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MONGOLIAN ECONOMY



Driving Down Interest Rates

A New Stage for Finance

Mongolia's Economy and Business Magazine

June, 2013. №12 (046)

www.mongolianeconomy.mn

An aerial photograph of a modern, multi-story glass skyscraper in a city. The building has a grid-like facade of windows and is surrounded by other urban buildings and a street with traffic. The sky is overcast.

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Governing the Banks



“Asia is a third pole now”



Development Based on Tourism



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MONGOLIA

As of May this year, total manufacturing production has reached a value of MNT 872 billion. This is a 1.9 percent or MNT 16.4 billion ingrowth compared to the previous year. The mining industry has been dominating this growth, and was strongly impacted by doubled increase in the production of gold and crude oil.

The Development Bank of Mongolia recently financed USD 1.9 million for the Tavan Tolgoi Power Plant project. According to a preliminary estimate, the total cost for the plant's development and construction will be between USD 600 million



to 800 million. At the initial stage, some USD 50 million is expected to be withdrawn from the Chinggis bond.



At the end of May, the balance for non-performing loans totalled MNT 146.4 billion, or a 32 percent increase of MNT 35.5 billion in April. Compared with the previous year, the total value of non-performing loans grew by as much as 2.4 times.

The total for non-performing loans grew to MNT 318 billion from January to May this year. Non-performing loans

grew by MNT 7.5 billion between April and May.

The Bank of Mongolia and Asian Development Bank are planning to introduce a Settlement System Upgrade project. The project's aim is to improve the implementation and monitoring of monetary policy by expanding current infrastructure. The Asian Development Bank will finance USD 20 million towards the project.

The Economic Policy and Competitiveness Research Centre (EPCRC) released a special report on the competitiveness of Mongolia, with cooperation from the International Institute for Management Development (IMD). This is the third annual report by these organisations.

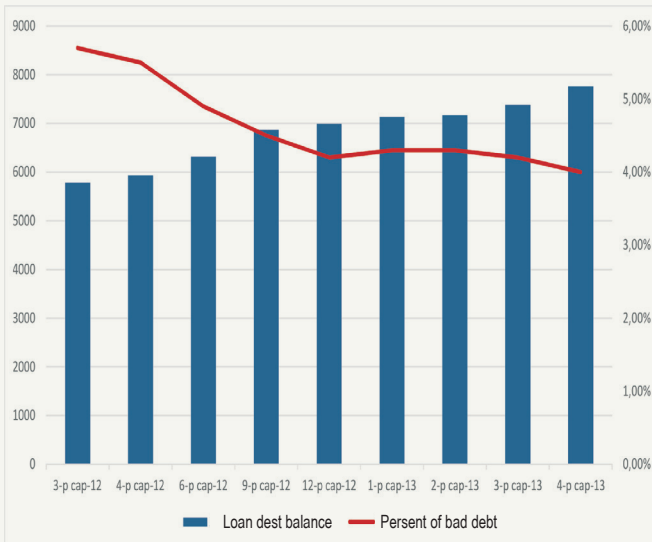
"Mongolia's competitiveness is improving, but is sluggish", said P.



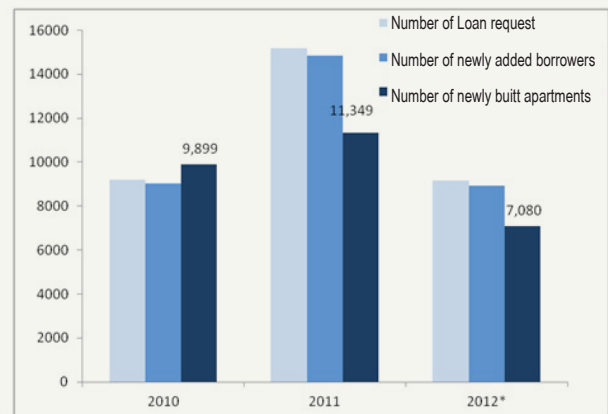
Tsagaan, a chairman of the board at the EPCRC, summarising the outcomes from the report.

Mongolia has been ranked 59th out of some 144 countries that are included in the Global Information and Technology Report 2013 by the World Economic Forum.

Deloitte Touche Tohmatsu's Mongolian firm Deloitte Onch Audit has carried out an audit and concluded, based on 2011 and 2012 financial statements from the Development Bank of Mongolia, that the bank meets international standards and operates fairly.



Availability of apartments on sale and funding of apartment Loan



WORLD



Revelations are sweeping the globe soon after Edward Snowden, a former CIA member, leaked information regarding the National Security Agency (NSA) about their invasive methods of surveillance

North Korea and South Korea have returned to the negotiating table for the first time in six years discussing the possibility of a joint commemoration of past inter-Korean statements. North Korea is relying on South Korea for more support in areas of reconciliation and economics. The South Korean delegation is hoping to build trust gradually to create stronger relations.

South Africans are currently praying for Nelson Mandela who was recently hospitalized due to a lung infection. His condition is serious but stable. Worshippers have come from all over to pray for the former president (1994-1999), blessing the famous role he played



in the anti-apartheid campaign. As a powerful political figure, imprisoned for over 25 years, Mandela has made great changes in his nation.

There is no doubt that China's economy is now losing momentum, faster than ever. Just last year, the nation grew at its slowest pace in thirteen years, worrying analysts that China could fail to reach its growth target of 7.5 percent for 2013. The country's top two markets to both the United States and the European Union fell in export levels for the third month in a row.

Japan's economy expanded at a rate of 1



percent between January and March, showing promising signs of growth. Investors are running to the Japanese stock market as the nation's current account surplus doubled. The Nikkei 225 stock index jumped 4.9 percent in just a single day. These numbers have encouraged Prime Minister Shinzo Abe to reinvigorate Japan's deflationary economy.

Centrica, which owns British Gas, has paid Cuadrilla Resources

and AJ Lucas Group 40 m for a quarter of the Bowland exploration license in Lancashire. AJ Lucas, which partly owns Cuadrilla, said the group had been looking for investors back in January. Centrica is paying 40m for the license stake and has committed a further 60 m for exploration and appraisal. It's expected the drilling will happen in up to six locations in Lancashire over the next few years, commencing in 2014. ■



A. Amarsaikhan's column



LETTERS TO THE EDITOR

"We very much enjoy reading *Mongolian Economy* magazine. It is informative, reliable and covers many aspects of the Mongolian economy. The journalists have a talent at presenting how economic developments affect people's lives in concrete ways.

The only challenge we see is that at times, there is too much material to read and too little time to do so. We look forward to continue working with your magazine in the future.

Coralie Gevers,

*Country Manager & Resident
Representative World Bank*

Readers expect sections to appear in the magazine on a regular basis. Journalists need to focus on distributing knowledge through different viewpoints rather than on only providing information. For instance, there is potential to create a database for the Chinggis bond in the magazine. It would also be more rational to make information more constant. *Mongolian Economy* magazine will succeed if its readers are attracted by the articles and columns presented in the magazine. Thus, the magazine needs to work closely with professionals in leading its readers and providing them with the required news and information. Our society is full of knowledge. Specific information that becomes more in-depth is important. For instance, if there is a new section regarding taxes, issues can be raised from different viewpoints. This would become a source of good knowledge for readers. Also economic research-related publications and articles related to economic research are lacking. Tax information, which is needed the most by the general public, is not well discussed by society. Therefore, there is an opportunity for *Mongolian Economy* magazine to fill this gap and to provide correct understandings. Thus, general economic issues need to be left behind for a while and instead, the magazine should provide more specific information.

E. Batbayar,

*Head of the State Budget Division of the
State Budget Policy and Planning
Department at the Ministry of Finance*

It is always important to maintain the balance of news and information. The advantage of *Mongolian Economy* magazine is the stability it provides as an economic and business magazine. It is my wish that the magazine will always keep this balance. In the future, it would be important to ensure its current stance and to supply better quality news and information. As a reader, I have no judgments or critiques. I find that the magazine offers plenty of relevant news and information. However, I believe that the design, photos, cartoons and tables need to be more interesting and appealing. Clear and timely information that is easy to understand and that tells more in shorter spaces will relate to more readers.

