meet a shared high standard. In such times of crisis, companies, instead of working alone, should try to collaborate with each other to overcome the crisis. In doing so, they should pay more attention on how to fashion Mongolia's coal brand.

**What opinion do domestic coal companies have in terms of government policies and the legal environment?**

First of all, the country should find the answers for whether Mongolia is trying to grow by putting mining as its priority or whether mining is just a part of Mongolia's economic development. If the answer is clear, the government policy will become clear. The policy has to be clear. Another issue is that the government is trying to finance exploitation by itself. Instead of taking so much risk, it should clarify all the policies and cooperate with the private sector. This is more efficient. The government should think twice before differentiating the public and the private. It is not agreeable that one entity pays fewer taxes because it belongs to the state, while the other pays more because it is foreign. If the government continues to have this instable policy, investors won't come.

**What is the situation with Hunnu coal?**

Its projects are going as planned. There is no sale because of the market price fall. You could say Hunnu Coal did not experience much hardship, since it was in a transition phase from exploring to exploiting. Currently, we are more focused on analysing coal reserves and quality, and on researching exploitation oriented works. In order to supply more quality coal when market prices improve, we are working to improve our technology. We are working on how to minimize our expenses. In addition, we are mainly focusing on improving the quality of our products when the market revives.

**Wolf Petroleum is implementing projects in the oil sector. How is it going so far?**

Mongolia has been dependent on its Russian neighbours for years. If domestic oil reserves are to be explored, investors are needed. For this reason, we became listed on the Australian Stock Exchange as Wolf Petroleum. Last year, we were honored by the Petroleum Authority of Mongolia as the best exploring company. We managed to accomplish what we had to do in three years within just nine months. It has been only two years since our establishment. We try to finance profitable projects and operate transparently by listing on an international stock exchange. We don't have anything to hide. To be listed on an international stock exchange, a company has to operate transparently. For this reason, we have no right to lie or do dishonest things. Neither do we have the intention. Wolf Petroleum is cooperating with the government of Mongolia. We have signed a product dividing agreement for the 27th bloc in Sukhbaatar province. We are exploring at the moment. We have determined that there might be a huge oil reserve basin deep in the ground, which we publicly announced. At the moment, vibration research is being conducted. In addition, we are working on a collaboration contract with the government that would include places in Bayankhongor and Govi-Altai. We will be responsible for financing and the risks. The Petroleum Authority of Mongolia will do the monitoring. If lucky, the estimations are right and the government will be able to own 50 percent or more.

**The price of oil is falling. What changes are expected in the market?**

Wolf Petroleum is in an exploring phase. Thus, it is not so affected by the price fall. However, big companies tend to decrease their foreign investment. They go into their savings mode. So, the company is approaching companies that understand exploitation risks and companies that try to invest less and profit much. Mongolia's demand for oil is increasing. China has a huge need for oil. Russia will supply China with crude oil by building huge pipelines. We cannot sit and wait. There is a huge potential in this market.

**What does the future hold for Hunnu Coal?**

The company aims to supply the international market with high quality Mongolian coal while maintaining professional staff in the sector and operating with the utmost social responsibility. ■

SEPTEMBER, 2013

OUR GUEST

# The Maestro of Motivation

*A chaotic cloud of sound hangs over the stage, while the instrumentalists of the orchestra practice their different roles in anticipation of the beginning of the rehearsal. As the Maestro raises his hand there is a moment of silence. The magic then commences—from the hundred instruments comes one clear, unified and powerful sound. Led by the silent Maestro, each individual musician plays in perfect harmony working towards the shared goal—a magnificent performance.*

*"Hello, Everybody"!*

*"Thank you for coming for something which is not economics". This is how Itay Talgam,Φ who started out his music career as a pianist but later switched to conducting, led the audience for his presentation "Music as a Metaphor for Conducting Business". Talgam met for an interview after his fascinating presentation at the Mongolia Economic Forum.*

**Why do you think politics and business are similar to music?**

The reason is that they are all about people. In business, politics, society and music—it is always about getting the best out of people in a coordinated way. When you know people have different thoughts, ideas and interests, they still have to work together for the good of society and for the good of music. So I see these things are very similar to each other, and it is true all over the world.

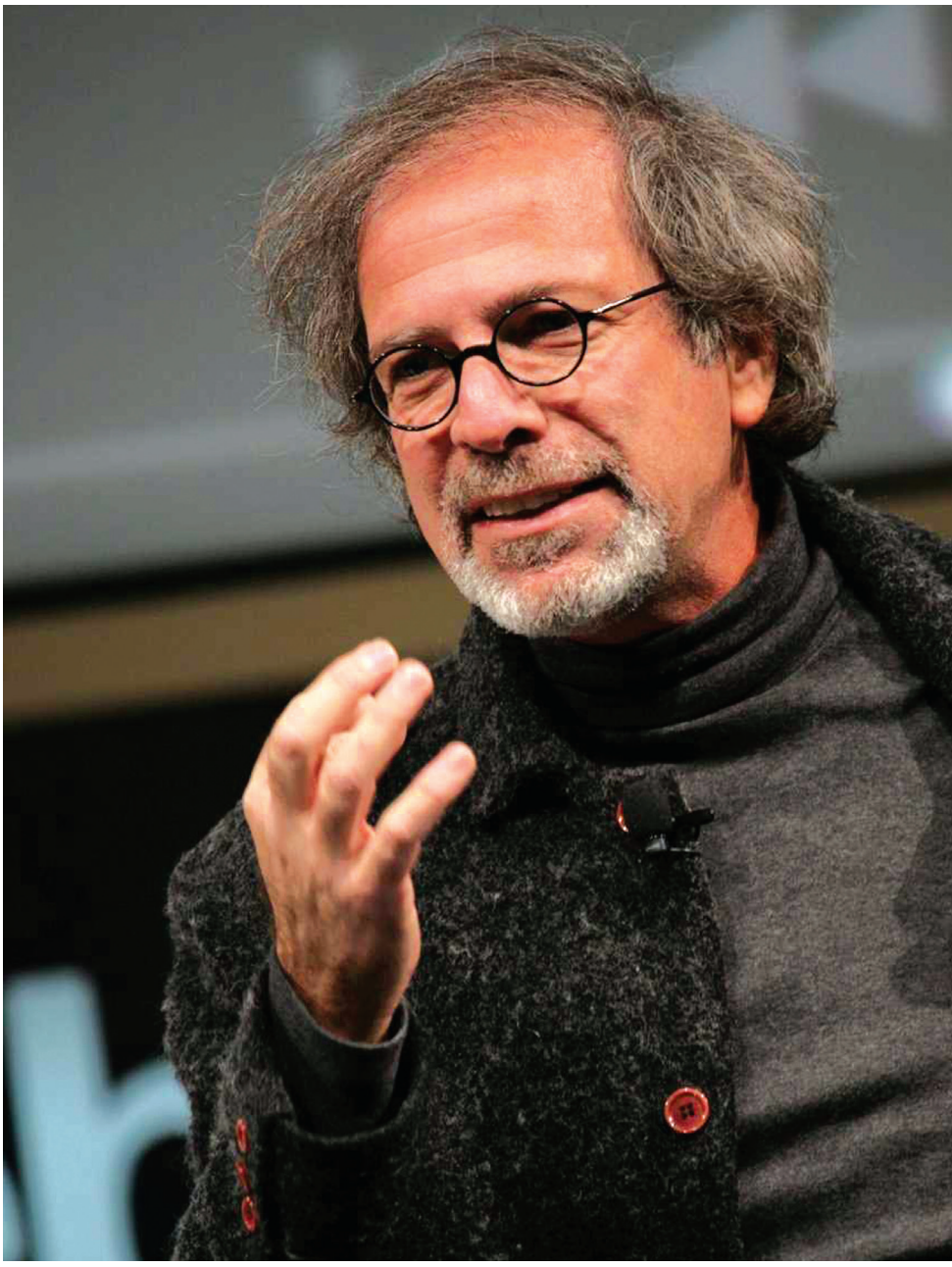
**Why did you decide to give a presentation in Mongolia?**

The reason why I wanted to do it in this country, as always, has to do with the good luck of bringing me together with your deputy minister of finance. We worked together at Davos. We met there and then opportunity arose.

And then I heard about Mongolia. I heard details about the incredible opportunity people have here now, the changing culture of the market, and everything that has to do with it. This is very exciting. I have to say that coming to Mongolia and everything I have seen exceeds my best expectation because I have met so many people who are, first of all, simply nice, knowledgeable and so committed to real change. That is something really good.

**How did you come up with the idea to make, music, politics and economics one in the same?**

I am a music conductor. Yeah, I have to tell you that music is a musician's world. But sometimes within music, it is rather narrow. Music can do so much more than just be music. It can mirror so many things in the world. And by doing this, music can not only enrich other people but also can become enriched from other professions, ideas and thoughts. So, for me, bringing together musicians and non-musicians in the concert hall like an audience to an orchestra is one way of doing it. But



bringing an audience and music together outside of a concert hall is more rewarding because it is always surprising for people, and then it has a greater effect.

**Why did you change your path from that of a music conductor?**

I really do believe that your profession is the only way to the actualisation of bringing your vocation or goal in life into reality. My intention was never to be a conductor; my intention was to communicate with people through conducting and music. I think I still have the same goal and I still want to communicate. Everything I do is done differently. You might ask, if one has studied to be a conductor for so many years and has an international career, why give it up? But I don't feel that I gave it up. I really feel that I took everything that I am and transferred it to another outlet.

This ability to change is part of what I speak about. Why do we need to change? How can you prepare yourself for change? It is so important. We spoke about Mongolia experiencing continuous change. This is exactly what I did with myself. I think I'm best equipped to speak about this.



**Have you heard Mongolian music yet?**

We had a chance to listen to the two stringed musical instrument [the morin khuur or horse head fiddle] played by the national orchestra at the party. It was so beautiful and extremely professional; and also very serious.

**What did you think about the Mongolian conductor?**

It was hard to tell. But I think he must have done a very good job because the result was really good.

**What message do you aim to leave people with your presentations?**

Basically, it is about collaboration and how to work together. Leadership is a part of working together with people. The thing is, I cannot change people's lives. It does not work like this. But I can plant seeds of thoughts and ideas; something visual that will bring music into people's lives for the first time, which is good thing.

Many people say after my presentation they want to go and look up those conductors and find more on the internet.

Another thing is I believe that each one of us has many more possibilities and capabilities then we actually use. We do things in certain way. You ask certain questions. Certainly you could think of 100 more questions. I am sure you do your work very well. So, you ask, why change? And then you meet someone or something happens, and then you think, okay, I also have another side to myself. I have more of an emotional side that I never dare expose.

I am funny. I can laugh without people and that brings out something else in them. Through things like this (these different types of conducting) I can help people bring out something in themselves that they were not aware of. It is good enough for me. That is my goal. I am doing it in many different places. Today, it is Mongolia.

**Do you have many different types of presentations related to conducting that are like this?**

I have a lot of different materials. Of course, every presentation is always completely different, even if I use the same materials. What I prefer is a smaller audience that is able to have a conversation. When you have a dialogue with people that is when you learn. So it is not about me lecturing, it is more about me listening.

**What is the bond or connection between the economy and music that you describe in your presentations?**

I have heard from many successful businessmen that the economy and business are not all about the final profit line in a budget or annual report. It is important; that is why we do business. But so many people are becoming more and more aware that they need meaning. Why do we need money? How do we distribute that money throughout society? These are questions that I believe are very essential to the people.

It is not only accounting and numbers. It is, again, the people behind all that. They need a meaning that brings morality and ethics. These were obviously missing in the last crisis when people were only interested in money. That is not enough. So again the connection is people and the values of those people. It is also the way you come to realise those values in the rhythms of music and in your own business. I really do believe they are very similar. For me it is about creating an environment in which everyone can excel, where each individual can transform his or herself into a better individual. So it does have to do with morality.

**What country will you next surprise with this message? What country is at the top country of your wish list?**

I want to be more involved in African countries because I have been to South Africa, working, conducting and speaking. But the whole continent is so exciting for me. I loved being there as a tourist. But I never got involved in any initiatives. It is because those countries are so rich in tradition, religion and art, and yet are so poor. So much is there but somehow it has not been realised.

**You must have heard of the coexistence of urban and nomad life in Mongolia. What is your first impression of Mongolia on this first visit?**

I cannot say a lot about my impression about this country because I was only in Ulaanbaatar. But people are so nice, intelligent, beautiful looking and serene—not aggressive. I think the way people live here is fascinating. During my visit, we will have a little tour in the countryside. I cannot wait. I realise that two days is too short. I need a lot more time to do everything. I hope I will have a chance to come back. I like it here a lot. ■



# Itay Taglam

Conductor ItayTalgam is one of the leading figures in the Israeli music scene. Talgam is a champion of contemporary music, and in particular music of contemporary Israeli composers. His outstanding achievements were acknowledged by audiences, critics, as well as by Israel's composers Association, which in 1994 awarded him an honorary prize for his personal contribution in performing and promoting Israeli music.

As Music Director of the Tel-Aviv Symphony Orchestra and of Musica Nova Consort Talgam won the prestigious prize for "Best performance of the year" for Israeli orchestral music, awarded by the National Council for the Arts.

Talgam's International Debut took place in 1987, when he was chosen by Leonard Bernstein to perform in a special concert with the Orchestre de Paris, the great Maestro himself conducting the second half of the same concert. Since that highly successful performance, Talgam conducted many orchestras in Europe - being the first Israeli conductor to perform with the St. Petersburg Philharmonic Orchestra and with the Leipzig Opera house. He also performed in the United States, and, naturally, conducted and recorded many times with all of Israel's major orchestras, including the Israel Philharmonic Orchestra, the New Israeli Opera, Jerusalem Symphony, Israel Chamber Orchestra, etc.

A native of Tel-Aviv, ItayTalgam received his Artist Diploma in conducting from the Jerusalem Rubin Academy (under Prof. MendyRodan) in 1987, Winning scholarships from the America-Israel cultural foundation. He than studied in the AccademiaChigiana, Siena, with Maestri Franco Ferrara and GuenadyRozhdestvensky and in Tanglewood, USA, under Maestri Seiji Osawa, Leon Fleisher and Lenny Bernstein. He also studied General Philosophy at the Hebrew University of Jerusalem, winning his degree "Cum Laude".

ItayTalgam has taught orchestral conducting at the Rubin Academy for music, Tel-Aviv University, and the Academy for Music and Dance in Jerusalem.In addition to his current conducting activities, he is intensely involved in many educational projects, both as a fellow of the Mandel School for Educational Leadership in Jerusalem, and as the creator of the unique 'Maestro' leadership programs. He is also a member of the Israeli National Council for the Arts music section.

ItayTalgam is permanent guest conductor of the Philharmonic Orchestra of Transilvania, Cluj (Klausenburg). ■

MARCH, 2012.

OUR GUEST

# Success Without Truth and Integrity Isn't Success

*The uncontrollable use of drugs, money, power and his very own sales technique led fraudster Jordan Belfort's life to spiral out of control. Having served 22 months in jail for securities fraud between 2004 and 2006, the so-called "Wolf of Wall Street" now uses this same sales technique – dubbed Straight Line – to turn his life around.*

*Jordan made millions in the 1990s through his investment company Stratton Oakmont, but at the expense of his investors. The 51-year-old admits the 2013 Oscar-nominated Martin Scorcese film based on his memoir gives a fair representation of his once life of excess. In an opening quote in the film, Jordan's character, played by Leonardo DiCaprio, lets viewers in on just how much money he was dealing with:*

*"The year I turned 26 I made USD 49 million, which really pissed me off because it was three shy of a million a week."*

*Driving helicopters drunk, taping money on women to smuggle through Switzerland and the excessive drug use – it's all true. Now sober, he likens himself to a benevolent wolf, much kinder and gentler.*

*Jordan recently visited Mongolia on his world tour, which was well attended by politicians and business people (at USD 150 a ticket) to discuss the art of persuasion and how Mongolia should sell its story.*



**What contributed to your successes and failures?**

At the heart of my success was a system that I've been using for many, many years. It started when I was eight years old, believe it or not, by putting in different puzzle pieces together for entrepreneurship. When I was 24 years old, I hit on this idea and invented a system on training salespeople. That came to be known as the straight-line. It was incredibly easy to learn, very powerful. It turned average people into world-class closers. That was behind the massive success of my firm and ultimately, I lost my ethical leg. Behind the disaster, I grew too fast. I should have slowed down the growth. Once I had the ability to train all these people, I needed to slow down and wait for my investment bank activities to catch up to my sales activities.

On top of that, as the years went on, I started using that same system straight-line in other aspects of business from marketing, to entrepreneurship, to operations. It's really that idea that there are certain elements that line up in success that you need to essentially apply to every business that you go into and every job that you have. That's what's been behind my success.

The failure in my younger days is really based on instant gratification. I went too fast, and not slowing down and understanding at the highest level what business really is. It is about monetizing value. Unless you can give value, you can't keep selling and selling because you're a great salesperson. You have to be selling something that's actually helping people and making money.

