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MONGOLIAN ECONOMY

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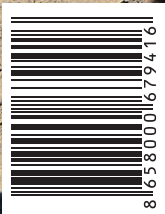
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Mongolia's Economy and Business Magazine

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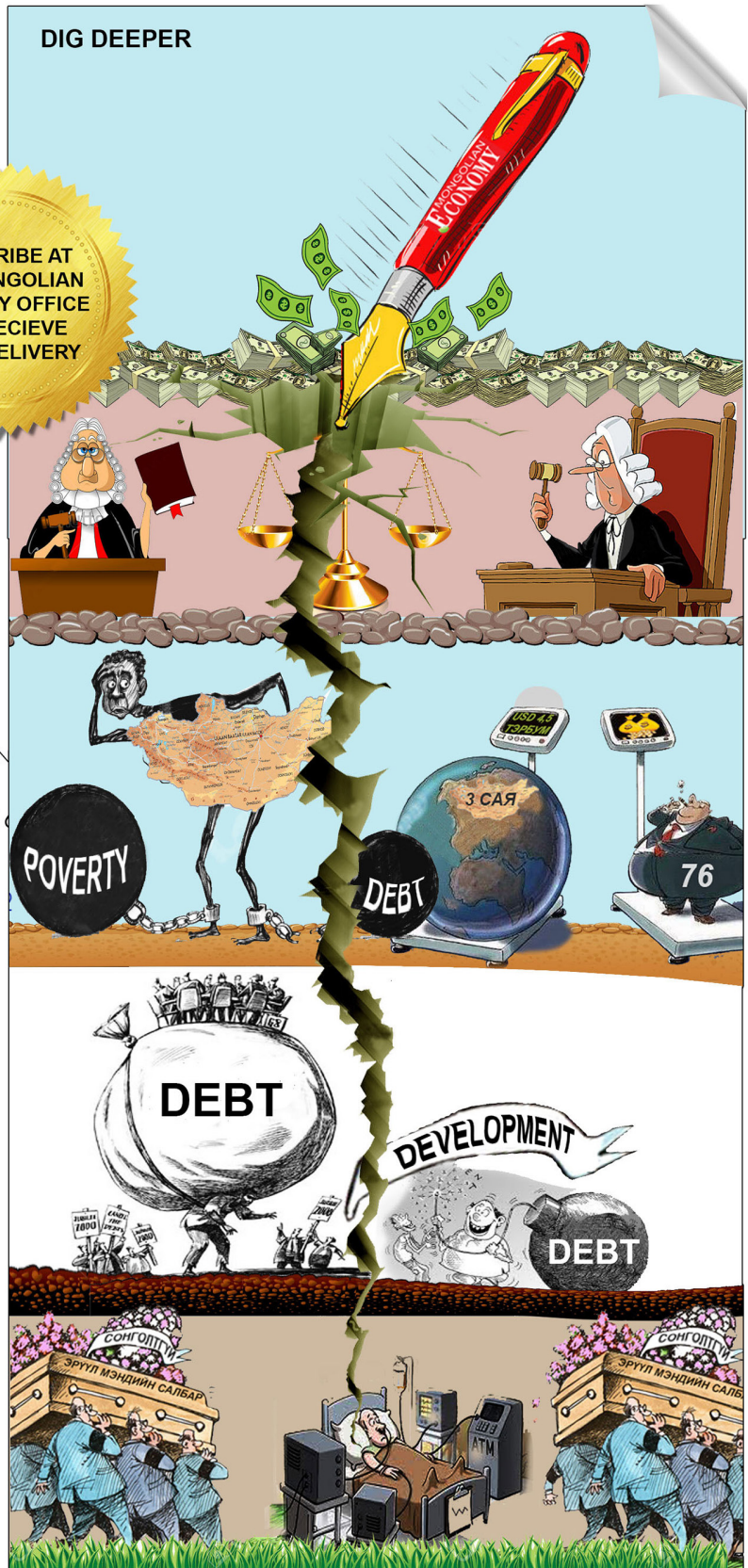
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Developing Asia has become the world's largest investment region. In 2014, MNEs from developing economies alone invested USD 468 billion abroad, a 23 percent increase from the previous year. Their share in global FDI reached a record 35 percent, up from 13 percent in 2007.



Nine reasons why now is the most opportune time to invest in Mongolia.



The new investment law aims to create freer market conditions, a more favourable business environment, efficient investments and a more diverse economy. It should also be mentioned that domestic and foreign investors shall be equally protected, and tax-related and non-tax-related support will be provided.

STABILISATION AGREEMENT



Altan Khuder LLC and Sky Resort LLC received the first tax stabilisation certificates on the 21st of last month. These companies were the first to receive such certification. Altan Khuder LLC, which operates at the Tavannuur iron ore deposit, will make a total investment of MNT 279.7 billion and received an 11-year term stabilisation certificate. Sky Resort LLC received an eight-year term stabilisation certificate for a ski resort and golf course investment project worth MNT 46.6 billion. Stabilisation certificates that create sustainable CIT, VAT, royalty fees and customs tax rates for 5-24 years are being issued to investors meeting certain criteria specified by the investment law. These certificates are issued by the decision of the supernumerary board under the Investment Authority.

COMPETITIVENESS

IMD WORLD
COMPETITIVENESS
YEARBOOK



Mongolia was included in this year's "World Competitiveness Report," which compares the economies of 61 nations. In the previous years, it set Singapore's score as 100 and ranked other nations in comparison. This year, they gave 100 to the US, which topped the list of 61 countries in the report, followed by

Switzerland and Singapore. Previously, Mongolia was not included in the report, even though it was ranked. In 2010, Mongolia's score was 23.9 points, 27.8 points in 2011, 39.3 points in 2012 and 62.3 point in 2013 which is a three-fold increase since 2010. It is a sure sign that Mongolia's competitiveness has been improving. However, this score dropped to 44.5 in 2014. In this report, Mongolia was ranked at 57th out of 61 countries, ahead of Croatia, Argentina, Ukraine and Venezuela. The Economic Policy and Competitiveness Research Center stated that it is noteworthy to be included in this report despite such a low ranking. The competitiveness of nations is judged according to four criteria. Mongolia's economic strength indicator moved up by one spot and placed 14th; the government effectiveness indicator moved up by two spots and was ranked 13th; the business profitability indicator fell by one spot and placed 13th; and Mongolia's infrastructure indicator remained in 14th place.

PRODUCTION



The opening ceremony of a factory with the capacity to produce one million tonnes of cement per year was held on 13th of last month in Urgun soum of Dornogovi (East Gobi) province. "Many developments are taking place in the Gobi region, and a new factory has opened its doors. I am confident that not only will domestic manufacturers provide domestic needs, but also export high-quality European standard cement in the near future," said Prime Minister Ch.Saikhanbileg. Mongolia now has the capacity to produce three million tonnes

of cement per year. The nation's annual demand for cement reached nearly two million tonnes in 2013-2014. This year, domestic industries have met the majority of the domestic demand. Further on in 2016, Mongolian factories will be able to fully satisfy domestic demand. Therefore, the Ministry of Industry announced that they will regulate import taxes through the government policies, support domestic industries and administer a policy to protect domestic markets. Almost ten years ago in 2006, the Monpolymet group started a project to introduce this European standard, advanced dry method technology, and an eco-friendly cement factory, which was finally established this year.

INSURANCE



Mongolian citizens living in countries with no social security cooperation agreement with Mongolia can be insured through voluntary social insurance from now on. The Social Insurance General Office is organising and implementing social security transfer e-services with the State Bank. Currently, the development of the new software is complete. Many Mongolians living abroad wish to get covered via voluntary social insurance in order to ensure their social guarantees when they come back home. However, the issue of people being unable to pay the insurance on their own and paying through someone representing them has caused many problems, such as delays, disruptions or reductions of rates involuntarily. Therefore, the number of voluntary insured is expected to increase after the possibility of paying insurance through e-services is created. In addition, payment due dates and terms have been reformed to be more flexible.

WORLD NEWS

GLOBAL SHARES PLUMMET



Triggered by panic selling in China, all major stock market indices took a nosedive in what the Chinese media have dubbed Black Monday. London's FTSE 100 index saw GBP 73.75 billion wiped out and closed down by 4.6 percent. At one point Wall Street's Dow Jones fell below 16,000 before making a slight recovery, figures unseen since February 2014. The Shanghai Composite plunged 8.5 percent, its worst since 2007. Brent crude fell to its lowest level since March 2009, ending the day at USD 42.61. China's central bank devalued the yuan two weeks prior to Black Monday to boost exports, causing investors to speculate that the current slowing of growth in China is worse than expected. Policymakers have instituted changes to China's state pension to allow 30 percent of the fund to be invested in markets, but this did little to halt the sell-off. The fears of global investors that rely on demand from China now await the Chinese government's next move in its so-far unsuccessful series of attempts to shore up confidence in the stock market. Chinese shares continued the rapid decline the following day, although European and US stocks have been gradually bouncing back.