O. Erdenebulgan,

Vice Mining Minister

Over all I like the layout and format of the publication. Printing in both Mongolian and English permits it to be used as a teaching tool. I'm not sure if this was intended but would definitely add this as a selling point.

On the English side, the articles were well written and flowed well. I like that you are adding sources where it is relevant, without turning it into an academic paper full of citations.

The printing of interviews as articles is something that I am not overly fond of. It comes off as the journalist not having had time to write a proper article. Interviews are always paraphrased, but give the impression that they were the actual words of the speaker. I would prefer seeing an article with quotations on specific points and an extrapolation from the writer. Also watch for spelling and data mistakes.

As mentioned, several people I know have purchased the magazine and we have left it out for visitors in our center to read. I would put subscription information on the inside cover, and have different print and digital subscription fees.

Marc Tasse

Resident Director

American Center for Mongolian Studies ■

ONGOING

PROMISES FROM THE PRESIDENTIAL CANDIDATES

BY B. BAYARTOGTOKH

It is stated in the Constitution that the President of Mongolia “shall be the head of state and embodiment of the unity of the Mongolian people”. This year, Mongolians are voting for the president to decide the course of the country for the next four years.

The candidates for the presidency are incumbent president Tsakhiagyn Elbegdorj of the Democratic Party, Parliamentarian Badmaanaymbuugyn Bat-Erdene of the Mongolian People’s Party, and Health Minister Natsagyn Udval of the Mongolian People’s Revolutionary Party (MPRP). Their plans include stabilising the country’s macro economy, bringing the stock exchange to international standards, and building auto and railroad systems linking Asia to Europe.

“If any of the action plans by the candidates are fulfilled, some powers need to be transferred to the president from the government”, said Ts. Batsukh, a lecturer of economic theory at the Institute of Finance and Economics.

“Mongolia is a parliamentary republic, not a presidential. In this election, action plans by the candidates are more likely to be the political parties’ platforms rather than the presidential one’s”.

The president is not able to directly intervene in the country’s economic policies. But it seems that there are



promises being made regarding economic policy that go beyond the scope of presidential powers. While this may be common in presidential democracies, it is incongruent with parliamentary democracies such as Mongolia’s.

“The wrong economic policies should not be included in their action plans”, explained L. Oyun, a lecturer at the School of Economic Studies at the National University of Mongolia.

Yet the candidates are still making high-minded yet insurmountable promises regarding the economy to win over the general public, and many are buying into the idea they can make these promises reality.

According to a study titled “The Shadow of Presidential Governance” by D. Baymbajav and Ts. Munkhtsetseg, lecturers at the Social Science Faculty of the Mongolian State University of Education: “One thing that distinguishes the president of Mongolia from other presidents

is that he relinquishes his or her political party membership after being sworn in... As a result, it enables the president to address any laws and policies, which are formulated amid political competition and different interests, for a more independent and neutral position”.

The president has the right to represent Mongolia, but the president cannot introduce any economic policies alone. The president is entitled to providing guidance to the government, but cannot intervene in the decision-making processes.

“There are a variety of opinions on the president’s powers among experts”, said Munkhtsetseg. “There is a common understanding that the president’s powers that are specified in the Constitution of Mongolia are inhibited and that parliament is too privileged. But as we see from real political practice, it may seem that that the president’s powers have a controlling and balancing nature, just ▶

▶ as other presidents do in parliamentary republics.”

Additional responsibilities for the president include his ability to address the State Great Khural and the people to sway opinions, attend parliamentary sessions, report on proposals concerning vital issues about the country's foreign and domestic policies, and intervene between disputes to help create compromises between legislative, executive and judicial agencies.

However, the president is not able to

interfere with macro-economic policies. For example, the president cannot tinker with the tax system. However whether or not the president has a role in the development of the stock market is unclear.

For this year's campaign, given the kind of rhetoric espoused by candidates on the stump, one wonders if Mongolians are changing their views over what should be the responsibilities of the president. Or are they simply being swept up by campaign fever? ■

The following is a summary of the action plans by the candidates' in relation to economic policy

Badmaanyambuugyn Bat-Erdene (Mongolian People's Party):

- Balancing the economic, social development and environmental policies according to the macro-economic stability and sustainable development concept

- Supporting policy that would combine the economy-driving mining industry with agriculture and other domestic industries while protecting the environment

- Establishing a nationwide value chain that includes the creation and support of state-owned herders' cooperatives in districts and counties while cutting out the middlemen for the purchase of domestically produced raw materials by Mongolian industries and eventual production of finished products

- Giving higher priority to the need for a domestic oil refinery for reduced foreign energy dependence and stable prices for fuel

- Creating an improved system for the redistribution of wealth from the mining industry and a tax system that is supportive of small businesses and entrepreneurialism

- Supporting those who create wealth for the country

Tsakhiagyn Elbegdorj (Democratic Party):

- Alleviating burdens weighing upon small businesses that relate to taxes, loans, and bureaucracy

- Discouraging the purchase of any foreign products and services using state funds for the substituted use of domestic goods and services

- Implementing profitable initiatives that involve citizens and supporting companies to go public, becoming more transparent and responsible, and strengthening the role of society

- Developing the stock market to the international level; ensuring that resource deposits will benefit future generations; and eliminating possibilities for inherited debt to future generations

- Creating a clear and stable investment climate that prohibits prejudices towards investors; and removing impediments over investment and competitiveness

- Supporting policies that aim to transform natural resources into wealth; and directing the revenues from the mining sector towards investment that meets the demand and common interests of citizens as well as the development of Mongolia

- Prohibiting the export of raw mineral and agriculture products; encouraging the supply of domestically produced raw materials to Mongolian industry; encouraging the sale of value-added and end products; and supporting the export of domestic goods

Natsagyn Udval (Mongolian People's Revolutionary Party):

- Strengthening economic relations between China and Russia; and expanding the Third Neighbour Policy

- Negotiating agreements with foreign countries for long-term supplies of raw materials for maintained economic stability

- Garnering support for Mongolia from the Organization for International Cooperation to help overcome Mongolia's challenges as a landlocked nation to support the export economy

- Instilling fairness and mutual benefits while providing incentives to domestic investors

- Providing greater benefit for Mongolian citizens from mineral deposits such as Tavan Tolgoi, Oyu Tolgoi and other strategic deposits.

- Establishing a new "silk road" with the construction of road and railroad networks that link Asia to Europe

BANKS

GOVERNING THE BANKS

BY B. BAYARTOGTOKH

“In Mongolia, some 30 banks went bankrupt in the past 22 years”

In Mongolia, there are more than 60,000 business entities, of which 14 are commercial banks. These banks comprise 97 percent of the financial sector and between 80 to 90 percent of Mongolia’s GDP. Currently, Mongolia’s GDP has reached MNT 14 trillion while total investment from the banks is MNT 10 trillion.

The development model for these commercial banks differs greatly from that of the stagnating stock market. These banks have led the charge towards conquering today’s financial market. The only apparent shortfall in the banking sector is in corporate governance. If operations were more transparent, costumers would have greater trust in their banks. Thus, banks in many different countries have been focusing and improving on their governance.

“In Mongolia, some 30 banks went bankrupt in the past 22 years”, said Magvan Bold, chief executive



at TenGer Financial Group.

The worst examples from Mongolia are those that went bankrupt: Anod Bank and Zoos Bank. The ramifications of these bank failures are still present. However, both were at one time thought of as two of Mongolia’s top banks. The failures of these banks destroyed the trust many people had in the banking sector as a whole. Today researchers are presenting some of the key mistakes made by Zoos and Anod, namely poor governance at the level of management and how normal, every-day operations reached crisis.

Yet, commercial banks in Mongolia still face the same risks created by poor governance.

