

## CHINGGIS WAS YESTERDAY, SAMURAI IS TODAY





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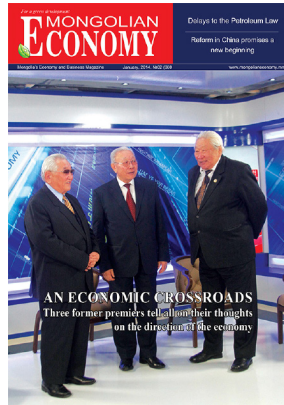
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Tel/Fax: 976 - 7011 5476

Printed at Ulaanbaatar Print Co., LTD

[www.ubprint.mn](http://www.ubprint.mn)



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- "Grand plaza"
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## MONGOLIA

## Davos



A session describing possible economic scenarios for Mongolia was presented at the World Economic Forum in Davos. Developed during an annual meeting in held in Ulaanbaatar in MONTH, the scenarios summarize Mongolia's potential long-term economic outcomes of the country's recent period of double-digit growth.

President Tsakhiagyn spoke in front of an audience at Davos where he likened the aim of the scenarios to help direct Mongolia in the best possible direction for development with his own "From Big Government to Smart Government" initiative. "I believe in better and positive scenarios for Mongolian development if we make the state of Mongolia research-based, service-oriented and ruled by law", he said.

## Iron Ore

Haranga Resources, which owns 80 percent of the Selenge iron ore resource, received approval from the Mineral Resources Authority to commence operations on a forthcoming project, located in the Darkhan-Selenge region which has an estimate resources of 254,000 million tonnes.

Haranga Resources must complete and receive a feasibility study to move forward with the project.

## Railway

Japanese consulting firm

Nippon Koei has commissioned a draft for the design of a new railway for the Tavan Tolgoi mine. The draft design will include technical standards and requirements during construction. One of the design solutions for construction is to lay the track 20 metres at a time, to make the necessary adjustments for the landscape. The current design and research framework is 78 percent complete, according to Nippon Koei.

## Banking

Moody's dropped its outlook



on Mongolia's three top banks – Trade and Development Bank, Khan Bank, and KhasBank – from a stable to negative credit rating. The main contributing factor was an increasing number of non-performing loans, a slowdown in economic growth and the deterioration of operations in Mongolia's banking industry.

Another factor was that mineral resources accounted for 90 percent of exported products. Most bank loans are issued for the mining sector, and these loans are greatly affected by the price of raw materials. The number of loans increased 55 percent from January to October 2013 – 23 percent more than 2012 - with 5.3 percent non-performing.

## Financial Market

The Financial Regulatory

Commission will cooperate with Japan's Financial



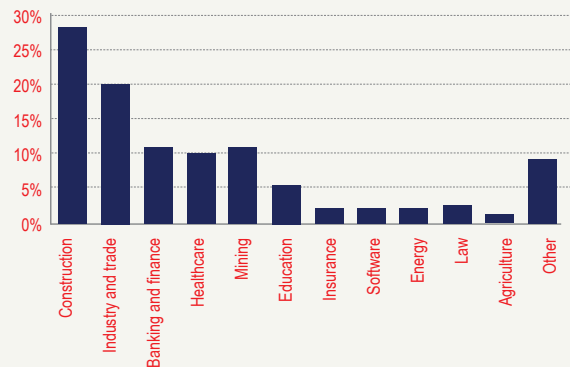
Services Agency to improve the current capital market system in Mongolia and to implement a knowledge and experience exchange programme designed to develop Mongolia's financial market.

## Labour Market

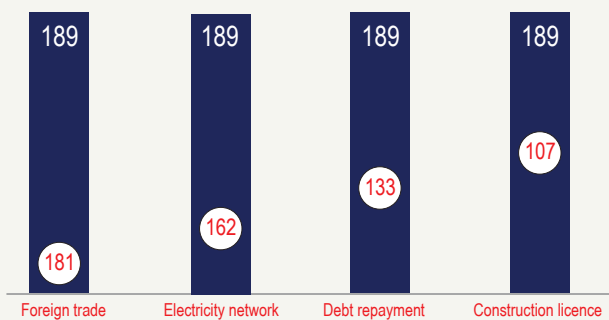
According to the National Statistical Office, the construction sector created the most new jobs in 2013. It was responsible for 28 percent of new jobs. Manufacturing, trade and sales contributed to 20 percent of job creation. Banking and finance, health and mining represented about 10 percent each.

Some other sectors include education, insurance, software, energy, law and agriculture, each representing about 5 percent for job creation.

## Job vacancies (by sector)



## Business environment study (in 2013)



Number of countries involved in study

Ranking: Mongolia

Source: World Bank

## WORLD

**United States**

After seven years of continuous decline in ratings, the United States has gone further down to 12th place in the 2014 Index of Economic Freedom. The report says the United States is the only country to show such a prolonged decline. The fall in rank was primarily caused by large reductions in property rights, freedom from corruption, and increasing government spending, says the study.

**China**

China's economy, the world's second-largest, grew at its slowest pace in 14 years in 2013, official figures show. Its GDP grew at an annual rate of 7.7 percent in the October-to-December period last year, down from 7.8 percent in the previous quarter. But it was still higher than the government's target rate of 7.5 percent. The data highlights the challenge policymakers face in sustaining China's high growth rate as they look to rebalance the economy. China has said it wants to move away from an investment-led growth model to one driven by domestic consumption.

**Japan**

The Japanese government

described its economy as "recovering" for the first time in six years, on the back of robust consumer spending ahead of the sales tax hike in April and improvement in business investment. It was the first time for the government to specify the economy as "recovering" since January 2008, before it started to languish against a backdrop of the global financial crisis triggered by the collapse of US investment bank Lehman Brothers Holdings in September that year.

**Germany**

Deutsche Bank reported a surprising loss for the fourth quarter of 2013, after releasing its latest result before they were expected. Overall Deutsche Bank said it posted a pre-tax loss of 1.153 billion euros for the final quarter of 2013. The bank said that litigation costs and restructuring had weighed heavily on

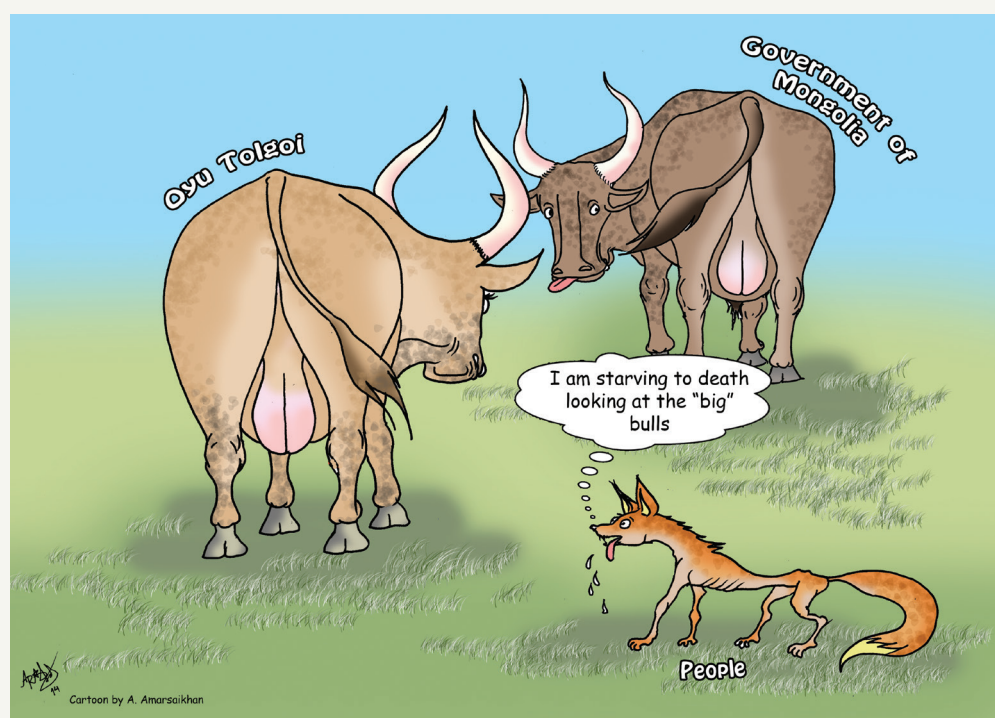
its financial performance. Litigation costs mounted up to USD 715.14 million for the period, while revenue fell 16 percent.