TSIPRAS RESIGNS

Greek Prime Minister Alexis Tsipras resigned on Thursday, August 20 in the newest development in the Greek crisis saga. Pundits have held that Tsipras hopes to renew his mandate after he was forced to cave in to Greece's creditors, going against his campaign promises of ending austerity. Having secured Greece's third bailout since 2010, Tsipras is facing rebellion within his own leftist Syriza party while at the same time trying to boost public support for the bailout programme. A third of his

party voted against the newest bailout, and the programme was passed only due to support from opposition members. "I feel the deep ethical and political responsibility to put to your judgment all I have done, successes and failures," he said in a speech. However, it is speculated that Tsipras hopes to be re-elected before the toughest aspects of the bailout conditions, including further pension cuts, take effect.

OIL

The lifeblood of civilisation, oil, has not shown signs of any price increases anytime soon after having dropped by nearly 60 percent from the same period last year. In August, violent demonstrations occurred in Iraq with protestors expressing their anger towards their government over failure to provide reliable electricity and also to demand to know where the promised oil money is. Russian consumers are seeing more of their wages going towards necessities, in part due to the sanctions and declining value of the ruble.

Petroleum-dependent nations are nervous over fears of political unrest. Given the recent mood over the Chinese economy, demand for oil does not look likely to pick up, especially with the United States producing more domestically and investing more in renewable sources of energy. The Saudis have resisted calls for production cuts by the other OPEC members, presumably to force higher-cost suppliers out of the market. Oil producers have no choice but to increase production to compete for market share. Even in Iraq, despite the insurrection by ISIS, production has increased by nearly 20 percent since the beginning of the year. Extended periods of low oil prices mean government budgets are taking big hits, forcing spending cuts or increased borrowing. The next OPEC meeting on December 4 ought to be a tense one.

BRITAIN TO REOPEN EMBASSY IN TEHRAN

The United Kingdom will reopen its embassy in Tehran after it was ransacked

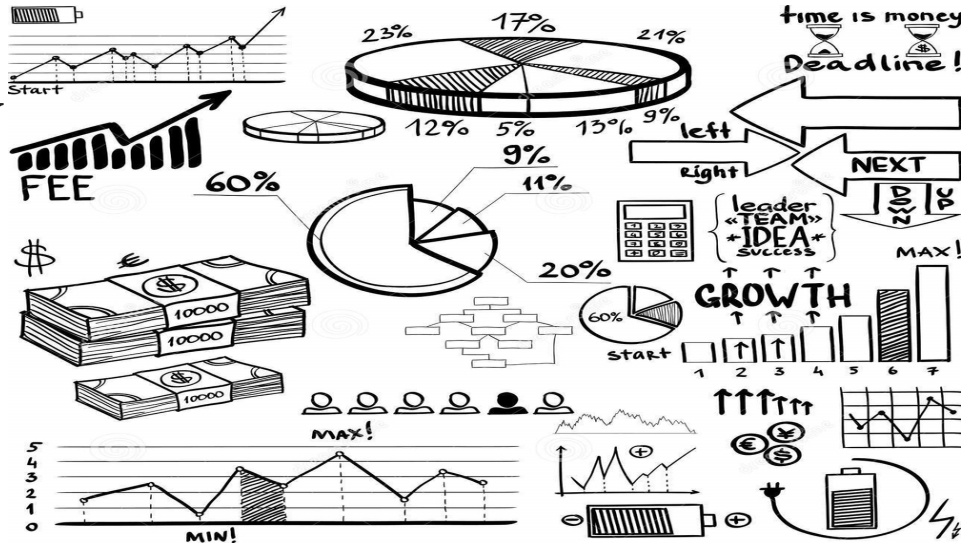
by protestors in 2011 in response to the economic sanctions imposed on Iran for its nuclear programme. However, after years of intense negotiations with the UN Security Council and Germany, a deal was struck in July, and major oil and financial sanctions will be lifted this year, provided that Iran complies with the principals agreed to in the negotiations, including inspections by experts from the International Atomic Energy Agency headquartered in Vienna. Companies in Europe, Russia and China are all eager to revitalise business ties with Iran.

EU MIGRATION CRISIS



French President Francois Hollande and German Chancellor Angela Merkel met in Berlin to plan a consolidated EU-wide response to the EU migration crisis. Merkel emphasised that EU members must share this burden together, and even hinted at EU-controlled registration centres in Greece and Italy to combat the influx of fleeing migrants from across the Mediterranean Sea. This meeting comes after Macedonian authorities allowed refugees to cross their borders and head to Serbia, with Hungary as their final destination. Hungary is part of the Schengen Area, a zone comprising 26 European countries that do not have passport and border controls at borders they share with other Schengen Area countries. The Hungarian government has stated that it will build a fence along its border with Serbia to keep migrants out. Refugees and asylum seekers have been pouring into EU nations seeking a better life in recent years. Some come on boats, with many unfortunate incidences of mass casualties resulting from overcrowded vessels, and others make the trek on land from Turkey heading into Greece. ■

RIGHT NOW



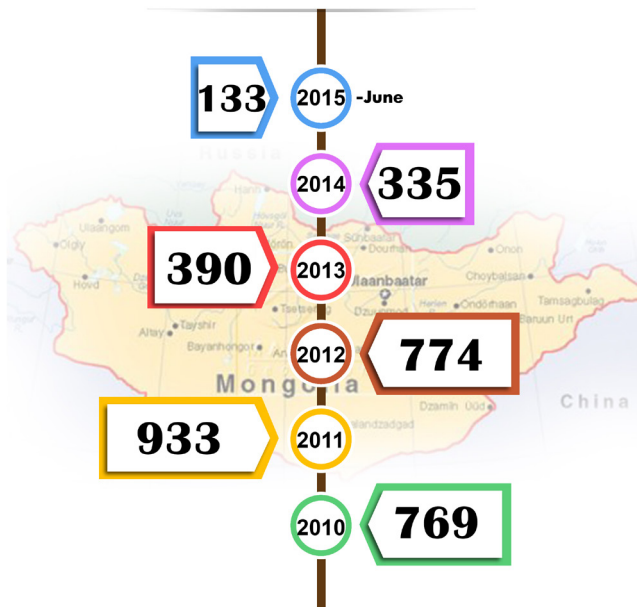
By E.Zorigt

The economy of Mongolia is not quite in negative territory. Even so, words such as downturn and slow-down are often used when talking about the current economic situation. People have started to be upset by such talk. Then why are Mongolians taking this economic situation so hard, when we are not in negative territory? Losses related to the sharp decline in balance of payments and foreign direct investment (FDI) are thinning out the people's wallet. World Bank senior economist Tae Hyun Lee stated, "Policy measures to re-attract foreign investment into Mongolia are the way to restore economic stability." Just to mention one example, the FDI figure in Mongolia fell to USD 44.3 million. Related to this, one USD has reached almost MNT 2000. The central bank is aggressively spending its foreign currency reserves in order to stop the depreciation of the tugrik. For example, the Bank of Mongolia is barely

holding the USD rate steady after intervening with currency exchanges worth twice as much as the USD 44.3 million that came in as FDI in the first half of this year.

However, this does not mean that all the foreign investors have left Mongolia. The General Authority for State Registration reported that 19 foreign-invested companies were newly registered this past July. So far this year, more than 130 foreign-invested companies were registered. In addition, the rebound of the Mongolian Stock Exchange has been good news during this economic decline. Activities of Mongolian capital market investors have been increasing. Participation of foreign investors in activities of the securities market in the first seven months of this year has increased 2.5 times compared to the same period of the previous year and reached MNT 5.5 billion. Also, the trading activity of domestic investors increased 28-fold and reached MNT 323 billion. (see chart)

Number of newly registered foreign-invested enterprises in Mongolia



FOREIGN INVESTORS' COMMERCIAL ACTIVITY



Meanwhile, the Mongolian Banking Association released their analyses of FDI data. However, they have concluded that the investment climate in Mongolia is poor. Make sure you read that report.

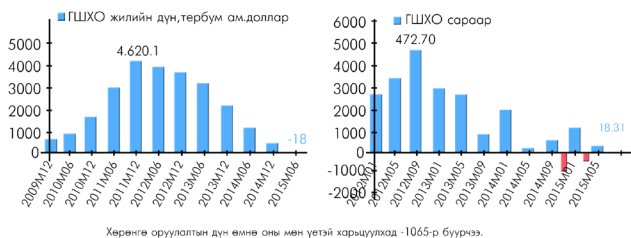
The fall in FDI is continuing as commodity prices on international markets are declining, and even though the OT

(Oyu Tolgoi) underground mine financing has been approved, the approval of the feasibility study and related activities are yet to start. The amount of investment in the first three months of the year was negative, but based largely on cautious optimism about the OT agreement, a total of USD 86.6 million in investment was made from April until June.

