

For a green development

MONGOLIAN ECONOMY

Mongolia's Economy and Business Magazine

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An unpleasant economic
year in review

L. Dulmaazul: SMBC is interested
in Mongolia's mega projects



**A NEW ECONOMIC
VISION TAKES SHAPE**



THE REPORT Mongolia 2014

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EDITOR'S NOTE



Mongolian Economy is happy to dedicate this year's 58th edition, our final one for the year, to all of our readers. In this edition, we strived to include some conclusions and reviews by economists on special economic events that took place in Mongolia this year. We also include economic thoughts and projections for 2014.

This year was not entirely successful for the country's economics and business areas. In 2013, there were plenty of topics covered including a sharp decline in foreign direct investment and the price of exported coal. A number of international conferences were held in Mongolia this year including the 7th Ministerial Conference of the Communities of Democracies and the World Economic Forum Strategic Dialogue on the Future of Mongolia.

However, there was positive news including Salkhit wind farm, official visits abroad by Mongolia's leaders, the anniversaries of historic and diplomatic relations with other countries and the improved appearance of Ulaanbaatar.

Back in January, we published a special edition called "The Ever-Growing Economy" for the World Economic Forum's annual meeting held in Davos. We also had a chance to work with the British Embassy Ulaanbaatar on a special edition dedicated to the 50th anniversary of diplomatic relations between the UK and Mongolia.

The magazine broadly focused on local events including the national consultative meeting "From Big Government to Smart Government" held in November. The magazine successfully performed its functions to provide the general public with updated economic and business news and information by publishing interesting and insightful articles raising many important issues including the government's excessive involvement with businesses in Mongolia.

Mongolian Economy this year has made several improvements. Economy TV studio has been renovated and is now completely prepared for broadcasting its programmes on TV channels. We aim to keep improving our policy and quality of the magazine and website www.mongolianeconomy.mn in 2014.

Mongolian Economy's team would like to wish you a very happy Christmas and all the best for 2014!

BY I. OTGONJARGAL



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MONGOLIA:

Gross Domestic Product

The Economist magazine has projected Mongolia's GDP will grow 15.3 percent next year. The World Bank predicts that the country will keep its double-digit GDP growth in 2014.

Ulaanbaatar Budget

The 2014 budget for Ulaanbaatar aims at decentralising the city and improving living conditions for Ulaanbaatar denizens. The budget amounts to MNT 556.9 billion and increased by 24.3 percent, or MNT 108.7 billion more than the 2013 budget. Personal income tax will generate 65.7 percent of total budget revenue.

Foreign Investment



By mid 2013, foreign investment had declined by 43 percent from the previous year. Although Mongolia has not seen any added foreign investment as of October this year, there was growth in investment from Mongolia to outside the country, according to the National Statistical Office. The foreign trade deficit was also on the rise. In-coming foreign investment will be needed next year to finance USD 50 billion in large-scale projects expected to begin. The approval of a new Investment

Law has created a more favourable environment for both Mongolian and foreign investors.

Employment

This year the govern-

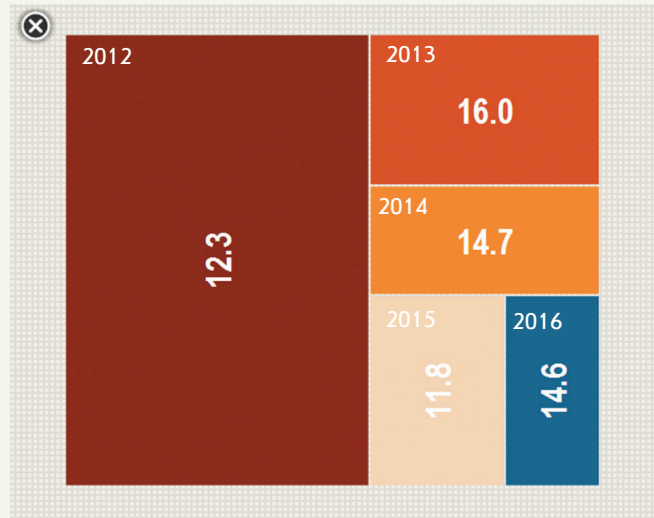


ment set out to create 50,000 new jobs. To reach this figure, an employment programme was rolled out that is expected to create 1.17 million employable citizens for the workforce. The government believes that the portion of those who choose to work will grow to be 63.8 percent, with unemployment of 7.7 percent. From 2013 to 2016, the number of employed will increase by 2 percent and the number of registered unemployed persons will be anywhere from 34,000 to 35,000.