**Looking back, what was your greatest regret?**

My biggest regret was that when I figured out the system for training salespeople, was to not slow down the growth of my company long enough to allow investment banking to find better companies to focus on compliance. I just grew so fast that it spiraled out of control. That was definitely the big mistake.

**When conducting business, is there a certain point that people can cross and partake in unethical activities?**

My belief is that there is always this line of morality and ethics. Most people who were raised right by their parents know what it is. They get that uncomfortable feeling in their stomach when they're about to cross over it and the reason that some people cross over it is because they start rationalising. They start telling themselves stories that it's not so bad. They say that they can do it this one time, but the truth is that it is not a recipe for long-term success. Once you take the first step over the line, the line of morality moves. Each time you cross it, it moves further and further. Before you know it, you're starting to do things you thought you'd never do. It seems okay.

**Are there any warning signs of fraudulent activity that businesspeople should be aware of?**

Well, clearly anytime when someone offers you an opportunity that seems like it's too good to be true, it usually is. It almost always is. That's one aspect. Secondly – I call this the gut check – if it doesn't feel right in your gut, it is probably not right. In that case consult a lawyer, consult an expert that knows the industry. Don't just gloss over it and say that I'll do it just this one time. The warning signs are typically there.

**How can Mongolian businesspeople learn from your mistakes? In what ways can the Mongolian Stock Exchange improve?**

The biggest lesson in my life is, number one, the power and sales of influence. I really think that Mongolia needs to address the issue that they are not able to tell their story in the right way. That's a huge issue. From failures, you usually have your crash and your boom-and-bust here and there. Things get ahead of themselves and people speculate too much. In my life, I allowed my business to run ahead of myself essentially.

**What do you think of the Mongolian stock market?**

I think that the problems in the Mongolia stock market right now are not so solely based on the Mongolian stock market. You're still in the wake of the crash that happened here when the government changed the laws and foreign investors pulled out. Then the London Stock Exchange came in and changed some settlement rules. There are some rules in there that need to be addressed. More than anything, there has to be a fundamental shift in philosophy of the average Mongolian citizen about what it means to be successful. You have to have some belief in your own economy and your own stock market. Without that it is very difficult to succeed.

**What is your life goal now?**

I'm one of those fortunate people. I love what I do. I love speaking and going out and mentoring and training people. I had some goals and I pretty much hit all those goals. Now, the vision for my future – what I really see myself doing – is really going around the world for the next three to five years and sharing the system I've created with a lot of people and focusing on charity work. I also want to take more time off with family. I was very fortunate. I was given a second chance and a lot of people don't get a second chance. I'm grateful for that. It's almost like a rebirth for me. I got this chance to really do what I was put on this Earth to do. Everyone has their natural talents. Everyone has their shortcomings. My greatest talent is going out there and mentoring and teaching people and motivating people. That's what I'm doing now and I love doing it.

**As you said earlier, Mongolia needs an icebreaker to start the economy again. What kind of icebreakers?**

A catalyst. For example, it might be some minerals – that's going to be so outlandishly great that one of the big companies is going to come in and the story is going be told to outsiders and that will start the charging. That's one possibility. Another possibility is that it could happen from within when people here start telling the story and start attracting capital. So it could come intrinsically or extrinsically, but it's going to come.

**Right now Mongolia is trying hard to attract investors back. They're participating in many meetings and investment summits. Do you think this is the right way? What other methods can we use?**

Absolutely. I think that it's the right thing to do. One of the most important things you want to do is to be bringing in joint ventures with big foreign companies. You want to make it easy for foreigners to invest capital in Mongolia and to also make sure that they are not just raping and pillaging the countryside. You want to make sure that the deal works for both sides. Given what Mongolia has in the ground here and the resource spectrum it has, eventually it's going to happen. You're making a lot of

progress, more than you realise. It takes time until the catalyst actually hits. You're making progress right now by doing what you're doing.

**Investors see opportunity, potential, and long-term benefits, but when you come across obstacles such as the inability to predict governmental action, how can we sell our country without being guinea pigs to outside investors?**

You want to make sure the deal is sustainable for both sides. You don't want people coming in and tearing up the countryside. It is like the issue in China and Zambia where the Zambians were getting upset because they thought the Chinese were coming in there. They didn't have a long-term horizon that was going to empower Zambians. They were coming and stripping the natural resources and leaving. You don't want that situation, right?

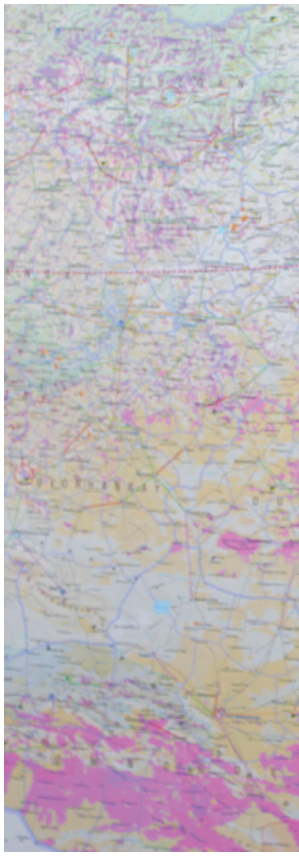
There is a happy medium in terms of legislation. What scares companies is not empowering the people. They don't want to have 68 percent taxes. They don't want to all of a sudden have profit taxes. I think it's very easy for the government to come up with a framework by which big companies and outside investors will feel comfortable to invest here and the Mongolian populace will be protected. I don't think it's a difficult balance to strike nor do I think these big companies want to rape the countryside. What they don't want is these huge swings in taxes.

You will attract outside investment especially with the entire infrastructure and plays with China right now that brings rail into the country, which allows some of the bulk resources such as iron ore and coking coal to turn the iron ore into beneficiaries. You have so much going for you right now. But again, what typically happens is not just in country stories – but in every individual story – you have some place where you want to get a vision for your future and you're working very hard to get there, but you're not making progress. You're not seeing the result, but you actually are making progress. It's just that the progress is invisible. It takes time until it breaks through and you see the fruits of your labour.

I wouldn't worry so much about the outcome right now. If you do the right thing and make the right moves and the government stands behind you, foreign investment will come back. Whether it comes back in six months, a year, or three years, it's going to come back. It's just a matter of time. ■

JUNE, 2014.

# No Mongolian Fairy Tale



*Bayanjargalyn Byambasaikhan is chief executive of Nova Terra, a Mongolian project management and advisory firm, and chairman of the Business Council of Mongolia. He has sat on the board for companies such as MobiCom Corporation, Clean Energy, Newcom Mining Services and Eznis Airways.*

*Byambasaikhan met with Mongolian Economy to share his thoughts on the current business environment in Mongolia, pulling from his intimate knowledge of Mongolia's economic landscape.*

**Last year Mongolia's economic situation was not ideal, largely because of the major withdrawal of foreign investment. The country's growth, however, was still in the double digits – 12 percent. How would you describe the economic situation for 2014?**

Today, Mongolia's market is considered to be one of the rarest markets in the world; its economy has grown at a constant pace, which is likely to be sustained in the future. For example, Mongolia's economic growth is expected to reach 14 percent this year, according to The Economist.

**Recent statistics show a number of adverse effects on the economy. Scepticism surrounds the country's growth. As an entrepreneur, what is your prediction?**

Last year, Nova Terra's performance was quite good. We cannot sit down doing nothing while saying the economy is declining. Somehow Mongolia's economic growth declined last year, but 12 percent growth is still high when compared with other countries. Our expected growth rate – projected rather optimistically – cannot be reached, but we have still experienced growth.

From a positive perspective, several laws were passed in parliament last year that will contribute to the business environment. The government is also taking further actions aimed at improving the business environment. There has been discussion about having a 'smarter government' initiated by the President of Mongolia Tsakhiagiin Elbegdorj. I hope that these actions will come to fruition this year.

The likely advantages of the new laws are an increase of revenue among businesses, which would result in the creation of new jobs. As a result, the number of citizens with guaranteed revenue will increase and improve living standards, which would create an environment where people work where they want to and live good lives. In general, if we cannot concentrate our efforts on what we are doing now, the economy will not grow in the future. If there is no growth in the economy, our lives won't improve; there is no fairy tale.

Issues around responsibility should also be raised.



If each individual and business organisation is made responsible, their lives will improve and earn more profits. It means that the economy will definitely grow as high as we wish in the future.

Several laws were approved and renewed last year, including a new Investment Law. Some people say that Mongolia's state is giving in to foreign investors. Please share your thoughts on this.

We are not doing everything for someone else. We should understand this. Mongolians are not living on behalf of someone else. Mongolia has pursued democracy in the past 20 years and has achieved good results. Today, what we have is our freedom.

Now we have our own properties, for example. This has improved our lives; there are already many good things. At the same time, an old regime and rules still exist; they are inconsistent with a market economy.

The new Investment Law is an example of development. The business environment needs to be more open. This issue is about creating opportunities enabling returns on your investment. Also agreements made should be adhered to.

If there are disputes between parties and they cannot be settled amicably, there should a legal environment in which they could go to an international court for settlement. For this purpose, some laws really need to be amended. Some people say that there have been a number of useless laws in the past two decades. At that time, there was a transition period from a centrally planned to a market economy. Some laws in the past were barely adaptable to market conditions. Of course, Mongolians had no idea about the market economy at that time, but we are becoming more and more aware.

**Sometimes business people seem to over step the line; always wanting more change and asking for tax reforms and incentives. What is your opinion regarding this?**

There is a quote by Albert Einstein: "Insanity is doing the same thing over and over again and expecting different results". It means that we should avoid thinking "Oh, there is a wall in our way. We should break it". Instead, we could detour it. We have to find more ways to effectively deal with issues so that we choose the most optimal way.

Today everyone says that we need economic growth, which will be brought on by business people and investors. What they are demanding is a favourable business environment that is stable and clear. A clear and stable environment would make it easier to develop business plans. For instance, investors always plan their activities by including the exact amount of tax to be paid and an estimated amount of profit they could earn from investing in Mongolia. But what happens if the current tax environment changes unexpectedly. This will have an adverse impact on their businesses.

Foreign investors give us their money, they should be able to trust and invest in Mongolia.

**What can you say about the trustworthiness of Mongolians?**

We have a lot to learn. There is a lot to introduce to Mongolia now and in the future. Today the world's most competitive companies are striving to learn, change and adapt. That is why their trustworthiness amongst global markets is good. I think that Mongolia has the potential to introduce new ideas that can't be replicated anywhere else in the world.

I would like to reiterate that we have a great opportunity. But we need to make a concerted effort. Mongolia has the huge market opportunity of reaching 3 billion people if we improve, act responsibly and think globally. ■

FEBRUARY , 2014.



*Professor Bradley K. Googins is the executive director emeritus of the Boston College Center for Corporate Citizenship and a Professor in Organisational Studies at Boston College's Carroll School of Management. Prior to this he was a professor for over 20 years at Boston University's Graduate School of Social Work and founded the Center for Work and Family which now resides at Boston College. His research and writing has focused broadly on the role of business in society, ranging from issues of balancing one's life and work to corporate citizenship. He held a presentation on competitiveness and corporate social responsibility (CSR) at a conference presented by the German organisation GIZ's IMRI programme at Ikh Tenger complex in 2011. Mongolian Economy interviewed him after the conference.*

# 21st Century Monasteries

**Is it your first visit in Mongolia? What is your impression?**

Yes, it is my first time in Mongolia. I have only been here for three days, but I am amazed about what I am learning and seeing—the vastness of the country, but also the small number of people that live here. You have sudden economic growth because of the minerals in the ground. At a time when the rest of the world is struggling with decreased growth, you are coming into a time with having increased growth. The challenges of how to create the society of tomorrow seem quite interesting to me.

**You have probably read many books about Mongolia. How accurate was the information you obtained compared with the real situation?**

I was more focused on the transition from your relationship with Russia, particularly from socialism to democracy. What is different for me from what I have read is the energy of the population. You're really trying to figure out what tomorrow is going to be and how to harness this wealth that is coming into the country.

It reminds me a lot, for example, what Norway has done with its oil. All of a sudden this small country with resources is trying to figure out how to allocate this wealth. The business community seems to be a very interesting one. The presentation I heard by [M. Bold of XacBank], was one of the strongest I have heard in any country. I always try to see where the leadership in a country is. Is it in the private sector, or is it in the government? But I cannot say how well they cooperate because I haven't been long enough in Mongolia.

**Mongolia attracts the world with its natural resources. What do you think of its relationship with sustainable development?**

It is interesting to me to look at the natural resources. Around the world today is increasingly a discussion of whose are these? In the past we have had big companies come in from the outside take more than they gave back. The country itself doesn't get the full benefit of its resources.

It's nice for Mongolia that this is happening in 2011. In 1990 it would have been a different story, but in 2011 there is much greater awareness and activism throughout the globe from companies to come in and take the resources with negotiating a better bargain for the country. The country should protect its interests first and the company's second. For sustainable development you have to ensure what's left behind is the same (if not better) than before anyone came in.

If companies came in, took the minerals and left, where would Mongolia be in 30 years? It is an important time for the country to discuss what is most important to sustain the future. You have this wealth and how you use it will go a long way to determine whether this is really sustainable development or raping the land without contributing to larger society.

It's also important to learn all of what's gone on in other countries. What have they learned that Mongolia can learn from? We've seen quite a bit of this discussion in places like Chile, the Philippines and China with what's happening in the mining industry.

Most important is keeping the sustainability issue out front. It's more important where you wind up, not where you are today. That's going to take a very strong role from government and the people themselves to make sure they get the most value out of this.

**You took part in the international conference on CSR in Ulaanbaatar. What could Mongolia do for further development of CSR?**

The role of business has become paramount in our societies. That is

what competitiveness is about. And so companies are sometimes what I call the monasteries of the 21st century. They have all the influence and sit on the highest hill the way that the monasteries, the kings and queens used to. Now it's the corporations. So now I think the responsibility issue is not so much simply an ethical issue. More importantly, what's their role in trying to shape a society? What's there role in addressing some of the environmental issues?

Historically companies have said that's not our business, that's government's role. That's changed today because of technology and transparency; a new sense of accountability is arriving. They are saying to companies, no you are responsible for some of the issues in society because you do have influence and power, and therefore the obligation to make sure that we have safe products, and that our environments are clean because you don't want government simply legislating all of this to begin with. So why don't you on your own try and find ways to try and makes business responsible. A responsible business is not one that is simply ethically responsible. It's one that contributes to the overall good of society. It's not about how much profit they make. It's about how much prosperity they can help engender for all of us.

Companies are moving, like our society, from a narrow view of their role to a much broader set of goals of working with all sorts of stakeholders to create their wealth in society—wealth in terms of a sustainable society, not just narrow profit making. We're in a very disturbing time around the world. I see this in my own country that fewer people are earning more money. It's not a sustainable situation. It's not a desirable situation. Companies are now wrestling with this issue of how to transcend this narrow role of profit making to where they have to play a larger role in society.

**In Mongolia CSR is understood as giving donations. How it is in America?**

That's the old model. It's still very dominant even in the United States because companies think that it's their responsibility to give something back. I always ask what did you take away? Philanthropy is fairly easy: I can write a check, and maybe if times are not so good I don't do anything. Today it's not about how much money you're giving, its how are you making your money. How are you developing your products and services? How are you treating the environment? To me corporate responsibility is the reflection of the values a company sets. For years companies would say here are our values, but there was no accountability for those values. Today with a click on the computer I can find out what's the gap between who they say they are and what they're doing. What do employees think about working there? What kind of products and services are they producing? And are they being recognised as contributing to environmental sustainability.

I used to say if a company decided not to use philanthropy as part of our responsibility they almost wouldn't know what to do. It's too simple. Today it's a much more challenging question of how do businesses engage with the challenges of society, and how does it contribute to society in meaningful ways. I think the hope and promise of this from business has huge potential to help shape societies in ways that nobody else can do. They have some unique talents. Companies know a lot about innovation. All parts of society need to innovate. How can companies translate some of that innovation into society?

I think Mongolia is a perfect example. Someone could come in, extract all the minerals and leave some for the country. But you could do so much more. I think that's where a lot of thinking in corporate responsibility is today. How can companies affect public policy and how can they do that in a positive sense?

**Could you share with us some of your experiences with CSR? How are companies with good CSR promoted?**

For quite a few years I ran a center for corporate responsibility in the United States. Quite a few of the members were Fortune 500 companies. I got to know them every day and deal with them. After a few years I began to notice that companies were in different stages of corporate responsibility. So we developed a framework of corporate citizenship. That is five stages that we could identify where companies are in seven dimensions, leadership, strategy, etcetera. We would ask companies where do you see yourself? The first stage is very traditional ("I give money"); the second is transformative ("I want to transform society using the assets of the business"). Ninety percent of them would say we're at stage two. It was helpful in reminding me that the corporate responsibility movement, meaning the newer meaning and its ways, are just beginning.