CEO of Turquoise Hill Resources, said the OT feasibility study approval, underground mining contract and additional numbers need to be updated within September. In addition, the company estimates USD 230 million for capital spending and USD one billion for operational costs are needed.

Tavan Tolgoi: During prolonged negotiations, parties agreed to a total of more than 350 groups of issues. Investment agreements, cooperation agreements and concession agreements were expected to be approved at the cabinet meeting if Chalco's debt issue was resolved during the negotiations.

Parliament's working group concluded that it was impossible to implement the agreement, thus delaying the implementation of the agreement. USD four billion is to be invested if the project gets implemented.



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	2012	2013	2014	2015.06
Жилийн бууралт	4.60%	-52.40%	-80.70%	-101.50%
Өмнөх оны мөн үетэй харьцуулахад	-40.23%	-34.44%	-104.27%	-106%

The number of registered foreign-invested companies had fallen to 340 by the end of 2014. Until the third quarter of 2012, foreign investors in Mongolia re-invested their profits, but afterwards, they pulled their profits out of Mongolia. This is a signal of investors' doubt Mongolia's economic situation and legal environment. This past June, USD 3.6 million was

Summary:

- Political and legal instability is becoming the major obstacle in restoring investor confidence in Mongolia.
- Setbacks in the implementation of megaprojects and the continuing decline of the price of raw materials on the global markets are becoming the main factors of stagnating foreign direct investment.
- The low re-investment of profits depicts the poor investment climate in Mongolia.
- Until the OT agreements are finalised and the underground mine development begins, increases in investment flows are unlikely.



re-invested.

MINING PROJECTS

Oyu Tolgoi: Investors' expectations have become positive after the OT underground mine financing was resolved in May. However, approval of the feasibility study, investment and start date of operations are yet to be known. Jeff Tygesen,

Although the current situation is such, foreign investors are still considering Mongolia a new investment opportunity. Mongolians who have learned from their mistakes are trying to attract investment in sectors other than mining. In addition, efforts are being made to get the megaprojects moving and significant legal reforms have taken place. ■

UNCTAD



A Home for Investment

By B.Enkhmunkh

Developing Asia saw foreign direct investment (FDI) inflows grow to historically high levels. They reached nearly half a trillion dollars in 2014, further consolidating the region's position as the largest recipient in the world. FDI inflows to East and South-East Asia increased by 10 percent to USD 381 billion.

Global FDI inflows fell by 16 percent in 2014 to USD 1.23 trillion, down from USD 1.47 trillion in 2013. The decline in FDI was influenced mainly by the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. However, it is not all bleak.

The United Nations Conference on Trade and Development (UNCTAD) forecasts an upturn in FDI flows to USD 1.4 trillion in 2015 and beyond (USD 1.5 trillion in 2016 and USD 1.7 trillion in 2017) due to growth prospects in the United States, the demand-stimulating effects of lower oil prices and accommodating monetary policy, and continued investment liberalisation and promotion measures. Forecasts for macroeconomic fundamentals, continued high levels of profitability and cash reserves among multinational enterprises (MNEs) support the expectation of higher FDI flows.

However, a number of economic and political risks, including ongoing uncertainties in the Eurozone, potential spillovers from geopolitical tensions and persistent vulnerabilities in emerging economies, may disrupt the projected recovery. FDI flows to the latter now account for 55 percent of the global total. Developing Asia spurred the increase while flows to Latin America declined and those to Africa remained flat.

Developing Asia has become the world's largest investment region. In 2014, MNEs from developing economies alone invested USD 468 billion abroad, a 23 percent increase from the previous year. Their share in global FDI reached a record 35 percent, up from 13 percent in 2007.

For the first time, MNEs from developing Asia became the world's largest investing group, accounting for almost one third of the total.

Despite the slowdown in economic growth in East and South-East Asia, FDI inflows to the region remained resilient.

Combined inflows grew by 10 percent to a historical high of USD 381 billion in 2014. As a result, East and South-East Asia together continue to be the largest recipient region in the world. Both subregions saw growth: inflows to East Asia rose by 12 percent to USD 248 billion, while those to South-East Asia rose 5 percent to USD 133 billion.

The performance of the Asian countries varies. For example, China has surpassed the United States to become the largest FDI recipient in the world. FDI inflows to China reached USD 129 billion in 2014, an increase of about four percent. This was driven mainly by an increase in FDI to the services sector, particularly in retail, transport and finance, while FDI fell in manufacturing, especially in industries that are sensitive to rising labour costs.

Inflows to Hong Kong rose by 39 percent to USD 103 billion. FDI inflows to Singapore, another financial centre in the region, by contrast, rose by only 4 percent to USD 68 billion.

FDI flows to the landlocked developing countries (LLDCs) fell by 3 percent to USD 29 billion in 2014, the third consecutive yearly decline for this group of economies. Investment in the group became more concentrated in the top five economies, which increased their share from 62 percent to 71 percent of total flows. Ethiopia entered the top five for the first time, in terms of value of inflows, while Mongolia dropped out of the top five owing to a precipitous 76 percent fall in flows. The Asian group of LLDCs (5 countries) saw FDI to the subregion fall again, due to the continuing decline in flows to Mongolia, which dropped from USD 2.1 billion to USD 508 million. FDI inflows to Mongolia showed a decline for the fourth successive year. Political and policy instability coupled with an economic slowdown (GDP growth fell from 12 to 6 percent in 2014) has led to reduced investor interest. One potential area for FDI growth concerns the construction of a gas pipeline between the Russian Federation and China that could pass through Mongolia, as the Russian Federation explores increasing trade and investment cooperation with China. For the time being, though, growth in FDI to the country is weak. ■

Source: UNCTAD



Mongolian Economy magazine sat down with the head of the Investment Authority of Mongolia, S. Javkhlanbaatar. We shared his thoughts on the future of investment during these times of foreign investment decline, a deficit in the balance of payments and the USD-MNT rate having sharply risen.

- Trust. This word means the most to investors. However, we lost this trust in the past. What can we do in order to regain their trust?

- Generally, any human social interaction, but especially a business relationship, is based on trust. As such, trust is a key issue for investors. This year's Economic Forum was held under the theme "Credibility," which could not have come any sooner. Starting implementation of the megaprojects is an important step in instilling a positive attitude in foreign investors. Generally, doing and implementing what was agreed and negotiated is the principle of international business. If that is not how it is going to be, there is no need to talk about future cooperation and trust. Topics concerning business and trust are developing into scientific theories. This can be traced back to the late 19th century in the US when an investor vested the management of his business unto his managers and administrative team. The issue of trust between the government and foreign investors is being addressed within the established contracts and agreements.

Developing Countries Attract Half of All Global Investment

By Z.Ujin

A lot of effort and hard work is required to regain trust that has been lost. According to "The Mining Law Review" study, the key factor in the decline of foreign investment coming into Mongolia was and is the Mongolian government's sudden changes to certain legal frameworks. However, we believe there are significant opportunities to show that we are a reliable business partner. For example, we have a chance to revive our reputation once we successfully start and implement the megaprojects. On the other hand, there are several issues on the investors' side, such as the un-fulfilment of their obligations, mis-affirmation of their purpose and ignoring culture and customs. Thus, the concept of trust means equal rights and obligations of participating parties.

In order to improve the business and investment environment, the public sector, private sector and citizens have to work together. We are working to establish a mechanism for protecting the rights and interests of investors and companies engaged in business in Mongolia. In doing so, we believe that disagreements arising between the government and investors can be mitigated and negative consequences prevented.

- How do you see the future of investment?

First of all, we have to think about it in the context of the global foreign investment picture. According to the UN Conference on Trade and Development World Investment Report, global foreign direct investment (FDI) inflows fell by 16 percent in 2014 to USD 1.23 trillion, and the decline in FDI flows was influenced mainly by the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. As for

regional trends, flows into developed economies declined by 28 percent, but as for landlocked developing countries like Mongolia, investments fell by three percent.

However, some organisations forecast an upturn in FDI flows to USD 1.4 trillion in 2015 and USD 1.5 trillion in 2016. There is also the likelihood that the Chinese economic moderation will increase the flow of foreign investment into other Asian countries. But on the other hand, developed countries are administering policies to make their own multinational enterprises increase direct investments and expand employment in their own country or in countries that hold majorities of their stock.

Of course, Mongolia is viewing the future optimistically, and our future has more to do with us than the cyclical nature of the global economy. There is much being done to attract investment, but there is still the need to intensify efforts further in the future. This covers all socio-economic sectors. It begins from the safety of a foreign person walking down the street and our attitudes toward foreign people. Most importantly, we have opportunities and advantages we can utilise to increase investment. In an estimated USD 10 billion economy, the necessary infrastructure projects require at least USD 30 billion in investment. I think there is the possibility to rapidly and stably expand the economy if these projects are implemented in accordance with thorough plans. The state and government are developing new mechanisms related to investment agreements and concession agreements in order to create a more secure legal environment for the investors. However, this is not enough, as additional improvements

and guarantee mechanisms, or even some mechanisms requested by the investors, are still lacking.

