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MONGOLIAN ECONOMY




Let The Tugrug Go Free

Bankers and
emerging economies

Mongolia's Economy and Business Magazine

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The VIP Welcome Evening will bring together key speakers and stakeholders to collaborate and discuss key challenges and opportunities of entering the Mongolian mining market, prior to the start of the Summit. This evening will include a discussion round as well as networking drinks and canapés.

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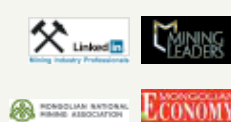
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MONGOLIA:

Economic Trends

According to a study analysing factors of influence on the economy, the perception of inflation has strong sway on the actual outcome in Mongolia. In Mongolia consumer prices typically move twice a year compared with just once in Europe, according to the study. The study also found that in Mongolia consumption is determined less by consumer behaviour than revenue.

Bond

The interest rate of the Chinggis bond on the secondary market has increased to 7 percent. The Mongolian bond is not alone, however, as the rates of other bonds have also risen because



of recovery experienced in the US economy. The recovery has resulted in the appreciation of the dollar, making growth in the Chinggis bond interest rate likely over the long term.

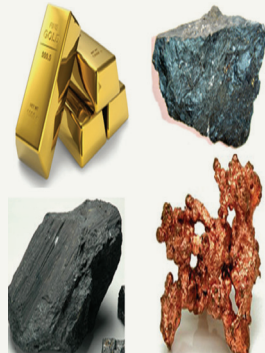
Import

In the year up to September, the production of raw minerals and petroleum products comprised 45 percent of total imports, consumer

goods was 12 percent, and other imported products were 40 percent. Raw materials and petroleum products declined 6 percent compared to the previous year because of a 0.2 percent decline in the volume of petroleum products and a 5.6 percent decline in the production of raw minerals. However, the country also saw slight growth in the consumption of consumer goods and foods.

Minerals

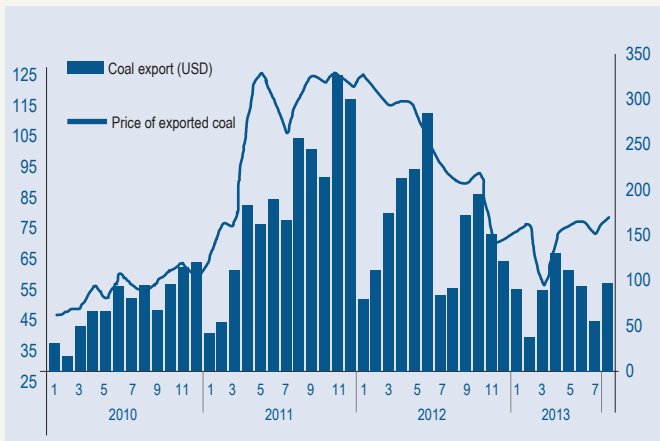
The price of gold on the global market reached USD 1,395.3 an ounce last month, a 17.5 percent decline year-on-year, but a 5.3 percent increase from August. The prices of refined copper and zinc were USD 7,077.5 and USD 1,868.5, respectively.



Export

Total export of minerals declined 3.4 percent while mining products represented 87 percent of all exports. Some 85 percent of raw material exports was coal, copper concentrate, iron ore and iron concentrate and crude oil, and represented 74 percent of all exports. These products declined 6.3 percent for mining exports and 8.6 percent for all exports.

Coal export and market price (USD)



Source: Ministry of Mining

Margin in exported products (USD)

	Margin in quantity	%	Margin in price	%	Total margin	%
Mineral resources	3	242	245			
Coal	25746	297	54	554	329	
Copper concentration	20	394	15	294	5	-3
Iron ore and concentration	1	2	84	98	86	-51
Raw oil	87	96	4	4	91	-54
Zinc ore and concentration	8	110	1	-10	7	-4
Gold	143	106	8	-6	134	-80
Spar. Leucit	5	52	4	48	9	5
Molybdenum ore and concentration	1	21	4	79	6	3
Wool and cashmere	22	25	46			
Washed cashmere	20.0	46	23.4	54	43.4	-26
Combed cashmere	1.7	56	1.3	44	2.9	-2
Other	17	56	13	44	31	-18

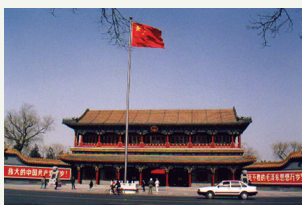
Source: Bank of Mongolia

WORLD:



The United States is set to reach its debt ceiling by October, leaving the government with just half the money needed to pay its debts, Treasury Secretary Jack Lew warned. He said that unless the United States is allowed to extend its borrowing limit, the country will be unable to pay some USD 30 billion of its commitments.

The Chinese government said on Wednesday that it has revised an investment list and eased administrative procedures to reduce its intervention in the market. Amendments to a government approved investment list were discussed at an executive meeting of the State Council presided over by Premier Li Keqiang, according to a statement released after the meeting.



Japan and the United States have agreed to make it easier to import each other's organic products. The Agriculture Department planned

to announce that organic products certified in Japan or in the United States may be sold as organic in either country. The agreement would allow producers to sell in both countries without going through the lengthy process of getting certified twice.