Trans Bank, too, had its reputation tainted by poor governance as well as confusion within management. Although its operations have stagnated, the Bank of Mongolia has not yet revoked its license.

In 2008, Anod bank issued an initial public offering on the Mongolian Stock Exchange (MSE). Unfortunately, the bank became .

“None of them received any compensation”, said G. Bayarjargal, an advocate for Anod shareholders. “Therefore, we will fight”

▶ continuously. The shareholders' equity ranges from hundreds of thousands to millions of tugriks. None of that should have been lost".

Zoos Bank started to sell its shares in 2006 and had 636 shareholders in total. Only six shareholders, however, owned 92 percent of all shares.

The failure of these large banks hampered the development of the stock market. This not only tainted the country's stock market, but it brought pressure on the economy. After it became apparent what terrible effects can come from inconsistent management, former central bank Governor L. Purevdorj replaced the phrase "proper bank management" with "proper bank governance" in the the banking procedures hand guide in 2010.

Anod and Zoos will forever serve as bad examples of public offerings to the banks that follow them. In the wake of these disasters, the Financial Regulatory Committee delayed the public offerings of the other commercial banks. The banks were also fearful at the time of the response from the public, when people lost faith in the banks.

There are several likely reasons for the bankruptcy of Anod Bank, which at the time was one of the country's top-five banks. Management ignored its responsibilities and the sum of bad loans exceeded total assets. Also, a fake public offering was issued. The bank did not meet Central Bank regulations either.

Anod reportedly issued 39,418,531 ordinary shares at a nominal price of MNT 1,000 per share. The bank had distributed dividends to shareholders, but the bank allegedly conspired with a third-party auditing firm it hired to falsify the public offering. When things went wrong the bank eventually had to file for bankruptcy. Some of the shareholders who became victims of the scheme

have accused the Central Bank and Financial Regulatory Commission of participating in the wrong doing as well.

"From the beginning the IPO was quite complicated and confusing. Beginning in 2002 Anod Bank was making losses on a regular basis", said L. Tseveenravadan, a member of the Temporary Committee for the Victims of Anod Bank. "The only supervising body was the Bank of Mongolia".

Zoos Bank lost over MNT 41.3 billion before filing for bankruptcy. The bank's total assets amounted to MNT 187 billion, and total debt was MNT 195.3 billion. About 33.4 percent of all loans were bad, forcing the bank to liquidate its assets.

In May this year, the Corporate Governance Development Centre (CGDC) conducted the Sixth National Forum on Corporate Governance with the aim of improving the operations and competitiveness of banks in Mongolia.

"Banks are playing a significant role in the economic development of Mongolia. By implementing good corporate governance, the operations of Mongolia's commercial banks are expected to improve; the interests of shareholders interests are to be protected; and there is to be the potential for penetration into international markets", said B. Javkhlan, a first deputy governor at the Bank of Mongolia, during the forum.

Good corporate governance protects every shareholder, big and small. Development of the banking sector must begin with core principles.

For instance, Golomt Bank during the forum was used as an example of lacking interest in enforcing corporate governance rules in management. During the forum, it was concluded that Golomt's reputation had been damaged due to a recent conflict

between its shareholders and management that resulted in the public airing of a complaint by bank founder Luvsanvandam Bold.

"Corporate governance can be fulfilled only if its nature and ideology are accepted at the management level", said J. Unenbat, chief executive at the Corporate Governance Development Center.

Furthermore, development of collaborative governance can only happen if there is harmony within management and if they can see eye to eye with investors.

"Leadership is extremely crucial in the development of governance", said TenGer Financial's Bold. "We cannot address issues by only saying 'we know' or 'we can'".

"In the past, there have been a number of attempts to control corporate governance using a variety of rules and regulations. Most importantly, there should be the hope and aspiration for developing good governance among management, shareholders, boards of directors and chief executives of companies. If there is no hope or aspiration, it is impossible to succeed no matter how many laws and rules are adopted".

Collaborative governance is a broad concept that is not only inclusive of companies' managements. It also includes the relations between stakeholders, directors and a company's staff and management. Thus, if appropriate governance is implemented efficiently, it could have a positive impact on the operations of banks by increasing economic growth, investment, and clients' trust.

It also creates an efficient control system for management, the distribution of powers and income distribution. But in the event of poor internal governance there are higher risks to be dealt with. Today one can look back and see the mistakes that were being made, but it will take a proactive approach to prevent repeats of those scenarios. ■

EXCHANGE

A NEW STAGE FOR FINANCE

I. OTGONJARGAL

Some time has past since the Mongolian Commodities Exchange entered the financial market at the beginning of April this year, but it has already had significant impact on the livestock trade in the country.

Establishing the exchange occurred over several governments. In developed countries commodities exchanges were established before stock exchanges, but Mongolia took the opposite approach. Mongolia produces and supplies 20 percent of the world's cashmere. But there is a different explanation from J. Erdenebat, chief executive of the Commodities Exchange.

"Mongolia has just embraced the exchange in a classic way, but the first idea for it dates back to the very beginning of the 1990s when the Mongolian Stock Exchange was first shaped", Erdenebat said. "At the time, the commodities exchange was likely to have been developed in favour of business rather than in a classical way".

In June 2011 the State Great Khural approved a new law to establish the exchange that brought raw agricultural products directly to the economy. But for centuries, agriculture has been the backbone of Mongolia's development and more than half of its population lives in the countryside, making the exchange an important pillar to these communities. A wide variety of agricultural products comes from there still, including more than 40 million livestock.

The Ministry of Industry and Agriculture approves what commodities can be traded on the exchange. Currently only cashmere and wool are permitted, with some 4,438 tonnes of cashmere traded as of June 4. But annual cashmere production accounts for 4,500 to 6,000 tonnes, and there are 18 million goats in total. That means 80 percent of total cashmere has been traded through the exchange in the past three months. The trade of sheep's wool is expected to begin by the end of this month.

The most important function of the exchange is setting the price of the goods trade on it. Over the last two decades, there were no regulations over the cashmere market, and prices fluctuated as a result of strong com-



petition between Chinese and local cashmere producers. According to Erdenebat, on June 4 the price was MNT 64,000 per kilogramme of cashmere compared with MNT 38,000 last year.

The cashmere traded in the exchange comes from more than 150,000 herders from 1,200 districts of 330 counties and 21 provinces. But the law does not yet provide a mechanism for these herders to take part in the exchange directly. The sellers are herders, cooperatives and farmers while the buyers are producers and export- ▶

The following is the Management Team and Board of Directors at the Mongolian Commodities Exchange (MCE)



J. Erdenebat,
Chief Executive at MCE



Ts. Bayarmaa,
Chairman of MCE's
Board of Directors



B. Altangerel, member of
Board of Directors



I. Tseren-Onolt,
member of Board of Directors



M. Batgerel, member of Board
of Directors



N. Ganibal,
member of Board of Directors



D. Oyun-Erdene,
member of Board of Directors



E. Erdenesuren, member of
Board of Directors



O. Ser-Od,
member of Board
of Directors



L. Baatarchuluun,
member of Board
of Directors

ers. Professional regulators act as middle men in each province.

As of today, there are some 25 brokers registered for daily trading on the Commodities Exchange. These companies are required to have depositories in local areas in every province, with exceptions currently for Orkhon, Selenge, and Dornogobi. There are 32 seats in the exchange's trading hall and the number of brokers is unlikely to be limited in the future as it plans to launch online trade next year. The initial membership entrance fee is set at MNT 4.5 million with annual dues of MNT 2 million.

It is up to individual producers to show interest in the purchase of commodities from other markets at the exchange. But all exports of commodities designated for the exchange must be done through it. Thus far it has sent all of the 4,438 tonnes abroad to the United Kingdom, Italy, Japan and China.

Each market has different standards for cashmere processing. For instance, China only purchases washed cashmere while the other three are interested in combed cashmere.

The exchange has created a more transparent market that allows anyone to trace where cashmere is being sold and for how much. Erdenebat said this would be helpful to plans to expand the cashmere industry. He said he hoped the exchange would also eventually include the trade of livestock.