- Mongolians have talked about attracting investors for the past year. On the other hand, what criteria are being set by the Mongolian side to pull appropriate investors?

- Of course our policy emphasises leaving assets in Mongolia, absorbing investment and bringing benefit to both sides. According to one study, developing countries attract half of all global investment. The United States is the largest FDI recipient in the world, because investment is a vital aspect of its economy.

Estimating investment outflows is also important. We must make the game rules clean and seek to successfully implement profitable investment projects together. In this case, investment and investor quality issue will improve accordingly.

A total of USD 524 million in investment was recorded in the first six months of 2015.

The sharp slowdown of mining growth has fettered the sharp investment growth of 2011-2012. It allows us to pay attention to investment quality and specialisation on the inside and outside. During these last 20 months since the implementation of the new investment law, non-mining sectors have been accounting for the majority of investment according to analyses during our organised events, discussions and supported projects.

On the other hand, in addition to experience and skills when overviewing investor' quality, the ability to raise funds is important. In other words, there are requirements that funding sources and mechanisms must be specific. In most cases, foreign and domestic investors try to get the government decision first. After a decision has been made, some come back saying they could not get funding. This is a result of not involving the investor in negotiations from the very beginning until the end and not keeping them informed.

- They say that now the rules of the game are clear, and the investment environment has improved. But how is the enforcement of the laws going?

The new investment law marked a major shift policy and the system. The

foreign investment law and the regulatory control laws on foreign investment of entities operating in strategic sector were focused on theoretical monitoring and giving of permissions. However, the new framework reflects more liberal and business-friendly regulations. Also, the law includes mechanisms to streamline the permit system, determine the real efficiency of investment and support economic diversification. From the date of the adoption of the law, the government been taking a series of measures internally and externally to promote the law. Measures to promote this law will continue this year. While observing the investors participating in the event and people participating in the special meeting, they are feeling good about the prospects of the new investment law. However, actual results will take some time.

One of the Investment Authority's tasks is to pay attention to the investors who have already come to Mongolia. According to international research, investors who invested in the country previously account for 50-60 percent of new investments. Thus, works to bundle and resolve issues encountered by investors have begun.

In addition, two months were required to establish a company; however, now according to the existing law, only five to ten days are needed.

The new investment law aims to create freer market conditions, a more favourable business environment, efficient investments and a more diverse economy. It should also be mentioned that domestic and foreign investors shall be equally protected, and tax-related and non-tax-related support will be provided.

For example, tax stabilisation certificates that will keep tax rates for companies steady will be issued to investors who meet certain criteria specified in the law, and corporate income taxes, value added taxes, customs taxes and royalty fee rates can be stabilised for 5-24 years. The stability of the tax rates is designed more to help investors during project development and payback periods rather than reducing taxes payable or exempting companies from paying taxes.

The Investment Authority has a

supernumerary council under itself which is responsible for issuing the certificates. Accordingly, tax stabilisation certificates have been issued to businesses in the mining and tourism sectors.

In addition, one of our key priorities is to carry out a set of activities to attract FDI. It can be understood as promoting the legal framework and domestic market situation to investors. For the past two and a half years, the government has developed the investment policy and carried out works to showcase it internationally. Many steps have been taken to let the world know that our investment environment has changed. For example, 70 business forums and investment meetings were held internally and externally in 2014, and 20 in the first eight months of 2015. We received positive praise from the WTO, the UN and investors. However, implementation and execution are crucial. We are working to introduce proven, successful services and to give professional information and advice to the investors.

Now every sector is working under the new investment law and focusing on implementation. For example, the revised Petroleum and Minerals Law has started to encourage mining investors. This should implement in all the sectors, including agriculture, animal husbandry, health and education.

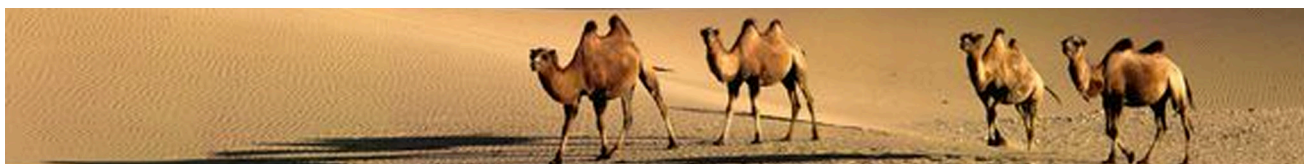
- How would you explain the depreciation of the MNT?

The depreciation of the tugrik can be attributed to the decline in foreign currency reserves. There are two channels of foreign currency reserves coming into a country. The first is exports, and the other is the ability to attract FDI. Therefore, one reason behind weakening of our currency is definitely foreign currency reserves situation.

However, this leads to the question: why is foreign currency not coming in? Appreciation and depreciation of a currency is an economic indicator, but does not express the underlying cause.

In brief, we need to produce domestically in order to increase exports. In order to increase FDI, we must improve the business environment, and clarify each sector's policies and projects to be implemented. ■

Why Mongolia? Nine Reasons.



1. A less corrupt Mongolia

Mongolia actively strived towards the goal of reducing corruption in recent years and has made significant progress. For example, the Corruption Perceptions Index (CPI) study was calculated domestically and reported to the public. This report has been released every other year since 2009. According to the most recent report, corruption crimes related to civil servants fell by 22 percent. However, corruption associated with individuals and entities rose by 14 percent. Even so, the level of corruption in Mongolia is continuing to decline. Internationally recognised organisation Transparency International's survey confirms the report. For example, last year, Mongolia was ranked 80th from 175 countries with a score of 39. Morocco and El Salvador also had the same rank as Mongolia. Mongolia was ranked 84th in 2012 and 83rd in 2013, which means the corruption index has been showing improvement year by year.

2. A more democratic Mongolia

One of the most important reasons why foreign investors must choose Mongolia is certainly a free and democratic economy. It has been 25 years since Mongolia chose the path of democracy. In her speech titled "Mongolian Economic Background and Political Destiny," economist M. Batchimeg stated, "On the world map of the Freedom House, Mongolia looks like a single green island amidst a broad sea." Perhaps Mongolia is the metaphorical green island that you should invest in.

3. A more profitable Mongolia

There are around 1170 deposits with 80 types of minerals in Mongolia. Included in this are 1,619 tonnes of gold, 227,000 tonnes of silver, 36.3 million tonnes of copper, 660 million tonnes of iron ore, 5.9 million tonnes of zinc and 250 million tonnes of proven oil reserves. And there is a potential 175 billion tonnes of coal reserves. Currently, 9.8 billion tonnes of coal reserves were certified.

Mongolia has major resource deposits such as copper deposits like Erdenet, Oyu Tolgoi, Tsagaan Suvarga; gold deposits such as Asgat, Mungun Undur; iron ore deposits like Bayangol, Tumurtei, Tumurtein Ovoo and Bargilt. Mineral resources account for 94 percent of Mongolia's total exports. In addition, there is an estimated reserve of 11 billion tonnes of iron ore, and Mongolia's coal reserves ranks in the top 15 of the world.

1. Major infrastructure projects

Mongolia is welcoming investors for reasons other than the exploitation of the mining riches. In addition to mining, the country has the potential to attract major investments in infrastructure and energy as Mongolia is a developing country.

- The new railway, airport and regional road development project and the developments of regional logistics centres projects. For more information: <http://mrt.gov.mn/all/28>

- Infrastructure and construction projects. For more information: http://www.med.gov.mn/mn/images/kontsess/kontsessin_zuiliin_jagsaalt.pdf

- Energy projects. For more information: <http://energy.gov.mn/content?t=4>

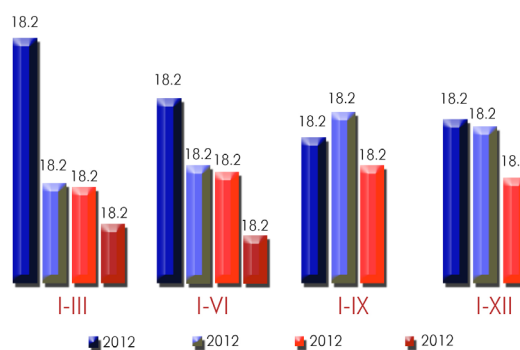
- Construction projects. For more information: www.mcup.gov.mn/pages/604
<http://news.barilga.mn/tender>

2. The world's fastest growing economy

Mongolia's economy achieved remarkable progress from 2011 to 2014, and medium-term prospects are optimistic. In this two year span, the country became the world's fastest growing economy and the poverty rate decreased by 11.3 percent.

This year, GDP growth has slowed quite a bit but is still the green.