German business sentiment surged to its highest level in 16 months in August, driven by a pickup in the manufacturing sector, and suggesting Europe's largest econo-

my is gaining momentum following strong growth in the second quarter. The Ifo Institute for Economic Research think tank said on Tuesday its business climate index, based on a monthly survey of some 7,000 firms, rose to a better-than-forecast 107.5 in August, its fourth consecutive rise and the highest level since April 2012.

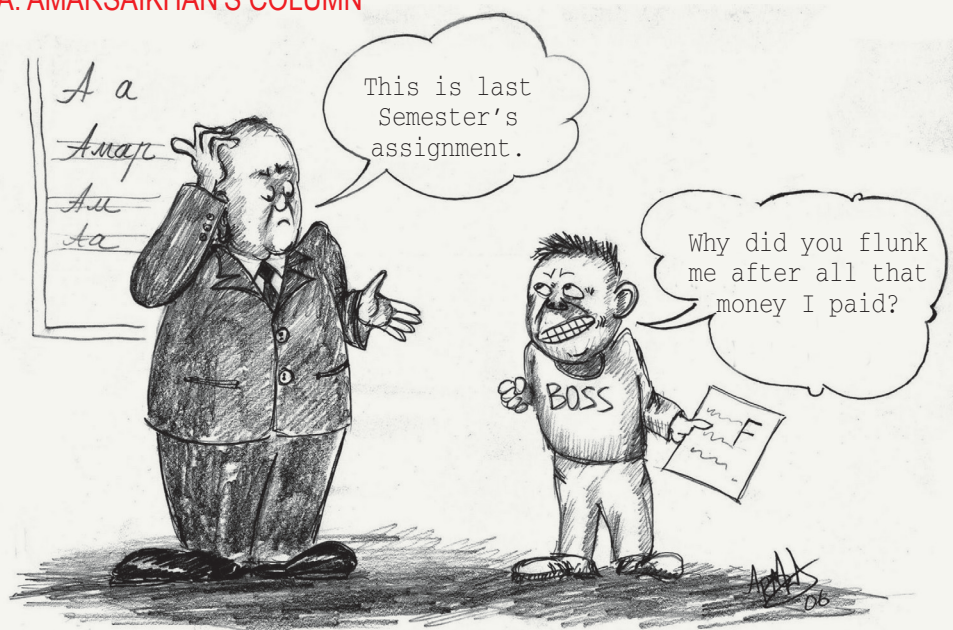
The number of unemployed in France fell in August for the first time in more than two years, to 3.23 million, with



50,000 fewer benefits claimants. It is the biggest one-month drop since 2000.

The World Bank has cut its forecast for Russia to 1.8 percent in 2013—the lowest since 2009. Wednesday's World Bank report adds to the gloom from the International Monetary Fund and the country's Economic Development Ministry that also downgraded Russia to well below the expected 3.3 percent. Russia is now using about 80 percent of its production capacity—almost the same share as in the pre-crisis year of 2007, the report says. However, back then the economy was adding 8 percent annually. ■

A. AMARSAIKHAN'S COLUMN



FEATURE

THE QUIET AFTER THE STORM

BY B. UURIINTUYA

With the fun days of summer over, everyone seems to have become an economist because of a sudden fall in the foreign exchange rate. Luckily, the strengthening of the U.S. dollar did not last more than a few weeks, but the rapid appreciation did not cut without leaving a remaining scar on the face of the business sector.

While most Mongolian economists and financiers have accused the Bank of Mongolia of excessive intervention in the exchange rate in its attempt to target a stable rate, the central bank has strongly denied the accusation.

“The Bank of Mongolia has not attempted to intervene and stabilise rates”, said Naidansurengyn Zoljargal, the central bank governor. “The current policy of the bank has resulted in preventing job cuts and contributed to the production and manufacturing at the time when the country’s economy is unstable.”

Meanwhile in Mongolia, September was full of events. Many have commented that investors have lost interest in Mongolia and its mining sector. China, too, has left Mongolia to its own devices as its demand for its minerals wanes. This was apparent at the 11th Discovery Mongolia investors’ forum held in September, where very few guests attended compared with past years.

Foreign investors may be telling Mongolia that it needs to resolve some of its issues before they can return with their capital in hand. But the sound of a gunshot at Parliament has sounded an alarm that investors’ interests are not the only at stake here.

Amid these disputes, one of Germany’s top economists and the president of the Ifo Institute for Economic Research Hans-Werner Sinn paid visit to Mongolia to attend the UB Impulse-2 Forum. He commented on the government’s increasing debt and excessive spending. He warned that the country’s debt is being exacerbated by unnecessary bonds issuances, the profits of which are spent on unwise investments. Read more in the report “Take it from Greece (debt can be bad)”.

Another special event held last month was the 30th general meeting of the Asian Bankers’ Association, where many issues were discussed on how Asian and global bankers are faring and how Mongolia can keep up with them.

Also in this issue is an interview with Jon Edwards, deputy head of equity primary markets at the London Stock Exchange, from the visit by the *Mongolian Economy* staff to London. ■

DEBT

TAKE IT FROM GREECE (DEBT CAN BE BAD)

BY B. TUYA

Although capital has been chronically scarce in Mongolia, it is not unusual for the government to spend with little restraint. Unfortunately, spending borrowed money unwisely would lead Mongolia down a path similar to the one Greece took, said a group of panelists last month.