Companies are trying to learn mainly how to integrate this into the company itself. I've noticed that it's at a stage where the quality movement was 20 or 30 years ago. When companies first heard about quality, they said, "Oh! this sounds like a good idea. Let's be for quality". Well, that didn't do too much. Then they appointed somebody, a quality control officer. That was very limited. Then, they thought to set up an office. That was a little better, but it still didn't go too far. It was only when they began to realise that every single person had to understand and integrate quality into their lives that things improved. It took a lot of time to try and do that. I think the same is true for corporate responsibility.

If you went back 10 years, most [chief executive officers] would say they didn't see the importance of this. Then you had some say it was very important to them strategically. If it hasn't been integrated into the companies, it hasn't been aligned into the company. Most employees are not really sure what this is about and there's not a lot of integration. We're still at a stage where we have a few companies that have seen this as a huge business opportunity and are integrating it right into the heart of the company. There are still relatively very few of those.

Most companies understand today that they can't ignore this. They can't be bystanders anymore and that they have to get engaged. But they are still learning how to get engaged and the discipline of what it means to be a company that has integrated corporate responsibility so that it's an advantage to the company. That's why this theme of competitive advantage is so important. If a company doesn't use its corporate responsibility as a competitive advantage, it's really not much use to the company. When it comes to philanthropy, some people might say thank you but it won't improve the company and its business. Nor is it really helping society that much. Today CSR stands upon a set of building blocks that include value creation, integration of them into a business model, communication with stakeholders and innovation through business practices. ■

MARCH, 2014.

# GUESTS

*Mongolia, with its rich resource reserves, has been in the centre of global attention for a while. For this reason, foreign guests love to stop by in Mongolia. Besides learning from international experiences, Mongolia must develop not only its mining but also its education, hi-tech and innovation sectors.*






Photo by B. Byamba-Ochir

# “Women Hold up Half TheSky”

*Roza Otunbayeva, Kyrgyzstan’s first female president, visited Mongolia for four days in July, to participate in the Women’s Leadership Forum in Ulaanbaatar. As a former foreign minister and head of the parliamentary caucus for the Social Democratic Party of Kyrgyzstan, Otunbayeva’s personal cause is women’s participation in government in her own country and beyond.*



**How many times have you been to Mongolia and what is your impression during this latest visit?**

This is my second time, and I was here during the Soviet days. It was 1990 probably. I was the chairwoman of the national commission of UNESCO for the USSR. I was working for the foreign ministry of the USSR and came to Mongolia.

I have seen new development since those perestroika days. Mongolia has a lot of parties and so many youths. Each youth is for a separate party. That was the wakening process when people started to think outside of the influence of the Communist Party.

After 22 years, there have, of course, been dramatic changes. Unfortunately our routes have been very passive between us. We have been meeting with Mongolian people at many international forums and conferences. We are in different groups in everything. In the United Nations you belong now to the Asian group. In the European Bank, World Bank, and Asian Bank we are in different groups so we never come closer to each other. In other words we lost touch with each other. I came on the flight from Istanbul, to Bishkek, and Ulaanbaatar, which will become a regular flight of Turkish Airlines. This has really opened up the routes to each other.

**What are some of the biggest changes you have seen since you first visited Mongolia 22 years ago?**

I’ve heard from Mongolian people that economics suffered dramatically and there was tremendous hardship during the transition period.

But now, in 2012, I do feel you have had successful political as well as economic development. First, parliamentary democracy is in effect. I do see that parliamentary democracy works successfully. This is the sixth parliamentary elections, which was very peaceful. The president pointed out that in nine years power was handed over from one party to another.

My country has just entered into parliamentary democracy. It is absolutely unknown to autocracies, but we do know what this is all about. When parties come, they win seats, then build these governing coalitions. This is, from a political view of development, something that will take many years to come. But you are struggling forward.

Parliamentary democracy in my country brings transparency, openness, and consensus for governance in society.

**What opportunities do you see for Mongolia and Kyrgyzstan for economic cooperation?**

There is a lot of room for cooperation. I just returned from the Ministry of Agriculture. Your minister and president visited my country and they decided [Mongolia] should share its cashmere goods with us. Kyrgyzstan badly needs the development of this new type of product, also. We have a lot of herders also in my country. We have 10,000 to 12,000 herdsmen, seven million sheep and goats. You have five times as much as us.

I remember in the Soviet days we were the same. [Now,] we have a shortage of wool. Wool is taken by Chinese and Turks, but handicrafters have a problem with wool production. I think it would



be important to buy wool and have new types of wool and cashmere.

What we can do is export lots of fruits and vegetables. I understand you want to be self-sufficient for vegetables, but I have a proposal from the Ministry of Agriculture about vegetables and all types of dried fruits from my country. We produce a lot of dried fruits, from apricots to apples. Like you have investment into Oyu Tolgoi, we very much want investment for the production of jam and juices, and so on. We still badly need production investment.

**How would you evaluate this year's Women's Leadership Forum in Mongolia? How is this year's event different from other events for women's leadership?**

The world faces a worldwide financial crisis. At the beginning of this decade we watched how dramatic the development Europe faces, as well as the United States and others in the West.

The whole world is trying to find new avenues to get out of this crisis. Women are such a hidden tool for this. This year I've been in three or four women's forums. I've been to the annual meeting of the EBRD [European Bank for Reconstruction and Development] where they had a panel of women from the knowledge economy—women engineers, women graduates of universities—to see if their real potential is used.

We discussed a lot of problems for small and medium sized businesses and the ways to develop. In London, at the annual meeting of the EBRD, your deputy minister of trade and industry, [Tseden Garamjav has since been replaced by Khaltmaa Battulga with the ministry reformed into the Minstry of Industry and Agriculture -ed], was awarded as the head of a mining company at a world value.

At the end of this year, I will go to Little Rock, Arkansas. I am a member of a club of ex-presidents and ex-prime ministers, which is also a meeting for women. There are so many women involved in production, helping to bring growth in every country. How many women sit at home in the world, deprived of the current economic development? This is half of the planet. As the Chinese proverb says, women hold up half the sky.

Involvement of women in economies, small and big, is vital. I raised two issues. Another vital issue is corruption. Twenty years ago our countries went through extremely rapid change. Ownership completely changed. Everything that had belonged to the nation now belonged to parts of society? How did some people become extremely rich overnight while others became poor?

Like in my country, you have 30 percent of your country living below the poverty line. How did this happen? We used to live in very egalitarian societies, where everything was distributed equally to everyone. In this regard, I do believe that everyone, means, methods, and tools to fight corruption are very important and should be used.

State tools should do everything within their means to fight corruption. Every family should too. Every family should ask how is it possible to get so much wealth overnight when working for the state. Everyone knows in this society how much a government salary is, so it's impossible that they gained so much wealth. People in parliament work to protect their wealth and became members of ministries. Meanwhile the nation watches.

I think it's important to talk about the membership of women in the boards of state-owned companies and joint stock companies, where the shares belong mostly to the government. Why don't we have any women in the board of directors? Why are they deprived from that? I believe we should fight for that and be sure the appointment of those members of boards are transparent, just, and based on quality such as education and professionalism. Still we have industries run by boards that generate a lot of money, like the telecom and railroads. We should know if they are run properly or not, for the sake of the people.

What was your impact on women's participation in government?

Women have been at the forefront of all changes. We never had a governor oblast as a woman, now we do. We want more women as the heads of cities and as ministers. One deputy prime minister is a woman. We have two vice speakers of parliament as women in my country. We have heads of committees in parliament who are women. Twenty-three percent of our parliament is women.

The number of women serving as members of the State Great Khural has grown from three to nine. What does this tell you?

I congratulate you, it's tripled. But at the same time the rules are not progressive for women. We have proportional elections in our parliament and every fourth [on a party list] is a woman in my country. You can't change her after she's on the list. I think you should go ahead with something like this. ■

OCTOBER, 2012, Issue №030

# Rio Tinto Pioneers Mongolian Joint Ventures

*Jean-Sübastien Jacques was appointed chief executive of Rio Tinto's copper group in February 2013. He joined Rio Tinto in October 2011 as president of international operations for copper, where he led a senior team and oversaw Rio Tinto's interests in the Palabora Mining Company in South Africa, the North Parkes Mines in Australia, Kennecott Eagle Minerals, the Pebble Mine in the United States and Sulawesi in Indonesia.*

*Prior to joining Rio Tinto, Sebastien spent more than 15 years working across Europe, Southeast Asia, India and the United States in operations and strategy for aluminium, bauxite and steel mining operation. He served as group director of strategy and was on the executive committee at the Tata Steel Group from 2007 to 2011.*



**What are your thoughts on Mongolia after having visited more than once?**

Last time I was there was a week ago for the ceremony of the first shipment and it was emotional for all parties. The reason why I'm saying this is because some of our colleagues have been working on the project for 15 years and some of them have been working for 20 years. When the first truck of concentrate left the mine, for those individuals you could see some tears in their eyes. It was a nice thing to watch.

The other piece was that the government was there. I think it was important for them as well. I believe it was emotional for the team as well because it was twelve years of hard work and USD 7 billion of investment. It has been a bumpy ride. There were some downs, but people were very proud of what they achieved. I think that there were a lot of emotions.

**Given the current situation, how confident are you about the Mongolian economy for the long-run?**

I think it should be a great story because there are lots of minerals there. You build a mine with lots of development.

We are committed that over 90 percent of the people working in the mines will be Mongolian nationals. We are committed to increase the Mongol content. We wanted to have a strong, capable supplier base. What we agreed with the government is that we need to have a power station and we needed to build infrastructure around it. From our perspective, we think that OT will have a direct and indirect impact on the Mongolian economy.

**Rio Tinto is a leading mining companies in the world. What makes it a world-class mining company?**

The company has been here for 140 years. Some of the key aspects include the quality of exploration and the ability to find good deposit. It's not easy. We have been very strong in finding new deposits. The second aspect is the ability to operate the mine in a safe and cost-effective way. The third aspect is about the value of the group. I think that is important.

**What is the main objective of your company?**

Like all companies, we have an intent to create strategy for investors, which isn't' different from other companies. What is different is that we want to create a first-class portfolio of low-cost, long-scale, and large-scale strategies. That is one of the key periods of our strategy.

**If you look at some facts about OT, it's a bit over budget and ran over time. Why is that?**

I don't think it was over time. It's an interesting question in the sense of that the team had not done a good job, then we wouldn't have been on time. We were late by nine days to do the first

shipment. After twenty years of hard work and planning, we planned to send out the shipment in June but we did so on July 9. The government pulled the plug on the ceremony two weeks before so I believe we were on time.

If you guarantee that people can be late by nine days after over twelve years of hard work, then I think that's good and on time.

**Safety issues are the most important thing. What are your safety procedures?**

This one is simple: In Rio Tinto we have one standard and it doesn't matter if you're in the US, Australia, or in Mongolia. There is only one standard. All of the safety procedures and systems that are being implemented elsewhere are being implemented in Mongolia as we speak.

The second aspect is that we have to transfer people from all over the world in order to make sure it happens. The third aspect, I can say, is that we are constantly training Mongolian nationals—not only in Mongolia, but in London, Australia and the US in order for them to have a first-hand experience. It's training in and outside of Mongolia.

**What is Rio Tinto doing to build a future workforce in Mongolia for underground mining?**

As I mentioned, we have a few Mongolian nationals outside Mongolia working in existing mines. For obvious reasons, we can't transfer thousands of people outside Mongolia. It just doesn't work.

We started working underground about five years ago. We currently have two shafts. To answer your question, we have a training center in OT where there is state-of-the-art simulation. Here you can train people in a safe environment. So we've got all the techniques to train people in a safe environment before we put them underground.

**Rio Tinto has also come across some legal challenges for Oyu Tolgoi. What would you do to change the government's stance on underground mining?**

It's not our job. If the government wants any input, we are more than happy to help. The responsibility of writing the laws is not with Rio Tinto, it's with the government. As we do in Australia and the US, if the government wants any input, then we will help out.

**What can you do to promote human resources?**

We've got these big graduate programs. We spend hundreds of millions to make it happen. The biggest challenge is human resources and development capabilities, which is why we spend so much time, effort and money. We have so many expatriates for one main reason, and that is so they can train people in order to build capability. That's the investment we are doing as we speak.

You have one experienced person working with a Mongolian and after some period of time, you remove the expatriates and the colleagues from Mongolia will be able to work on the project. That's what happens across the entire site. The quantum of training is absolutely massive.

As I said, the intent is to have over 90 percent of the workers to be Mongolian nationals on site. We need to train people and that's what we're doing as we speak.

**What are your thoughts on the downward trend being seen in the global mining sector?**

The mining industry is changing and it's facing a challenging time. Everybody has to prioritize their capital. It's a challenge, but it's an opportunity as well.

The important piece to understand is that it's not just about money. When you have a big project and spend billions of dollars on it, you want to make sure the A-team is working on it. So it's not only about money, it's about people.

When we take up a project, we don't look at just the costs. We look at the long-term aspects of it. The prices are wherever they are because I can't change the prices. What are important for me are two things. One thing is making sure that we are adding the right decisions in terms of long-term perspective. The second thing is to make sure that I create value for all stakeholders.

**What are the principles of responsible mining for Rio Tinto, and what is its long-term strategy for responsible mining in Mongolia?**

What you want to make sure at the end of the day is that you have a net positive impact in the region where you did operate. Responsible mining is a broad thing that includes lots of things such as water management, environment management, and the development of the local community.

When you step back, you have to make sure that you're creating a net positive impact. The way it is delivered may vary from one location to another.

**What are you planning to do in terms of environmental issues?**

We've got teams on the ground. If you want to go outside and see what we're doing in terms of preserving water and making sure that we don't damage the environment in which we operate, you have to check it out. I think if you go there, you'll see some pretty good stuff and you'll be impressed. I can't give you all the statistics unless you see it with your own eyes.

**Rio Tinto has many different mining projects around the world. You have 140 years of history and how do you react with resource nationalism in different countries?**

It's a very good question. I think that if you look at other large companies besides Rio Tinto, we have a portfolio of projects. This is not only a question for Rio Tinto. At the end of the day, we have limited capital and limited resources. It's not just about capital; it's about people as well.

The truth of the matter is, the money and the people will go to the best project globally. I know that many people don't want to hear that, but that's the reality of life. If I have two projects and one gives me 100 and the other gives me 50, then there is no point in choosing the one that will give me 50. That's what people need to understand.

The capital and resources are done on a global scale. It is very important in two ways. We spend billions and billions of dollars so it's critical to have stability of the environment as well as consistency. We go to the project that has that entire framework. That's not only for the mining industry. It's across all industries. If you want to attract investors, stability of the framework is absolutely critical. Otherwise, the capital will go elsewhere.

It's also not just about Mongolia. It's about all economies. When you want people to invest billions of dollars and send lots of their people, you just have to make sure that you have the right environment to invest.

**Mongolia recently passed a law setting the criteria for corporate governance. Rio Tinto could be a good example of corporate responsibility. What is philosophy for corporate governance in Mongolia?**

Once again, all the standards that we expect people to do are being implemented in Mongolia. There is only one standard and there is no difference whether you are in the US or in Mongolia. The expectations on our behalf are exactly the same. We don't do politics and we are absolutely against nepotism and conflicts of interests. We have a clear set of rules and we implement a clear set of checks.

We need third parties to make sure that all the companies are compliant with the rules. I've said several times that there is only one standard. We implement this standard in Mongolia the same way we do it in the US or in Australia. There's no difference on this one.

**What type of difficulties do you find when you work with Mongolian companies?**

If you do a project in Mongolia or elsewhere, there is no difference. When you start a project anywhere you have to develop your supplier base and so forth. You're facing the same challenges. You don't always have the right set of suppliers at the start so you need to find a way to develop those suppliers so you need some time.

I don't think there is a big difference between Mongolia, the US, or Australia. With OT, there was nothing around it. There was no power or water. If you had to do OT in the middle of Chile, you would face the same issues. I don't think Mongolia is different from anywhere else.

**What will be Rio Tinto's real contribution to Mongolian development?**

My sense of the following is that the OT project will have a huge impact on the impact of the economy in Mongolia. Importantly, I believe that it's important for all parties to make a success out of OT. The reason being is that everyone is watching OT and it's a test case. If OT can be a success, then I think that Mongolia can attract a lot of investment.

**Do you think Rio Tinto already brought good standards?**

The government wants to look at what we have in terms of process and standards. If they want to use it elsewhere then so be it. They know they have access to everything and they can audit what they want. If they want to learn from it, it's not a big problem.

**What are some of the advantages and disadvantages you have seen in**



Photo by B. Byamba-Ochir

**the Mongolian business environment?**

That's a very good question. What we are very pleased with is the quality of the workforce. People are very keen to learn. They are very committed and they really want to make a success out of OT. They know what they are doing and how to make a positive impact on the Mongolian economy.

We, as Rio Tinto, did agree to invest billions of dollars on the back of a series of documents called the investment agreement [IA] that was signed by the government as a binding document. We expect the government to comply with what they signed a few years back. That's very important.