**United Kingdom**

Britain's financial services industry is beginning to feel the benefits of economic recovery, as firms report growth in profits, business volume and optimism in the fourth quarter, according to a survey. Some 69 percent of firms said they felt more optimistic about the overall business situation versus just 1 percent who felt less optimistic, the quarterly Confederation of British Industry and PricewaterhouseCoopers financial services survey showed on Monday. The positive balance of 68 percent was the highest since the survey began in 1989. The survey is based on the balance of firms reporting an increase and those reporting a decrease.

**Russia**

Russian Energy Minister Aleksandr Novak and European Commissioner for Energy Gunther Hermann Oettinger discussed in Moscow last month EU claims against Gazprom. They included the European Commission's claims to bilateral agreements on South Stream pipeline and antimonopoly charges against the Russian company. The meeting brought no significant progress, Russian media group RBC reported. More understanding was reached on the issue of the use of European gas infrastructure, including the OPAL natural gas pipeline in Germany. Next month, Gazprom could be allowed to use the pipeline at full capacity. ■



## FEATURE

## CHINGGIS BOND CONSEQUENCES



BY B. BAYARTOGTOKH

2012's USD 1.5 billion Chinggis bond was the equivalent to some 17 percent of national GDP. Now the government pays USD 75 million a year in interest payments – or USD 208,300 a day.

Mongolia must repay USD 500 million by 2017 and USD 1 billion in 2022. The constant fluctuations in the exchange rate for the tugrug exacerbate that burden. The five-year bill for USD 500 million debuted with a coupon of 4.125 percent while the 10-year bill for USD 1 billion was 5.125 percent.

"Before the issuance of the Chinggis bond, Mongolia's external debt was normal. But since the bond, Mongolia has seen itself set among risky countries, in terms of credit rating", said Sh. Altantsetseg, an economist at the World Bank's Mongolia Country Office.

USD 360 million remains from the

proceeds of the Chinggis bond. The government is set on employing this money to support national manufacturers to replace imported goods and increase the volume of exports. Prime Minister Norovyn Altankhuyag declared 2014 as a year dedicated to making contributions to companies that can drive the economy.

So far, some MNT 270 billion has been spent for companies producing milk, meat, cashmere, textile, knitting and agriculture. Money was also spent on funding the construction of new rails and roads.

The government did not have any projects prepared when the 2012 bond sale came through, however, and many criticised that the government failed to make the necessary decision making beforehand.

The Cabinet of Ministers were responsible for distributing the 963 proposals to the most relevant ministries to decide

which best qualified for spending. The government received 1,154 project proposals less than a month after the debt offering. Tender bids were held on February 15.

"Issuing bonds isn't wrong", former Prime Minister D told Mongolian Economy in a January interview. "The proceeds of the bond needed more accurate and detailed plans and estimates".

Altankhuyag later established a working group to focus on credit research and to sort through the proposals that had not yet been tossed out or pushed forward. Headed by the chief executive of the Development Bank of Mongolia, N. Munkhbat, they are still left to decide on how to best spend the remaining USD 360 million.

In the paper "Positive and Negative Impact of the Chinggis Bond", economist and lecturer at the Institute of Finance and Economics D. Munkhzaya wrote: "The total for bonds in the world is USD 85 trillion. A bond is one type of debt. It means that any government could fall under the pressures of that debt if it cannot run efficient activities that will recover the debt by funding good return-on-investment projects".

He argues in the paper that bonds for many countries have become huge liabilities that risk the collapse of the financial systems of many.

The depreciation of the tugrug will likely weigh heavily on the state budget as the dollars it needs to repay the money borrowed for the Chinggis bond become more expensive. When the bond was first issued in 2012, the exchange rate for the tugrug against the U.S. dollar was MNT 1,395 compared with over MNT 1,700 today. »

### Impact on the Economy

When Finance Minister Chultemiin Ulaan first argued for the Chinggis bond, he said the economy might face crisis. He supposed the exchange rate could depreciate to MNT 1,800 and inflation could climb to 25 percent. Although circumstances have not gotten that bad, economic instability has made for a difficult situation.

The exchange rate was very close to MNT 1,800 by the end of last year, and inflation was 12.5 percent. Still, the finance minister argues that the bond has become a source for investment, bringing growth to the economy. The bond supported double-digit growth in 2013, financing 70 percent of infrastructure projects using bond proceeds.

“The proceeds of the Chinggis bond were not distributed freely to citizens in terms of social welfare. It is being spent for roads, railway and industrialisation which are in urgent need”, said Prime Minister Norovyn Altankhuyag.

The government has a list of projects it has promised to fund. But since that list was compiled government authorities have repeatedly amended it. Recently added projects include MNT 50 billion allotted for the construction of an apartment complex at Buyant Ukhaa, USD 7 million to finance the construction of a factory for the production of housing construction materials, and USD 50 million for construction of steel reinforcement plant.

Many are speculating that the government violated the Fiscal Stability Law with the issuance of a yen-denominated Samurai bond last December. The law caps government debt to 40 percent of GDP, and the State Great Khural rejected legislation that would have raised that ceiling. Statistics that would answer whether or not the Samurai bond violates the law have not yet been

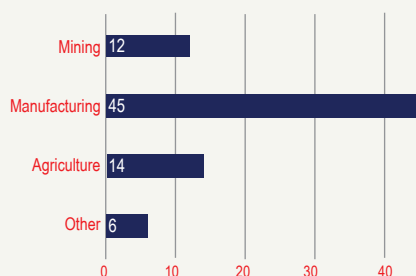
#### Number of projects by investment

Unclear investment	12
Less than MNT 500 million	381
From MNT 500 million to MNT 50 billion	728
More than MNT 50 billion	30

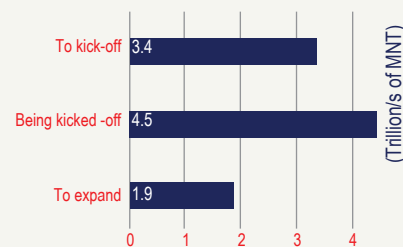
#### Old list of projects to be funded from the proceeds of Chinggis bond

	Project	Amount of investment (million/s of USD)	Government resolution number
1	Tavan Tolgoi power station	50.0	80
2	Gudamj (Street)	200.0	81
3	New Railway	200.0	82
4	Project to connect 6 aimags with Ulaanbaatar	101.2	96
5	Project to improve infrastructure of apartment buildings in Ulaanbaatar	141.8	118
6	Project to innovate equipments of cashmere production	68.5	126
7	Milk and dairy production plant	27.7	141
8	Construction of winter greenhouse	17.4	141
9	Wool production plant	45.0	141
10	Textile production plant	13.5	141