But these mistakes can be avoided, according to the panel. Organised by the National University of Mongolia's School of Economics and the German Agency for International Cooperation (GIZ), the event had experts discuss how Mongolia can learn from the mistakes made in southern Europe.

Six debt-ridden countries in Europe have come dangerously close to bankruptcy, said Hans-Werner Sinn, president of the Ifo Institute for Economic Research at the University of Munich in Germany, and certain correlations between the borrowing done there and in Mongolia have become apparent. Although taking out loans can be good for the economy if spent wisely, using foreign credit to finance the construction of infrastructure, develop national brands and provide low-interest mortgages—as Mongolia is currently doing—may create a credit-driven economy, said Sinn.

"Infrastructure is crucial to a nation's development, but it should be developed by investment and not by the money borrowed in foreign cur-



Speech Quality Growth during UB Impulse-2 Forum

rency".

Sinn said that the 14 percent inflation in Mongolia cited from the World Bank against low-interest mortgages was dangerous, as interest rates below inflation only generates more inflation.

"Growth rates won't probably be sustained forever", said Robert Schoelhammer, country director of the Asian Development Bank. "So, international borrowings should be spent carefully. In order to develop important sectors investors should be attracted. In doing so, Mongolians do not have to carry the burdens of foreign debt".

He also noted how tremendous the USD 2.1 billion in credit Mongolia has taken out is, given its tiny population

of just under three billion.

Turning debt into profits

To avoid repeating the fiasco in Greece, Sinn and Schoelhammer recommended that Mongolia develop its own internal economy. Exports should come second in terms of priority to the Mongolian economy, especially when the domestic economic situation becomes destabilised. In short, said Sinn, Mongolia is trying to build a house before the groundwork is finished.

"The starting line for development should begin with a strong internal economy," he said. "The backbone of such economic structure is small- ▶

▶ medium sized enterprises and a good educational system.”

However, not everyone agreed with the analogy set forth by the dialogue. One audience member, Mongolian Star Melchers chief executive Lawrence Melchers, said he failed to see the correlation between Mongolia and Greece. In fact, he said he saw huge potential for Mongolia in other sectors such as agriculture and explained the mining sector might not be as enormous as many assume.

“What is Mongolia doing to serve the Chinese economy? Basically, nothing. We all say mining. There are lots of natural resources, but very little mining. There is lots of talk about resource license holders. But companies are very involved in Mongolia’s

mining sector. So export amount is very tiny”.

He suggested Mongolia come up with its strategy and move forward with confidence.

“Mine it and make the infrastructure. Then deliver it to China. Don’t talk, do it”.

The turtle and the gazelle

If Mongolia had the kinds of huge debts that Greece has, it would not have a higher authority to fall back on like Greece had in the European Union. No, Mongolia would have to pick itself up.

But a Sovereign Wealth Fund is one instrument that could be used in lieu of credit. Countries such as Chile and Norway have side-stepped the resource

curse by establishing such funds. They function as a means of collecting funds from the mining industry to support industries outside of mining. The advantages range from picking up the difference in wages across sectors and preserving natural resources for future generations. The fund could also function as a buffer against mineral price fluctuations.

Although Mongolia has long been considering establishing a Sovereign Wealth Fund, nothing yet has emerged from the talk.

“Mongolia’s economy was growing at the speed of a gazelle. Now it has turned into a turtle”, said Schoelhammer. “But in some cases, being a turtle is way better than being a gazelle, because the turtle is the one who lives the longest”. ■

GUEST

‘DON’T BORROW, BUT SAVE’

BY KH. KHULAN

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

Is it your first trip to Mongolia? What is your impression.

Yes, it is my first visit in Mongolia. I am impressed with its wideness and the energy of ▶



Photo by E. Zorigt

▶ the people here—a wonderful country.

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

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

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

What countries are most affected?

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

Which challenges are confronting the global economy?

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

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

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

Also Mongolia has too much capital imports. It is too dependent on the inflow of goods and services from other countries. The trade deficit is 30 percent of GDP, which is astronomical.

I think that is not sound, and Mongolia should definitely stop that.

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

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

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

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

How can we remove the bubble?

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

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

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

What is the role of an economist to the country?

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

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

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

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

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

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

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

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

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

What is the function of the Ifo ▶▶

► Institute for Economic Research?

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

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

What political reform do you think is needed in Mongolia?

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

implemented in collaboration with firms.

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

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

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

saw a 50 percent decline in coal exports in the first half of the year, and more than 40 percent decline in foreign direct investment.

Mongolia buys more than it sells. Though the balance of trade is often in deficit, in the past foreign investment was used to fill the gap. But, according to Mandal Asset Management, there will not be enough foreign investment to rescue the budget this year.

Both exports and imports are on the decline. For the first eight months of 2013, exports fell 5.9 percent to USD 2.7 billion. Imports fell 8.6 percent year-on-year to USD 4.3 billion. The trade deficit stood at USD 1.6 billion for the year-to-August, according to the World Bank, which is not far off from last year's deficit of USD 1.8 billion.