Lots of people have asked to renegotiate the IA. We are very clear that those documents are regarded as binding. You can't ask to change it. If you have a situation when the government signed an agreement and they change their mind several years later, it makes it hard for investors to buy. They want to have stability and consistency. If you change the rules every five minutes, the money will flow elsewhere.

What do you think of Baatar Bold's appointment at Rio Tinto? Many here in Mongolia are happy to see a Mongolian president of the copper group. What's the benefit of having a Mongolian in this position?

I am very happy because I did appoint him. I promoted him and he is doing my previous job. I am very pleased.

Bold was promoted on the back of his capabilities. The second aspect is that if you want to run a global company, I think it's very important to have different nationalities at the top. If you have a lot of assets in South Africa for example, it's important to have people from this region.

The truth of the matter is you have to fully understand the culture. The best way to understand the culture and to close any cultural gaps or challenges is to have people coming from those regions working with you. This way you can truly understand those differences.

Back to what we discussed about training, we want to understand what the culture is about and we want Mongolians to understand Rio Tinto culture as well. Once again, there is one standard. There is no difference. The rules of the game and the rules of engagement are the same. We want to have people who can understand Rio Tinto culture because there is only one culture. ■

OCTOBER, 2013.



# Efficient Markets Rule

*As the deputy head of equity primary markets for the London Stock Exchange, Jon Edwards is responsible for developing the London exchange's business in Russia and the Commonwealth of Independent States (CIS). One aspect of his work is facilitating communication between the London investment community and the CIS region*

*Edwards is a frequent traveller to Russia, Kazakhstan and Ukraine and Mongolia. He studied at Columbia University where he received his Bachelor's in Russian studies and a joint law degree and business Master's. He joined the London Stock Exchange in August 2003.*




**After visiting Mongolia several times, what are your thoughts about the country and its financial market?**

I think it's a very dynamic market. Of course it is a very young market, but with youth comes opportunities, especially for these new mining companies that are coming out of Mongolia.

There is a lot of interest and that is good coming from the international community which will complement the strong domestic interests and these new development stories. It's not just mining; it is also supporting services such as tourism. So Mongolia is interesting on a number of levels. This is all great from a capital markets perspective. You have to have the basic story first in order to build the market. You need to have something that is of interest to the investor community.

**What else are you trying to share with the Mongolian capital market?**

Clearly it is the community that we can share. We can take the investor community and we've brought out advisors and occasionally some investors out to the Mongolian market. We brought Mongolian companies here to meet with advisors and investors. We do this together with the Mongolian Stock Exchange.

Part of this partnership is about attracting more investors into the domestic market as well. We're interested in both dual listings and having Mongolian companies on the Mongolian Stock Exchange to do a GDR [global depository receipt] in London. We're also helping them to just secure Mongolian Stock Exchange listings only.

**The LSE is said to be one of the best exchanges in the world. Can you sum up what makes you the best?**

It is a willingness to continue to explore new ways to improve, to provide the best level of services to the entire exchange community. That's companies; that's investors; that's intermediaries. It's a difficult job because there are so many different stakeholders. That's one of the things that we are working with the Mongolia Stock Exchange to understand.

It's difficult when you have that broad range of stakeholders. It is difficult to please such a disparate group. Sometimes, something that works for companies may not work well with investors, so it is about finding the middle ground. That is something that I think the LSE has done really well.

**Where do you think this capital market is going worldwide?**

That's a very wide-open question, but just talking about our particular position here at the exchange, we believe that stock exchanges will continue to play a vital role on the development of economies worldwide. That's why we think that the decision of the Mongolian Stock Exchange, [and] of the Mongolian government to back the creation of a modern exchange to bring in an international partner, was really visionary.

It is important to leverage the nation's wealth and to accelerate growth. You can look at any market and the stock exchanges there serve as an accelerator and serve as a vital role to bringing in much needed equity capital to support the growth of new businesses. That is essential for any country's economic growth.

While there may be many changes, the stock exchanges are here to stay.

**How would you grade the recently passed Securities Law?**

I wouldn't want to put a grade on it, but I think in looking at the Securities Law, it definitely addresses some key wants of international players and international investors. Nothing is perfect from day one, and I think that there is some evolution as you go and as you implement.

As a first step, I definitely think that it is a good step forward.

**So you think that it is a law that meets basic needs?**

Yes. What is very significant and what is very important here is that, at all stages, the opinions of Mongolians and international investors were taken into account. I believe it was a consultative process. I think you see a lot of that feedback reflected in the actual document.

**The MSE was originally established for the privatisation of state-run companies. Now we are trying to grow a little bit differently so how can we encourage Mongolians to get involved in this market? How can the partnership be utlised for this end?**

One part of the partnership is education—specifically education for the public on the stock market. That is something where the two exchanges are working.

We're having seminars and thinking about ways we can get these messages out. Clearly, the brokers are going to be very important in this process because they are the intermediaries. In many instances, they are the ones having the conversations with many of the investors. We do a lot of broker education and we have had events here in London for Mongolian brokers. There is a combination of things—education, marketing, general awareness. But we also specifically target the brokers and ensure that they have all that they need to effectively work with their client base.

**It is apparent that banks are more heavily dependent upon than the financial sector. How can the financial sector be best supported?**

Once again, we return to the issue of having suitable companies. To have those kinds of companies out there, they need to be convinced that the public markets are a good place for them to be. I think that if you lead with your large, international players, that will establish a case for other companies to follow.

I think it's really going to be a gradual process where companies need to be comfortable doing that. They need to see success stories, and that will draw them in. That will also accelerate the pace of the development of capital markets in Mongolia. They need to see specific cases of companies who have done so and have been successful. That will then lead to that process.

**The Draft Minerals Law has been discussed at great length. If the Mongolian exchange no longer had the public offering of strategic deposits, what effect would that have on the market?**

For me, having worked with the Russian markets, which have been very successful, having dualistic markets is helpful especially in the mining sector. We can have domestic investors combined with GDR offerings and then you actually have brokers facilitating price discrepancies. It actually builds liquidity. For some of the larger companies, that's very important.

In terms of smaller companies, it's really a question of us doing our work and accelerating the partnership, making sure we're bringing in investors. They can then raise the money that they need on the local markets. It's a process so you have to develop the domestic capital to facilitate that process. You can't just credit the domestic stock exchange solely on institutional investors from abroad. It's got to be that strong base of domestic investors bolstering that market.

I think that in terms of what the effect would be, I don't think that it will be a massive flow to the West. They still have to be very careful about where they go to raise money.

Returning to the issue of the domestic stock exchange and building the domestic stock exchange, it has to be done organically. Companies need to raise money to go to the next stage. Efficient markets dictate that they go where they can raise that money. Our job is to make sure that they can raise that money perfectly well in Mongolia and in the Mongolian Stock Exchange.

**The Mongolian capital market needs institutional investors. How can they be lured to Mongolia?**

Well there are a number of issues; and some of them are macro and some of them are just waiting for the right market window, while there are other sectors, such as property and transportation services, that are fast developing in Mongolia. The mining sector is a very vital part of the economy. Once we start seeing it pick up there, assuredly, there will be opportunities and Mongolian companies to test the market.

In order for us to see the institutional investors, we need to see the larger companies come into the market. At the end of the day, the investors want to have paper that they could trade. That is what we are missing. Once the companies appear and come to the market, that's when you should see those institutions coming in.

**Do you think we need to privatise some of Mongolia's state-run companies?**

Privatisation is one of those things where it's case-by-case. For certain sectors and for certain companies, it makes sense. It is also about how that privatisation is run and how it is going to be transforming the company. If you do it in a public market, then what would be the new shape of the company?

It's a difficult situation as one that requires a lot of advisors and consultants to make sure you find the right mix. That's another thing. It's worked in certain circumstances, and it hasn't worked in others. Fortunately for Mongolia, you have the benefit of being able to look at other markets in neighboring countries and see how they have done privatisation. It's a case-by-case thing and privatisation is generally beneficial in terms of bringing new efficiency and new stakeholders, which can help push those businesses forward.

**Currently Mongolian companies—especially Mongolian-owned companies—are not very interested in public offerings on the stock exchange. How can you convince them to utilise this opportunity?**

It's basically about working really hard to attract those investment companies. It is going to involve having clear and understandable rules. We need icebreakers, but to get those icebreakers, you need trust. There will be some companies that are willing to trust first. You need to go after those companies who are willing to be those pioneers.

The Mongolia Stock Exchange needs to be looking at opportunities because there is a huge amount of opportunities for brokers who can establish this track record of bringing Mongolian companies and raising money for Mongolian companies. Once you do that, then you have a whole new business line. You're not fully dependent on foreign exchanges. You have another business line. That's always good for your balance sheet. So if they can do that (and they have every incentive to do that) then you've got something going.

In the beginning, the most important thing is trust. The companies need to trust the market.

**What other kinds of support should the government give to the capital market?**

The question is how do you develop the capital market. It's looking at the pension fund reform and things like that and building up the base of domestic capital.

I think that's going to be very important in terms of what is going to be done to stimulate domestic inflow. I don't have all the answers, but it is something that they need to be looking at and working on. One, we need to look at rules and procedures. We can track institutional investors overseas, but they also need to be doing work promoting domestic investors. That is probably the next stage of development the parliamentarians need to look at.

Given that every country needs a different length of time to develop its capital market, what do you predict for Mongolia?

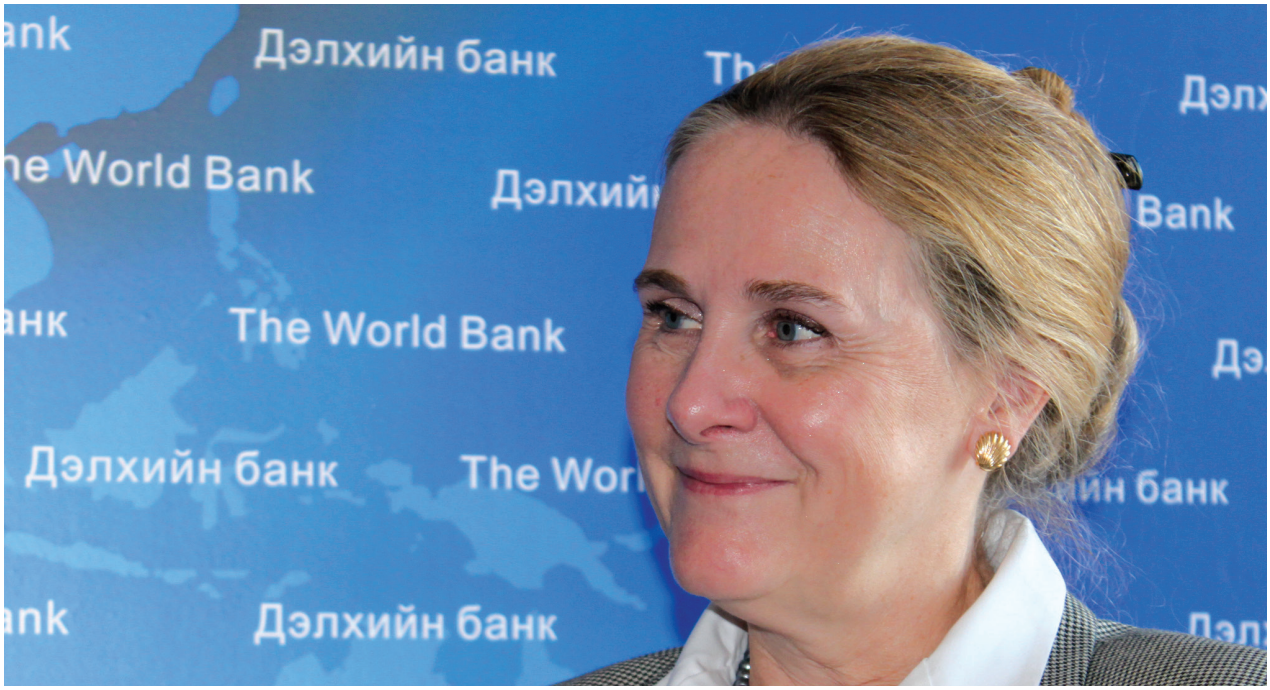
Again, looking at other markets, Russia's economy took off in the '90s in a short period of time. At that point, brokers like Renaissance Capital were just starting out. Very quickly, they developed in response to institutional demand and domestic demand as well. They quickly developed capabilities to answer that demand. They were helped by the fact that they had some very large companies in their market. There were interesting and very large companies to stimulate that interest in demand.

Mongolia has the same opportunity, so it's just a question of market timing. And once you do start to see some of these larger asset opportunities coming to the market, you are going to see institutional investors from overseas. You're also going to see domestic investors starting to play and the brokers are going to have to be attuned to that and be ready to respond and build up very quickly to satisfy that demand. It's going to strengthen the existing domestic brokerage community once that process starts. ■

OCTOBER, 2013.

# Beyond Resources

*Pamela Cox, the World Bank's regional vice president for East Asia and the Pacific, visited Mongolia in September for the first time since assuming her current position in January this year. Cox, a development professional with more than 30 years experience, previously worked as vice president for Latin America and the Caribbean for the World Bank, playing a leading role in supporting inclusive growth in emerging economies and providing innovative and practical financial and knowledge services to meet developing country needs.*




**What are your first impressions of Mongolia?**

Beautiful. We spent about, I think, 12 hours and looked at some of the projects that the bank, IFC [International Finance Corporation], and private sector are financing here. So we saw solar power for gers, a school we're supporting (more broadly we support a whole program for changing how education is done), and a wind farm (that's a big investment from Newcom that will hopefully be on line in December). We do a sustainable livelihoods programme where we give small grants to communities to decide on their own development needs. We drove a little bit, but the country is very, very big.

**Most of the news coming from Mongolia is its enormous mining boom and 17 percent growth. Having seen the country first hand, are the boom and its effects apparent?**

The World Bank is even involved in the mining boom because IFC is investing in Oyu Tolgoi (OT), and MIGA [Multilateral Investment Guarantee Agency], our investment guarantee arm, is looking to guarantee investments as well.

What's interesting to me is Mongolia has such great potential—even beyond resources. We were talking about the wind farm; Mongolia has wind resources and solar resources, it could also export power generated through those sorts of resources as well. Mongolia has huge potential.

**Having mentioned green energy and its export, do you believe selling energy to foreign countries is a practical long-term economic strategy?**

According to this company, it was. But I think Mongolia is very unique because here is a very large country with a lot of resources sitting between two big economies with about one and a half billion people. That's a tremendous opportunity for Mongolia.

In addition, sitting fairly nearby are the economies of Japan, and Korea. There are a lot of economies growing in Asia and Mongolia has a great location.

**What differences do you see between Asia and the other regions you've worked in?**

I think the advantages of East Asia are, first of all, that this is a region that is growing and has been growing for quite a long time. That has been hugely successful at reducing poverty and educating millions of people. It's a very dynamic region—economically and from a growth point a view. I think right now the rest of the world is watching East Asia.

**What role is Mongolia playing among emerging economies?**

I think Mongolia in this region has the opportunity to do things right. Many countries have learnt the lessons, good and bad, about managing resources. Some have the bad experiences named after it, such as "Dutch disease," wherethe Netherlands experienced bad effects from managing their resources. I think Mongolia has a wonderful opportunity from countries across the world on how to do it right.

**You keep mentioning all the**

**opportunities available to Mongolia. What opportunities are we talking about exactly?**

I think there are opportunities big and small available to Mongolia. We invest in large projects but we also invest in projects that have people at the grass-roots level, and that's sort of what we saw both sides of yesterday.

We saw this very large wind farm development. It's very exciting that it's a Mongolian company taking the lead on this. This is an opportunity to generate sustainable energy for the country.

At the same time we saw a project that provided solar power to individual herders in their gers. This was a wonderful opportunity for them: they have power at night, and they can read and watch television. They can do many of the things that those of us who live in cities take for granted.

I think that, for me, was a big contrast on how we can have an impact on a big-scale and small-scale.

**What do you believe are the primary needs of this country?**

I'm glad you had an issue on education because this is a country that has a lot of opportunities but it only has three million people. That means that education and bringing people in to develop the skills that the country is going to need in the future is going to be absolutely critically.

And it will mean changing the economy. It needs to be a diversified economy; it cannot depend just on mineral resources. There need to be job opportunities for people.

But certainly education is going to be key.

**It looks as though Mongolia will inevitably suffer from the fall in coal prices and slowed growth in China. Mongolia already has problems with its state budget. What are some options Mongolia has to resolve these issues?**

There is the short term and long term. In the short term, running a deficit, just like you can't run a deficit in your personal budget, is just not going to be possible for a long time. So when countries run deficits, they need to find ways to reduce those deficits. They need to postpone some projects, do some things that are lesser priority, target some of their spending better (especially spending for the poor). In the medium term, what we find across the world is that countries that live off exports of natural resources need to have a way to smooth out the revenues from those resources.