GDP growth (percent)
(By production; 2010 price levels; compared with the same period of the previous year)



3. Being located between two of the world's largest economies

Mongolia is bordered by Russia to the north and China to the south. This unique geographic location provides an opportunity to supply any products produced in Mongolia to two huge markets of the world. Since ancient times, Mongolia has been a transit trade route. Today, it still remains as an open and safe transit route

The remaining three opportunities

1. A wealthier Mongolia

Another proof of Mongolia's wealth is per capita area of land and heads of livestock, one of the highest in the world. Therefore, there are vast opportunities for attracting investment in the agricultural sector in addition to mining.

The total number of livestock: As of

last year, the total number of livestock reached 52 million.

Per capita land area: 0.6 km²

2. Low tax rates

The government has been taking steps to create a more favourable tax and business environment in order to attract foreign investment. As a result, Mongolia is viewed as one of the low tax, investment-attractive countries of the Asia-Pacific region.

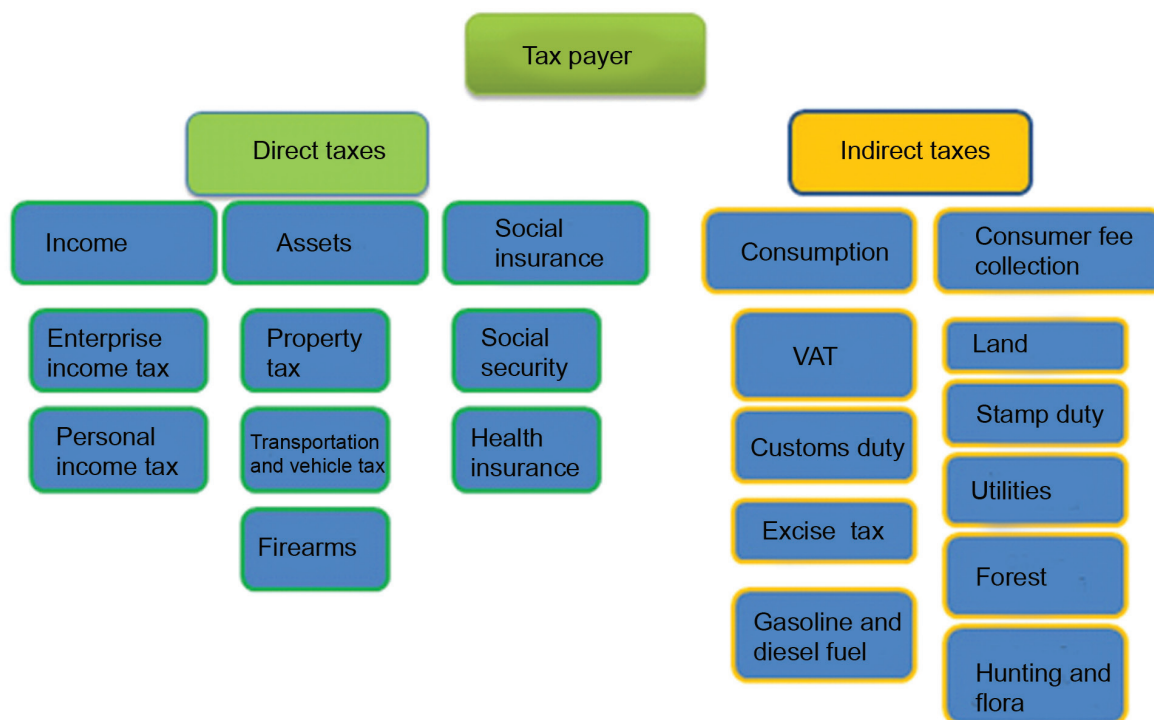
The total number of taxes and their rates:

- Personal income tax: 10 percent
- Corporate income tax: 10 percent
- Customs tax: 5 percent
- VAT: 10 percent
- Excise taxes vary

3. A reformed and more

favourable legal environment

The Investment Authority has reported that Mongolia's legal system to protect the investors ranks in the top 21 of the world. On top of this, the Mongolian parliament approved the Investment Law on October 10, 2013 in order to correct the previous mistakes that scared investors away and mitigate political instability affecting business. Under this law, domestic and foreign investor shall have equal protection and the provides for tax and non-tax support and incentives. One of the major provisions of this law is that tax stability certificates can be issued to entities that meet certain criteria, and taxes such as CIT, VAT, royalties and customs tax rates can be stabilised for for 5-24 years. ■



M3

M3

TREASURE HOLDERS

Spoilt by the rich resources of Mother Nature, three countries have brought a whole new understanding in the vocabulary of the world economy. Mongolia, Myanmar and Mozambique, three rich in mineral resources countries have been termed as M3, are said to be the fastest growing economies in the world. These countries, both geographically and economically strongly linked with BRICS (Brazil, Russia, India, China and South Africa), have shown a remarkable development pace to attract the global attention. Often referred to as the Silk Road of this century, M3 countries will be among world's top five fastest growing economies in the next decade with Mongolia's GDP growth of projected 15 percent a year and that of Myanmar and Mozambique showing 12 percent and 10 percent respectively.

"We are proud of developing M3 concept as innovative investment there for frontier markets investors. Mongolia, Myanmar and Mozambique share some striking similarities and we are confident that their economies will be among the best and will offer outstanding opportunities for investors", said Alisher Ali, Managing Partner of Silk Road Management in an official statement. He added "For that reason, Silk Road M3 Fund, the first ever investment fund to be focused on Mongolia, Myanmar and Mozambique was established. The Fund will primarily invest in equities of internationally listed companies with assets and operations in these three countries as well as high yield fixed income and local currency instruments".

By B.Uuriintuya



Mongolia



Myanmar



Mozambique

The Coal Mogul

Mongolia has a high potential to become a natural resources powerhouse thanks to largest deposits of coal, copper, gold and rare earth minerals. GDP per capita has sharply risen from just USD 500 a decade ago, when Mongolia ranked among Asia's five poorest nations, to USD 3000 in 2012. Now, Mongolia has gained so much popularity among international investors.

The Newest Market

As Myanmar is currently undergoing historical transformation from the long-isolated state into one of the most prosperous business and financial market, its economy is craving for investment. Endowed with rich natural resources such as world's finest rubies and sapphires, the second largest landmass in South East Asia and population of over 60 million, Myanmar represents one of the world's most attractive investment opportunities as well as outsourcing capacity.

The Industrial Magnate

Having struggled in civil wars and political uncertainties, Mozambique has marked the last decade with great economic success. Mozambique, thanks to its developing industry, has been enjoying an annual economic growth of at least 10 percent for the last few years. Ultimately, the growth contributed the most to its agriculture, communication and tourism sector. ■

The Business Council of Mongolia (BCM) was founded in the fall of 2007 to promote increased trade and investment in Mongolia. The BCM represents investors in Mongolia, domestic and foreign, on business climate issues.



CAT S·O·SSM 5 YEARS



1971

CAT® introduced the S·O·SSM service: The world's leading oil analysis program for earthmoving equipment and diesel engines.

Cat® S·O·SSM Services

1972

Wagner Equipment company offered S·O·SSM services as one of the first dealers in the world



2010



Wagner Asia Equipment LLC launched the CAT S·O·S service in Mongolia.

2012

"Wagner Asia Equipment" LLC established the OSA micro laboratory at the Tsogttsetsii branch in Umnugovi aimag.



2013

Wagner Asia Technology LLC introduced S·O·SSM coolant services in Mongolia.



2015

Analyzed 65'000 samples from over 100 customers. Compared to the world average, customers investing in the S·O·SSM service can receive a payback ratio of \$10 per every \$1 when comparing the amount saved in repair costs to the amount invested in the program. We announced a program named "Let's share success story" in December, 2014 and received 12 customer success stories in a month. customers spent \$26.4M for S·O·SSM service and saved \$1,528M from early detection of failures.

\$1 >>> **\$58**
 spending savings

If we extend only the engine oil change intervals of the top 15 CAT® models which are running in Mongolia using the S·O·SSM service, WASTE OIL will be REDUCED by 1 065 TONS over 3 years or 20 000hours.

2015

Wagner Asia Technology company became the authorized dealer of the TRIMBLE LOAD-RITE. With more than 30 years in market experience the LOADRITE brand is the industry leader in on board weighing solution since 1979 and is sold in over 50 countries around the world.

TERRAIN™ system was successfully installed on Liebherr 9400 hydraulic excavator and Sandvik DR580 drill machines at the Oyu-Tolgoi openpit mine.

2014

The **TRIMBLE SPS**-Road Measurement GPS system became available for use in the Mongolian language.



2014

During the 85th anniversary of the Mongolian Road Sector Development, the "Mongolian Roaders Professional Skills challenge" competition was organized and 500m of road sub base was constructed at Zuun Salaa Road of Songino-Khairkhan district.