New Laws

In 2013, several laws were amended. The amendments included a short-term investment for the oil industry and the cancellation of value-added and customs tax exemptions. Since 2007, imported equipment and spare parts used by small and medium enterprises have been exempted from tax. According to the amendment, this tax exemption will be repealed beginning January 1, 2014.

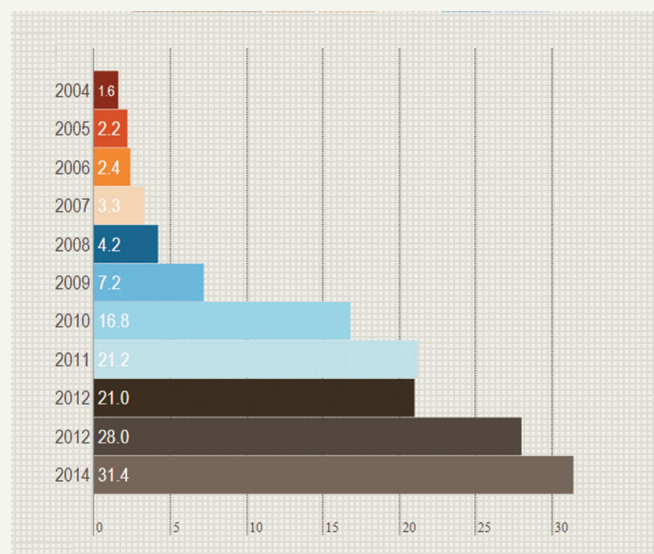
GDP growth (%)



Mining

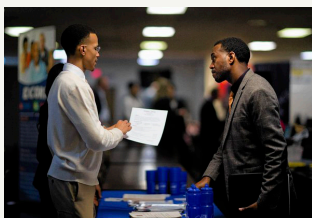
In 2014, Mongolia's mining industry is likely to see a return to its economy-driving investment figures. Oyu Tolgoi's copper-gold production plans are to increase current production two to three times more for the 2014-2016 period. Also, mining operations will be accelerated at Tavan Tolgoi's Baruun (west) Tsankhi and Zuun (east) Tsankhi sites. The volume of oil and iron ore mining is also likely to grow.

Volume of exported coal (million/s of tonne/s)



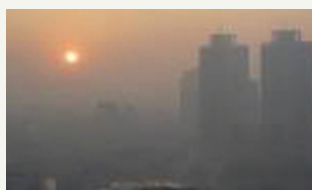
WORLD:

United States



U.S. unemployment rate dropped to 7 percent, the lowest since 2008. The Labour Department says that employers added 203,000 non-farming jobs in November and that a large part of them were higher-paying positions. Construction companies added 17,000 jobs in November, up 42 percent from the previous month, as the housing market rebound created more demand. And the nation's factories added 27,000 workers, the most in 20 months and 69 percent more than October.

Asia



China, Japan and South Korea on Sunday agreed to jointly combat air pollution, a common challenge to East Asia, to boost sustainable development for greater ecological improvement. At the end of a two-day summit in Xianghe, representatives from the three countries said that they will to join hands to boost sustainable development.

Japan

Japanese business confidence improved over the three months to Decem-

ber to its highest level in six years. A central bank survey showed that Prime Minister Shinzo Abe's "Abenomics" stimulus policies are gaining traction across the economy.

The Bank of Japan's quarterly "tankan" survey showed sentiment brightened not just for big firms but also for smaller companies, which had been slower to reap the benefits of a recovering economy. Small manufacturers' sentiment hit a six-year high and the small non-manufacturers' index turned positive, meaning optimists outnumbered pessimists, for the first time since 1992.



Germany



Angela Merkel was elected to a third term as chancellor in a vote in the German lower house of the parliament on Tuesday, paving the way for her new government to formally take power after months of coalition talks. Her right-left government, which includes the rival Social Democrats, faces a host of challenges, including seeing through Merkel's costly switch from nuclear to renewable energy and bedding down European reforms aimed at shielding the bloc from future crises.

Russia

Prime Minister Dmitry Medvedev said Russia's Gazprom will lower the amount it plans to spend on investments next year by more than 20 percent. The gas giant's 2014 investment programme will be more than 800 billion rubles (USD 4.3 billion), down from 1.03 trillion rubles this year, the Wall Street Journal reported. The Economic Development Ministry earlier lowered its projections for state-run companies' investment programmes after the government decided to freeze 2014 tariffs. ■



A. AMARSAIKHAN'S CARTOON



FEATURE

AN UNPLEASANT ECONOMIC YEAR IN REVIEW

BY I. OTGONJARGAL

Mongolia's economic sector is seeing off a harsh 2013: there was a sharp decline in foreign direct investment due to both internal and external factors; a fall in the price of coal which was supposed to be the main contributor to revenue generated from the mining sector; mining exports halted at many mine sites; financial difficulties with Oyu Tolgoi's underground mines continues; and the tugrug weakened against the U.S. dollar.