If you look, for example, at Chile, we've connected Chile to Mongolia so Mongolia can learn from Chile's experience. Of course, Chile is very dependent on copper exports. Chile has a stabilisation fund so in good times, when copper is high, they put extra money into the stabilisation fund. Then, in bad times, when copper prices fall, they use those revenues to smooth out their budget expenditures. So, they don't have their budgets going way up and way down year by year.

This is something that Mongolia would do well to look at because clearly commodity prices don't always stay up. You know there are going to be some years they're down and some years they're up. What's important is that you know you have—and I know Mongolia has the fiscal stability law—a way of smoothing out budget expenditures—so when times are good you don't spend all your money, you put some of it aside.

**Right now Mongolia does not have that kind of money. What other options does are available?**

There are a couple things governments can usually do. One is postpone some projects. Secondly is when you look at spending (social spending in particular) make sure it is well targeted. Give grants and so on to the poorest members of the population, and not necessarily to everyone.

**Last June Mongolia had its general parliamentary elections and has since installed a new Parliament that is forming a new government. Parliament has promised to stop giving out general handouts, but more recently promised to continue giving handouts to children. Another MNT 300,000, which is left over from the original MNT 1 million promised to citizens in 2008 elections is due for distribution very soon. How big of an impact will this have on the Mongolian economy in this current backdrop of low coal prices for export and slowed growth to Mongolia's biggest trading partner?**

One reasons governments have parliaments is so they can debate their options. Their options are going to be how do you reduce spending and what is on the table. Our experience is child allowances work better if they're targeted at the very poor because the middle class doesn't really need them.

Thankfully Mongolia has a robust government. It just had elections and a parliament that can debate these sorts of issues.

I think we ate the World Bank are very happy to provide the experiences of what has worked and not worked across the world. Of course, at the end of the day it is the decision of the newly elected parliament.

Mongolia's position as a landlocked country is possibly its greatest challenge for reaching foreign markets. What possibilities does Mongolia have to overcome these trade challenges with two giant neighbors on either side of it.

Well, two giant neighbors mean syou have two big, giant markets for your goods. I understand that about 90 percent of Mongolia's goods go to China, so clearly you're taking advantage of that.

Countries that are landlocked can look at a number of options. One is to export high-value sorts of goods. Mongolia may not be necessarily at that stage, but that is one thing that landlocked countries do.

Another possibility is exporting things like power. If you generate solar power or wind power, that can be exported with transmission lines, which you have to use whether or not the country is landlocked.

**What kind of financial aid can the World Bank provide to countries during times like now?**

We helped Mongolia during its last downturn. In this crisis there are a few things we can do. We can provide extra financing to the government to help it stabilise its budget. But even more importantly, we can also put money into social programmes that can help people at the lowest rungs of society, things like targeted social spending or grants to communities to help them do some small projects. ■

OCTOBER, 2012.

# Mongolia Has Tremendous Resources of Renewable Energy

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



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

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

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

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

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

-Yes, but I suppose private companies such as Newcom, are changing this situation. If Newcom completes its wind power plant project, it will be one of the major creations of Mongolia; and this project shall lead many other projects for renewable energy. Even though Mongolia has a rich resource of mineral, it will end someday. However, renewable energy sources, like wind or the sun, are limitless. So not only mining, but also renewable energy matters have to be considered for long-term development plans.

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

-Basically, on this matter every

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

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

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

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

-I think Mongolia has a big opportunity with its highly demanded mineral resources. This demand will not lessen in the following years, because the transition from solid fuel to renewable energy is slow in addition to its rich resource from the sun and wind, Mongolia has a big opportunity, but the technologically for connecting energy with two neighbors is difficult. Urban planning matters are inevitable. For example, population growth in Ulaanbaatar will be a big issue. These concerns require the right investment in the right time.

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

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

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

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

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

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

-I haven't seen Mongolian laws, but people I have met spoke about the law of renewable energy. In my own experience and that of other countries, the rights and duties of government and the private sector must be determined with detail. Entering the renewable energy sector is praiseworthy and will probably attract foreign investors, so principles for cooperation must be well set. Another issue is long-term planning. I've heard that Mongolia aims to increase its energy production by 20 percent by the year 2020, which is a good thing. However, the problem is how to implement this project. I think infrastructure issues have to be solved first.

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

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

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

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

NOVEMBER, 2011.

# DEVELOPMENT

*Development has become the talk of the town in the recent years. Economic growth in the past few years has caught the attention of world giants. Where is Mongolia now on the global stage in terms of development? What is development? Whether it is the mining or urban development or cultural changes, the need for finding out is still crucial to the development of Mongolia.*





Photo by B. Byamba-Ochir

# Making The Move A Middle-Income Country



*N. Enhkbayar, former advisor to an executive director at the World Bank in Washington DC.*

*N.Enkhbayar graduated Mongolian State University of Agriculture with a Bachelor's in Economics. He joined the Mongolian Ministry of Finance in 2002 and worked as specialist, senior analyst and became deputy director of budget policy. He left the Ministry of Finance after 16 years for further study abroad. He won a scholarship from the International Monetary Fund and went to Japan to study Government Public Finance Policy. Until 2011, he worked as an advisor to the Prime Minister of Mongolia for three years and later went to the US to work at the World Bank as an advisor to an executive director. N.Enkhbayar's contract has expired since the time of this interview, which took place in July.*

**What has been the attitude like towards Mongolia from the World Bank Group? What kind of experiences and knowledge have you had so far?**

For the past years, the International Financial Corporation has expanded well. It has solved annual USD 100 million financing, mainly for private sector, particularly in banking, finance, construction installation, infrastructure, hotel, and trade. For the World Bank, it mostly offers technical assistance and soft loans dedicated to social development such as poverty, education, health, and the environment.

The major change to emerge within the past year is that Mongolia's statistics now determine it as a middle-income country, since the World Bank revised its analytical classification of the world's economies based on estimates of gross national income in 2012. Before then, Mongolia used to get only development assistance as it was a low-income country. The International Development Association issued soft loans under a long-term or 40 years agreement to Mongolia. But the updated classification does not mean direct credit rate change. Mongolia must gradually move from a development-assistance country to a lender country. This transition will happen not in a year but within a three-to-four year period.

Currently, Mongolia's status is classified as a 'blend' category. In other words, it means that Mongolia is still a country that takes development assistance. On the other hand, the new classification gives access to Mongolia to take loans under commercial terms for the first time. For instance, in addition to technical assistance, the blend category allows the condition to take commercial loans for certain big projects within a shorter term, between 15-20 years. But it has a higher interest rate than aid. IBRD loan is a commercial loan with many alternative structure and scheme, and loan interest to be calculated by the following methodology "LIBOR+0.6 to 1.3%" depending on the market condition. However, compared to the loans of commercial banks, this loan has a much lower interest rate and offers conditions that are more flexible. Thus, it is a great opportunity for a country like Mongolia that has a number of development issues.

**Now that Mongolia has access to loans with better terms, this must be a good opportunity for policymakers?**

This credit permit was just given to Mongolia because it has not been long since Mongolia was categorized in the above classification. To give credit permit, the World Bank approves three-to-five years of partnership strategy. We had this document delivered at the Directors' board meeting and renewed in 2013. By then, the World Bank approved priorities of partnership with Mongolia until 2017. The World Bank financial year does not match the calendar year. The 30th of June is the time when the financial year ends, starts another from the next month. The World Bank 2015 financial year started July first. This means that Mongolia has already acquired the right to obtain commercial loans from the International Financial Corporation. However, it takes another two-to-three years to choose and discuss about a project as well as have the related documents prepared. It's still not that easy.

**What's your perspective as you assess Mongolia's economy from the World Bank headquarters in the US?**

The international market has a direct impact on Mongolia, which exports 98-99 percent of all raw materials. For a country with a mining-based economy, accompanied by a weak development of industry is connected with the foreign market in many ways. Currently, commodities' prices on the international markets are falling. According to international analysts, major metals' prices are not expected to rise in the next two to three years which won't bring any good to Mongolia. We don't need to get excited about the rise of commodities. Thus, we should only rely on appropriate foreign trade policy within two neighbors as we get foreign currencies and flow from foreign trade. In the long term, the most efficient policy is to diversify the economy.

**What other opportunities need to be explored for the benefit of Mongolia's economy?**

Recent studies talk a lot about second deficits. The monetary policy is in a hard situation, while the budget and the foreign trade both have a deficit. There is no way out of foreign currency appreciation in this case. Taking precautionary measures are very important. You can earn and save money when the mining sector rises. But now when the mining sector sees a fall, there is no money. Thus, it's necessary to look at which sector generates growth and which one creates the balance. We've forgotten some sectors. If it's real national policy, you cannot just keep your eyes in one direction in only mining and infrastructure. Especially at a time when the economy stays slow, it's important to promote subsequent sectors retaining jobs. For instance, agriculture is the major sector that holds an economy in any crisis time by preventing food shortage and pressures on people's backs. What will happen if the agriculture sector which solves public food needs sees a downturn? You need to hold up the base sector which prevents a fall rather than only looking at mining.

**International Monetary Fund analysts visited Mongolia and asked policymakers to revisit their economic policies. What exactly did they advise?**

Recently, the International Monetary Fund handed an analysis about Mongolia's foreign debt to the World Bank. Annual Debt Sustainability Analysis brought up major indications of macroeconomic policy. Not only Monetary Policy, but also debt of Mongolia has become an issue to worry about. Quite some time passed since economic policies brought inconvenient consequences. It's been almost a year since international organizations delivered their recommendations to Mongolia. But today, problems have not calmed. It means that current difficulties will deepen. I assume the IMF told Mongolia that it may see a bigger fall unless policymakers revise the past two years of economic policies. Those are the main signals given by the international financial institutions. Now we have to listen it and act i mmediately. ■

SEPTEMBER, 2014.

# Singapore: A Small Country With Big Experience



*Mongolian Economy spoke to Mongolia's ambassador to Singapore, B. Delgermaa, during a visit to the Mongolian Embassy in Singapore.*

**President Tsakhiagiin Elbegdorj paid an official visit to Singapore in November last year. What would you say are the results of his visit?**

Mr Natsagyn Bagabandi, former president of Mongolia, paid an official visit to Singapore in 2001. His last visit was some 12 years later. When the frequency of official visits by leaders of two countries is closer, the relationship improves and the results are evident.

The diplomatic relationship between Mongolia and Singapore were established in 1970 and there has not been any high-level official visit from Singapore to Mongolia.

Mr Elbegdorj, before his official visit to Singapore, successfully initiated the national consultative meeting "From Big Government to Smart Government". It was of great importance, as the country's policy was defined before his visit to Singapore.

Singapore has the leading policy in terms of a smart government system, not only in the region but throughout the ASEAN [Association of Southeast Asian Nations] countries. It acts as a mediator among the region and became the centre of information and technology, the [Asian] economy, defence, and banking and finance.

I think that Singapore has some similarities to Mongolia. As Singapore is very small in territory and located between large countries, it found its solution for national security and economic development. This is a country that we have to learn a lot from.

The president's official visit was conducted amid a sharp decline in foreign direct investment since 2012, and the country's reputation was tarnished. I think that the visit has brought the answers to many questions by Singaporeans.

In a speech during a business forum that took place in Singapore, Mr Elbegdorj managed to reveal the solution to the hindrances that occurred in Mongolia's investment environment. The purpose of his visit was also directed towards introducing Mongolia's investment environment to Singapore. He sent a message with the meaning that [they should] not be afraid of investing in Mongolia; your returns on investments can increase several times; Mongolia has rich mineral resources; Mongolia's state is strong and it keeps its promise; the guarantee on your investment is from the Mongolian state; and so on.

The reason for making such promises is Singapore is located between two big countries. Mongolia is a landlocked country which is also located between two big countries. Mongolia cannot be a part of the regional integral policy. Mongolia would be able to sell its mine products at a higher price when it becomes a part of the regional trade policy.

Dependency on Russia and China is to be reduced. In doing so, smart government is needed.

**Some resolutions were made during the visit, including the initiative for the construction of a Singapore town in Ulaanbaatar. What do you think about that?**

Yes, the two parties negotiated the issue of the construction of a Singapore town in Ulaanbaatar. Its resolution will be complex, not solely looking at the construction to be built.

The president's visit was accompanied by Mayor of Ulaanbaatar Erdeniin Bat-Uul. Mr Bat-Uul observed Singapore's urban planning, waste management, metro station and waste water treatment plant.

Singapore is the only country in the world that does not have water resources. It was dependent on Malaysia 100 percent in terms of water supply. But today Singapore has managed to reduce its dependency to 20 percent. It implements a policy of using rain water harvesting and grey water while putting an ocean water purification plant into operation.

In Mongolia, water use and consumption is currently on the rise. We would need this country's plentiful experience in saving water, its reuse, creating water sources and the use of grey water.

**Is there any chance for direct flights between Mongolia and Singapore?**

Since I was appointed as an ambassador to Singapore, I have been in several discussions with Singaporean officials on the issue of a direct flight between the two countries. I hope that this issue will be tackled soon.

A number of Mongolians come to Singapore with the purpose of travel, education and healthcare. The direct flight will save their time, as the current air routes are via Beijing and Hong Kong.

Changi Airport is the world's second largest airport. This would be a big travel destination for Mongolians.

**How many Mongolians are working, studying and living in Singapore?**

There are 170 to 180 Mongolians in Singapore. Most of them are children who are studying at primary schools. Their parents are here to take care of them. Education in Singapore is very good and high quality. There is a good opportunity for them to learn not only English, but also Chinese. Also there are a number of patients from Mongolia to get treatment and operational services. A Singaporean medical team is currently on an assignment in Mongolia to conduct a kidney transplant surgery.

**What is the secret of Singapore's development?**

Singapore became an independent country in 1965 and it set three big goals: the general public was to learn English, a step-by-step implementation of a housing programme, and to be corruption-free.

In order to reach these goals, Singapore improved its legal environment and adhered to its laws. It focused on having a business environment without bureaucracy. It opened its door widely to foreign investors. As a result, thousands of foreign companies and 110 international banks and financial institutions are operating here in Singapore today.

The registration of a new company only takes half an hour through its one-stop service. This is the result of smart, transparent and responsible work done by the government. Singapore's only resource is its citizens. It dedicates everything to them and invests for them. In terms policy, it gives priority to healthcare.

**How can the methods of Singapore's "smart" government be applied to Mongolia?**

There could be several examples of introducing smart government without spending money. First of all, Mongolia's state organisations need to change their methods and management. Here in Singapore, when I go to offices for business, I feel so very sure that the system here is bureaucracy-free and quite businesslike.

I backed the recent initiative by Mr Elbegdorj and would like to introduce some experiences and practices to Mongolia from Singapore. This will not require taxpayers' money.

The first thing is time management. The second thing is an improvement to the relations between state organisations and the creation of cooperation between them. A system with teamwork, time management, responsibility and interrelations is required.

**Which sector of Mongolia interests Singaporean investors?**

After the president's visit to Singapore, a number of investors' interest in investing in Mongolia rose. Temasek Holdings, an investment company owned by the government of Singapore, has invested in Oyu Tolgoi [Indirectly through Turquoise Hill Resources Ltd. –ed]. This is a globally renowned company.

The expected outcome of the current investment will



answer whether it needs to invest in Mongolia in the future. Singaporeans say Mongolia has the land, and Singapore has the money and qualified professionals.

Singaporean investors are interested in investing in construction, urban planning and healthcare. There are also some other investors who are interested in working with Mongolian companies, despite whether or not the Mongolian state gives guarantees.

**We are approaching Tsagaan Sar, Mongolia's lunar new year. Do you celebrate it at your embassy here in Singapore?**

Yes, we celebrate Tsagaan Sar by having buuz and milk tea amid the hot temperature of more than 30 degrees Celsius. It is good to see Mongolians who come to the embassy to greet and meet us. ■

FEBRUARY , 2014.



*James Law is the founder and chairman of James Law Cybertecture International, founded in 2001. He earned his degree in architecture from the University College London in 1992. His careergoal is to merge cyber technology with modern architecture. James was elected as a Young Global Leader (YGL) by the World Economic Forum in 2010. He is a renowned architect and a member of the Royal Institute of British Architects. Mongolian Economy met Law during his visit to Mongolia with YGL in 2011 and recently caught up with him at Terelj National Park to discuss the implementation of the urban development plan for Ulaanbaatar.*

# Young Global Leader Intelligent City

**We have heard you would like to cooperate on the city planning of Ulaanbaatar. Do you have any plans?**

First of all, I would like to say that a city is a very important part of a country, especially for Mongolia, which has such huge potential for transformation. It is very important that we design a city for the future, not for the past. When we look at how to design your capital for the future, we must look not at the next 10, 20, or even 50 years, but for the next hundreds of years to see how Mongolians live in the future. Having been to your capital and stayed there, I can see all of the legacy problems of the past. The infrastructure is not so good, and the city is going to grow very fast.