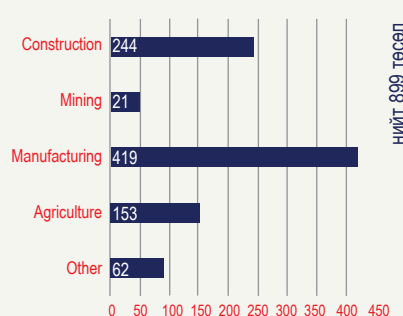
#### Projects to contribute to export



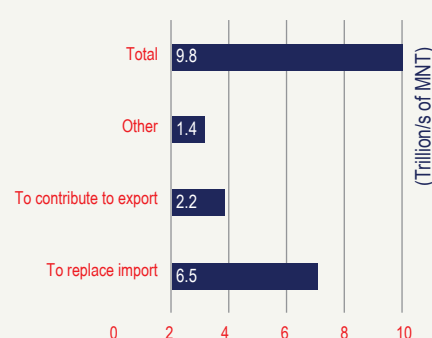
#### Current situation of projects



#### Projects to replace imported goods



#### Types of projects



released, however. “The [GDP and debt statistics] for the [2013] year-end have not been made available yet”, said Tuya Uyanga, an analyst at Ulaanbaatar-based National Securities.

The government plans to borrow USD 3.5 billion more through bond offerings.

“Mongolia should become a more responsible country. The Chinggis bond is debt that is putting the country’s

reputation on the line”, said Elbegdorj after the bond’s proceeds were first transferred to Mongolia’s account. The president stressed the importance of clearly defining the responsibilities of government and charged the State Great Khural with establishing a policy council for risk management associated with the bond.

Unfortunately, that advice was not heeded, and the steps that need to be taken next – more than a year after the bond was issued – are uncertain. ■

## RESEARCH

# ECONOMIC IMPACT OF THE CHINGGIS BOND

Z. MANLAIBAATAR, *researcher and economist at the Economic Research Institute of Mongolia*

On December 5, 2012, the Government of Mongolia issued a Chinggis bond worth USD 1.5 billion on the international market: USD 500 million with the duration of five years and loan interest of 4.13 percent and USD 1 billion with the duration of 10 years and loan interest of 5.13 percent a month. The proceeds of the Chinggis bond are being used for funding projects to develop infrastructure and manufacturing sectors in Mongolia. Based on the computable general equilibrium (CGE), researchers and economists at the Economic Research Institute carried out an assessment on what would be a long-term economic impact of the currently planned spending of the proceeds and what would be long-term benefits of the bond if the proceeds were spent for a single sector rather than spending it for many different sectors.

Before introducing the results of our study, it would be best to give an idea about what CGE means. CGE models are a class of economic models that use actual economic data to estimate how an economy might react to changes in policy, technology or other external factors. A CGE model consists of equations describing model variables and a database (usually very detailed) consistent with the model equations.

Countries around the world use CGE models to estimate whether the economic policy impact could reach their expected result. It is also commonly used in evaluating the economic impact of a large project and what would be its impact on the economy if the project is delayed. A model that we are using today is the MINCGEM model, which reflects the characteristics of the mining sector. Like other models, this model consists of thousands of equations based on a classic economic theory and it computes the general equilibrium with the assistance of a special software programme.

In making the policy assessment, firstly, the balanced economic benefit needs to be estimated using a time when the economic policy is not implemented. This is a base scenario. Then, the policy shock is input in the estimate. By doing so, the balanced economic benefit is extracted by using a time when the policy is implemented. This is called a policy scenario. Finally, the base and the policy scenarios are to be compared and the policy impact is to be determined in detail in terms of

economic sectors, factors, and the short and long terms.

## Scenario 1. Economic Impact of the Current Spending of the Proceeds of Chinggis Bond

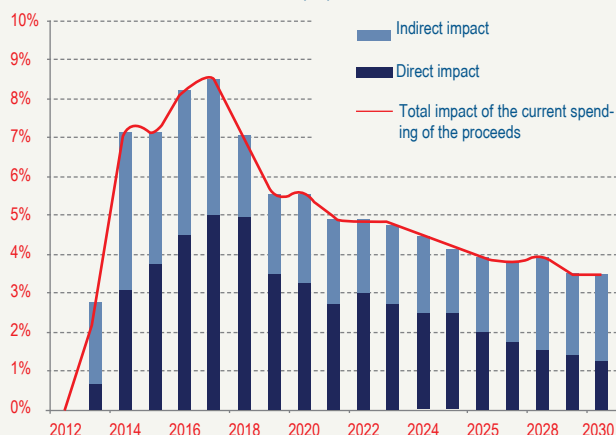
When making an assessment by using any models, a prerequisite is required. We suggested the following prerequisites in assessing the base scenario:

- Successful implementation of mega projects including Oyu Tolgoi and Tavan Tolgoi, according to their initial plans which were announced publicly
- Other economic sectors are to keep the current inertia in terms of development
- There will not be any major changes in the economies of Mongolia and other countries

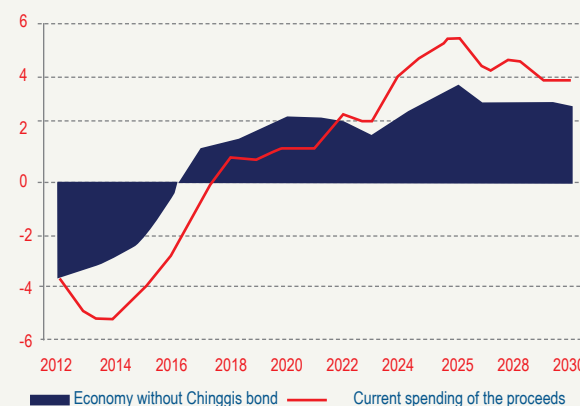
In assessing the policy scenario, we suggested some prerequisites below:

- Investment of USD 648 million is to be made in roads in the 2013-2014 period and a 2,365 kilometre road network will be established connecting urban and rural areas. By constructing the road, the cost of tradeable sectors is expected to be reduced.
- Investment of USD 280 million will be made in the light industry sector in 2013-2014, which would increase production and export slightly.
- A new thermo-power plant with the capacity of producing 450 megawatt will be constructed between 2013 and 2016. The required investment for the project totals USD 893 million; including USD 50 million from the proceeds of the Chinggis bond, USD 254 million from the government of Mongolia and USD 589 million, or 66 percent, from foreign investment. By putting the new plant into operation by 2017, it would replace imported energy from China and meet the energy demand from Oyu Tolgoi completely.
- Railway of 267 kilometres from Tavan Tolgoi to Gashuun Sukhait will be constructed between 2013 and 2015. The required investment is USD 650 million; including USD 200 mil- ▶▶

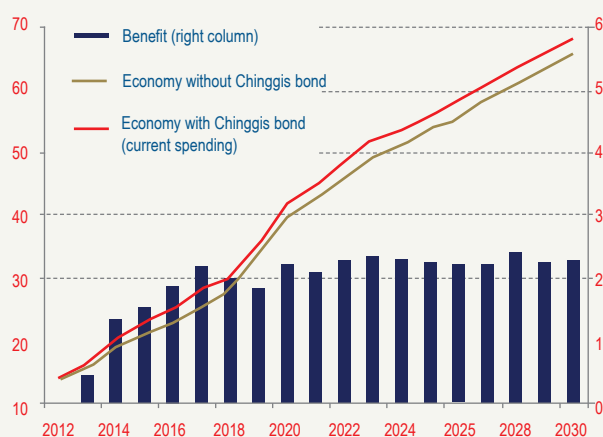
Deviation from base scenario (%)