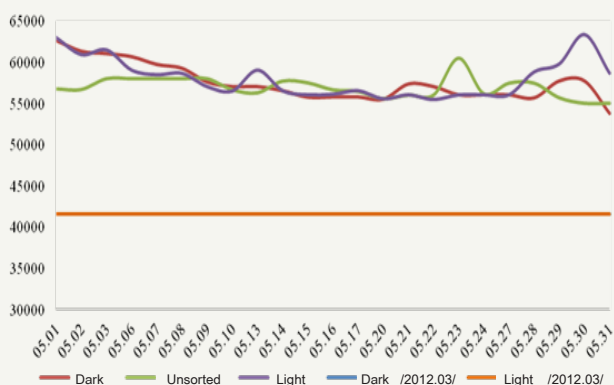
"The latest trend for commodities exchanges are contracts for commodities trade rather than the physical trade", he said.

"For example, everything traded on the Chicago Mercantile Exchange consist of only 2 percent of physical trade and 98 percent of contracted trade. We should put our aim towards this trend. At the exchange, when the trade of physical commodities trade has stabilised, the project's second phase will be implementing trade derivatives. The second phase is expected to be complete by the end of 2014".

MCE will trade combed cashmere futures in March, June, September and December every year. Consequently, traders will be aware of the prices after three or six months and when cashmere industries need to purchase raw materials.

Both spot and contracted trade will help create a more integral place for Mongolian finance. ■

Cashmere Price at the Mongolian Commodities Exchange



INTERVIEW

“ASIA IS A THIRD POLE NOW”

BY B. ENKHTSETSEG

Mark Clifford is the executive director of the Hong Kong-based Asia Business Council. Clifford, who has been at the Council since 2007, previously was editor-in-chief of the South China Morning Post. Prior to that he was publisher and editor-in-chief of The Standard. He was the Hong Kong-based Asia Regional Editor for Businessweek, with overall responsibility for the magazine's bureaus from Bombay to Tokyo.



What potential for renewable resources are there for Mongolia to tap into?

I think there's enormous potential. As I understand it, there's not enough power, not enough electricity. What there is is an over-reliance on coal. This gives Mongolia a tremendous opportunity given the tremendous resources, especially with wind and what I imagine for solar as well, to reap the gain of energy efficiency.

But also there's building materials. If you can have more efficient building then you don't need as much energy to heat it and cool it. The key thing is to have people be comfortable and have a nice lifestyle. It doesn't matter whether it's coal power, wind power, or solar power, or just better glass and better building materials. I think there

are a lot of opportunities.

What brought you back to Mongolia for this occasion?

We're looking at having a meeting here late next year. The Asia Business Council meets twice a year around the region and we have members right now in 14 different Asian countries and economies, and in places like Hong Kong, which isn't a country. We've met everywhere we have members except for Mongolia.

MIH Group Chairman and Chief Executive Dugaryn Jargalsaikhan joined last year, and at that time the board decided it would be good to have a meeting in Mongolia to have a look at the situation and the opportunities in Mongolia.

Tell our readers a little bit about the history of the Asia Business

Council.

It was formally incorporated in 2002, when it initially started. I think the main success is bringing top business people. All of our members are chairmen and CEOs. They're some of the most important business people in Asia. I think the key thing is bringing many of the top business people from the region around in very high-level, informal, peer-to-peer conversations. To bring people from Mongolia, Saudi Arabia, Japan, China, and India together, as Asia develops, it's important that more business people understand the rest of the region.

In the past, I think, people used to look too much to the developed countries to the West. They would have relations with the US, UK, or EU, but Asian business people weren't relat- ▶

ing to each other. Here's where the opportunities are. You might as well get to know your neighbors and what the opportunities in the region are.

How will the relevance of this organisation shift as developing countries make the transition to developed countries?

Well to look at it another way, Asia is part of the developed world. Asia is a third pole now.

I moved to Asia in 1987, so 26 years ago. And at that time Japan was doing quite well, but the rest of Asia wasn't. The Chinese economy was smaller than South Korea's economy, and South Korea's economy was not very big then. So, the engine of growth is in Asia. Asians need to figure out how to work together to make that engine go faster.

What are some of the major developments made by the Asia Business Council since its inception?

I think it's become more powerful, and it's easier for us to attract members who are focused on Asia. I think that's the key thing.

We've shifted to include the Middle East as part of our Asia membership region. We take members from around the region, but at least 80 percent of them have to be from Asia. And we didn't use to include Saudi Arabia, Kuwait, and that part of the world as part of Asia. Now we do. We had a meeting in Saudi Arabia a couple of years ago. We've got two members from Saudi Arabia and one member from Kuwait who just joined.

In that sense there is a change. That really is knitting together Asia as a whole region, not just East Asia with India, really all of Asia. It's really nice to have our first Mongolian member.

It's a funny story. In our articles of association, which we have to file with the Hong Kong government, it's kind of our company registration. Originally Mongolia, Afghanistan, all of these places were not really considered Asia. We really just looked to east and south Asia. Actually, we rewrote and essentially changed our articles of association to include Mongolia, Russia, all of Central Asia, and all the way to the Middle East to be part of Asia. In a funny way we have changed to what is a bigger view of what Asia is.

What new challenges and opportunities do you see today?

I think that the new challenges are that there are so many opportunities in Asia that it's a balance for business people to try and pick their best opportunities. In the West you look at unemployment. In Europe it's so high. The opportunities and challenges are just getting a job or business, or just surviving. Whereas in Asia the challenge is just picking the best opportunities and finding the best people.

It's a challenge of growth right now—how to man-

age growth and how to manage opportunity. If you're growing as the Mongolian economy is, whether it's 9 percent or 19 percent, these are really, really high grow rates. How do you get the right people? What I remember the biggest challenge was is finding human capital and talent. How, as an organisation, to focus on the best opportunities and get the best people, and give them the power to go out and make the most out of opportunities.

It is a wonderful challenge to have, but it's not one found everywhere.

Is this the biggest barrier for Asia going forward?

It's one of the biggest barriers. Maybe the biggest. The environmental challenge is a pretty big one too, though.

Do you really believe the next 100 years will be the time of Asia's dominance?

That's a terrific question; I don't know. I think with the number of people in Asia and looking at the economic growth rate in Asia, there's very little to stop it. Is Asia going to rule the world? I don't know.

I think we're going to have a much more multi-polar world. I don't think any one country will rule the world again. But certainly Asia and much more importantly the opportunities for Asian people are almost unlimited. Think of how many centuries people haven't been able to send their kids to school, especially girls. They haven't been able to have the money to take their children to doctors, to get immunised, to have antibiotics. That's really what change and development is all about, giving people the opportunities to have a better, more fulfilling life. It's not about just nice cars and everything. It's about people. In that sense I do think it's Asia's century.

What do you think about the current situation in Mongolia for investment and business?

I think that businesses like certainty and they like to know what's going to happen. It can be A or B, but they don't want A, B, C and D, and from day to day worrying about what's going to happen. They need to know what the road is. They need a road map.

In one of your articles after a visit to Mongolia in 2012, you said Mongolia's relevance to the world was on the rise. Five years ago the world knew very little about this country. What should Mongolia do to make sure it goes about this rise in the best way possible for itself and its partners?

I think the key thing for the next five years is to establish yourself as a supplier of energy. I think getting OT [Oyu Tolgoi] and some of the other projects online will get investors around the world a lot more confident in Mongolia, but they'll also get to know it better.

I think going further, one of the things that strikes ▶▶

▶ me as what you have that most of that Asia doesn't have is space and natural resources.

Everyone is so focused on energy right now, but I think of New Zealand. It's a very small country, but they've got this clean, green New Zealand brand. I don't know how much people have talked about that here. I think of the tourism and environmental eco-experience, the 1.3 billion people in China who mostly live in the eastern part—China and East Asia are just so crowded. People go to Canada, the US, and New Zealand because they want fresh air and to experience riding a horse or fishing. Mongolia has all this.