We need to lay down the intelligent city network for growth in the coming years. How I would approach the design is with an intelligent system with different zones for activity. We would have a zone for business, residency, culture, science and technology, information, and energy. Each zone would grow organically and improve over time. It is a little bit like a computer, when you update software to make a computer more applicable to today. These new intelligent cities, which we call cybertech cities, are able to upload improved software as they grow with the nation, its communities, and its people.

**I think we also need to address the fact that the city needs to be more sustainable than before. We need to develop it in way where energy and resources are recycled in new ways. We can make some of those fundamental differences.**

So today when we plan the city we should plan for the electric cars of the future. We should think of mass transit railways for moving thousands of people who live and work in this city, and don't pollute or create traffic. We should think of the homes and buildings we need to build for people to live in that cater to the growth of families and

allows them to live in a harmonious and green way. We should create business districts that meet the highest international standards to facilitate trade and commerce with the rest of the world. All of these need to be planned today because it will take 10, 20, or 30 years to realise. And we must have these new concepts, not the old ones. I call it the "cybertechture" concept because of my belief that we are not limited to building the city from concrete, steel and glass. We need to build from concrete, steel and glass, as well as the technology and innovations of tomorrow in order to create something that will be long lasting for Mongolia.

**When you saw our city for the first time, what did you think of it from your perspective an architect?**

I think my first impression was that Ulaanbaatar is like an infant. During the flight I could see lots of small stones dropped and spread out among all of the mountains and countryside. No organisation, no boundary, no clustering, no management. When I drove into the city, I saw some pockets of development, which is coming very fast. Some of the new buildings are coming up, but they don't form very far apart from the whole framework, they are only at the one part of the city where people are building towers for offices.

I didn't see any style of architecture or kind of design intended for residencies. Some people live in gers, others in small houses, and some in apartment buildings. There wasn't a clear system for doing anything or how to create some quality. And then when you see the traffic—the problem is not the roads but rather traffic management. I was looking for traffic lights. Sometimes there were no lights, or people ignored them. And sometimes the timing of a traffic light was inaccurate.

Managing city traffic is not one junction, it includes thousands of junctions. A computer can actually direct people around the streets in the most efficient way. In a modern city, the timing systems must be tight. Currently there is no such system here, so you have rush hour traffic that goes unchecked. When looking at the city as if it was an infant, you understand that you have to educate it, and give this infant some new toys and tools for it to grow. That means giving skills to the young men who live there, until there are enough skills for the city to become an adult. All of this needs to be applied now because if the city keeps growing like this the problems will get worse. We as visionaries must advise the government on urban planning so that it becomes a sustainable, modern, intelligent city that will live a long life.

Can you explain what you mean by an intelligent city a little more? What are some examples?

Before we try and understand what it means to be intelligent, we must think about what a city really is: A community transforms into a city because of the strategic importance of the people who work and live together there for many social and economic reasons. The big companies, the government, the schools, hospitals, airports, and industry are there, so everyone comes together there. When you put all these people together, they are not so good at managing themselves. People are very creative but selfish. They often don't help each other. In the old days, old cities were not intelligent because people just used to work arbitrarily towards development. Sometimes the government or the economy made the decisions for everyone. But this is not intelligent.

What is an intelligent city? It is a framework that allows you to programme the city; to operate at a much higher level of efficiency. It is something that is able to deal with risks. For example, look at the amount of water and energy lost in this city. The amount of water lost in the pipes is huge. We are losing a lot of energy in the buildings, etcetera. In an intelligent city, one district is used for offices during the day and uses a lot of energy then. Another district could share some of that energy, and on the weekends, when less energy is used in the commercial district, it can share even more energy. Or maybe the city doesn't need that much energy. That is the kind of thinking needed in many aspects regarding the city, including energy, resources, communications, and human resources. This area is residential, and this is a commercial area. People travel from one place to another to reach their offices for work. Why can't a new city live and work in the same place? When we save a lot of energy, we also save a lot of time and put that resource towards improving people's lives. Giving people a better life, education, entertainment, and health is what I mean by an intelligent city.

To build this city, we need new infrastructure, ideas, and building designs. You also need to educate people and tell them the benefits of living in this way. That is an intelligent city.

**How long would it take for Ulaanbaatar to become a new, intelligent city?**

It cannot be done over night. But I can say Mongolia has a big advantage because it would be too difficult for a city like London or Hong Kong. There is already too much infrastructure. If I wanted to make an intelligent city from one that is at a mid stage level of growth, such as Shanghai or Beijing, they would still be clutching to the old ways.

Because Ulaanbaatar is young, people have not yet arrived. There is no wireless system nor pipes put in place. We can do this now. The city could be ready to grow. I think it would take about five years for the first stage, but it needs to be done very carefully and should not focus on simply building a glamorous city with many skyscrapers. We need to think in the long term because we are thinking about our grandchildren, and our great grandchildren. You need to plan for that.

**What would you like to say to young Mongolians?**

I met some young children and students here. I could feel a sense of optimism. People don't live for today, they live for tomorrow. That is very good motivation for this country. Any country that has a chance to renew itself is at an absolutely crucial time to find the right path, and must have the leadership it needs to create that destiny. Who knows, maybe in 15 years time Mongolia might become a top-tier country in the world, a global leader. We as young global leaders can see the power of change, optimism, and dreams in every different issue a young global leader is responsible for. And when you come to Mongolia, you feel this opportunity to change the lives of millions of people, and that is a real opportunity. We should not waste it but instead embrace it, and come up with some really good ideas, a strategy, and a vision for the future. ■

NOVEMBER, 2013.



SPEECH

# Aung San Suu Kyi: Better To Lose With Honor Than To Win With Deceit

*Nobel Peace Prize laureate Aung San Suu Kyi visited Mongolia on April 30th of 2013, as part of 7th Ministerial Conference of the Community of Democracies. The following is her speech "Mongolia and Myanmar: Freedom and Path to Democracy" in entirety.*

It's a pleasure to be here today, thank you for inviting me. I would like to thank the president and the members of the government of Mongolia, and the young people of Mongolia who arranged this lecture. It is something I value very much to be able to engage with peoples from different countries, especially the young people. As I've said often, young people are the hope of the human race. Because of this, it is important that we know what their aspirations are, what their hopes and their fears are. In my country, I've been very encouraged to find that our young people are vigorous and vibrant in their participation in our desires and our efforts to achieve genuine democratisation.

Young people want freedom, and democracy and freedom are indivisible. But it is freedom with responsibilities. This is what I always try to emphasise. Some people think of democracy in terms of rights, and that is purely in terms of the freedoms that you'll be able to enjoy, without thinking of the responsibilities that you will have to bear. This is something that I do not encourage. All of us must understand that one of the great dignities of which human beings are capable of, is to assume a sense of responsibility. And I want our young people to be proud of being responsible human beings, and not to look upon duty as something onerous or as something that only old and boring people are interested in. The more responsible young people are, the greater the hope for our nations. But, responsibility is something that must come out of conviction. Therefore, if we want our young people to be responsible, we must be able to engender in them the conviction that there is something about which it is worthwhile for them to be responsible.

For many years, the people of my nation were deprived of their basic human rights, of basic democratic institutions. During those years, Burma moved from the position of being the most progressive nation in Southeast Asia to the one that was left behind by every other nation in that region. During those years, our people lost their democratic rights, but more than that—worse than that—they lost their self-respect. When a people lose their self-respect, it is fatal for the future of our nation. So, when we tried to bring democracy back to Burma, we had to do it by trying to build up the self-respect of our people. Our people had to be able to understand that democracy was something they had to get for themselves, and something they would have to build up for themselves, and that they were embarking on a road that had no end. Because there is no such thing as the end to the endeavour to strengthen democratic institutions.

When people ask me why we—that is to say my party, the National League for Democracy—are fighting for democracy, I always try to explain in very simple terms that we want our country to be a place where people are assured of both freedom and security. These have to be kept in healthy balance, if democracy is to improve the lives of our people. Freedom by itself is not enough. Neither is security by itself enough. In the name of security, our people were deprived of the basic freedoms for many decades. But neither do we want, in the name of freedom, for our people to be deprived of the security that each and every citizen of a self-respecting nation should be entitled to. Democracy means getting into a healthy balance: freedom and security. This means responsibility. We have to understand that we are responsible not just for our freedom, but also for the freedom of others; that we are responsible not just for our security, but for the security of others. This is one of the main reasons why we chose the path of non-violence.

Violence threatens both freedom and security: ours, or that of others. For that reason, we rejected violence as a means of achieving democracy. There were those who questioned this. There were many who felt that a military regime could be brought down only through violent means. Because the military, by definition, are an armed force, there were those who believed that it was only through force of arms that they would be able to remove a military regime. I never believed in that. I think that human beings are open to reason. And because they are open to reason, I believe that change can be brought about through non-violent means.

Non-violence, the path of non-violence, is usually a longer path than that of violence. But in the long-run, it is a shorter path to the goals that you wish to achieve. Because violence leaves behind wounds that take many many years to heal, and sometimes these wounds go on festering for decades to come. They leave divisions, they leave bitterness, they leave distrust, and they leave a lack of confidence in our own fellow human beings. And these wounds take so long to heal, that the ultimate goal to which we are working goes further and further away. The path of non-violence may be longer, but it leaves fewer wounds, and usually the wounds left by the path of non-violence are curable, they are easily healed. And so in the long-run, we achieve our goals quicker by keeping to the path of non-violence, which, in many ways, is much harder than the path of violence. It is much harder to protect yourself against armed men without arms than it is to defend yourself against armed men

when you yourself have arms.

So, in the fight for democracy, through non-violent means, we need the courage, the moral courage, to be able to stand up to the attractions of a quick solution. What we want are sustainable and lasting solutions; not quick solutions which can quickly be overturned. There are those who say that there is too much talk about democracy—what is it all about? Why is it so wonderful? And I think this is especially said by those who have enjoyed democratic rights for a long time. In the years while I was in England, I noticed that many of my friends were not interested in voting at elections. This is especially so in intellectual circles, where they felt that politicians were of a lower breed than academics and scholars, and they did not think that it was worth their while to go out and vote at elections. But this upsets me very much, because I had never voted in my life, when I was in England, because since I grew up, there had not been free and fair elections in my country, so I did not know what it was like to cast a vote for a candidate or a party of my choice. So I would say to my friends in England, you've got to exercise your right to vote, because it is also your duty. If you do not uphold your duty, one day you may lose your rights. And I think I nagged enough of my friends to make them go out and vote. But I found recently on my visit to Japan, that the older people made the same complaint about the younger people today, that they're not interested in going out to vote. So I explained at a lecture at a Japanese university that I would like all young people to exercise their right to vote, because that was also their responsibility. It was a way of defending their freedom. And I explained that now I am almost 68, and I have never yet voted in a free election.

In 1990, there were free elections in my country, and I was then under house arrest. I asked to vote, because under the existing laws then, I was allowed to vote, even while I was under house arrest. So they arranged for me to cast a vote, but of course it was done while I was under arrest, it was not what you call free voting. I voted for the party I wished to support, but I had been the candidate that my party proposed for my constituency, for the township where I lived. But I was rejected as a candidate. So my party was not able to field another candidate; it was too late. Therefore, we had to vote for another party, so you could say, although I was able to cast a vote, I did not do it under free conditions, and I was certainly not able to cast a vote for my own party, or for a candidate for whom I would have really wished to vote for. I explained this to the young people in Japan, to make them understand how precious the right to vote is. I have yet to be able to vote in a free and fair election.

When we had my elections last year, the seat in my own township was not vacant. So I was elected from another township; but that is not a place from where I could cast a vote without changing my residence. So still, I have not yet voted in a free and fair election. To all the young people of Mongolia, who have the right to vote, you must exercise it. I try to explain that, very simply to our people last year.In 2010 we had elections, but those elections, according to the definition of the United Nations, were deeply flawed. And so people's confidence in elections was not strengthened by the elections of 2010. So one of our greatest tasks last year was to urge our people to go to the polls, and to use their right to vote in the 45 constituencies where there were vacancies. Our message was very simple: they must decide for themselves what kind of society they wanted; they must be responsible for the future of their nation. And one way of being responsible was to cast a vote on election day. We put it to them very simply, that on this one day, every single person with a vote was the equal of the president himself, because he had one vote only and they also had one vote each. So we said to them, you must use your right to vote, because that is the highest right of any citizen, even the



president has no greater right than you. He also has just one vote.

Our campaign was very successful, because around 70 percent of those eligible went to the polls, and that, I think, is an extremely impressive percentage of a country which was quite unused to free and fair elections. And not only that, our people began to understand that it was a privilege to be able to cast a vote. So, the path to freedom and democracy is a path through the minds and hearts of our people. The people must be convinced intellectually that they have not only the right to participate in the democratic process, but they also have the responsibility to do so. And that freedom is freedom within the bounds of duty, within the bounds of acceptance of rule of law.

Rule of law is extremely important for the establishment of a democratic system. We have to understand that by rule of law, we mean the rule of just laws. We do not mean the rule of laws that have been promulgated by a government to defend their interests or to ensure that they retain their grip on power. When my party contested the bi-elections last year, one of the main planks of our election platform was amendments to the constitution. This was a constitution that had been adopted in 2008 by a referendum. It was said that, I think, 92 percent of those who voted, voted for the constitution. I think this is questionable, but let us put that aside for the moment. There is no doubt that there are some flaws—more than some—and some very great flaws to the constitution. A constitution is crucial if the running of a democratic government is to be smooth and sustainable. You have to have the right kind of constitution; that is to say, a constitution which the people perceive to be just, and which they perceive to be necessary in order to maintain a peaceful and progressive society. A constitution in which the people have no confidence is not a constitution that will take us along the path to true democracy. So amendments are crucial because a constitution is the highest law of the land. And if we want rule of law, we want to make sure that the constitution we have is not only the highest, but the best law of the land, and that it is a law acceptable to the great majority of our people.



Burma is a land of many peoples. We are made up of many ethnic nationalities. And I'm proud of this. The diversity of our country is something of which all our people should be proud. Unfortunately, we have not got to the point when we see our differences as strengths. There are many who still think that whatever is different from us, threatens our position. This is not so. The greater differences there are, the more opportunity for us to learn to live together in harmony and in peace, in spite of our differences. We have been working for national reconciliation since 1988. When we started out on the path to democracy, we started out aiming for national reconciliation. We want democracy that is accepted by all our peoples, by all the political forces within our country, not just by one. This is why we thought and accepted and practiced the need for national reconciliation. After many years under military rule, there are those who feel hostile towards the military, but this is something that must be changed. The Burmese army was built to bring independence to our nation. And when my father founded the Burmese army in the 1940s, it was much loved by our people. Our people looked upon our soldiers as our defenders, as our protectors, and at the same time as our sons, as fathers, as family. We have to restore that kind of attitude among our civilian population. The relationship between the military and the civilian part of our country must once again be that which was the pride of our nation, so long ago.

True national reconciliation must come from the heart; this is why I said that our path to freedom and democracy must be through the hearts and minds of the people. We can't force people to believe. We can force them to pretend to believe, but true belief will not come out of force. It has to come out of conviction. And convincing somebody takes a much longer time than forcing somebody to do something. So convincing a great majority of a country to accept certain values is much more difficult than forcing them to accept certain values.

The people of Mongolia who have lived under authoritarian rule will understand this much better than those who have never known what it is like to live under an authoritarian government. You will know what a struggle it is to reconcile your inner beliefs to what you are forced to practice in public. We do not want our people to be torn apart by the necessity to pretend what they are not. That is what democracy is about. That people should be entitled to express their beliefs openly, always remembering that they should not do it in a way that would be harmful for others; that the rights of others are as sacred and as important as their own rights. Those who think only of their own rights, and not the rights of others, do not understand what democracy is



about. Democracy is about reconciling differences. It is about accepting that others with different views maybe are just as correct as you are in espousing those views. It is to learn to respect others as you want others to respect yourself.

In the end, democracy is as simple as it is difficult. It is based on respect for human dignity: your own, as well as that of others. This is why human rights is indivisible from democracy. This is why we talk about the struggle for democracy and human rights, for human rights and democracy, for freedom and democracy, for democracy and freedom. Democracy is one of the most difficult systems to maintain. We have to be committed; we have to be prepared not just to fight for it, but to live it. It is sometimes easier to fight for a system than to live it. And some of the most difficult paths of a transition to democracy is to understand when it is time to stop revolutionary tactics and to use more mature political ways of achieving your ends.

A very important aspect of democracy is the acceptance of opposition. A healthy opposition ensures a healthy democracy. I represent the opposition in my country. It is a healthy opposition. Our party, I believe, enjoys large-scale support in the public. I would go so far as to say that my party enjoys more support from the people than any other party. But in the legislature, we are only 45, and there are over 600 members of the legislature, so you might question what is the use of 45 position members in a legislature of 600. Now I have to say that all those other 600 do not belong to the ruling party. There are many from nationality parties. But, we are still the largest party in parliament apart from the USDP, the Union Solidarity and Development Party, which is the ruling party. So with 45 we are the largest other party in parliament. So we can claim to be the largest opposition. In spite of the fact that our numbers are very small, we are an effective opposition, because the legislature works together. The speakers of both houses have been evenhanded, and more than fair towards our party, and because of that, we have been able to achieve progress within the legislature. This means that in many ways we have been able to prove that reconciliation is possible, and that cooperation goes a longer way towards achieving democracy than hostility or a determination to work against those who have worked against you in the past.