2013

Wagner Asia Technology introduced the "**TERRAIN™**" computer-aided earthmoving system," one of the capability sets of the **CAT® MINESTAR™** in Mongolia and CIS Region in 2012 for Oyu Tolgoi (Rio Tinto). Open Pit 10 equipments such as CAT 6060 hydraulic excavators, CAT 7495 electric rope shovels, Komatsu WA1200 wheel loaders, and Atlas Copco PV351. 10 units were successfully installed and safely implemented.



2013

The **TRIMBLE** Machine Control System and **SPS**-Site Positioning System are used in the NUBIA project as complete set and proved that construction workers can achieve their work with higher production and lower cost.



2012

Wagner Asia Technology became an authorized dealer of **SITECH**, a reseller of construction technology products of **TRIMBLE**.

TRIMBLE Machine Control system was used for the first time in the construction work of Khanbumbat airport at Oyu Tolgoi.



2012

CAT® PAVING DAY- - Wagner Asia Technology organized a "Paving Day" event successfully for the first time in Mongolia, demonstrating how to use modern machine control system on construction work. The demonstration road was 50m long and included an international seminar about construction technologies.





The Crisis Is the Reason We Came to Mongolia

By G.Orkhon

We talked with R.Chinggis, the president of Russia's Zalan Energy LLC, which started operations in 1990. The company is engaged in construction, power supply goods and sales and has been successful in the market of Mongolia's northern neighbour over the past 15 years. Their first foreign market is Mongolia.

- What led you to enter the Mongolian market?

- The crisis is the reason we came to Mongolia. Crises open up new windows of opportunity. Russia is in the middle of a big crisis. Although the economy in Mongolia is having difficulties, it's a new opportunity for us. We came to Mongolia to reach new heights and seek out new opportunities instead of just sitting through the crisis. When the president of Russia visited Mongolia, he said Russia is strengthening and expanding its cooperation with Mongolia. Our headquarters is located in Buryatia, so we decided to begin operations in our brother country and established a branch in Ulaanbaatar this year. Mongolia's economy was in a trough, but it rose sharply. On the other hand, it may be yet another reason to come to Mongolia.

- As a new investor, what did you find difficult when coming into Mongolian market? Are there any difficulties at the moment?

- Mongolia is a very open and friendly country to do business. When in Russia, business partners and customers

are not so open. Today in Mongolia, we do not see major downsides other than the economic downturn; everything is open and opportunities are there. Economies grow and contract cyclically, so the current economic situation can happen in any country. Hopefully, the economy will improve next year. In such circumstances, we have a relatively large number of buyers. Hence, even a person buying something as small as a lightbulb is very important to us.

- What are your thoughts on the investment climate of Mongolia?

- Everything must be done strictly according to the law. I don't see any issues with Mongolia's investment environment. To achieve any goal, everything should be in accordance with the law. Everything is open to attract investment from Russia, because there are many wealthy businessmen. So if Mongolia does something to attract them, investment will increase. If the investors study the market well prior to entering, there would be no issue at all. The key issue is the Russian financial crisis and the weakening of the ruble, which causes the prices of Russian commodities to decline. Therefore, you have an opportunity to purchase quality goods at cheap prices from Russia.

- Are there any differences between Russia's investment climate and ours?

- The economic structure of the two countries is similar. Mongolia is selling their natural resources, and likewise, Russia is selling their oil. The crisis in our country started after the sharp decline of oil prices. The same kind of thing happened here in Mongolia. To overcome this crisis, you need to trade national products with the two neighbouring countries. We are in negotiations to cooperate with a Mongolian company named Erdenet Led. By partnering with this company, Mongolian products will be sold not

only in the Mongolian market, but also in the Russian market. Demand for this company's products will rise if we sell their products and also if Mongolian consumers buy their products. The number of employees will increase and more people will be employed. And we pay taxes to the country, which will have a positive impact on the economy.

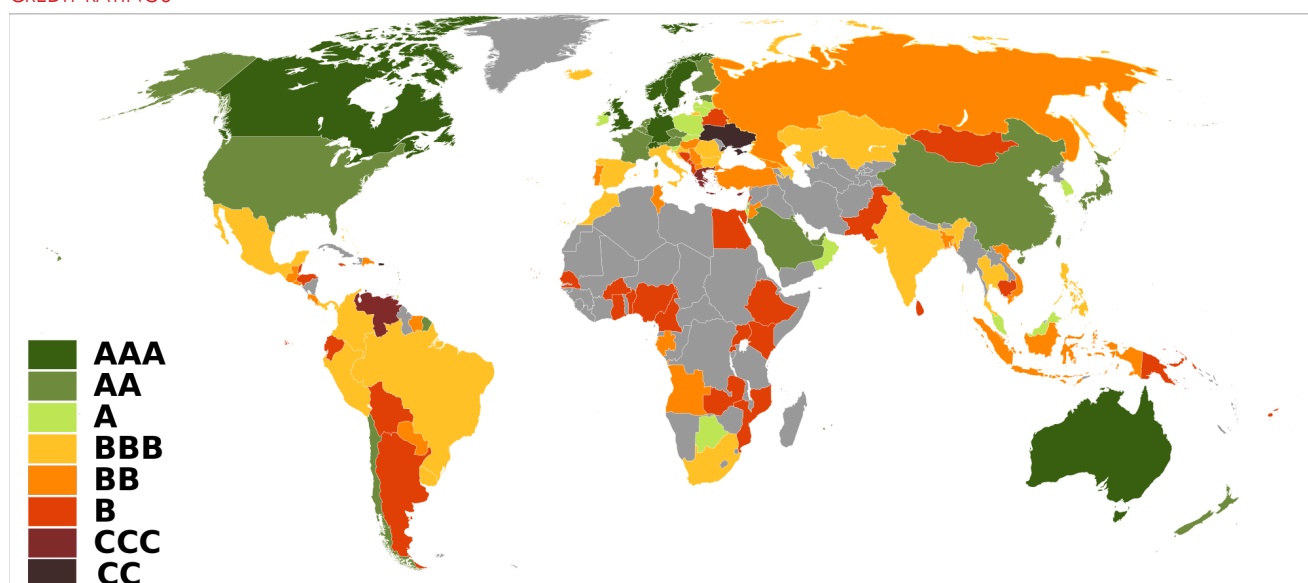
- What do you think the government should do to improve the investment environment?

- The Mongolian government must give foreigners and investors more guidelines, support and help related to starting a business in Mongolia. I used to work for a large financial company in Moscow, and I had been appointed to Mongolia. When I first came to Ulaanbaatar, I came with nothing but my handbag. I had a rather difficult time. I searched for more information online, but it was not enough. Many companies in Ulan-Ude want to enter the Mongolian market. Hence, the information needs to be provided. However, they do not have enough money to do business in Mongolia. Many Mongolian entrepreneurs have already started a business in Ulan-Ude. There are many Mongolians who have been living there for many years. There is a big opportunity to cooperate with Russia, given the recent depreciation of the ruble.

The trucks that we use to bring our goods into Mongolia are returning to Russia empty. We are thinking about what we can fill them up with from Mongolia.

One unfortunate thing I realised when I came here is that Mongolia has become a very expensive country for ordinary tourists. The thing I worry about the most is that many Mongolian tourists will go to Russia while Russians will rarely visit Mongolia, because it is expensive. More attention needs to be paid to this matter. ■

CREDIT RATINGS



Mongolia's Current Rating

By Ts.Elbegsaikhan

Credit ratings are rather important when talking about global investment. In 2012, Mongolia transitioned to the middle ranks of developed countries and started to refuse foreign donations, emphasising fundraising based on market principles. In this context, the first bonds were successfully issued. As of today, even secured corporate bonds have been issued. Unfortunately, our credit rating has declined over the past two years. In July of last year, Moody's downgraded Mongolia's foreign currency government bond rating from B1 to B2. Other agencies throughout the world also did re-evaluations – S&P and Fitch both gave a B+ rating. Mongolia's credit rating, which was previously said to be stable and rising, now has a not-so-good outlook and is on a downward trend.

The reason is that foreign investment has sharply declined. The previous year's balance of payments deficit reached USD 1.9 billion, causing foreign exchange reserves to bleed out, and the stalled megaprojects also played a part. At the time, agencies were saying that investors are waiting to see how the issues surrounding Oyu Tolgoi (OT) plays out. These agencies recommended that we implement more stable policies, attract

foreign investment, increase foreign exchange reserves and improve the macro-economic environment. Getting the megaprojects moving will have significant effects.

The good news is that the causes and shortcomings which led to Mongolia's credit rating being downgraded are being fixed from the ground up. For example, the foreign trade balance had a deficit of USD 2.08 billion at the end of 2013, but the preliminary results of the first seven months of this year show a surplus of USD 604 million. The foreign trade balance has been steadily growing since last October's trade balance surplus of USD 129 million. As a result, the current account figure reached negative USD 216 million, which is a USD 904 million or a 5.2-fold decrease from the same period of the previous year. Capital and financial accounts are USD 237 million in the positive, an increase of USD 68 million from the same period of the previous year. Thus, the overall balance of payments showed a surplus of USD 83 million in the first half of the year, which is an improvement of USD 998 million from the same period of the previous year.