If I were looking at the next 25 years, I would say energy is fantastic. It's like Qatar or Saudi Arabia, who have this amazing energy base. You have to look at that and use it wisely. You have to invest that money for the future as well.

But then I think of the growth areas, you can make what some people see as a weakness—a very small population, large land area, difficultly making infrastructure pay off—you can take that and make it into a strength because almost no one else in Asia has that kind of variety of natural resources. From the steppes to the lakes, to the mountains, and desert, it's just an almost unbelievable expanse of land. I think that as Asia develops and Asians start going abroad they'll be wanting more experience than a shopping mall. You don't need to worry about shopping malls because you have this great outdoors that no one else in the world has really.

That's more of a 10+ years thing. You really need to build up sophisticated tourist infrastructure for people. That's also good for Mongolians. That means jobs outside of UB [Ulaanbaatar].

It's a very far-reaching thing, but if I were looking at a 25-year plan, I would say the next decade you should really focus on getting the energy part right and making sure relations with your neighbours are harmonious. Obviously you have some very large neighbours and that's just the reality of the world. You have to learn how to live with them in a good way.

After so many years working in the mass media, why did you choose to join the Asia Business Council?

I was lucky enough, most of the time in media I focused on business finance, and economic journalism. I worked for BusinessWeek, Eastern Economic Review, and that sort of what my training is. So a lot of the people in the Asia Business Council were people who I knew or interviewed. To me Asia is one of the most, if not the most, exciting place in the world. It's really private businesses making this change. Governments matter a lot, but it's really businesses that drive change and have the opportunity to have members from Saudi Arabia, Japan and to Indonesia to the extent I can help nudge these changes along through something like the Council by getting these

top decision makers, these people who really have their hands on the levers of power, together to help them be more efficient is fantastic.

Our members directly employ almost two million people and probably indirectly employ many, many more. They control companies with the valuation of over USD 5 trillion. And to be able to even in small ways to try and increase the efficiency and work they're able to do in the Council is a great opportunity.

Mongolia has seen the spread of numerous English-language media outlets and the language is spreading nationwide. How does Mongolia compare to other nations in Asia in terms of its professional and free media?

It's not really fair to ask me to pick favourites. It's like asking me which of my children I like best. I do think places that have freer media and freer flow of information is better for society as a whole. It's good for business, it's good for government. Every country is different, so it's hard to answer that.

I do think of how much has changed for Mongolia. In your lifetime not having free media and having one, it's very interesting to see, for example, the Bloomberg Mongolia service on TV.

What are some of the challenges that media in developing countries typically face?

I think it's a very real problem for media everywhere because media is such a public service. Everybody has to pay their bills, pay for the salaries of their staffs, pay for the paper. It's tough. But as economies develop more you can at least have a broader base. If one advertiser is mad at you, you have others. Or you have readers who will pay for your subscription.

That's a tough model these days. It's very hard to have enough diversified sources of funding that you're not dependent on one politician or business group.

Also in many countries in Asia and historically you often have one or a couple of publications that are run by one very determined person who says, "I don't care if I'm going to jail". I'm not saying most people aren't like this, but I'm talking about one almost heroic kind of person who will just take risks. Sometimes that will establish and give more cover for other media. And they also become bolder, and the idea of media independence becomes established. But it's very tough even in developed countries, especially now with the pressures media (especially print but all media) is under.

It's very hard if I aim for independence and autonomy. Autonomy is never 100 percent, but fighting for that and getting as close as you can is always a struggle. It's nice when countries get to the point where business and government recognise that media is independent and they cannot dictate what people should write. It's a hard struggle and it never finishes. ■



L. BYAMBAA'S COLUMN

DRIVING DOWN INTEREST RATES

1. Background

If all the products that are circulating in economics are given monetary value, then money is given a value in and of itself. But the measuring stick would be divided into units of the interest rate.

Everybody would unanimously agree that the high interest rate in Mongolia is affecting business development. Thus, there are a number of repeated cases that demand that the government take action to reduce the interest rates on loans. Let us consider ways to reduce the interest rate.

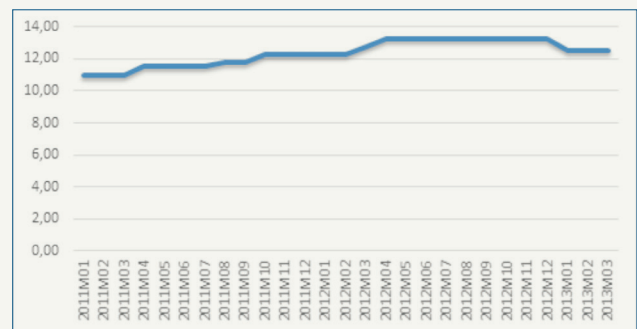
2. Breaking Down the Interest Rate

Before seeking ways to reduce the interest rate, it is important to understand what the components that influence its level are. To express this in an easy way, interest indicates the point where the demand and supply balance for money is. On the other hand, it also expresses the level of risk.

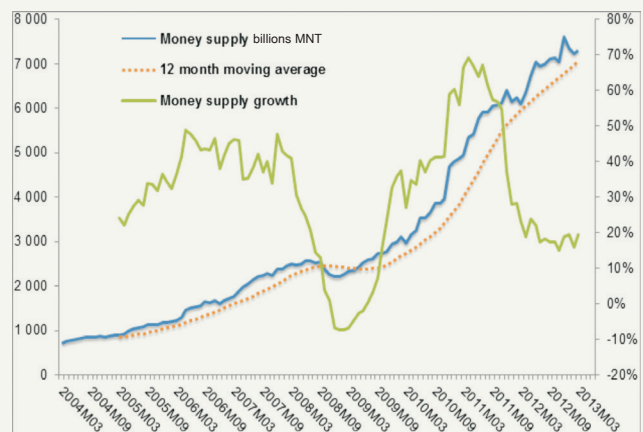
INTEREST	Factors
=	
AVAILABILITY	Availability of money <ul style="list-style-type: none"> • State monetary policy (The policy rate determines the interest rate without taking into consideration micro risks) • Money supply • Market infrastructure and efficiency of monetary and financial markets • Sovereign credit rating
+	
INFLATION	Expectation for inflation <ul style="list-style-type: none"> • Willingness to save or spend money • Time's value of money
+	
RISK	Macro risk <ul style="list-style-type: none"> • Economic situation. E.g. macroeconomic indicators
	Micro risk: <ul style="list-style-type: none"> • Credit rating • Operational efficiency of a bank and other creditors • Creditors' profitability • Costs of funds

Those are the main factors that affect the interest rate. When the money supply is increased, the interest rate goes down. We can trace how these factors influenced the interest rate. In the past three years, the interest rate was around 12 percent. The expectation for inflation was always for it to be high, which was around 11.4 percent, and the macro and micro risks were high in Mongolia. That is why the interest rate has been set so high on a regular basis. ▶

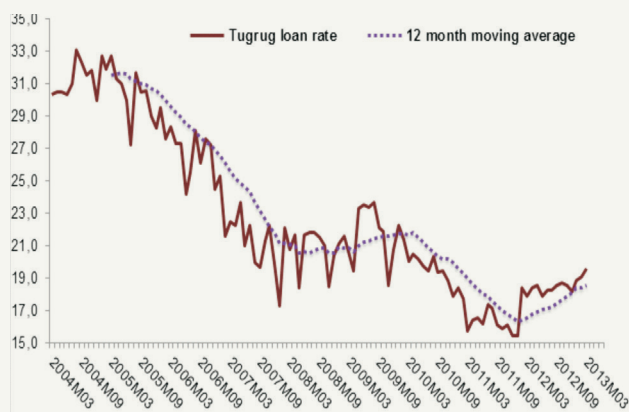
Policy Rate



Source: Bank of Mongolia



Source: Bank of Mongolia



3. A Potential to Reduce the Interest Rate

The interest rate could potentially be reduced when money availability increases, risk reduces and inflation is expected to be low. Given Mongolia's currency circumstances, how could it achieve these three objectives?