"The exchange rate depreciation trend reflects the market fundamentals", said Taehyun Lee, senior economist at the World Bank, at a seminar held by the Bank of Mongolia. "The market is highly sensitive to negative news".

"The US dollar rate tends to go down and stabilise", said Naidansurengyn Zoljargal, the central bank governor. Without the actions taken by the central bank, he added, Mongolia might have fallen much harder. But the real outcome of the measures taken won't be apparent until next year.

Without price stability measures employed by the central bank, said the bank, petrol price would have shot up by 50 percent and the exchange rate might have fluctuated 30 percent more. But many criticise the extent to which the central bank has intervened.

A hard landing

Minerals make up the biggest portion of exports from Mongolia—more than 90 percent. The lack of diversity in the economy has Mongolia leaning much more heavily ►

FX MARKET

LET THE TUGRUG GO FREE

BY B. ENKHTSETSEG

Mongolia saw just how fragile the market sentiment is for itself as the exchange rate for the tugrug against the dollar approached MNT 1,800 this autumn.

During the CEO Summit held in Ulaanbaatar last month, parliamentarian Sambuugyn Demberel asked the directors of Mongolian companies to raise their hands if they had experienced any

losses over the last few months due to fluctuations in the exchange rate. Every hand in the room was up.

The dollar increased by MNT 200, or 15 percent, against the tugrug from the start of 2013. The market pushed companies from profit to loss within days.

A large hole in the 2013 budget has become apparent because of a slump in mineral prices and waning demand from China, Mongolia's number-one trade partner. Mongolia

on mining than some other mineral-based economies, such as those of Australia and Chile. Those countries prefer policies for flexible currencies, or non-intervention in the exchange rate.

“The free-floating rate rule gives less pressure in terms of inflation and boosts growth for developed countries”, said D. Tuvshinjargal, a lecturer of economics at the Institute of Finance and Economics.

Although a stable exchange rate with a target value may make sense to developing countries, it has proven a fool’s errand because the economy can prove an impossible beast to tame. High speed economies facing market pressures without much economic growth typically are sent

tumbling down when resources are exhausted while targeting an exchange rate, he said.

The uncertainty in Europe and economic slowdown in China have pulled down the currencies of mineral-driven economies, and the Mongolian tugrug is no exception. While other countries’ currencies wavered, the tugrug sat idle because of the intervention of the central bank. Eventually, however, there is always a fall, and in Mongolia’s case the fall was hard.

“The Mongol Bank spent almost half a billion dollars for its intervention”, said B. Erdenebat, a lecturer for economics at the Mongolian State University. “But still the local currency rate went down.

Thus, no one won in this situation but [the central bank] lost with a lot of spending”.

Mining-based economies can seek refuge from the financial sector when facing a weakening currency: If the fall is gradual there is room for the economy to defend against currency fluctuations with the sale of derivatives.

The sharp fall experienced in Mongolia gave little time for preparations, however, and there was no time to sell derivatives. In the end, the intervention employed had little effect in the long run and only added long-term pains.

The World Bank has advised that Mongolia should allow the market to dictate the value of the currency rather than attempt to control the exchange rate with currency auctions to commercial banks. But according to Tuvshinjargal, the transition to a flexible rate is a gradual process.

Meanwhile, rather than wait for the mining sector to pick up, the government can issue bonds, suggested experts from the Financial Markets Association.

The Bank of Mongolia announced that their main target for next year is to promote exports and substitute imports for domestically produced products, alongside its target for reduced inflation.

“If there is no local production, the currency rate movement is never-ending. As production grows, demand for foreign currencies will decline”, said Zoljargal.

Many economists agree that diversifying the export is essential to long-term stability. And, when looked at from another angle, it could be seen as a boon.

“The foreign currency rate today seems quite favourable to local producers because it can be a time for them to expand their businesses and increase their market share if they look at it as an opportunity”, said Erdenebat. ■



30TH ABA CONFERENCE

BANKERS AND EMERGING ECONOMIES

BY B. ENKH

The Diamond Hall at Blue Sky Tower was full with Asian bankers on September 12 and 13 as the Mongolian Banking Association hosted a conference for the Asian Bankers Association during a beautiful but breezy two days in the Land of the Blue Skies.

The focus for this year's conference was "Asia: Growth Engine of the Global Economy"—a cheerful topic for a gloomy time. Global economic prospects remain a source of concern due to prolonged stagnation in the euro zone, the high fiscal deficits and debt held by the United States and Japan, and the sluggish expansion in the US economy and Japan.

But the Asia-Pacific region has shown resilience against the global economic weakness. Economies in the region remain strong; they attract foreign investment still; and governments are leading investment towards their infrastructure projects.

Accounting for roughly 40 percent of the world's population and more than 50 percent of global GDP, the Asia-Pacific is forecasted to generate the highest growth for 2013, according to the International Monetary Fund.

"Mongolia, a country that is looking forward to a period of unparalleled economic growth over the next decade, buoyed largely by the mining boom, is the venue for our conference because of the interest of our members" said, Lorenzo Tan, chairman of the Asian Bankers Association.

"Hosting the 30th ABA general meeting and conference for the first time



Photo by aE. Zorig

in Ulaanbaatar gives Mongolian banks a wider gate out to the world as well as a good partnership with the Asian banking sector" said Bold Magvan, president of the Mongolian Bankers Association.