Moreover, according to the central bank's foreign exchange reserves report

of June, official reserves increased by 5.95 percent that month, by 2.16 percent from the beginning of the year and by 27.94 percent from the June of the previous year. The total official reserves has reached USD 1.6 billion. According to the statistics, foreign exchange reserves have increased for the last three months in a row. All of these are a positive signals of the macro-economy.

In brief, the current account deficit is a net total which subtracts foreign goods, services and transaction costs from the income of the goods, services and transactions that are being sold abroad by Mongolians. In other words, it is an economic indicator that shows what we purchase from abroad and what amount of foreign currency we paid for the purchases. If this indicator is negative, this means that our foreign currency income is nowhere near what we send abroad. In 2008-2009, this indicator showed a deficit slightly above USD one billion. However, the deficit reached USD 6.6 billion and increased 6.4-fold in 2012-2013. We bought more from abroad, but produced less and earned little from foreign trades.

Mongolia currently stands in the ranks of countries with a lower investment risk. However, we rank pretty low among

these low-risk countries. If we can get the AAA rating, which indicates an excellent investment environment, our country can take out loans on more favourable terms. "Mongolia's credit rating is set independently of us, making it a reflection of the current reality," said N. Munkhbat, Executive Director of the Development Bank of Mongolia.

According to the Vice President of Golomt Bank L. Bolormaa, the stability of policies is important when talking about improving these ratings. "The key factor in the rating is how consistent the business and investment environment is. Investors do not care much for the political situation," she said. She used Kazakhstan as an example, where bad loans in the country are at 40 percent, but their rating is BBB.

Credit rating increases and decreases

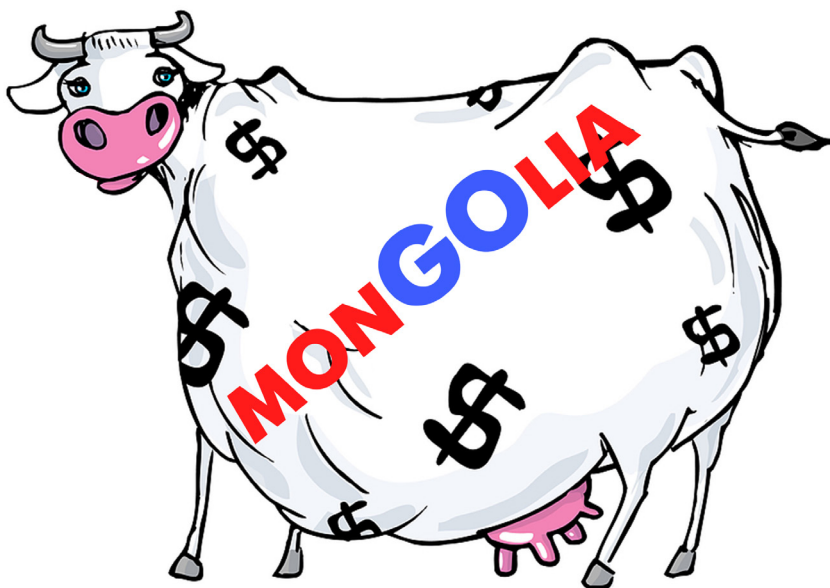
directly impact the economy. The most recent example is the Chinggis bond programme, which offered the USD-denominated security at four percent interest. If these bonds were to be traded in market today, the interest rate would almost double. In addition, the bonds are nearing their maturity. It is unclear how repayment will be funded. There is a possibility to extend the programme or refinance it, but that is not so different from issuing new bonds. On the other hand, buying bonds at high interest rates is profitable for investors, but it would be difficult to find a person to buy a bond from Mongolia if the country's public debt keeps increasing and the credit rating continues to decline.

Apart from bonds, a credit rating affects domestic banks and funding for businesses. Investment Director of MCS

Holding LLC S. Tsengel explained that "private enterprises have almost no chance to get lower interest rate loans from the government. Business loan interest rates increase when a country's credit rating falls."

Furthermore, one major issue hindering Mongolia from becoming a least risky country for investment is dependence on one particular sector. Mining exports accounted for 20 percent of the GDP. Fitch Ratings is warning that this sector's loans are weakening the capacity of the domestic banks. Thus, they are advising Mongolia to diversify its economy. Accordingly, the Deputy Minister of Finance S. Purev stated, "The government is working to boost the development of non-mining sectors and diversify the economy." ■

Business Opportunities in Mongolia



By E. Zorigt

If you have decided to invest in Mongolia, but would like more information in order to choose which sector to invest in, this may nudge you in your desired direction. Below is information on potential Mongolian sectors other than mining to invest in.

Construction

The British investment agency

Property Frontiers concluded that the "most suitable real estate investment country is Mongolia." According to the conclusion, the demand for construction development, especially the demand for housing, will continue to increase rapidly over the next few years. The government's announcement of 10 percent down payments on mortgage loans has opened a path for the impoverished ger district's residents to move into

apartments. According to a survey by the Mongolian National Construction Association, there is USD 1.5-2 billion worth of purchase demand. Therefore, the construction industry is at the forefront of investment opportunities in Mongolia.

Tourism

In recent years, tourism has increased more than ten-fold in Mongolia, which

makes it the fastest growing sector of the economy. As an original and the only remaining nomadic culture on earth, Mongolia has a valuable resource to promote tourism. Beautiful natural landscapes and a rapidly developing society juxtaposed with a centuries-old culture is sure to attract tourists. In March of this year, Mongolia participated in the ITB Berlin 2015 tourism expo held in Berlin, Germany as an official partner country. Meanwhile, an average of 400,000 tourists come to Mongolia per year, and it has been announced to the world that Mongolia has set the objective to receive one million tourists in 2016 and two million by 2020. To do this, the Ministry of Tourism will emphasise developing special and unique tourism, especially winter tourism.

Energy

Mongolia, with its aim of becoming a less importing, more exporting country, produces nearly 80 percent of the consumed electrical energy domestically and imports the remainder from outside. However, many works are undertaken to achieve the goal and many projects, such as the Eg river hydropower plant project, are ongoing. According to the world energy balance forecast up until 2030, a quarter of the world's energy balance is expected to focus on Northeast Asia. More than 300 deposits were discovered under 15 coal basins in Mongolia. As of this year, Mongolia has 173.3 tonnes of coal reserves. By detailed exploration, 23.5 tonnes of reserves were proven. Mongolia, having huge resources of coal energy can build power plants based on large deposits and export energy to China and Northeast Asian countries easily. In such a context, the Ministry of Energy is working to implement a project to export energy by building a 4,800 MW power plant near the Shivee Ovoo coal mine.

Alternative energy

The Gobi desert too can boast tremendous energy potential. The Gobi, which has large natural resource reserves, also has renewable energy potential second only to the Sahara desert. This potential has already drawn the interests of Asia. Even though detailed study of renewable energy sources have not been carried out, there is plenty of it in the

Mongolian steppes. There is an estimate that there is a potential 56.2 billion kWh of water, 1200-1400 kWm of solar and 836.8 kWh of wind resources.

Industry

Mongolia has huge natural resources and has been dubbed "Minegolia" by some. At a time when natural resources are being rapidly put into commercialisation, development and value addition is essential. Mongolia's goal is to transform from an exporting economy to an industrialised economy. Mongolia is planning to develop a heavy industry complex and extract chemical coal, copper, iron, zinc, non-ferrous and ferrous metal ores and process them, and then build more environmentally friendly, advanced technology factories with the capacity to produce value added finished products.

Mongolia has more than 1000 deposits with about 80 types of minerals. Mineral reserves explored in Mongolia:

- 20.6 billion tonnes of coal
- 84.1 million tonnes of copper
- 1.08 billion tonnes of iron
- 2.4 thousand tonnes of gold
- 18.1 million tonnes of lead
- 332.6 million tonnes of oil

Investors have significant opportunities as the government is seeking to support the development of processing industries to produce value added products. The processing industry is undeveloped and industrialisation is in process, while the country has huge mineral reserves. Mongolia is located between the two of the largest markets and is close to other major markets in Northeast Asia. Infrastructure is improving as major infrastructure projects are being implemented. In addition, Mongolia has reached relevant agreements with its two neighbours on developing a harmonised transportation network.

Agriculture

Agriculture is Mongolia's traditional sector. The sector accounts for nearly 20 percent of the nation's GDP and is the basis for determining the country's

social and economic development as it is the backbone of the food supply and domestic industrial raw materials. About 35 percent of the country's workforce is engaged in this field and living on its product sales. Therefore, the Mongolian government has placed focused attention on developing the food and agricultural sector, industrial growth and improving productivity. The agricultural sector consists of staple area such as food production, animal husbandry and agriculture. Of these, investors are able to raise capital from animal husbandry and food production.