4. Money Availability

- *Creating non-banking sources of funding*

There are two financial sources most commonly used by companies: Equity and loans. Because bank lending is the dominant source of funding available, the interest rate tends to be quite high. Thus, we need to give priorities to the development of investment infrastructure such as allowing insurance companies to invest in capital markets, supporting the operations of investment funds with strong policies, and improving the performance of the stock markets.

Example of sources of loans

	Loan interest rate	Loan amount	Loan period
Non-banking financial institutions	42%	154 billion	0.3 year
Commercial banks	18.7%	6800 billion	1.5 years
Foreign development banks	5%	594 billion	5 years
Project loans	8%	550 billion	5.5 years
Foreign commercial banks	5%	351 billion	2 years

- *Increasing long-term financial sources*

The Development Bank of Mongolia's bond offerings have managed to find financing from international markets for the next three to five years. Before that, Mongolia lacked long-term financial sources. Uncertainty raised concerns and the interest rate was very high.

In the future, there should be effort taken to attract investment and to continuously increase the long-term financial sources by issuing more bonds.

- *Improving Mongolia's main economic indicators and keeping stable investment environment*

Agencies such as Fitch and Moody's have set their own

sovereign credit rating for Mongolia. This rating indicates the country's sovereign credit risk. If the sovereign credit rating improves, the interest rate can be cut.

Accordingly, if the credit rating of Mongolia was taken up one notch, Mongolia would meet investment grade and would attract even more investment.

An investment-grade rating would automatically reduce the cost of borrowing. For example the interest rate could be cut by 2 to 3 percentage points. Large financial institutions, pension funds and investment funds usually set limitations on the allocation of their investments, which prevents them from investing in countries rated below investment grade.

Inflation and expectations for inflation

- The rate of inflation and expectations for inflation need to be kept as low as possible, as the effects on consumer's interests in saving and spending are great. Any public announcements on salary raises or universal cash distributions have direct impacts on expectations for inflation. This should be reflected in state policy.

Risk

- It can be understood that a creditor's loan rates indicate the level of risk. If the risk is reduced, it will directly reduce the interest of loans and costs for financing a company. Thus, financial products that reduce the risks in the financial markets of developed countries are very common. It includes a number of financial tools such as guarantees, collateral for future revenue, currency hedging, swap agreements and insurance.

These are commonly used in international treaties. For example, in African countries where the political environment is unstable, some large insurance companies have introduced insurance products that protect against political risks. By purchasing these products, a company can mitigate its losses.

In the same way, it is important to reduce risks at every single phase of an investment project as low as possible. For instance, a large road construction project in Chart 5 has multiple stakeholders. In each area, a good contract would reduce risks and, thus, cut costs for financing.

Road Project



- On the other hand, there could be some impact from the operating efficiencies of creditors or commercial banks. When the operating costs and inefficiencies are higher, banks will have to set their interest rates higher. If the operations of banks are stabilised they will have the potential to generate funds more cheaply. In Mongolia, the net interest margin was nearly 7 percent by the end of 2012, meaning inefficiencies were likely to be high. ■

A FRAGILE GLOBAL ECONOMY INCREASES UNCERTAINTIES FOR THE MONGOLIAN ECONOMY



Jan Hansen,
Senior Country Economist,
Asian Development Bank

Global financial conditions have improved in the past six months, prompting a market rally and supporting a recovery of the global economy, which however remains weak. Forecasts for 2013 point to a period of consolidation for the advanced economies in the first half of the year, followed by a slow recovery, while several emerging market and developing economies are expected to show increasingly robust growth. The fragile global economic outlook and falling commodity prices increase the uncertainties for the Mongolian economy. This outlook for the global economy is based on the Asian Development Bank's (ADB's) 2013 Asian Development Outlook (ADO), which was published in April¹.

Weak fundamentals in advanced countries hold back global economy

Following a marked global economic slowdown in the first half of last year, economic activity has stabilised to

some extent in advanced economies and has picked up in several emerging markets and developing economies. Market analysts have been referring to a two-speed global economy with emerging markets moving in the fast and developed countries in the slow lane.

The use of unconventional monetary policies in advanced economies, which suffer from high public indebtedness, are held back by fiscal contraction that continues to support aggregate demand by rebalancing private investor portfolios toward riskier assets. Global financial conditions have improved in the past six months, providing additional support to the economy and prompting a market rally. Stock markets around the world have soared, with the MSCI world index rising by 8.4 percent since the start of 2013. In the United States, the Dow Jones Industrial Average and the S&P 500 index reached record highs for the year. In Tokyo, the Topix 500 index has risen by 26 percent since the

start of the year, while the Stoxx Europe 600 index reached its highest in almost five years.

However, a prolonged period of extraordinary monetary accommodation could push portfolio rebalancing and risk appetite to the point of creating significant adverse side effects, in particular the possible under-pricing of credit risk and excessive capital flows into emerging market economies. The advanced economies continued to be weak in 2012, growing by only 1.2 percent as a group. The euro area saw output decline by 0.6 percent in 2012.

Advanced countries are expected to start slow recovery

Though significant uncertainties remain, forecasts for 2013 point to a period of consolidation for the advanced economies in the first half of the year, followed by a slow recovery. GDP growth is expected to moderate to 1.0 percent in 2013 before strengthening to 1.9 percent in 2014. What has been until now a two-speed global recovery, appears to become a three-speed recovery. Growth is accelerating in some emerging markets and developing

¹The ADO and the ADO Update - the flagship economic publication of the Asian Development Bank - provide a comprehensive analysis of economic performance for the past year and offers forecasts for the next 2 years for the 45 economies in Asia and Pacific which make up developing Asia.

▶ economies, but in advanced economies there appears to be a growing divide between the United States on one hand and the euro area on the other.

Private sector remains strong in the United States

Despite a slowdown in the final quarter of 2012, GDP increased by 2.2 percent for the year, higher than the 1.8 percent increase in 2011. Positive signs in consumer spending, investment and housing and labour markets suggest that the economy is strengthening, though only gradually. Unemployment, which tends to lag recovery, fell below 8 percent in September 2012 for the first time since early 2009. Declines have been slow to materialise, with April 2013 unemployment still at 7.5 percent and well above its long-run average of 6 percent.

To avoid the “fiscal cliff” on January 1, 2013, US authorities reached agreement on some revenue enhancements. However, the deal only delayed the implementation of automatic spending cuts by two months. Because lawmakers were unable to reach consensus on a compromise deficit-reduction package, across-the-board spending cuts took effect on March 1, 2013. With continued uncertainty in the economy,

the mix of tax increases and spending cuts will likely slow output and suppress consumer demand, and growth, in the short term. The Congressional Budget Office estimates the automatic spending cuts will total USD 85.4 billion in 2013 and that the combined impact of the fiscal policy changes would be a 1.5 percentage point reduction in US growth in 2013.

The cut in public demand is expected to be balanced by continued private sector strength. The US economy is expected to grow by 2 percent in 2013, slightly slower than in 2012. Assuming that the fiscal drag phases out but that monetary policy continues to be expansionary, GDP in the US is expected to pick up gradually and the economy to expand by 2.6 percent in 2014.