We have to use the past as a lesson for the future; not as shackles. If we are shackled by the past through bitterness, through an inability to forget what has been done for us, or at least an inability to forgive what we have undergone, then we are letting ourselves be bound to the past. That is not what we want. The past, for us, should be a lesson in what we should not do in the future; the mistakes that we should not commit again, as a nation, as a people, as a party. If we go forward in that way, using the past as a stepping stone towards a better future, then we will be able to achieve both freedom and democracy in a way of which we need never be ashamed in the future, and of which future generations need not be ashamed. The way in which we achieve victory is just as important as the victory itself. I have had to say very often to our young people that it is better to fail in the right way than to succeed in the wrong way. Because success that comes through bad means, success that comes through shameful means, is the greatest moral failure of which any human being could be capable. But if we fail, and we manage to overcome our failure and to learn from it, and to become better human beings, better organisations, a better nation, then that failure is not a failure. It's simply a stepping stone to success in the future.

Democracy is a process of learning. I say very often to our young people—I do not make a distinction between the good and the bad, or the intelligent and the stupid. I simply make a distinction between those who are capable of learning and those who are incapable of learning. And by learning, I mean learning from life as well as from scholarly books or from your classroom. If we wish to achieve democracy, and if we wish to make what we have achieved sustainable, we have to be learners. We have to be prepared to go on learning all of our life. It is not enough to say we have achieved democracy. We must make sure that democratic values take root within our society; that democratic institutions are strong and thriving. And this is the task, the responsibility, that we must hand down from generation to generation. And unless we are capable of making our young people learners, of making our nation, our nations, nations of learners, we will not be able to sustain the democratic advances that we have achieved.

Burma is on the verge of making a breakthrough to democratisation. Let me emphasise that we have not yet made the breakthrough. We are just on the verge. We are at a point when there are so many opportunities that are open to us, that it is a moment of great danger, as well as of great hope. If we misuse our opportunities now, it may be many many years again before we get such an opportunity. So it is a time for our country to be aware of the challenges that lie ahead of us. And as we face these challenges, we look to our friends all over the world. To our friends in Mongolia, from where we spring, I had an interesting discussion with the president just a couple of days ago, and I explained to him that we Burmese also have the Mongolian blue spot, so there's no doubt about the fact that we are related. So I look to our friends all over the world, and particularly to our relatives in Mongolia, to help us to face the challenges that will bring freedom and deeply rooted democracy to my nation in the very near future. Thank you. ■

MAY, 2014

# ARTICLE

*We write about challenges and possible risks in economy, urban and rural development, potentials of small and large businesses, and future market forecasts. Domestic and international economists, analysts, researchers and experts contribute to our magazine with diverse points of view.*





Photo by B. Byamba-Ochir



# Unlocking Mongolia's Green Coal Potential

*/Arshad Sayed is Peabody Energy's President for Mongolia and India/*

It was once again a great pleasure to attend the Mongolia Economic Forum (MEF) Participants at the recently-concluded MEF discussed a number of issues central to Mongolia's development, though two themes stood out: how to make Mongolia's economy "greener" and how to make the country's energy sector more competitive to benefit the country and its people.

Given Mongolia's abundance of coal and other energy-rich natural resources, many Forum participants described a future in which Mongolia is acknowledged as an "Energy Paradise." In order to achieve this title, the global companies fortunate to be part of this exciting phase in Mongolia's energy resource development must ensure that the nation becomes a world model for safety, social responsibility, environmental management and technology.

Peabody Energy was once again a proud participant in this year's Forum, which creates an important venue for stakeholders from government, businesses and civil society organizations to contribute to a dialogue that will ensure the quality of Mongolia's mining sector is commensurate with the quantity it produces.

Global mining companies have a unique opportunity to apply international best practices to Mongolia's growing resource sector, and it is our responsibility to work with government and policy-makers to ensure that "Energy Paradise" is a fitting description for Mongolia's coal industry.

There is a broad consensus that coal will continue to be a reliable, viable and scalable fuel to drive Mongolia's economic growth and social development. Coal is the resource that will supply the energy Mongolia's needs to support its next phase of growth and improve the quality of life for Mongolians.

There is a direct correlation between coal use and economic progress, where a rise in coal use mirrors a rise in Gross Domestic Product (GDP). It is no coincidence, for instance, that China is the world's fastest-growing economy, the world's largest energy user and largest coal user. China's GDP is set to climb more than 275 percent in the next 20 years and coal use is expected to increase substantially over the same period. As Mongolia's own economy advances, the nation will need an enormous amount of energy to support its growth. Coal will remain among the most cost effective ways to supply this energy, thereby ensuring that all Mongolians have greater energy access.

Mongolia will also reap significant economic benefit from the nation's coal exports, which have grown exponentially in recent years. Coal production increased from 9.8 million tons in 2008, to 30.9 million tons in 2011 and by 2020 it is expected to reach 100 million tons of coal.

At the Forum, participants spent a considerable amount of time discussing ways to ensure that Mongolia transforms from a "brown" economy to a "green" economy. Peabody Energy's vision is that its "green coal" operations in Mongolia will be of significant economic and social benefit to the nation, while using advanced coal technologies to achieve the ultimate goal of near-zero emissions.

Peabody is advancing low emissions, low carbon coal projects in the United States, China and Australia. In China, Peabody is the only non-Chinese equity participant in the 650 megawatt GreenGen power plant and carbon research center. GreenGen is moving through testing and commissioning of its first 250 megawatt unit and ultimately will include carbon capture and storage for enhanced oil recovery. It will be the world's largest near-zero emissions coal-fueled power plant at full capacity. Technologies such as these hold great promise for changing the way coal-based energy is produced.

Peabody believes we should achieve environmental excellence in both coal use and coal mining. In Mongolia, Peabody completed the nation's first coal mine restoration project at the former Ereen coal mine near Bulgan province, restoring the area to healthy grasslands that are four times more productive than nearby native areas. Peabody collaborated with the Ministry of Nature, Environment and Tourism, other government agencies and local university partners and the company engineers in the project.

The Ereen project used Peabody's global expertise in environmental excellence in coordination with local scientific studies on the site conducted in cooperation with the Mongolian Agricultural University. This technology transfer effort yields a strong understanding of best practices in land restoration.

Technology is the key to driving sustainable progress in the mining sector. Peabody is a global leader in advancing low-cost, low-carbon energy solutions that balance the need for energy with a commitment to act for the benefit of the people who work at our mines and live in the communities that surround them.

Peabody Energy is proud to be named as a partner to help unlock the enormous potential of Mongolia's resources. To ensure that Mongolia has a "green coal" future, we must continue to apply our global best-practices in the areas of safety, operations, environmental and social responsibility. In doing so, we will only be doing what has been a tradition in Mongolia – respecting mother nature so that she in turn nurtures not just this generation, but generations to come.

With its rich coal deposits and its prime geographical location, Mongolia has the opportunity to develop a world-class coal industry, while creating a global model for energy resource development and social responsibility. Together, we can achieve this goal and when we do, we will truly have created the energy paradise that Mongolia has the potential to become. ■

APRIL, 2012.



# Mongolia's Looming Budget Ctisis

*Dr Nigel Finch is an Associate Professor at the University of Sydney Business School and a member of the Business Council of Mongolia*

Nobody said that forecasting a national budget is easy. As the economy waxes and wanes the earlier best guess estimates can look less achievable as next year's budget turns into this year's actual. Estimating government collections from taxation revenue becomes even trickier when the revenue base is anchored around highly volatile items that are difficult to predict, such as mining. No doubt a fact Australia's treasurer, Wayne Swan, would attest given the surprise shortfall in Australia's tax collections from its controversial Minerals Resource Rent Tax (MRRT). A tax that is highly dependent on commodity prices and exchange rates. The upshot of an ambitious tax recipe that relies on volatile and variable items is that it is difficult to predict, and, in Australia's case, this has resulted in an outcome where a USD 2 billion dollar MRRT shortfall erodes a forecast surplus into an actual deficit.

In the scheme of things, the bullish Australian Treasury forecast for receipts of AUD 2 billion for the MRRT are trivial when you consider that total collections for Australia are around AUD 360 billion. Anyway, should the forecast outcome be so inaccurate that the actual number that comes crashing across the finish line is a several billion-dollar deficit, the Australian economy should be able to cope with that nasty surprise given its solid reserves and strong credit rating.

But spare a thought for the treasurer in an fragile economy, one that is less stable and more highly geared to mining than Australia's. The frontier economy of Mongolia is a fraction of the size of Australia's and plagued with political stability issues that undermine its ability to govern effectively. Mongolia's government collects around AUD 3.5 billion to AUD 4 billion in taxes, so on that basis it is no more than 1 percent the size of Australia's government enterprise, and because of its emerging status it lacks any of the cushioning that exists in more developed economies.

While Mongolia doesn't have its own MRRT, it doesn't mean the nation has been spared from inefficient tax policies designed more for their vote-winning spin in the electorate than their effectiveness in building a dependable revenue base for the nation.

The source of Mongolia's tax collection is highly dependent on mineral exploitation with around a third of all tax collected coming from royalties, dividends and corporate income tax from mining operations, and the bulk of this is concentrated into two very large projects: the Tavan Tolgoi coal mine and the Rio Tinto-operated copper and gold mine, Oyu Tolgoi—both of which continue to be mired in controversy.

Tavan Tolgoi is one of the world's largest untapped coal deposits and is 100 percent owned by the Mongolian government, in addition to being located only a short distance from the Chinese border. Mongolia's coal industry accounts for more than half of all exports and over recent years it has fuelled much of Mongolia's growth, encouraging the government to steam ahead with an expansionary approach to their budgeting. However, a series of problems at the mine are severely threatening the government's chances of collecting much-needed tax revenue. Inexperienced management, inefficient work practices and a culture of corruption have limited production at the mine by 50 percent. Ongoing disputes with China's Chalco are another unwelcome factor in the mine's poor performance, which is severely dampening coal export volumes from Mongolia. At the same time, there has been a significant decline in coal prices which further erodes tax collection for the government of Mongolia.

Meanwhile, the nation's other big mining taxpayer, Oyu Tolgoi, has experienced delays because of political interference attributed to parliamentary and presidential elections.

The Oyu Tolgoi mine is also located in the south near the border of China and will be one of the largest copper and gold mines in the world. Production at the mine has yet to commence but already the government and the economy has benefited from the over USD 6.6 billion invested in the construction project to get the first stage of the mine developed. The Mongolian government owns 34 percent of the mine, with Rio Tinto having a majority stake in the remainder, but a resource-nationalism agenda promoted by the newly elected government is threatening to delay production as the government demands a greater share of the mine and increased taxation revenue. While this dispute plays out, there is little chance that Mongolia will receive any of the down-stream benefits of continued construction activity at the mine and the dispute is only delaying receipt of future taxation revenue due when the mine goes into full production.

With an economy that is highly geared towards mining activity and mineral exports, and with its two major projects in disarray, it is clear that Mongolia is about to face a supreme challenge in managing its national budget. The ambitious 31 percent year-on-year growth for tax collection in the 2013 Mongolian budget looks highly unlikely given the current state of play. And with the long list of election promises to be funded on the expenditure side, it is hard to see government spending slowing without losing votes. The budget crisis that looms for Mongolia is an unfunded deficit that will further destabilise its delicate economy.

Recently Mongolia introduced the Financial Stability Law (FSL), and the 2013 budget is the first government budget to operate under this new legislation. FSL commits

the government to prudent financial management by setting the budget deficit to a maximum level of 2 percent of GDP. It's very likely that this ceiling will be broken and already the World Bank is forecasting a deficit of more than 6 percent of GDP. A blow-out this big doesn't bode well for the government in demonstrating their credentials as capable financial managers to the electorate and the international investment community.

Mongolia's looming budget crisis means that the government will be scrambling to find cash to fund its enterprises and the most likely source of those funds will be the USD 1.5 billion proceeds from the "Chinggis" bond it raised in December 2012. While these bonds were intended to fund economically significant infrastructure projects, the bonds may end up being called the "Bait-and-Switch" bonds as the government is forced to divert bond investors' funds to prop up its failing budget. Such a tactic will likely see the value of these bonds stumble, heightening investor's sensitivity to Mongolia's sovereign risk and possibly causing a downgrade in the credit rating.

Given the state of play with some of its largest mining taxpayers, we could see the Mongolian government committing the Chinggis bond to stopping the budget from haemorrhaging. However, playing this hand means they will limit their ability to lend any material support to the banking sector, which would likely be under severe distress, faced with a ratings downgrade, in addition to government spending that is beyond what the economy is capable of meeting. Any crisis in the banking system will see a rapid sell off in the Mongolian currency and a hard retreat in asset prices.

While many of Mongolia's bullish economists have focused their contemplation and rhetoric on how they should brace the economy to one day avoid the future effects of "Dutch disease" (an ironic side-effect of rapid success in resource-rich states), it seems that too few of them have been focussed on the more pragmatic aspects of realistic budget forecasting and prudent government financial management. ■

APRIL, 2013.



# Investment Funds In Mongolia

*Losolsurengiin Byambaa is an analyst and an economist*

## Investment Fund Law

Mongolia approved the Investment Fund Law (IFL) in the beginning of October this year. This is of huge importance to the future of Mongolia's banking and finance sectors because the development of Mongolia's economy and private sector has grown stagnant, and the development of the financial sector and capital market is falling behind. The IFL establishes a fundamental basis to direct the infrastructure of the financial market into the right direction.

The purpose of the IFL is to regulate the basic relations between the establishment of an investment fund, issue special permissions for the fund, regulate fund management, and protect the rights and interests of investors.

The law will create an additional long-term source of capital for the financial market while providing an opportunity for citizens to benefit from the economic growth currently seen in Mongolia.

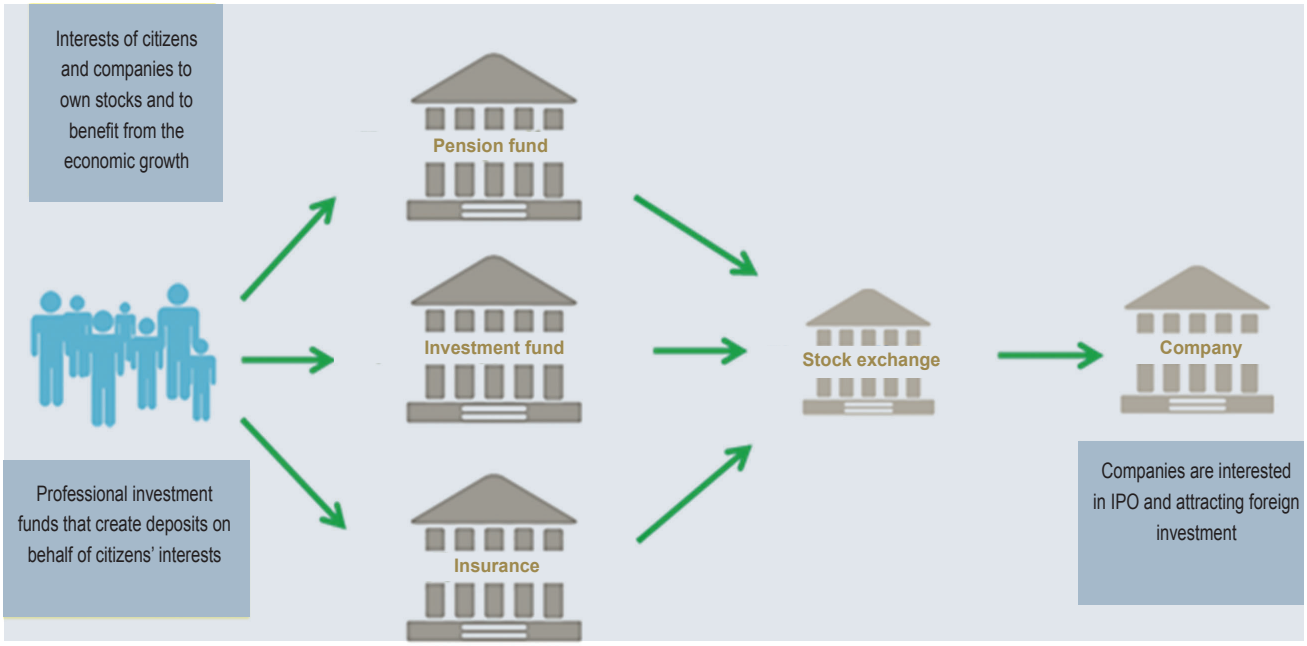
## Expected Changes in the Financial Sector and Capital Market

Markets are based on the supply and demand of securities and there should be rules for participating in the market. The new Securities Law passed last spring regulates the supply, or security issuances, while trade is managed by the IFL. Both laws will take effect from January 1, 2014.