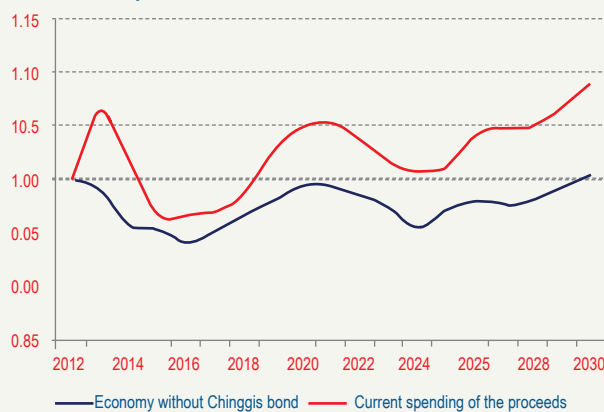
Foreign trade balance in 2012 (trillion/s of MNT)



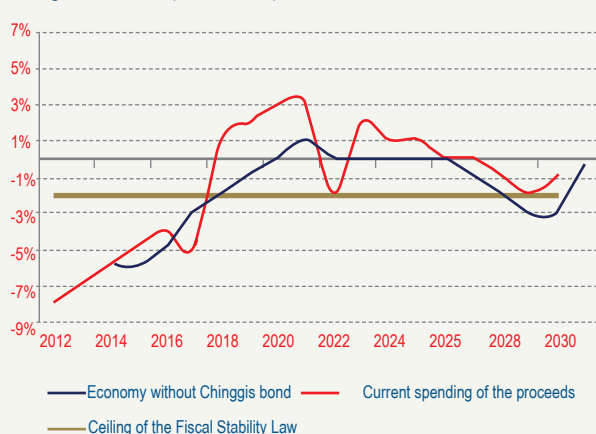
Real GDP in 2012 (trillion/s of MNT)



Real currency rate 2012=1



Budget balance (% in GDP)



► lion from the proceeds of the Chinggis bond, USD 132 million from the government of Mongolia, and USD 319 million, or 49 percent, from foreign investment. By constructing the new railway, the freight costs for coal to the Mongolian-Chinese border would reduce.

- Chinggis bond's interest and principal payments will follow the schedule.

The expected result of the current spending of the proceeds of the Chinggis bond shows the economic benefit could be MNT 36 trillion. Its benefit on construction until 2017 would be the equivalent of 7 to 8 percent of GDP (approximately 50 percent of this would be indirect impact).

A short-term impact will be seen on the construction sector while there are some mid- and long-term impacts on the growth of transportation, energy and mining sectors. Unfortunately, there will not be significant impact on the growth of agriculture and manufacturing sectors. As a result of the current spending of the proceeds, imports will increase sharply. So, profits from foreign trade would be delayed by one year, from 2016, in terms of the base scenario. However, the long-term scenario has higher profits from foreign trade than the estimate from the base scenario. This would have Mongolian tugrug's exchange rate against foreign currencies likely to strengthen by 5 to 8 percent, compared to the period when Chinggis bond was issued.

In the next 18 years, the government of Mongolia expects to generate tax revenue of around MNT 20 trillion from businesses that expanded from investments sourced from the Chinggis bond's proceeds. Repayment of the bond will be made from the state budget. However, its investment is being spent outside the budget. This would temporarily cause a substantial difficulty in the budget.

We did comparative research on which of the four sectors funded by the proceeds are the most beneficial in terms of ►►

▶ returns on investments. The outcomes indicated that the investment for the new railway is to create as much as 17.5 times more added value between 2013 and 2030; the new power plant adds up to 8.9 times added value; the new road adds up to 7.3 times added value; and the manufacturing plant adds up to 3.2 times added value.

It means that the most beneficial sector is the railway. Thus, we also did separate research on what would be the economic impact if all the proceeds of the Chinggis bond were invested for the construction of the new railway.

### Scenario 2. Assessment on when all the proceeds of the Chinggis bond are invested in the railway

Assessment of this estimate has been made with exactly the same base scenario as the previous one. It means that we considered that mega mining projects will be developed according to their publicly announced plans and other sectors will keep the current inertia in the future.

But in terms of the policy scenario, we considered that if USD 1.5 billion in proceeds from the Chinggis bond was spent on a single sector, it should be the construction of a new railway. The Mongolian government would own 51 percent of the railway, and the remainder could be owned by foreign and Mongolian investors. The new railway is 1,200 kilometres in length and it requires investment of USD 2.9 billion in total. We estimated that 2.6 billion tonnes of cargo, including mining products, will be transported in 18 years. If all the proceeds were invested in the railway project, there would not be a new power plant for Tavan Tolgoi, a new road network, or any investment for manufacturing.

According to the outcomes of the model used, the added value to be created in the economy is two times more than the current spending of the proceeds. It means that the added value of MNT 71 trillion can be created, according to estimated 2012 prices. The main cause is related to the reduction of the prices of products in tradable sectors. Additionally, direct and indirect impacts will be closer. This could have a positive impact on the construction sector in the short-term, but there would be a sharp reduction in the positive impact for the long-term. Yet there would be an adverse impact on energy generation for both the long and short terms. It is expected to bring 23 to 70 percent growth to all other sectors.

The time needed for foreign trade balance to grow positive would be postponed to 2019. After 2019, the trade profit would be much more than the estimates of other scenarios. Related to this, the tugrug's exchange rate would likely strengthen by 4 percent compared with the current spending of the proceeds. During this period, the government would generate MNT 6.7 trillion more. By 2023, the state budget would likely be 3 percent profitable.

Please note that our estimates are quite optimistic in terms of the base scenario. Of course, the base and policy analysis and assessments can be made in many different scenarios. ■

## EDUCATION

# A GATEWAY TO EDUCATION



Photo by B. Byamba-Ochir

BY S. ZAYA

Mongolia's education system is like road traffic in Ulaanbaatar, according to Aike Chake, a PhD and officer at the German Goethe Institute's representative office in Beijing.

Mongolia's education system often changes with the whims of politicians, only to satisfy their own needs. The state budget allotted 17 percent of total spending, or MNT 1.2 trillion, to education this year. Only 4 to 5 percent of that is towards trainings. Although total education spending was 5.7 percent more than the year before, it is still not enough compared to other countries that spend 20 to 30 percent on education each year.

The United Nations has appealed for education to be given the highest priority to government. A study from the School of Economic Studies at the National University of Mongolia revealed that the budget for education is still insufficient, although more is spent there than anywhere else. The government spends 70 percent of the budget for schools on teachers' wages, 20 percent for heating, electricity and water consumption fees, and 4 to 5 percent for business trips.

The skills of teachers and lecturers are often lacklustre in Mongolia. Although many skilled individuals might be interested, the wages are too low to be competitive with other professions or retain the truly gifted educators.

Chake led a delegation of educators from Germany three years ago in Mongolia to carry out a study on education in the country. They were astonished by the wide disparity ▶▶

- ▶ between wages of teachers and lecturers. There surprise was because German primary school teachers' wages are higher than any other educators in Germany.