The International Monetary Fund has projected that global growth would remain moderate in 2013 and would recover gradually as advanced economies grow by just 1.2 percent compared with 5 percent by the emerging markets, said Yuko Kinoshita, a representative of the International Finance Corporation in Mongolia.

Kinoshita warned, however, that emerging markets too have felt the sting of financial market volatility. She recommended near-term policies focusing on striking a balance between policy support and safeguarding financial stability.

Emerging markets are now being

challenged by global slowdown and capital outflows while domestically they face financial stability challenges and structural weakness, she said.

The first day of the conference introduced various banks from Bangkok, Vietnam, Malaysia and Mongolia. Singapore, Vietnam and the Philippines are more consumer-orientated than other countries in the Association of Southeast Asian Nations that are more focused on corporate banking.

But for Mongolia's 13 banks, it is vital to deliver every possible service to compete because of the small population. "Our banks do not have an option to go for either retail or corporate banking in this small market. So they need to go into every segment", said Bat-Ochir Dugersuren, chief executive at Khas Bank.

Given the current rise of the middle ▶

▶ class in Asia, the retail market is seen as a more promising area. Furthermore, Bankers this year addressed the need to promote clean energy above any other industry as it is fundamental to sustainable growth in the long run for the region and the world. Meanwhile Khas Bank introduced its “Ecobanking” department, which was established initially to focus exclusively on air pollution before expanding in 2012 to other market segments.

Outside Competition

The development of the banking sector is inseparable from developing technologies. There has been an explosion of mobile technology taking over throughout the global industry, said a representative of McKinsey & Company. He said a study from his company found that 68 percent of the European market is using mobile and Internet banking compared with only 5 percent who enter branches.

Technology experts say if banks cannot adopt the latest technology other parties will replace them. The McKinsey study shows non-banking institutions have the advantages of having longer hours of

service, self-banking environments along with 24-hour ATMs, high-traffic locations, paperless processing, and information made available on various mobile, touch-screen devices.

But experts warned, however, that some high-tech solutions introduce some security risks.

“The survival of the banking sector will depend on the successful usage of the online world”, said Noorul Huq, an enterprise technologist for Dell in the Asia-Pacific. “If you have products and services to suggest to youth, social networks, particularly Twitter and Facebook, are necessary”.

“Technological developments enable data dissemination in every sector. So, we have a lot of challenges such as information preservation, protection and distribution”, he said.

Frontier Markets

Asia’s top emerging economies are China, India, Indonesia, Thailand and Malaysia, followed by the Philippines, Vietnam, Laos, Cambodia and Myanmar, according to a presentation by Nicholas Pechet, managing director and senior

vice president for the Asia-Pacific at GIA Group.

Myanmar was one of the attractive frontier economies discussed at this year’s conference, seen as a rising star in Asia. Pechet said that Myanmar could generate more than USD 200 billion by 2030, with the help of seven key sectors.

Though Mongolia and Myanmar are both rich in minerals, Myanmar’s population is far greater, with Myanmar’s consuming class projected to grow over seven times to around 19 million by 2030. That would mean a consumer markets potential of USD 100 billion.

Nicolas concluded his presentation saying that the common problem found in frontier markets is a lack of reliable information. He suggested a 360-degree approach, where reliable insights and market understanding is generated by speaking with a wide range of industry insiders and experts.

Though some Mongolian banks have experience in drawing capital from foreign markets, not every bank is capable of doing so. But the Asian Bankers Association can help, said its chairman, by providing access to its global network. ■



INTERVIEW

EFFICIENT MARKETS RULE

BY B. ENKHTSETSEG

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

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

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

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

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

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

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

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

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

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

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

Where do you think this capital market is going worldwide?

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

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

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

How would you grade the recently passed Securities Law?

I wouldn't want to put a grade on it, but I think in looking at the Securities Law, it definitely addresses some key wants of international players and international investors. Nothing is

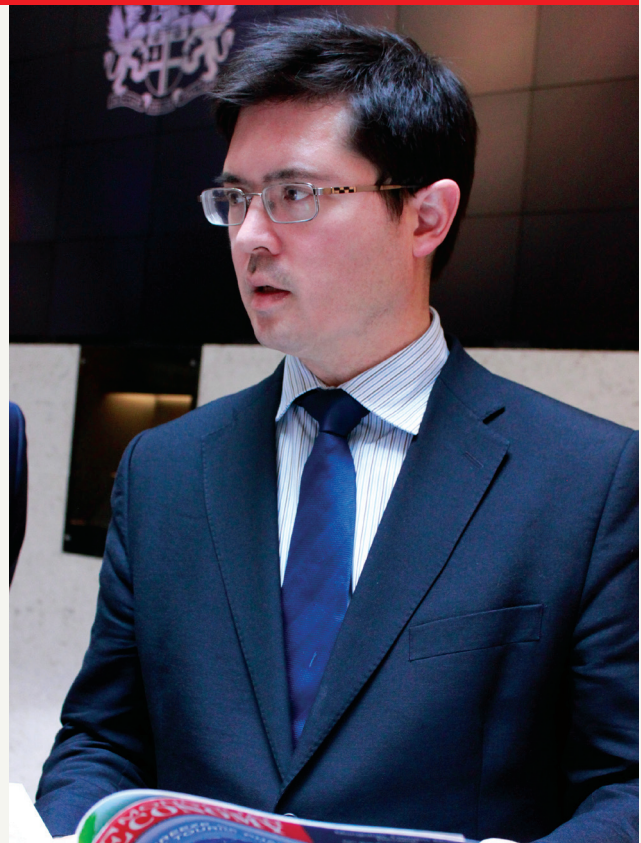


Photo by E. Zorigt

perfect from day one, and I think that there is some evolution as you go and as you implement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