The first quarter was full of unfavourable global economic news. US budgetary problems are still in negotiation and China's economic growth has lowered since 2012. The global economy still has not recovered from the downturn of 2008 and 2009 and the European Union's crisis enters its third year.

The second quarter saw some advanced economies positively impact the global economic situation. However, China's economy was not good enough to support Mongolian exports during the summer.

The 11th Discover Mongolia held in Ulaanbaatar in September was the least attended in the event's history and lacked sponsorship. A sharp decline in the price of coal and the political instability and uncertainty in Mongolia was to blame. The Strategic Entities Foreign Investment Law (SEFIL) repelled foreign investors last year resulting in a 40 percent decline for foreign investment in Mongolia. Oyu Tolgoi's progress has been halted by issues related to expansion approvals.

Two optimistic projections for the 2013 state budget are in reality a burden to the economy. When the budget was approved, it projected the economy would grow 18.5 percent growth this year, but the actual growth was 11.3 percent as of the first half of this year.

Coal exports were supposed to be 28 million tonnes this year, but have only totalled 16 million tonnes so far for USD 1 billion in revenue from export, according to a rough estimate by the National Statisti-



cal Office.

The flailing exchange rate posed another problem for Mongolia. For an import-based country like Mongolia, continuous growth in the exchange rate puts businesses under pressure and has sent inflation toward an upwards trend. Under the current monetary policy, the Bank of Mongolia has tried to keep inflation to within the single digits. The inflation rate was 8.3 percent in July this year, but reached 12 percent in November – an improvement over last year's inflation rate of 14.2 ▶▶

▶ percent.

Since the end of 2012, the Bank of Mongolia and the government started to implement the Price Stabilisation Programme. The programme brought reduced prices for consumer goods, contributions to manufacturing building materials and the creation of a long-term stable housing fund system.

The programme aimed to stabilise the price of consumer goods, including meat, flour and petroleum while the budget projected inflation would worsen in the long run. This eventually became reality, as evidenced by data from the latter half of 2013. On the demand side, there were relatively few factors influencing inflation, including a curtailment to the expansion of the budget, the removal of cash allowances and a decline in the increase of wages.

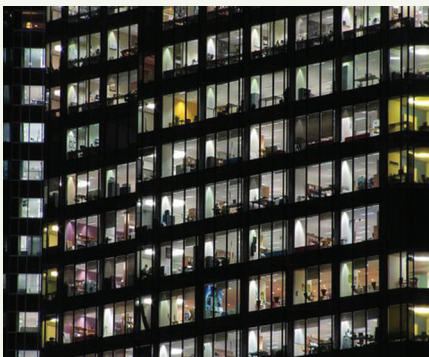
As inflation decreased under the macroeconomic policy, the Bank of Mongolia reduced its interest rate three times, finally settling at 10.5 percent – a positive impact on reducing interest rates between commercial banks and the weighted average interest rate of securities issued by the Bank of Mongolia.

With the new year approaching a sharp increase in the price of consumer goods and other products is inevitable.

Despite a number of negative developments for the economy, the construction sector has reported a sharp increase in activity. Thousands of families and households were successfully involved in the 8 percent mortgage loan. However, the prices of apartments per square metre rose from 12 to 28.7 percent from June to August this year.

Bank of Mongolia officials were proud to say that they managed to save the economy from a complete crisis because of the USD 2 billion in investment from the Chinggis bond and the Development Bank's Euro bond. The bonds are credit, however, and President Tsakhyagiin Elgegdoj has warned that Mongolia's preference for the use of debt to pay for infrastructure may be misguided. In his speech at the national consulta-

Inflation (annual growth)



Source: Bank of Mongolia

tive meeting "From Big Government to Smart Government", he promised to initiate a law to manage the debt.

The government excluded the proceeds from the 2013 USD 1.5 billion Chinggis bond from the state budget. It invested those funds in mega projects through the Development Bank of Mongolia. The World Bank projected that this off-budget investment would comprise 10 percent of this year's GDP. International organisations and economists also criticised that it would not be appropriate to spend the bond's proceeds outside of the budget.