## Changing the System

B. Nasanbayar, director of the Strategic Policy and Planning Department at the Ministry of Education, said the Education Ministry plans to conduct an assessment of education at every level, including non-academic skills of fifth and ninth grade students to identify target goals for the future.

"We are focusing on the integration of the contents of subjects taught from the first to fifth grades", said Nasanbayar. "For instance, the content of Mongolian lesson should be consistent with the content of Natural Science. Students are taught from 7 to 8 subjects a day. This means that they will have to do homework to the same extent. If it continues this way, students' work loads will be increased. So, their subjects need to be reduced, giving them more time to do their homework".

The Education Ministry has observed the operations of Mongolia's universities since 2009, when the country had over 160 universities serving a population of fewer than three million. The ministry has since cut the number of universities to 101, arguing that having so many was watering down the quality of education.

That initiative included the incorporation of 16 schools under the umbrella of the National University of Mongolia. Mongolian researchers in education argued for structural change because having so many divisions was detrimental to overarching training standards and the management of the different schools.

The ministry said, however, that the number of universities mattered less than students' performances. Its only criterion was that they only accept students who earns scores higher than 400 on entrance exams.

The 2014-2015 academic year will provide the opportunity for universities and schools to develop integrated curriculums that enable students to opt out of certain subjects.

It might be useful if schools posted curricula and syllabi on the Internet for students to review and prepare. In addition to all this, the ministry also hopes to separate funding for training materials from costs for construction of new schools and institutions.

The problems with teaching are fundamental, and are associated with the Soviet model adopted so many years ago. It is quite common for lecturers to use the same lessons they taught a decade ago.

Officials at the ministry said that there has not been significant progress in education, despite its spending in that area. A more targeted approach and comprehensive plan is needed. The further development of teachers would have a direct impact on the education of students, and that human development would spread to all corners of the country. ■

## PRICE

The following are the prices of consumer goods two weeks before Mongolia's lunar new year, Tsagaan Sar. The price of meat and flour per kilogram rose by MNT 500 to MNT 1,000, as of January 25 this year.

### The price of meat per kilogram (MNT)

Type		Markets/price		
		Khuchit Shonkhor market	Bumbugur market	Mercury market
Beef	Boneless	8200-8500	8500-9000	9000-11000
	Meat on the bone	7800-8200	8000-8500	9000-10000
Mutton	Boneless	7000-7500	7500-8000	7500-8500
	Meat on the bone	6500-7000	6800-7500	7000-8000
Goat meat	Boneless	6000-6500	6300-6800	6500-7200
	Meat on the bone	5500-6000	5700-6000	6000-6500
Chicken	Boneless	5000-5500	5200-5500	6000-6500
	Meat on the bone	4800-5500	5000-5500	5500-6000
Horse meat	Boneless	4800-5500	5000-6000	5500-6500
	Meat on the bone	4200-5000	4700-5500	5000-6000

### The price of vegetable per kilogram (MNT)

Type	Markets/price		
	Khuchit Shonkhor market	Bumbugur market	Mercury market
Potato	600-800	650-800	700-900
Carrot	1000-1200	1000-1100	1200-1500
Onion	1300-1500	1500	1500
Turnip	1100-1300	1200-1500	1300-1800
Cabbage	1200-1500	1200	1500-1800
Garlic	3500-4000	3000-4500	4000
White radish	2000-2500	2500-3000	2500-3000

### The price of flour per kilogram (MNT)

Type	Markets/price						
	Khuchit Shonkhor market		Bumbugur market		Mercury market		
хэмжээ	10 кг	25 кг	10 кг	25 кг	10 кг	25 кг	
Улаанбаатар дээд	12500	20500	13000	20000	14000	23000	
Алтантариа дээд	I	8500	18500	9000	19000	9500	21000
	II	5000	9500	5500	10000	6000	11000
"Атар" дээд	I	11500	26000	11500	25500	12500	26500
	I	8000	18500	8000	18000	9000	19000

### The price of other food products (MNT)

Төрөл	Markets/price		
	Khuchit Shonkhor market	Bumbugur market	Mercury market
Sunflower oil	3000-3500	3200-3500	3500-4000
Sugar	1600-2000	1800-2000	2000-2500
Rice	1800-2000	2000-2200	2000-2500
Buckwheat	1800-200	2000-2200	2200-2500
Salt	600-1000	500-800	500-1000

## INTERVIEW

# SINGAPORE: A SMALL COUNTRY WITH BIG EXPERIENCE



BY D. BEKHEE

*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 impor-

tance, 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. ■

## MONGOLIAN TRADITION

# TSAGAAN SAR – MONGOLIAN LUNAR NEW YEAR

BY B. TOGTOKH

## Tsagaan Sar explained

Mongolian Lunar New Year, commonly known as Tsagaan Sar (literally White Month) is the first day of the year according to the lunar calendar. The White Moon festival is celebrated one month after the first new moon following the winter solstice. Tsagaan Sar is one of the most important Mongolian holidays. Also people greet each other with holiday-specific greetings such as “Amar baina uu?”, meaning “Are you in peace?” Mongolians also visit friends and family on this day and exchange gifts. A typical Mongolian family will meet at the home of the eldest in the family. Many people will be dressed in their traditional deel. When greeting elders, Mongolians grasp their elbows to show support. The eldest receives greetings from each member of the family except from his or her spouse. During the greeting ceremony, family members hold long, typically blue, silk cloths called a khadag. After the ceremony, the extended family eats sheep’s tail, mutton, rice with curds, dairy products, and buuz (steamed dumpling). It is also typical to drink airag (fermented mare’s milk) and exchange gifts.



*The President of Mongolia, the Prime Minister and the Chief of State Ikh Khural are greeting the oldest people during Tsagaan Sar*

The atmosphere around town is noticeably different in the week leading up to Tsagaan Sar. Markets are abuzz with families buying food and last-minute gifts for loved ones who stop by for the new year. In recent years, this family oriented celebration has become an economic burden for many. Some blame the increases in inflation and the lack of increases for salaries and pension. The average family wage can barely cover the cost celebrating, especially in the city, where price hikes often occur in the weeks prior.

The household budget for Tsagaan Sar is at least MNT 2 million including the cost of milk and dairy products, meat, different types of drinks and gifts. When younger family members greet the elderly they usually give them MNT 5,000 to MNT 20,000 or more. One family might spend MNT 100,000 to MNT 200,000 on greetings alone.

Food also adds a sizeable cost to the celebration. Couples aged between 30 and 40 usually prepare about 600 to 800 buuz. Older members of the family prepare even more – 1,500 to 2,000 buuz, depending on the number of guest they are expecting.

Sheep tail, the hero of Tsagaan Sar fare, costs anywhere from MNT 150,000 to MNT 450,000. This is served with ul boov, a traditional Mongolian biscuit, as well as dairy products. Usually family members aged around 50 years old will be responsible for this part of the celebration. ▶

► Clothing is also another added expense. Most Mongolians wear a new deel, the traditional Mongolian dress. Wearing a deel is quite common in Mongolia and usually costs from MNT 110,000 to MNT 300,000 at Narantuul market. But this does not include the cost of a new vest or footwear. A deel made of cashmere costs up to MNT 1 million. Lately the Hunnu-style deel has become considered quite fashionable. This type of deel is worn not only during Tsagaan Sar, but during other special occasions including the July Naadam festival.

Most children also rise to the occasion and don their best outfits when visiting their extended family during new year. It is a good way to accustom children to long-standing traditions and customs and make them proud of their country. Some foreign people who work and live in Mongolia also prefer to wear traditional costumes during Tsagaan Sar.