Livestock farming

The country's economy is still heavily dependent on animal husbandry. This sector produces about 80 percent of the total agricultural output and makes up nearly 10 percent of the total export revenue. One third of the country's population earns a living from income generated by livestock herding.

Food production

Import goods account for nearly 70 percent of Mongolia's total food products. However, this number is decreasing each year, and Mongolia aims to continue to decrease it in the long run. The government is aiming to develop food industry value added networks, increase food supply, and organise and coordinate the implementation of food security and service improvement policies. The advantages of investing in this sector:

- A unique geographic location between the two of the world's largest markets, providing a great possibility to supply products.
- Unique biological products which have adapted to the harsh climatic conditions as a result of selective breeding.
- About 35 percent of the country's workforce works in this field and lives on its product sales.
- The number of heads of livestock is increasing consistently.
- An abundance of sea buckthorn – a most healthy berry that has the potential to be a major product. ■

Investment Guidelines

Attention all domestic and foreign entrepreneurs planning on investing in Mongolia, a country known as the heart of Central Asia. According to a World Bank report, Mongolia ranks 25th out of 189 countries in terms of business environment and economic freedom. In addition, Mongolia ranks 54th in Forbes magazine's list of most attractive countries for doing business. Even though this indicator remains limited compared to leading countries, it should be noted that the government of Mongolia is pursuing a policy to improve the business environment and the country's competitiveness.

Investors are facing many obstacles in starting a business in the region due to the lack of information about Mongolia's business climate. Invest Mongolia, an investment implementation agency of the government, has published the "Investment Guidelines" book in order to save you time and provide information.

The book has a total of eight chapters that detail information

on how to manage flight and visa issues when coming to Mongolia. It also addresses corporate registration, especially how to establish foreign companies and its representatives. This guideline explains that Mongolia is a country with one of the lowest tax rates in the Asia-Pacific region.

The book comprehensively covers useful information for the early stages of business, such as the banking system, capital markets, information on land and real estate, schedules of public organisations, water and electricity costs and the labour market. In addition, you can find out about foreign direct investments in Mongolia in recent years and in which sector the investments have been made.

As a matter of fact, the majority of foreign workers in Mongolia are working in industry, administration, agriculture and mining. The majority of incoming foreign direct investment, 73.3 percent to be exact, is invested in geology and the mining sector. ■

FOREIGN DIRECT INVESTMENT IN MONGOLIA BY SECTOR





The First Step towards Industrialisation

By G.Orkhon

The days when the government was criticised for not taking significant steps to promote manufacturing are over. The government has taken a step forward and approved a decree to determine the customs tax rate of certain imported goods on August 17 during a cabinet meeting. Customs duties on imported goods and services that are also produced domestically will be increased.

Customs tax rates on food such as eggs, meat products, ice cream, as well as materials such as cement, doors and windows will be increased from 5-10 percent to 6.5-20 percent. This will boost domestic industries and jobs will be created. "[The changes] have economic benefits because this will protect domestic manufacturers. Now they have an opportunity to expand in the market. Small- and medium-sized enterprises (SMEs) will take the next step and start exporting more if manufacturers expand and domestic industries become stronger. This industrialisation policy is happening in three phases. The first is to protect domestic businesses and support exports, and then new technologies and support for creative productivity will be introduced," said G. Bilguun, Head of the Small and Medium Enterprises Policy Coordination Department at the Ministry of Industry.

According to the spokesman of the Ministry of Industry Kh. Unurjargal, the final types and tax rates of products have not yet been submitted to the Ministry of Industry, even though the government decree has been issued.

Most citizens are receiving the steps taken by the government positively, but some of them are worried that domestic industries will increase the price of their products in turn. Some importers are unhappy, saying, "It's good to support domestic industries, but imports should not be hindered. Imported goods keep prices at a certain level." Ulaanbaatar resident Ts. Munkh said, "I trade cement. Today, one tonne of cement is MNT 85,000 in Erenhot, while it's MNT 155,000 in Khutul. I just don't get it at all." However, the director of the furniture factory Gobi Khangai Mebel LLC D. Batchuluun stated, "By doing so, we will support domestic industries and the lives of Mongolians will improve as more jobs are created. Our company manufactures 2000 metres, or 800-900 sets of sofas per month. When we first established the business, our aim was to produce high-quality sofas cheaper than imported ones. Thanks to this, we

are surviving the downturn."

People are reminding domestic manufacturers to pay more attention to the quality of their products in the future. Even though the price of imported goods is higher than domestic goods, they are regarded as being of better quality than the latter. In any case, the state has given significant support to domestic manufacturers. Now, domestic manufacturers must try to satisfy the domestic demand for high-quality, affordable products. During a national conference of SMEs in April, it was said that in most developed countries, including Taiwan, development was connected to the SMEs. They, Taiwanese SMEs, were supported in the same spirit and principle Mongolia has in mind.

The parliament decree gave the government the right to determine customs tax rates of imported goods by taking every sector's unique product and business features into account. Thus, the government has the right to increase or decrease the customs tax rate of more than 300 kinds of goods. Mongolia, as a member of World Trade Organisation, can increase tariffs on imported goods by up to 15-20 percent.

Domestic manufacturers often say that sales of goods are poor, even when they work hard. The government took a significant step this time by increasing the customs tax rates of certain types of goods, but they have also issued the list of goods to buy locally with money from the state budget. It means that they have made a decision to purchase certain domestically produced goods. The list includes approximately 80 products such as all kinds of felt products, wool, cashmere, wood and wooden products, leather clothing, construction materials, steel products and packaging. The list will be submitted to state and local government budget administrators. Mongolia has a history of sharp increases in purchasing in such ways to support domestic production. The purchase of domestically produced goods increased from MNT 5 billion to MNT 50 billion in just a year when this kind of list was approved by the Government Resolution No. 103 of 2011.

The state policy is focused on supporting domestic manufacturers. Now, manufacturers need to produce goods such as eggs, cement, doors and windows with the "Made in Mongolia" label. The key is being as flexible as possible whenever, wherever. ■



Introducing the Erchim Bond

By A.Burenjargal

In these times of economic difficulties, state-funded projects, programmes and infrastructure works are stalling one after another. Though it may be true that everyone is trying to somehow move their projects forward, every sector's cash flows are dwindling, and major infrastructure projects are close to coming to a full stop. During this slowing economic growth, one piece of good news is that the Mongolian Stock Exchange (MSE) has ramped up activities and is introducing a variety of new products. In this scope, Erchim Engineering LLC, empowered by the MSE, has successfully implemented a new product – an insured bond service as a means of financing.

The company was established in 1999 in the field of energy industry equipment maintenance. Since then, the company has been carrying out activities in energy, mining, utilities and construction sectors. They have introduced insured bond instruments for the first time in order to move forward with their energy expansion project in progress around the Khuchit Shonkhor market. The Erchim Bond's annual nominal interest rate is 18.5 percent and has offered six-month bonds to the public. The Erchim Bond was traded at a discounted price of

MNT 9,155 per unit from August 12 to August 21. A total of 50,000 bonds amounting to MNT 500 million were traded. Marketing and Public Relations Director of the Mongolian Stock Exchange J. Myagmarsuren said 236,194 shares or MNT 2.4 billion worth of bond orders were recorded in the trading system. In addition, the Bank of Mongolia and the leader of the banking sector Golomtbank introduced the 100 percent insured Erchim Bond on the floor of the stock market for the first time in Mongolia in its underwriting activities. The Erchim Bond has 100 percent insurance coverage by Soyombo Daatgal LLC, with the underwriters being Golomt Bank and Golomt Securities. Now only the presentation of results to investors remains.

The first buyers of the bonds issued by the company are their employees. B. Undram, an administrative manager at Erchim Engineering LLC, proudly states that the company has 60 employees, and they have become their company's investors as much as they could. The Financial Regulatory Commission of Mongolia approved the start of secondary market trading as the initial trading was a success. It offers opportunities for investors to put their debt instruments

into circulation through trade. It is also an opportunity for investors who were unable to purchase the bonds from the primary market. The Financial Regulatory Commission is emphasising introducing new products to the capital market and stated that enterprises are fully able to attract investment sources by issuing the above-mentioned and other financial instruments. Erchim Engineering LLC will finance repayment of the bonds from project finances that will come during the term of the bonds. The sector's experts stated that bond insurance is a new type of insurance instrument and that the insurance company is giving a 100 percent guarantee on interest and principal repayments.

The company is financing the required working capital for the performance of bidding activities from the assets attracted. Authorities are estimating that the MSE can possibly introduce MNT 5-10 billion worth of corporate bonds to the capital market within this year. The success of this company's pilot bond-trading experience indicated the opportunity to raise funds from the capital market is there in a time when nearly every sector's financial situation is not all too great. ■