Further development of the capital market will mean creating an optimal, long-term financial source to contribute to economic growth. Start-up companies that are unable to attain bank loans can take advantage of investment funds.

Types of investment fund

| Type of fund | Source | Intended use | Term |
|---|---|---|---|
| Investment fund | Revenue from citizens and companies | Securities and portfolio | Short- and mid-term |
| Private pension fund | Tax from emloyers and employees | Pension deposits | Long-term |
| Private equity fund | Proffessional investors, the budget and the SME development fund | Expansion of SME and companies | Mid-term |
| Venture capital fund | Professional investors | Start-up companies | Mid-term |
| Hedge fund | Revenue from minerals | High risk and risk allocation | Short- and mid-term |




As funds become more professionalised they can become strong players in the market. Funds protects the rights of their investors and investors' interests. Those who invest in funds can also benefit from the corporate governance employed by fund management.

Funds create channels for profit distribution. This conduit has the potential to bring economic growth and the more equitable distribution of wealth that may contribute to the growth of the middle class in society.

All this will gradually reduce the dominance of banks in the financial sector, reduce market risks, and create a more sustainable environment.

## Investment Fund Rules

Many people are afraid that investment funds might fail just as non-banking financial institutions have in the past. People do not see funds the possibilities for returns after handing over their savings to funds. Learning from past mistake, rules have been developed to supervise conduct for the protection of investors' interests and reduce risks. Investors are expected to play a role in maintaining the obligations of stakeholders as well be as the Financial Regulatory Committee and savings institutions.

Fund managers will be licenced and the fund capital will be allocated to special accounts and stored at custodian banks.

## Importance to Citizens and Investors

An investment fund creates new investment options. It opens the gate to joint investments and can help generate returns.

Making investment through funds, on the one hand, allows citizens to invest without having to watch the market or make analysis. On the other hand, investors receive professional investment services that reduce risk.

For instance, savings deposits are vulnerable to inflation or exchange rate fluctuations. Investing through a fund provides professional consulting for risk reduction. ■

OCTOBER, 2013.



*Robert Schoellhammer,*
*Country Director for*
*Mongolia, ADB*

*Robert Wihtol,*
*Director General for East Asia,*
*Asian Development Bank*



# Working Together To Address Development Challenges

## Two Decades of Cooperation

Mongolia became a member of the Asian Development Bank in 1991, a time of severe economic contraction and great uncertainty for its citizens. Subsidies from the former Soviet Union had fallen away, unemployment skyrocketed, purchasing power plummeted, and the intricate system of social services was unraveling. Today the picture is very different. Mongolia's economy is growing rapidly, poverty is on the decline, and Mongolia's citizens have maintained a high education level.

ADB is proud of its close partnership with Mongolia, and is pleased to have been able to contribute to the country's remarkable turnaround. In the past 20 years, ADB has provided Mongolia with over US$1billion in grants and concessional loans, and has been the country's largest source of multilateral development finance.

In the 1990s, ADB worked closely with the government to support Mongolia's economic transition, strengthen transport infrastructure, and reform the provision of education and health services. Subsequently, ADB provided financial, technical and policy support in areas ranging from urban infrastructure, agriculture, energy, and finance to social protection and the modernization of transport in Ulaanbaatar.

At the heart of ADB's operations are practical programs and projects that have made a difference to the lives of ordinary people. These range from pupils studying at primary schools to businesspeople travelling through Ulaanbaatar's international airport, patients at a clinic in one of the vast ger districts, or urban residents enjoying secure heat supply in the world's coldest capital.

## The Importance of Macroeconomic Policies

Mongolia's medium-term economic growth prospects are widely regarded as favourable, with commercial production from the Oyu Tolgoi copper and gold mine scheduled to begin in mid-2013 and the Tavan Tolgoi coal mine at an early stage of development. Mongolia is fortunate to have abundant natural resources, which provide a unique opportunity for economic development. Mining revenues can help to finance critical infrastructure, core public services and social welfare programs that benefit sustainable development and help to reduce poverty.

Reality, however, can also be very different. Countries rich in natural resources often grow more slowly and perform less well on human development indicators than more modestly endowed countries. Resource dependence can exacerbate income disparities, as resource extraction creates few jobs and a small proportion of the population may secure most of the income. For example, in 2012 the mining sector in Mongolia created 90% of exports, 17% of government revenue and 18.6% of GDP, but less than 2% of employment.

An excessive focus on natural resources entails economic risk, most notably from the "Dutch Disease", which puts upward pressure on the exchange rate, causes high inflation, crowds out of the private sector, and increases vulnerability to external shocks. The mining industry in Mongolia is at an early stage of development, but symptoms of the Dutch Disease are already evident. A pro-cyclical fiscal policy has led to sharp increases in expenditure, which will challenge the limits established by the country's own fiscal stability law.

The government may need to undertake substantial fiscal and monetary tightening to control inflation, which remained in double digits throughout 2012. Overly expansionary fiscal policy has increased the vulnerability of the economy to external shocks. A further fall in global com modity prices would have a severe impact on Mongolia's economy, and put pressure on public finances and the current account. We should not forget that Mongolia was one of the most seriously affected countries during the global economic and financial crisis in 2008-2009, due to its high dependence on mineral exports and a history of pro-cyclical macroeconomic policies.

## Diversifying the Economy

Addressing these risks and vulnerabilities is a key challenge for the government. In addition to maintaining sound macroeconomic policies, Mongolia will need to diversify the economy and create employment by encouraging investment in non-mining sectors and developing its human resources.

There is significant potential for Mongolia to diversify by developing value chains for high-quality, locally-made products. The opportunities range from fresh milk and meat to various wool, cashmere and leather products. Rich raw materials including livestock and wild berries offer much potential.

Establishing genuine Mongolian brands, and developing rigorous quality control and standardization of products,

would help Mongolian companies to penetrate overseas markets. This potential has not yet been unleashed due to the lack of investment and limited professional skills.

The services sector also offers scope for development. In 2012, it accounted for 43.3% of GDP, compared with 6.2% for manufacturing. Mining services companies are small, but growing fast. Tourism has a small but expanding business base in Mongolia and significant potential to create employment. The logistics industry, which is currently in its infancy, is also regarded as a growth industry. Mongolia is a natural transit route between the People's Republic of China (PRC) and the Russian Federation, and provides a short route for Central Asian goods to reach the Pacific.

ADB has been working with the government on a number of fronts to overcome constraints. The ADB-funded Agriculture and Rural Development Project is supporting the development of agro-processing companies, and has already achieved significant employment generation in peri-urban and rural areas. It has also introduced brand marketing.

Under the Central Asia Regional Economic Cooperation program, which includes ten countries, ADB is working to strengthen sanitary standards that will allow Mongolia to export meat products readily to neighboring markets, including the PRC and Japan. It is important to remember that Mongolia has over 40 million head of livestock. Agriculture and animal husbandry remain much larger employers than mining. A new ADB-funded project to prevent transboundary epidemics among livestock will also help develop this nascent business.

## Providing Jobs and Raising Incomes

The provision of decent and sustainable jobs is the key to ensuring that Mongolian citizens have adequate livelihoods. This requires a multi-faceted approach. While mining generates export revenues and growth, most jobs in Mongolia are provided by small and medium enterprises. First, the basic building blocks for enterprise development must be established, including a good transport network that allows companies easy access to their customers and suppliers, and reliable power supply.

Second, Mongolia needs to develop a modern and skilled labor force. Structural changes in the economy, greater openness, and the growing use of technology, including information and communication technology, have led to a rapid increase in the demand for skilled labor. Currently there is a mismatch between existing relatively low skill levels and the needs of the labor market. Workers' skills need to be raised and geared to meet market demand to support economic diversification, and to raise the incomes of the poor.

Third, the role of the financial sector is crucial, to provide capital for businesses to develop, and to mitigate risks that companies face. Small and medium enterprises need both access to finance and supportive governmental policies to thrive in a secure and stable environment.

## Working Together in the Future

In ADB's partnership with Mongolia we have jointly confronted many challenges – the difficult transition to a market economy, a series of very harsh winters, and recently the global economic and financial crisis. Mongolia weathered all these crises admirably, and today is a forerunner among transitional countries for its achievements in establishing a market economy.

Mongolia has recently joined the ranks of other fast-growing economies in the Asia and Pacific region and is currently considered a lower middle-income country. In recognition of its sound economic performance, in 2011 Mongolia also gained access to ADB's ordinary capital resources, alongside ADB's concessional lending. Given its AAA credit rating, ADB makes funding available for development projects on attractive terms.

ADB is currently working with the government to provide financial, technical and knowledge support in areas as diverse as urban infrastructure, ger area development, technical and vocational education, and financial sector development. ADB remains committed to a partnership with Mongolia that addresses new challenges and ensures that Mongolia's growth is both sustainable and inclusive. ■

MARCH, 2013.





# The State Of Economic Relations

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The state visit by Mongolia's President Elbegdorj in March 2012 was the first official visit to Europe by a Mongolian president and further evidence of the high quality of German-Mongolian relations. 2012 marks 20 years of bilateral technical cooperation between BMZ and Mongolia. The intergovernmental agreement on cooperation in the fields of raw materials, industry and technology signed during Federal Chancellor Merkel's visit in October 2010 is yet another clear indication of the mutual interest in more extensive cooperation.

The structural differences between the countries—with Mongolia's raw materials on the one hand and Germany's state-of-the-art technology on the other—mean that they complement each other ideally. However, on closer examination, it is clear that economic cooperation and the level of commitment of German companies in Mongolia have so far fallen short of expectations and failed to reach their full potential. Germany is Mongolia's most important trading partner in the European Union. Although the volume of trade is growing rapidly, at 156 million euros (2011) it remains well below its potential, given that Germany is the world's second largest exporter and Mongolia is one of the world's richest countries in terms of natural resources.

In concrete terms, Germany exported goods worth 145.5 million euros to Mongolia in 2011 and imported goods worth 10.4 million euros from the country. Whereas Mongolia is the 122nd (2010) largest export market for Germany, it occupies the 154th position (2010) in the list of countries Germany imports goods from. Conversely, among Mongolia's main export markets, Germany is only the sixth largest. In 2010, Germany's principal export goods to Mongolia were machinery, accounting for a share of 34.2 percent of exports, electrical engineering products and motor vehicles, including motor vehicle parts, each with a share of 12.1 percent, and foodstuffs with a 9.5 percent share.

## Development Of Bilateral Economic Relations

Despite Germany and Mongolia having enjoyed intensive and friendly relations for many decades, the current level of economic activity by German companies in Mongolia is unsatisfactory. There are a number of reasons for this. For instance, Germany is not a mining country in the strict sense. In the future, the various opportunities for German companies and investors to take part in mining projects need to be examined more thoroughly. A company need not necessarily be a mining enterprise itself in order to take part in a mining project. From the German perspective, the possibility of financial investments (primarily equity financing) by individual German companies or consortia has not been sufficiently considered to date.

Although Germany and Mongolia have shared close ties for many decades and a large number of Mongolian experts who trained in Germany could serve as sources of information, German companies often do not know enough about Mongolia. In some cases, this has led to projects being initiated without sufficient due diligence having first been carried out by the German party involved. Cultural differences, varying expectations and poor preparation are the reasons why projects are then either aborted or fail during the implementation phase. What is communicated on the German side, often incorrectly, is that it is not possible to carry out projects in Mongolia. This is regrettable: German companies have a conservative mentality and essentially seek long-term and sustainable partnerships, which makes them extremely reliable partners once they have decided in favour of a project.

On the other hand, in view of German companies' conservative business mentality, it does not help that only some of the legal and administrative conditions in Mongolia are transparent and predictable. On major strategic projects, there is often not enough coordination. One of the principal weaknesses of Mongolian legislation is the fact that legal implications are either not evaluated at all or are only insufficiently assessed prior to laws being passed (legal impact assessment). Also, it is not uncommon for laws to lack binding implementing regulations. This in turn provides scope for a wide range of differing interpretations of laws by governmental, regional or local authorities and bodies.

## Options For Enhancing Cooperation

Cooperation between Mongolia and Germany should in the future focus on using German expertise to create value chains and improve sustainable value creation, productivity and, as a result, profitability in Mongolia, as well as to contribute towards sustainable economic and social development. To this end, one or two smaller-scale projects in the raw materials processing industry should be identified as pilot projects and then systematically developed over a longer period of time. This would require particular conditions to apply to these projects (in terms of tax relief, long-term agreements and guarantees) wherever necessary. Given that these projects are models that are designed to demonstrate what is possible, the government (e.g. in the form of the Mongolian Ministry of Economic Development)

should cooperate intensively on the project. This may be as part of a financial partnership, although this does not need to be the case. A cooperative arrangement with the state, which is limited from the outset to a particular period of time, would also be conceivable.

Ensuring that these projects are systematically and adequately prepared and documented will be important. This does not mean several million dollars have to first be spent on carrying out a feasibility study. Project documentation that appropriately addresses initial key issues and, in so doing, stirs the interest of a potential investor, will be sufficient at first.

A select number of projects need to be systematically prepared and then publicised in Germany (via road shows, promotional events at German Chambers of Commerce and Industry and trade and industry associations). From the German side, the GIZ programme Integrated Mineral Resource Initiative (IMRI) has been given the mandate to actively support such activities. If the projects are backed by the government, a small group of three or four specialists could be set up within the Ministry of Economics, for instance. They then carry out the road shows, in cooperation with IMRI for example, and have knowledge of various aspects.

The projects must be technologically relevant, i.e. they should concern technologies which are forward-looking and therefore of long-term benefit to Mongolia. From the perspective of German business, the projects need to be connected to strategic raw materials, while at the same time having long-term relevance. When selecting potential German partner companies, Mongolia should focus far more on small and medium-sized enterprises. What Mongolia needs is a "German Mittelstandsoffensive", an initiative aimed at realising the potential of the Mongolian economy through small and medium-sized German enterprises. Major projects such as a coal-to-liquid facility or a coking coal plant certainly need to be in place. In terms of employment effects, however, these projects are not the solution. The capital expenditure per workplace will be enormous, yet the overall number of jobs will be. The German economy is not solely dependent on major corporations such as Siemens, Daimler or ThyssenKrupp. These companies are merely the most visible. Seventy-five percent of all German employees work for small and medium-sized enterprises (in Germany, 'medium-sized' means companies with up to 250 employees and an annual turnover of no more than 50 million euros). The Mittelstand is key to Germany's economic success; these companies are highly flexible and innovative in offering optimum benefits for their customers. They include many so-called 'hidden champions', firms which are unknown outside of their respective industry, but which occupy leading positions globally. In the event of cooperation with these companies, the long-term benefits for Mongolia will be many times greater than is the case with large-scale projects. Most of these companies are both run and owned by families but they lack the human or financial resources to be able to manage crises over a longer period of time. Projects therefore need to be well prepared.

Germany continues to possess leading global expertise both in mining technology and processing mining products such as coal, coking coal, copper and many other industrial minerals. It would be considerably easier to use these technologies were Mongolia to introduce—with German support—a modern system of standardisation which meets international requirements and through which the technical specifications of the technologies employed are clearly defined. Without the frame-work set by a modern system of norms and standards, competition is usually based solely on price. In this case, quality and product safety suffers greatly, particularly as a result of cheap imports from China. Moreover, the already weak Mongolian standards regime is being fragmented ever further by the introduction of a whole array of norms and standards from different countries such as Australia, Canada, Germany or Japan. It is already clear at this stage that this will cost Mongolia a lot of money and compromise its efficiency in the medium to long-term. Technical regulations and standards, in conjunction with a strong standards regime, form an essential basis for targeted economic development, which is why GIZ IMRI has been promoting their development for several years. The development of a modern system of norms and standards would not only help directly with large-scale technical projects, but would also indirectly advance the modernisation of Mongolia. One such example is occupational health and safety where there are also a large number of norms and standards.

It will take some time yet before the number of mining projects increases enough to trigger a critical expansion of market potential. Despite individual large-scale projects such as Oyu Tolgoi or Tavaan Tolgoi, the mining industry is still relatively small, especially as far as Mongolian mining projects in the implementation phase are concerned. Access for German suppliers to foreign (e.g. Canadian or Australian) mining projects is difficult, since companies such as Rio Tinto have their long-standing suppliers who are extremely familiar with the technical specifications of these clients. Although supplying mining corporations such as this is not completely out of the question, different sales channels apply. On the other hand, a growing number of Mongolian projects would lead to German mining technology suppliers setting up a base in the country; they would gradually establish various operating functions in Mongolia (e.g. Voith at the GIZ German Centre of Excellence). This creates jobs and brings technological expertise to the country in the long-term.

Both Mongolia and Germany have repeatedly expressed their wish to expand economic and technological cooperation. Germany and German companies must be clear that the speed of change in Mongolia is high and that its raw materials make Mongolia attractive to many countries. On the other hand, Mongolia must make it clear that its Third Neighbour Policy, and the particular role assigned to Germany in this context, is also reflected in the area of economic cooperation. ■

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