Mongolian snuff bottles made of precious stones are also commonly used to celebrate. Most adults, both men and women, will share their snuff bottles after greeting one another. A new snuff bottle can really blow out the budget, depending on its content and quality. If its body is made of chalcedony, the cap is made of red coral and the spoon is made of gold, the price can be in excess of MNT 15 million. There are also some cheaper bottles on the market that are available. But the expensive ones, used by wealthy businesspeople and members of the State Great Khural, are prized possessions.

Celebrating Tsagaan Sar helps families reconnect and wish each other well for the new year, but it can come at a cost. The price of food, clothing and gifts can place incredible pressure for some, especially those who do not earn above the average salary. Even though costs can be excessive, it is important to remember the integral meaning of Tsagaan Sar – to gather with relatives and enjoy each other's company. ■



Sheep tail, the hero of Tsaggan Sar fare, costs anywhere from MNT 150,000 to MNT 450,000.



Making Buuz for the New Year celebration



Countryside family is cooking biscuits

## MINING

# A NEW MINERALS POLICY

BY B. TOGTOKH

The state policy for mineral resources approved by the State Great Khural January 16 will determine the future of the mining sector. Those in the mining industry have commented in favour of the policy, saying it points towards a strong direction for the regulation of the mining sector. But not everyone is so sure.

The aim of the new policy is to breathe new life in the industry after two years of little activity. The policy will have direct effect on upcoming legislation on petroleum, minerals and other natural resources as well as transparency within the mining industry.

It will also have impact on the approval of new extractive projects for resources such as copper, iron, or fluor spar. The daily consumption of humans depends on natural resources such as crops or minerals.

Last month the Mining Ministry hosted the 2025 Mineral Resources Discussion to discuss the role of the mining industry in Mongolia as well as its economy and how the country can better utilise the extractive industry. Representatives of the mining sector discussed the direction the industry should be led towards over the next 10 years, and whether or not it is in the country's best interest to maintain it as a main pillar to the economy.

The Ministry of Mining has set the goal to double the volume of mineral exports by 2016, despite the declines in the price of minerals and investment in this area. Amid these challenges, having 20 percent budget revenue derived from mining seems ill-advised. That makes having this conversation all the more crucial today. Over the past three years, the mining



sector has comprised 17 percent of GDP, 81 percent of total export, and 73 percent of foreign direct investment, according to the Ministry of Mining. Looking at these figures, one must wonder if Mongolia can truly separate itself from this industry.

Some MNT 10 billion is planned for spending in geological research in the 2014 budget. The Ministry of Mining has projected investment figures to double, or even triple, in upcoming years, expanding the industry and its revenues. The Ministry of Mining said that it would focus on attracting 10 percent of the USD 6 billion of investment spent worldwide each year for exploration

Last year, the number of special licences totalled 3,055 – 763 exploration licences and 1,292 exploitation licences. In 2005 69.6 percent of Mongolian territory was licensed for mine activity, but that figure has contracted to a mere 9.7 since December last year.

In Mongolia, the majority of mineral resources are concentrated in the central and eastern regions. According to the Mineral Resources Authority, Mongolia has 1,170 mineral deposits, 15 of which are labelled under the country's strategic deposits. Another 39 deposits may someday be added to the list of strategically important.

"The growing number of exploitation licences in recent years indicates that real investment is on the rise", said Mining Minister Davaajavyn Gankhuyag.

There is one thing which really annoys entrepreneurs in the mining sector: setting a benchmark price on mining products. Mongolia's benchmarks for coal and fluor spar, for instance, were unreasonable. It is likely that the benchmark for those commodities will be adjusted. D. Galsandorj, president of the Mongolian Exporters Association, said one possible solution would be to establish a Mineral Resources Exchange.

The Mining Ministry has established a working group tasked with studying how to establish such an exchange. The market could then contribute to help set the prices for commodities. Gankhuyag also suggested that they government establish a national geological division dedicated to the discovery of new resources. Global demand for mining products is expected to grow 2.4 percent a year until 2030, according to a study by World Bank. Meanwhile, the world population is projected to grow 0.8 percent.

Mongolia's extractive industry is believed to be the main driver of the economy in the short-and long-term.

"In the next decade, there will be an improvement in the level of minerals processing and the launch of the manufacturing of value-added products", said said O. Erdenebulgan, deputy mining minister. "By doing so, Mongolia would have the potential to improve its competitiveness among the world markets. The country aims to transition to producer from miner in the near future. The sectoral policy is being focused on this".

One result of the 2025 Mineral Resources Discussion was an appeal to the mining industry for the introduction of new and advanced technologies as well as specific focus on wildlife conservation and environmental restoration. Delegates also requested that companies act more responsible and transparent by focusing on making improvements to the quality and standards of their operations and making their companies competitive internationally.

The industry will have to work to improve productivity, reduce costs, and produce value-added goods. The market demands it. ■



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## SME

## MONGOLIA'S GIFT

BY CH. LUTAA

I knocked on a door that reads “do not enter”. Nobody responded but I could hear sounds inside. I could not tell what was going on behind the doors. I waited a little longer and knocked again.

Still no response.

Just as I was about to leave, the door opened and I peered in to see around 20 employees drawing, rubbing and shaping tiny objects. When I looked at the workers more closely, I saw how they were meticulously crafting precious stones and metals into beautiful jewellery and souvenirs.

### Humble beginnings

After graduating from the School of Art in 1985, S. Batzorig stayed on to work at the school for six years. During Mongolia's transition period in the early 1990s, Batzorig started to produce made-to-order jewellery and souvenirs. He also tried selling his wares in China and Russia, just as many others did, but he was never quite satisfied with this life.

Batzorig felt he could be doing something more with his passion and skills. After a decade of honing his craft and realising what he wanted to do, Batzorig established Khas Goyol in 2002.

When asked why he started Khas Goyol, he replied, “Our company aims to introduce Mongolia's culture and tradition to the world. We try to manufacture jewellery and souvenirs that best represent Mongolia”.

Khas Goyol manufactures a range of jewellery and souvenirs made of gold, silver and precious stones. Its craftsmen and jewellers have made everything from horse-head fiddles to a number of souvenirs, including mobile phone accessories, candle holders, ornamental wild animals and wrestlers, and even images of the former presidents and prime ministers of Mongolia.

Every item is made in line with the standards of the National Jewellery Monitoring Department. Jewellery branded with this trademark are guaranteed to be authentic and of a high quality.

### Innovation and growth



Photo by E. Zorigt

Khas Goyol employs around 30 people, including several craftsmen and jewellers. They are instilled with the same purpose: to manufacture locally made jewellery and souvenirs to replace cheap imported goods.

“Why do we have to import our souvenirs from China? It is because we don't have the technology in Mongolia”, said Batzorig. “We are capable of making the designs, but producing products in bulk proves problematic”.

“We could have done this by hand, but this would take such a long time and the price would have been much higher than imported goods. But now we feel that we can produce cost-effective products”.

Last year the company introduced zinc fusion and replicating technologies from China to speed up the production process. “Zinc is unable to compound with most metals. So, we introduced a new technology from China that makes this possible”, said Ch. Batbayar, a craftsman at Khas Goyol. “We also introduced molten metal technology. This technology allows us to mass produce all types of souvenirs. This cost-effective equipment really saves us time and makes our products cheaper than when we were making them by hand”.