It's a difficult situation as one that requires a lot of advisors and consultants to make sure you find the right mix. That's another thing. It's worked in certain circumstances, and it

hasn't worked in others. Fortunately for Mongolia, you have the benefit of being able to look at other markets in neighboring countries and see how they have done privatisation. It's a case-by-case thing and privatisation is generally beneficial in terms of bringing new efficiency and new stakeholders, which can help push those businesses forward.

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

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

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

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

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

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

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

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

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

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

FORUMS

NO MORE ROOM FOR MISTAKES

BY E. ZORIGT

Investors have disappeared along with the warm air this autumn. This year's Discover Mongolia international investors' forum had far fewer guests than in previous years. It might be an expression by foreign investors that Mongolia needs to settle its internal affairs.

"We have never been to such an empty hall during the opening and closing ceremonies," said the event's chairman, former President Punsalmaagyn Ochirbat,

"Why have the foreign investors abandoned Mongolia? The state is the main one to blame for it," he said.

Every delegate had his or her own ideas about how to move forward from here, but nobody among the delegates disagreed with the conclusion that the state was to blame.

A law that would stabilise the invest-

ment environment is expected to be approved in the next session of the State Great Khural", said Ochirbatyn Chuluunbat, vice minister of economic development. "The main concept behind the law is the aim to create stability for foreign investors for five to 10 years".

Any mere change or approval to the law will fall short of restoring investors' confidence in Mongolia, however. There were many among the delegates that spoke about a need for greater focus on limiting state's intervention into businesses.

Racketeering

Some have taken on patriotism like a profession. They say they act "for Mongolia" so that not even a bit of soil is given up for the use of foreign interest, and that foreigners need to go home.

Many delegates agreed that another reason investors have fled from Mongolia is because of racketeering. Are locals asking for protections to the environment or for their own compensation? In recent years, the size of the territory prohibited from mining has grown substantially. Environmental groups say mining companies are destroying the environment but not many talk about the need to remove illegal, artisanal miners.

"What is a donation? This is indeed a bribery, but with a different name and image", said Ochirbat.

He added, "The racketeering has become a sort of double taxation that is illegally collected through threats by locals".

Some blame can be put on the state, too, however. A number of companies went bankrupt because of bad and poorly executed legislation, such as the 68 percent Windfall Tax and so-called the "Long Name Law" that suspended many ▶▶



- ▶ exploration and mining operations without any compensation.

In the end, it was the artisanal miners who came out ahead by moving in as soon as the legitimate miners left. Although they now are equipped with modern technology and tools, they still cause serious damage to the environment and provide no rehabilitation. The media has identified mining companies as the worst polluters in the country, but little thought is given to the illegal miners who pour arsenic and mercury into Mongolia's rivers. Meanwhile the number of opportunists looking for a personal cut of the mining wealth for themselves under the thin veil of patriotism grows daily.

"All stakeholders, including the state, civil society, the private sector and journalists, have to work together", said D. Damba, president of the Mongolian National Mining Association. "The state needs to consider the consequences of its policies. Journalists also have to consider the consequence of their publications. The time has come to learn from our mistakes".

Everlasting Theme

During the Discover Mongolia forum, delegates raised issues related to the environment and human resources. "As global warming and climate change occur rapidly, environmental issues need to be given higher priority", said Sanjaasurengyn Oyun, minister of environment and green development.

For that aim, said Oyun, the government is revamping its fee structure for the use of water and other natural resources. Some delegates, however, criticised that the laws were short-sighted.

Gold miner Mongolyn Alt, for instance, said it was looking at water costs of MNT 800 million compared with its current cost of MNT 60 million "Environmental issues do not only exist in Mongolia. There are some good international experiences to learn from", said Peter Kareva, PhD and chief scientist and director at the Nature Conservancy.

"Focusing on the environment should be a fundamental of developing environmentally friendly technology and

strengthening the green economy".

Although there are plenty of job vacancies in Mongolia, many at Discover Mongolia noted the lack of qualified candidates. Meeting the workforce quota mandated by the government for companies to be staffed 90 percent by Mongolians is a difficult challenge for many miners due to simple numbers given Mongolia's small population and a lack of competent workers.

Delegates from civil society, however, complained about the low wages Mongolian personnel are given and the gap in the salaries between Mongolian and foreign workers.

Bright Theme

One of the few sessions with optimistic chatter was the one for the oil shale industry developing in Mongo-

lia. Oil shale is an important energy source that could bring to Mongolia independence from foreign nations for fuel supply. But so far no detailed research on the country's oil shale resources has been made aside from a rough prediction made in 1994 amid various other research.