Euro area economy contracts for sixth consecutive quarter

Perceptions about an imminent euro area shake-up have subsided since July 2012, when the European Central Bank announced its bond-buying program in defense of the euro. As a result, yields against German gov-

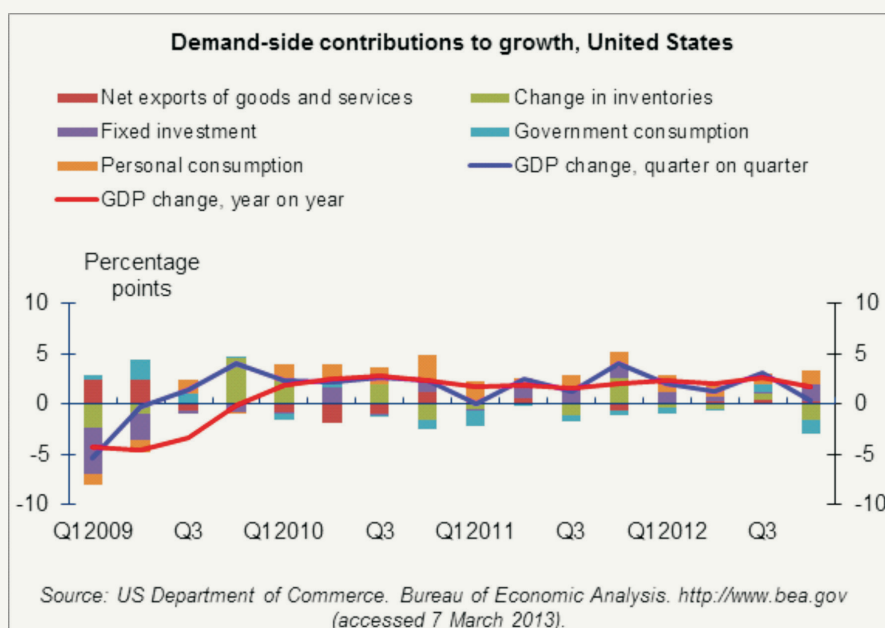
ernment bonds declined considerably. However, concerns about the viability of the euro remain, as austerity measures are sharpening unemployment, social unease, and economic contraction.

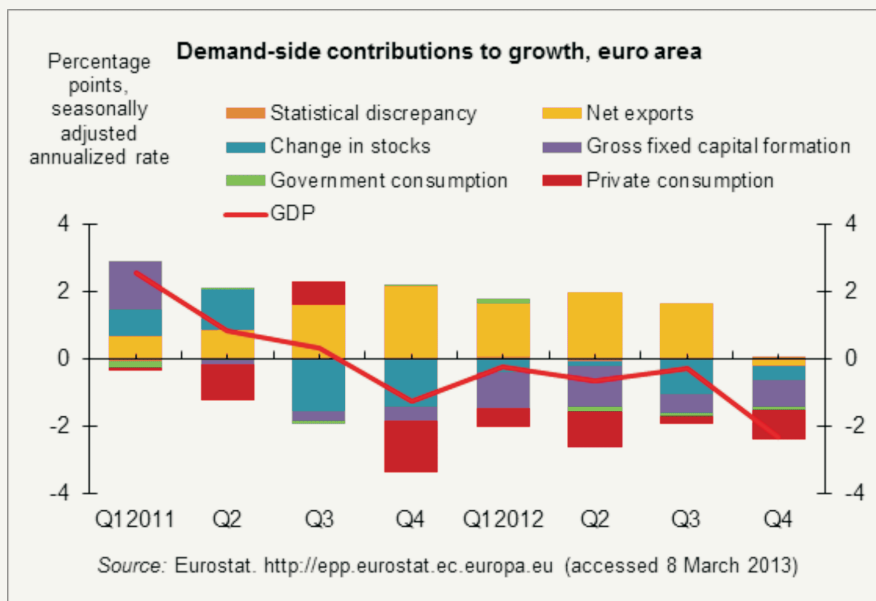
GDP contracted by 0.6 percent in 2012 in the euro area. While net exports were the major contributor to GDP growth, private consumption imposed a substantial drag, constrained by high unemployment and low consumer confidence. Economic growth fell by 0.2 percent in the first quarter of 2013 compared with the last quarter of 2012, and was 1 percent lower than a year ago. Output has now contracted for six consecutive quarters in a recession stretching back to late 2011.

The recession is seen extending in 2013, with GDP contracting by 0.3 percent for the year as a whole. Countries in the periphery will continue depressing growth in the area, held back by fiscal tightening, competitiveness problems, and bank's balance sheet weaknesses. In 2014, following a mild recovery, GDP growth is forecast to pick up to 1.2 percent.

New economic policy in Japan

The Japanese economy increased by 2 percent in 2012, followed by surprisingly high growth of 0.9 percent in the first quarter of 2013 compared to the fourth quarter of 2012. The new government, after many years of deflation, and little or no growth, has announced a new economic policy, based on quantitative easing, an inflation target of 2 percent, and fiscal expansion in the amount of 4.8 percent of GDP. Financial markets have reacted strongly. The yen has depreciated by 23 percent against the dollar since mid-November 2012 and the stock market has been the best performer among rich countries this year, with the Topix 500 index up by 26 percent so far in 2013. Economic growth is expected at 1.2 percent in 2013 and at 1.4 percent in 2014. ▶▶





► Economic growth in the People's Republic of China (PRC) slipped again

Held back by a deteriorated external environment and a cooled real estate sector, economic growth in the PRC slowed from 9.3 percent in 2011 to 7.8 percent in 2012, the lowest rate in the past 13 years, but still higher than the government's target of 7.5 percent. Growth picked up in the fourth quarter of last year after seven-straight quarters of a slowdown, but decelerated again in the first quarter of 2013. Consumption in 2012 outpaced investment to contribute the most to growth. Weaker demand from major trading partners depressed export growth to 7.9 percent, down from 20.3 percent in 2011, while imports grew by only 4.4 percent, compared with 24.9 percent in 2011. The PRC absorbs almost all of Mongolia's exports (92.6 percent in 2012).

Growth in the PRC has been expected to increase from 7.8 percent in 2012 to 8.2 percent in 2013 and 8 percent in 2014 in the ADO, driven by strong consumption and fixed asset investment. More recently, however growth prospect have been revised down somewhat by several forecasters and market participants. The PRC economy remains vulnerable to the

sluggish global recovery. The main risk stems from the fragile economic outlook in the euro area, PRC's largest trading partner.

Euro crisis and medium-term fiscal uncertainty in the United States and Japan are biggest downside risks

In the short-term, downside risks for the global economic outlook mainly relate to developments in the euro area. Over the medium-term, risks revolve around the absence of fiscal consolidation plans in the United States and Japan; high private sector debt in the US, limited space for further economic stimulus in the advanced countries, if needed, and insufficient institutional reform in the euro area.

Slowing growth in the PRC is affecting international commodity prices. Imports of copper and copper products fell by 27.2 percent in the first four months of 2013. International prices for coal and copper, Mongolia's major export commodities, have trended lower since early 2011. Copper prices have fallen by almost a quarter, while the price for thermal coal slumped 34 percent. So far this year, copper prices are down 7 percent, compared to the first five months of 2012. Coking coal prices are at three and a half year lows.

Fragile global economic outlook, renewed slowdown in the PRC increase uncertainties for the Mongolian economy

Mongolia's medium-term economic prospects are favorable and economic growth is expected to remain well in the double-digits in 2013 and 2014. The economy, however, is highly vulnerable to international commodity price fluctuations due to its heavy dependence on the mining sector and history of pro-cyclical fiscal policy. In 2012, the mining sector generated 89.2 percent of exports, 16.7 percent of government revenue, and 18.6 percent of GDP, while employing less than 2 percent of the workforce. The overall budget deficit rose to 7.7 percent of GDP in 2012 from 4.8 percent in 2011.

The mining sector is expected to continue to be the main engine of growth in 2013 and 2014, with commercial production at the Oyu Tolgoi copper and gold mine starting in June this year. The currently high uncertainty for the global economic outlook, uncertainty about the pace of growth in the PRC, and falling commodity prices pose risks for the prospects of the Mongolian economy. Mongolia was one of the worst affected countries during the 2008-09 global financial crisis.