Before they introduced this technology into their operations, the cost per unit of products made of silver, copper or brass by Khas Goyol ranged from MNT 50,000 to MNT 60,000 compared with MNT 5,000 to MNT 10,000 afterwards.

Zinc becomes molten at a relatively lower temperature; its fluidity is high. It is much cheaper than gold or silver. The only disadvantage is that it is harder to polish. Polishing incorrectly ▶▶

► turns the colour darker. Instead, the zinc item should be covered by copper first and then by nickel. Any products that are polished in this way retain their quality for much longer. Products made of pure silver or brass rusts quickly and requires constant polishing.

The only weakness of using a zinc fusion is that it is poorer in quality. This can be improved if Khas Goyol buys a specific piece of equipment from China that applies more pressure to metals to improve its quality. This type of technology is usu-

price of domestically manufactured products 10 percent more expensive than the price of imported goods. Ironically, some of these raw materials originally come from Mongolia. Mongolia exports raw materials to China for processing and then sells them back to Mongolian manufacturers at a higher price.

By using innovation and technology, Khas Goyol has prevented price increases for its products over the past five years. Previously, the costs for manufacturing were between MNT 20,000



ally better suited to larger factories and is quite expensive, so recovering the cost would be difficult for Khas Goyol. Batzorig said that only two out of every ten products introduced to the market survive. For this local entrepreneur, research into new technologies and potential success is essential before he commits to their costs.

### Neighbourly Competition

Zinc fusion technology is a highly developed technology in China. Competing with China to manufacture cheap, good-quality products is not an easy task.

“Of course, there are so many craftsmen and jewellers in China”, said Batzorig. “When they have completed production, they send their products to factories to have them polished. The factory has many skilled workers who handle every single step in production, including shaping and melting”. In Mongolia, the situation is different. One worker handles every step of production, including the design, melting, and polishing. In China, the risk is mitigated by having different companies work on the jewellery at different times during the production process. This limits the margin of error during each phase of production. Having a single individual take on every risk during the entirety of production is risky and makes the good more expensive.

Competing with China for the production of cheap goods is extremely difficult. Chinese production has many benefits, including cheap raw materials, labour opportunities, and a thriving manufacturing industry. Mongolia imports raw materials from China for manufacturing. Freight and customs tax makes the



to 30,000 compared with current costs of between MNT 2,000 and MNT 3,000. The company has cut its costs five to ten times.

If the exchange rate against the Chinese yuan rate had not increased, the price of Khas Goyol’s products could be even cheaper. The price of imported souvenirs is, however, constantly rising. Access to cheaper raw materials and introducing cost-saving technologies are important aspects for manufacturers to consider.

Without such advancements, “Made in Mongolia” may not be able to compete with “Made in China”. ■

## INTERVIEW

## NO MONGOLIAN FAIRY TALE



BY E. ZORIGT

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 an 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 be 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 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. ■

## TOP-20

# MONGOLIA TELECOM FALLS BEHIND THE TIMES



BY E. ZORIGT

There is concern over whether or not Mongolia Telecom is losing its value. It is the only state-owned telecommunication company that utilises foreign investment. Mongolia owns 54.67 percent equity while some 40 percent is owned by South Korea's Korea Telecom. The remaining 5.33 percent is owned by private individuals through the Mongolian Stock Exchange (MSE).

Mongolia Telecom earned MNT 2.9 billion in profits in 2009, distributing dividends of MNT 440 million to shareholders, and profits of MNT 1.8 billion in 2010. Unfortunately, since 2011 the company has only seen year-end losses. (See Figure 1)

Mongolia's agreement with Korea Telecom provides some 10 special licences to the phone and Internet service provider. The largest telecommunica-

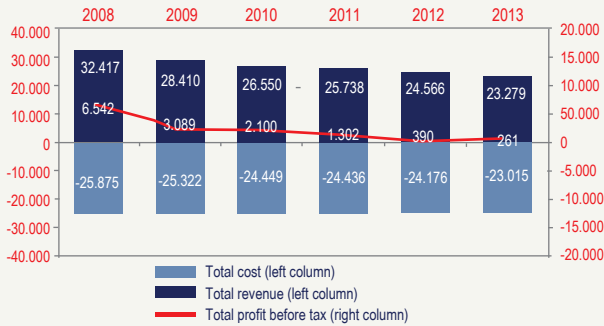
tion company in Mongolia, Mongolia Telecom allows for international calls, land line, Internet, and cable television in Ulaanbaatar, 21 provinces and 159 counties, allowing the company to place in the MSE Top 20 every year. But the company's annual losses over the last two or three years has resulted in lesser dividend payments each year. (See Figure 2)

Subscriptions to services declined 12 percent last year compared with the year before. The consequence of those losses is the company has had to cut back on the size of its network.

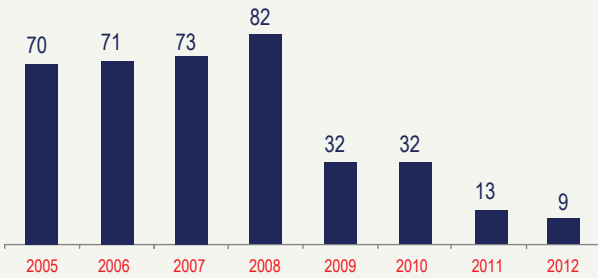
Mongolia's four mobile operators are Mobicom, Skytel, Unitel and G-Mobile. Each offers new and innovative services, such as 3G wireless Internet. That has put Mongolia Telecom behind the times in terms of services offered, making it difficult for it to compete. But now Mongolia Telecom plans to beat ▶

▶ out its competition by introducing the country's first 4G network to the market. Perhaps by being the first roll out what is seen as the next generation of mobile communications, the company can breathe the new life into its consumer base. ■

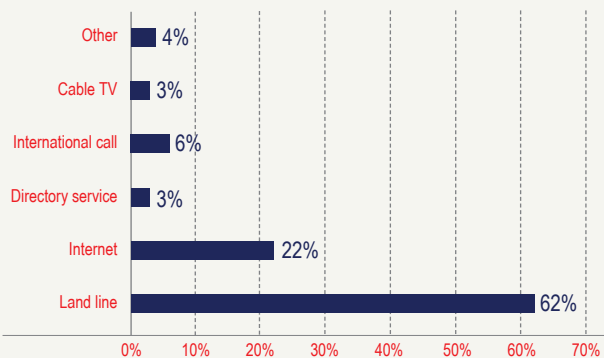
Revenue, cost and profit as of 2008-2013 (million/s of MNT)



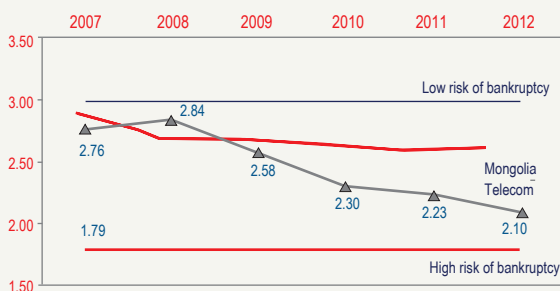
Mongolia Telecom's earning per share (EPS) 2005-2012



Products and services in terms of revenue as of 2013 (%)



Z-score formula for predicting bankruptcy by Edward I. Altman as of 2007-2012



# NEWSWIRE HIGHLIGHTS

**NewsWire is a weekly news aggregate sponsored by the Business Council of Mongolia. Each week NewsWire delivers breaking and significant news from local and international news sources for a Mongolian and foreign audience alike. The following are news highlights from the month of December:**

**BUSINESS**  
**TURQUOISE HILL POSTS 2013 PRODUCTION NUMBERS AND 2014 GUIDANCE**  
 Turquoise Hill Resources Limited on 16 January announced fourth quarter results for 2013 and full year operational results for the same year.