"Mongolia is rich in oil shale resources, but detailed research needs to be done", said vice mining minister O. Erdenebulgan.

Representatives from the state, civil society and the private sector delivered their message that Mongolia must avoid repeating its mistakes. Now it is up to all stakeholders to put these findings into practice. But if Mongolians cannot learn from their mistakes and continues to behave foolishly, it is unlikely they can make these ideas reality. ■

OYU TOLGOI

SOLID DEVELOPMENT AND DOUBLE SUPPORT

BY B. TOGTOKH

There is still a scarcity of capable human resource talent in the mining industry—a sector which comprises 4.2 percent of the total workforce in Mongolia. Qualified professionals are a rare commodity. The economy-driving mining industry is seeking qualified professionals, and is not against importing high-paid workers from abroad. The industry argues it has no choice.

Permanent vacancies in the mining industry is expected to grow by 6.6 percent, according to a study listing the 20-most desired professions for the next 20 years released by

the Millennium Challenge Account. The list includes miners, drivers of heavy machinery, mining engineers, metallurgists, and metallurgical engineers. Although the government of Mongolia aims to prepare a qualified workforce, it still lacks some capacities.

"Our university launched a programme for the mining industry in 1971", said L. Purev, director of the School of Mining Engineering at the Mongolian University of Science and Technology (MUST). "Currently, there are some nine mining-related majors and our university provides 50 percent of the overall demand for the mining industry in Mongolia. In recent years a number of students who are interested ▶▶

► in majoring in mining has been on the rise”.

There are 12 schools in total educating students on mining, but the quality of alumni is relatively weak, say employers.

Mongolia has prepared mining engineers and technicians for Erdenet Mining Corporation since 1973, during the communist era, for a planned launch for 1987. For the Oyu Tolgoi project, government did not take on such early measures. The size of the Oyu Tolgoi deposit is seven times the size of Erdenet, in terms of copper reserves, fifty times that of the Boroo mine, in terms of gold reserves, and six times that of Asgat, in terms of silver reserves.

According to a study by World Bank, qualified professionals constitute mere 20 percent of total workforces in Mongolia.

Mongolia is now well-known globally for its rich mineral resources, but the population of the country that holds those reserves is tiny. There is much to do if Mongolia is to develop a workforce for itself rather than import workers from abroad.

According to research by the Mining Industry Human Resource Council, qualified mining professional are likely to grow scarce worldwide by 2020. Some 60 percent of those employed in the mining industry are set to retire by 2020, requiring some 100,000 new professionals to replace them.

Despite the lack of draw to mining professions, they are some of the highest paid in any industry. And the largest deposits being dug out today are still thirsty for workforce for some of the most highly skilled and talented individuals the world has to offer.

Dividing up the demand for different specialities in the mining industry, the market calls for 0.4 percent of mining professional to work as engineers, 34.4 percent as technicians, and 65.2 percent as skilled labourers. That would mean 1,200 more engineers, more than 10,000 technicians and more than 18,000 skilled labourers. But Mongolia has a mere 3,900 students majoring in the mining industry each year, with the country seeing just



1.37 percent growth in the number of students studying mining between 2005 and 2008.

Oyu Tolgoi is making huge investment into an area the government should be largely responsible for. Investment into the education and the capacities of the workforce are thought of as the strongest investment that can be made and a solid cornerstone of development. Oyu Tolgoi has taken it upon itself to gather the resources to educate Mongolia's young people and financially support its needs.

“In the professional education system, a contribution of realistic investment totalling USD 126 million, or MNT 168 billion, is needed”, stated Labour Minister Yadam Sanjmyatav.

Financing Oyu Tolgoi includes the establishment of three new technical schools and the complete renovation of four vocational and training centres. It also includes the preparation of 3,300 skilled workers, 1,200 teachers for the vocational centres, Oyu Tolgoi's employee salaries, and scholarship programmes for Mongolian students. Last year Oyu Tolgoi commissioned a new technical school.

There will also be an inflow of returned students from abroad to add to the talent pool, such as S. Tamir, who interned for a year at the Northparkes mines in Australia.

“I had an early look at the kind of

future complex that will be finished after two or three years at Oyu Tolgoi in its deep underground mines”, said Tamir.

“It was quite different to see these things in reality rather than in my studies at university”, he said.

Oyu Tolgoi has a scholarship programme for 35 student interns at Oyu Tolgoi for schools abroad for the 2013-2014 academic year. Oyu Tolgoi will pay their tuitions and provide them with MNT 200,000 monthly allowances, and any students from the countryside will have their housing costs paid in full. If a student is from the countryside his or her dormitory fees will be completely paid by Oyu Tolgoi.

“Oyu Tolgoi has already granted scholarships to about 100 students out of a total 200 from 2010 to 2015, said Yo. Lkhamaa, a human resources specialist at Oyu Tolgoi.

“This scholarship programme aims to provide financial support for students and having them continuously involved in the other programmes in the future”, she said.

The government has made employment a top priority, and Prime Minister Norovyn Altankhuyag has set the target of training 7,000 individuals. If a country's development really does begin with developing its people, it will be these investments that make the most lasting impacts. ■

mongolia2013

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Mongolian Economy spoke with Peter Schreudering, sales manager at Magna Tyres Group, during the 2013 Mining Mongolia exhibition, which brought the world's best mining equipment and technology to Mongolia.