Economic growth slowed to 12.3 percent in 2012 from 17.5 percent in 2011 and was 7.2 percent in the first quarter of 2013. Export in constant prices fell 5.5 percent year-on-year during the first four months of 2013, with the production of coal and copper (volume) falling by 10.5 percent and 4.5 percent, respectively. A major fall in world commodity prices would very seriously undermine Mongolia's economic and fiscal position. Against this background, the main priority for economic policy should be to restrain fiscal spending, including off-budget expenditure through the Development Bank of Mongolia and create buffers in the event of further commodity price shocks. ■

AMBASSADOR

DEVELOPMENT BASED ON TOURISM

BY KH. KHULAN

Mustafa Sarnic has been the ambassador extraordinary and plenipotentiary of the Republic of Turkey in Mongolia since July 2012. He was born in Bursa, which was the second capital of Ottoman Empire. Sarnic holds a Bachelor's degree in International Relations from the Gazi University in Ankara.



Turkey spans two continents. What are some of the geographical characteristics?

My country is very well suited between Asia and Europe with the Bosphorus as a symbol. That's why Turkey, covering a geographic area of almost 750,000 square metres and with a population of 76 million, plays a highly important role in bridging various cultures, religions and people in our region.

We are just as proud of being a European, a Balkan and an Asian country as of carrying the peculiarities of any Middle East or Caucasian country. As a matter of fact, one can find this synthesis in the mixture of our cuisines, our folklore and even in our daily life.

And my Government is following a policy of "zero problems" and "maximum cooperation" with our neighbours, namely Greece, Bulgaria, Syria, Iraq, Iran and Georgia. Undoubtedly, the crisis in Syria is an exceptional case as a consequence of the Arab Spring. We have also excellent relations with the nearby countries like the Russian Federation, Azerbaijan, Ukraine, Moldova, etc.

Your diplomatic experience ranges from throughout the Middle East, in Addis Ababa, Skopje, Prishtina, Komitini, and the Arab Maghreb Union before coming to Mongolia. How did these experiences result in your transfer to Mongolia?

Last year during this time, one day after midnight, my phone rang and on the other side of the line was my foreign minister, Ahmet Davutoglu. He said that a decision was made to appoint me to Ulaanbataar. I felt really honoured to have gained such confidence from the Turkish administration with my previous work.

You are right; it is my first ambassadorial post in Asia. My previous missions were more or less in the western part of the world. I spent the last 12 years in various Balkan countries where Turkey has deep historical and cultural ties. But it is a universal practice that appointment of an ambassador is enjoyed by the executive body. Undoubtedly, »

▶ certain criteria, including merit, is taken into consideration before making such important appointments.

I will never know which criteria had the most effect on my appointment, but my mission here is quite clear: to serve the betterment of relations with Mongolia in all areas, ranging from political dialogue of the economy to culture.

I think Mongolia is one of the most suitable posts for a Turkish diplomat to gain experience while actively serving because it is situated geostrategically in a highly sensitive and critical region. And a diplomat would shoulder, among other things, the burden of following developments not only in Mongolia but also in the nearby region.

What experience was most valuable to you prior to arriving in Mongolia?

I have done lots of things but I can-

not forget my achievement in Kosovo, when I contributed to the establishment of the Kosovo-Turkey Chamber of Commerce, which is still one of the strongest non-governmental institutions there is generating very successful projects. The Chamber now has become the economic bridge between Kosovo and Turkey.

I am also encouraging Turkish businessmen to do same thing here and we have already taken very positive steps.

Recently Mongolia-Turkey relations heightened with the visit of the Turkish prime minister to Mongolia. They have even introduced direct flights between Ulaanbaatar and Istanbul. What else is planned?

Turkey and Mongolia have almost a perfect relationship in all areas. One of the indicators of the strong relationship is our new chancellery and residence buildings, which will be models for Turkey's fu-

ture residence and chancellery projects. We are planning to move very soon into these state-of-the-art buildings.

Although we have wonderful relations, there are lots of steps to be done, especially in the economic field. As you said, the direct flights between Ulaanbaatar and Istanbul represent a landmark development in our economic relations. During the recent official visit of Turkish Prime Minister Recep Tayyip Erdogan to Mongolia, both sides agreed on increasing the number of flights. And we think that it will be beneficial for Mongolia, who wishes to diversify its economy.

I think that more personal contacts and visits will attract more economic dynamism and interaction. So the means of logistics and transportation should be liberalised in order to open areas for businessmen.

In parallel with the second decision to liberalise the visa regime of both countries during the said visit of Prime Minister Erdogan, we are witnessing an increase in the number of visits of business delegations from Turkey. For example, in June a delegation visit of the Assembly of Turkish Exporters from Istanbul is planned. We see huge potential in the growing Mongolian market.

To be more precise, renowned Turkish construction companies should be encouraged to come and invest in Mongolia to cover the gap in housing, energy and other infrastructure areas. There are some steps already taken, but it is not enough to be more visible. On the other hand, the animal husbandry and dairy products constitute the other export-oriented sectors, given the huge numbers of consumers in this region.

Last but not least, I should add that Turkish private companies for almost over 20 years have invested in the education sector, with five schools in four cities in Mongolia with an understanding that it is the best to invest in human beings.

Mongolia and Turkey aim to increase the volume of trade between them from today's USD 40 million to an eventual USD 250 million. What measures are being planned for this goal? ▶▶



► The Turkish and Mongolian economies are in fact quite well compatible with each other, and I am sure this will pave the way for further cooperation by that time. At first glance it appears to be a courageous and ambitious target to try to reach commercial trade worth USD 250 million, but both countries have this capacity.

Mongolia has livestock and minerals. On the other hand, we have entrepreneurial capacity and strong companies with worldwide connections.

What are your hobbies? How do you make time for them with your busy schedule?

I believe that if you organise your business properly and manage it professionally, you will find more spare time to allocate for your personal hobbies. So, I am trying not to miss cultural activities organised in Ulaanbaatar and I am especially interested in music and the fine arts. I remember that as soon as I came to the city of Ulaanbaatar last July I visited Bogd Khaan Museum.

In addition to this, I am also a fan of cinema and when I find opportunity I am delighted to see recent movies. And during the harsh winter nights in Ulaanbaatar my closest friends are inevitably my books.

By the way, my favorite sports are football and tennis.

Can you share some noteworthy memories from Turkey's presidential elections? What aspects of election are most important to any democracy?

First of all, as the youngest member of the OSCE and at the invitation of the Mongolian government, the whole presidential election process will be observed by the OSCE mission that has been already deployed in Mongolia. There would be some long-term and short-term observations to follow the elections. This is my sincere wish, that the upcoming presidential elections will further strengthen the democratic order in Mongolia.

Previously, our presidents were being elected by the members of the Turkish Grand National Assembly, but the referendum held in 2007 primarily addressed whether the president should



be elected by the people or the parliament. The Turkish people voted in favour of public voting. Therefore, next year Turkey is going to enjoy for the first time a presidential race by a public vote.

Turkey and Mongolia aim to cooperate in tourism. What are the main objectives and what are some of the facets of tourism in Turkey?

Tourism is one of the backbones of the Turkish economy. Last year, 35 million tourists visited Turkey and generated USD 25 billion in revenue. We would like to share our experiences with Mongolia. Actually, I have already shared my opinion with my Mongolian counterparts that we can do a lot together to strengthen the tourism industry.

First and foremost, the visa issue must be settled. The number of passengers carried should be increased, and Turkish Airlines has already proposed an increase to the number of flights from Istanbul to Ulaanbaatar to enhance the capacity.

By the way, as far as I know, several representatives of the Turkish tourism industry and companies have started to visit here to search for common viable projects, such as arranging tour packages. On the other hand, Turkish Airlines plans to lead trainings on the development of tourism in Mongolia for travel agencies.

Looking at the historical links between Mongolia and Turkey, what is most fascinating to you?

The most fascinating fact is to see the traces of Turkish identity in these soils. When you read the story of our grandfathers in the Turkish monuments in Kharhorin or in Nalaikh, I ask myself about the experience of the long journey of the Turkish tribes from east to west over the centuries, and to which extent we carried our nomadic lifestyle to our new motherland, Anatolia.

Maybe that is the reason that Turkey represents the best model in our region and this synthesis give us additional pulse and strength. Maybe that is another reason why Turkey is called a "virtuous power". ■