Turquoise Hill produced 77 kilotonnes of copper in concentrates, 157 kilo-ounces of gold in concentrate and 489 kilo-ounces of silver in concentrate. Daily rates for shipments of concentrate are not yet aligned with production rates as two of Oyu Tolgoi's receiving smelters have experienced technical difficulties and consistent customer delivery schedules have not yet been embedded. As such, some sales volumes have been deferred into the second and third quarters of 2014 and inventories are expected to build during the first.

The Oyu Tolgoi LLC, 66 percent stake holder, also guided that in 2014 the copper and mine would produce 150 to 175 kilotonnes of copper in concentrates, and 700 to 750 kilo-ounces of gold in

concentrates. Oyu Tolgoi is expected to return to more normal inventory levels by year's end 2014.

"As a result of 2013 production being sold in 2014 and of the bullish guidance on gold, our sales volumes forecast for 2014 now appear to be pessimistic and need to be revised up," said the Source.

"We believe that this is a reflection of the fact that Oyu Tolgoi only started operations back in 2013 and goes through a normal ramping up process and is therefore not really alarmed by 2013 sales miss. Also, the fact that sales slipped from 2013 to 2014 but that production forecast for this year is solid lead us to believe that, all in all, there will be no significant impact on our valuation."

Source: Visor Capital

**FEORE SELLS IRON ORE STAKE FOR USD 56.7 MILLION**

FeOre Limited has ended a trading halt with the announcement of a deal with China Energy (Cayman) Limited, an "independent private" company, for the sale of its interest in Topone Star Investments Limited, which indirectly holds 80 percent interest in its Ereeny and Dartsagt iron ore projects located in Mongolia.

The deal includes a USD 51.03 million cash consideration and an additional deferred payment of USD 5.67 million upon when the buyer ▶▶

▶ successfully lists the asset on the Hong Kong Stock Exchange. FeOre intends to use the proceeds and cash balances (approximately USD 20.1 million) to redeem its convertible bonds and undertake a share buy-back program. FeOre shares jumped as much as 41 percent to 5.8 cents in early morning trade. Source: Cover Mongolia

#### MIAT PLANS IPO

MIAT Mongolian Airlines has hired a multinational investment firm to assist in its initial public offering (IPO) on the Hong Kong Exchange. The MIAT board will decide whether to list 49 percent equity on the stock market after an evaluation has completed. The announcement follows Mongolia's state policy agenda for air transport, which outlines plans to partially privatise the airline. Source: News.mn

#### ECONOMY

##### MONGOLIA PAYS \$60 MILLION FOR JBIC GUARANTEE ON SAMURAI BOND

Mongolia paid USD 60 million to the Japanese Bank for International Cooperation (JBIC) for the 90 percent guarantee on its yen-denominated bond offering in 2014, said a member of the prime minister's staff. "Annual interest of the Samurai bond is 1.5 percent and we have to pay annual guarantee fee of 1.9 percent, which means we have to pay 3.4 percent in total, annually", said D. Batmunkh, the economic policy advisor.

Source: *Undesnii Shuudan*

##### POWER PLANT TO BE BUILT IN GOBI REGION

A 600-megawatt coal-fired power plant is planned for construction next to the Tevsh coal mine in Dundgobi Aimag. The mine mouth plant in

Saintsagaan Soum, Dundgobi is expected to be the biggest energy producer in the country. Funding of USD 35 million is planned for development and construction. Contractor Mogul Power, a subsidiary of a US-based Mogul Energy International, warned that costs could exceed that estimate, however.

The plant is expected to recover construction costs in 15 years after commissioning. Construction is expected to launch this year, as soon as financing agreements are in place.

Source: *Montsame*

##### MONGOLIA SEEKS FOREIGN INVESTMENT FOR FLUORSPAR

Mongolia's potential for fluor-spar is great, but it will have to resolve a series of challenges to establish any kind of industry.

Mongolia contains vast fluor-spar deposits, as well as graphite and rare earths, producing 430,000 tonnes of all grades of fluor-spar in 2013 with 70 exporters responsible for selling the material to a global market. Accounting for over 30 percent of total annual sales of fluor-spar in Mongolia is Mongolrostsvetmet LLC, the Russian-Mongolian joint venture. The country's other major suppliers are: MonCzechMetal (11 percent), Kevin Invest (8 percent), Bayalag Jonsh (4 percent), and Naimgan Ord (4 percent). Just under 50 percent of products come from small-scale suppliers. There still remains over 140 known deposits of fluor-spar with ore grading between 30 and 35 percent calcium fluoride, which are yet to have an owner.

De Castro said Russian influence on Mongolia's rail system is holding back logisti-

cal development. Mongolia adopted the Russian rail standard, but Chinese trains in contrast run on so-called standard gauge tracks used throughout most of the rest of the world. This means exporting to China is more expensive than to Russia. Another challenge for fluor-spar extraction in Mongolia is that its deposits are distributed all over the country in small pockets instead of being concentrated in a few places, which makes it difficult to commercially mine, particularly with limited rail-road access. Owners of small deposits of minerals also face problems from illegal miners.

Source: *Industrial Minerals*

#### POLITICS

##### MONGOLIAN PRESIDENT SETS NEW REFORM GOALS

President Tsakhia Elbegdorj can rightfully boast that he has persuaded parliament to take a more welcoming stance toward foreign investment, but he is aiming for even more.

Elbegdorj, who was re-elected last June to a second four-year term, addressed businesspeople in Ulaanbaatar last month and sketched out plans for 13 new bills. He used the slogan, "From big government to 'smart' government." "After three years when I leave, they will talk about my legacy," Elbegdorj said. "Investors want direct answers to how safe, how secure their investments are." The proposed laws would impose greater fiscal discipline on government borrowing, enhance transparency at "all levels of government," limit the kinds of investments the government can make, and reform property and contract rights. Bayanjargal Byambasaikhan, chairman of the Business Council of Mongolia

and managing partner of the financial advisory company NovaTerra, sees the reform of land ownership rules as most critical.

"Thirteen (bills) is too many, I think," said Luvsandendev Sumati, head of the Sant Maral Foundation, a non-profit polling agency, pointing to discord both within the ruling party and with its coalition partners, especially the Mongolian People's Revolutionary Party, and the tendency of lawmakers to stake out populist positions.

Elbegdorj and officials from the Mongolian Stock Exchange have been touring foreign financial centres to promote investment. They hope the recent reforms can help drive a rebound in foreign inflows.

Source: *Nikkei Asian Review*

##### BILL TO INCREASE VAT THRESHOLD TO MNT 50 MILLION WILL BE SUBMITTED

Parliament will receive a bill that stands to decrease the tax burden on small business. According to the bill, the threshold on value-added tax (VAT) will be increased from MNT 10 million to MNT 50 million. Companies can pay VAT voluntarily starting from MNT 10 million. If approved, 50 percent of taxpaying SME's would be exempt from VAT.

According to the bill for Corporate Taxes, for companies that have less than MNT 1.5 billion of annual sales, 90 percent of the corporate tax paid will be returned. Companies operating in mining, the import and export of oil products, mobile phone services, alcohol, spirits and tobacco businesses will not be able to receive the return of taxes.

Source: *Udriin Sonin* ■