Good day to you. Shall we start our interview with the history of Magna Tyres Group?

The group was established as a family business in base rubber compounds for all brands of tyres. The group introduced itself into the tyre production industry in 1974. Since 2005, we have manufactured our own brand, under the name of Magna Tyres, and it has been growing from the start. We offer a variety of tyres for all kinds of heavy machinery, including cargo loader machines, dumpers, mobile cranes and container handling equipment.

What would be a feature of your products and an advantage of your technology?

We carry out all kinds of research by visiting the mining fields of our clients. Our Magna representatives have great knowledge in the most effective ways in choosing and using the right tyre. This expertise is translated into some big advantages, starting with offering our customers premium quality rubber compounds specially made for specific conditions and resulting in the significant reduction of fuel consumption. For example, when you use our tyres under the advised optimal conditions, your fuel consumption would be less than usual. This

would be a contribution to a reduction of CO2 and an efficient use for consumers.

Currently, Magna Tyres Group supplies its products to more than 90 countries. The group is also working on developing a specific tyre for heavy machineries which will operate during winter.

As the international sales manager, how would you describe the current market here in Mongolia?

The current circumstances in Mongolia are a new chance for investors. I always say that passengers need to get on a train while it is waiting on the platform, because you can't jump on it while it is running 100 kilometres per hour. So, it's a big opportunity for investors who manage to get onto Mongolia's economic train.

What advantage would your Magna Tyres Group offer Mongolian consumers?

The added value of the company is the combination of thorough knowledge of tyre engineering, our controlled delivery of premium quality raw material and the facility to customise the compound to special applications. We are focusing on the supply of tyres at reasonable

► prices. We always keep our products updated and technology advanced. Magna Tyres Group established Magna Tyres Mongolia as an official distributor and representative for the Mongolian market. It means that we know the national market better than our competitors, who do not have such a representation. Any company that is aware of the national market will supply products that meet current demands, like to one of our first customers, the Baganuur coal mining company.

Which of your products have the greatest demand by mining companies in Mongolia?

Most of the mining companies here had been purchasing tyres from China for a while because of the cheap prices. During Mining Mongolia 2013 some representatives from the mining companies expressed interests in purchasing good-quality tyres at reasonable prices. Magna Tyres is the company that meets this demand, offering relatively cheap and competitive-quality tyres. We research all aspects related to the tyre demand, including the mining site roads, operating conditions, and local weather. For example, if a 57-inch tyre reaches 1,000 hours of use, we go to the site for an inspection. The forthcoming site management and tyre management tips and tricks are highly valued and is something in which we can make a difference. Mining companies look for more than a tyre dealer, they demand much more.

You said that you have supplied your tyres to Baganuur. How are the tyres adapting to Mongolia's weather?

Before we deliver any tyre we investigate the mining site and operating conditions. With this information, we set up a tailor-made tyre management program. We ask all our new customers what exact technical specifications they require and together we make a decision about the best type of tyre they need. We take into consideration the volume of precipitation, average annual temperatures, field conditions for loading and unloading, and other possible risks. Because we supply products for mining companies in areas with different climates such as Siberia, Alaska, South America and Africa, we are very confident that our tyres are suitable for the weather conditions in Mongolia.

How would you advise our readers on how to properly choose their tyres for heavy machineries?

Every site manager and purchase manager should choose a tyre that has been globally recognised and has met international standards for a long time. Using low-quality, cheaper tyres shortens their lifetime, which is risky for the economy as well as for human health.

The Magna Tyres representatives are well trained in recognising the specific aspects that will make tyres last longer. We are always willing to advise any interested party.

Is it your first visit to Mongolia?

Yes, this is my first visit to Mongolia.

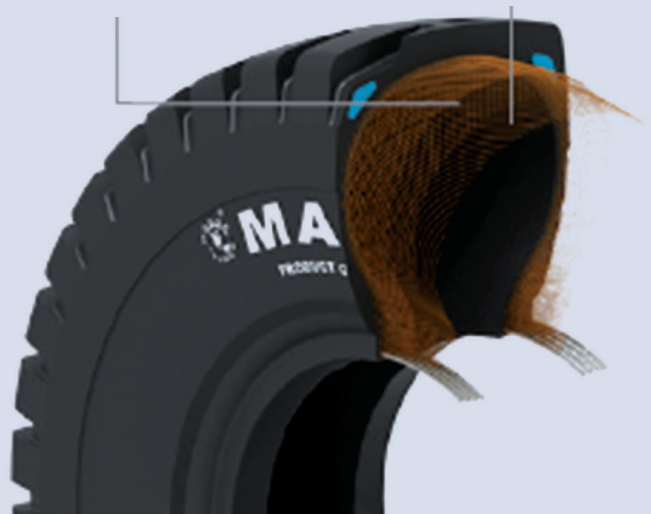
How do you see the current circumstance in Mongolia as well as its economic development?

There is enormous potential in Mongolia. There is a lot to be done. I believe that Mongolia has a future! ■

Bias tire

The casing is made up of several crisscrossed plies.

The crown is not stabilized.



Radial tire

The casing is has only one radial ply.

The crown is stabilized by several plies.