If the bond was included in the budget, this year's deficit would have been 12 percent of GDP. The World Bank said that Mongolia's budget deficit was relatively high compared to other developing countries in the region.

The budget for next year was approved for MNT 6.9 trillion, with spending to be MNT 7.3 trillion and the deficit to be MNT 409.9 billion, under a condition that the budget will be amended by February or March next year. In the 2014 budget, the government largely cut investment for infrastructure projects and reduced the amount of investment by MNT 318 billion. There are 144 unfinished buildings that will require additional investment from the budget in 2014. But the investment is not included in the budget as these buildings, including some kindergar-

tens and schools, were not completed by the previous year's budget.

The Prime Minister visited Japan in September this year. During his visit, he signed a memorandum of understanding with the officials at the government of Japan. The memorandum concerned the opening of rights to 8 billion yen (USD 77.76 million) in Mongolia from the Japan Bank for International Cooperation (JBIC). Also, the Japanese government expressed its intent to guarantee a new yen-denominated sovereign bond for Mongolia that would be 90 percent guaranteed by JBIC.

This event might help restore the economy. Many predicted that Mongolia's economy would not perform well after the tugrug depreciated to MNT 1,700 against the US dollar.

Good news regarding Oyu Tolgoi also seems closer. Negotiations throughout the year were held in both London and Ulaanbaatar. Recently, Oyu Tolgoi's board of directors unanimously approved its budget for next year.

Mongolian Economy will deliver the much anticipated results of the Samurai bond, the economic overview for the year of 2013 and professional projections and overview of the economy in 2014. ■

Nominal GDP volume and real economic growth (%)



Source: Ministry of Finance

MONGOLIAN ECONOMY MAGAZINE'S QUESTION

How well did Mongolia's economy perform in 2013?
How do you see it in 2014?

Batkhuugiin Garamgaibaatar, member of parliament and chairman of a standing committee:



In 2014, Oyu Tolgoi's copper-gold production is expected to double in 2014 from its current production. Oil and iron ore mines are also expected to grow. With this, the economy will grow and macroeconomic growth will stabilise.

The government has planned to reduce the inflation rate and follow the stabilisation policy. This includes some measures such as contributions to production supply, a reduction in imports in lieu of domestic production of building materials, and it aims to keep the inflation rate within the single digits.

Thus, the economy will be stabilised next year, which will create an opportunity to verify growth, I think.

Ts. Batsukh, dean of the economic faculty at the Institute of Finance and Economics



2013 was an unpleasant year for Mongolia's economy, especially for budget revenue and investment. It could be seen from the budget deficit and decline in some industrial areas. This is mostly an effect from the global economic conditions.

Alternatively, poor macroeconomic management in Mongolia caused these risks. Not all external markets had shadows. There has been restoration in some economies. The restoration was not able to bring substantial change to Mongolia's mining industry.

It also shows that Mongolia cannot make a big fuss and have [continued] access to international markets.

In conclusion, this year was good for the agricultural sector, but not good for the mining sector. The shortfall in the budget was due to incorrect planning of the budget rather than delayed coal exports. Optimistic projected targets were the cause of risks to the budget. There is no guarantee if these conditions will continue next year. There will be no serious hope for economic competitiveness next year.

Also there could be some hindrances to banking and finance because of the sharp rise in the amount of non-performing loans, increases in the exchange rate and the reduction of official reserves at the Bank of Mongolia. These all might create risks for next year.

The [central] bank will have to focus on raising the amount of reserves, otherwise there will be fluctuations in the exchange rate, which would increase the prices of consumer goods. In this way, the Bank of Mongolia will not be able to reach its target to reduce the inflation rate.

B. Erdenebat, PhD, researcher and lecturer at the National University of Mongolia's School of Economic Studies



According to statistics by the National Statistical Office, this year's GDP growth is expected to be 12.5 percent. This is very high growth among the 200 countries of the world, but there is no clear picture behind the growth on how beneficial it was.

I repeatedly said before that Mongolia's economic estimate was wrong. For example, there is no integrated concept about debt. Society has not discussed equal benefits. There was one player in the mining sector that we felt plays an important role in foreign trade. This is Oyu Tolgoi. The tugrug is under pressure in relation to the halt at Oyu Tolgoi's underground mining shaft. One company's large impact on the economy is another risk. Unpleasant economic conditions showed us some things more realistically.

Foreign investors in the manufacturing industry were under pressure and have abandoned Mongolia, which resulted in a sharp decline in foreign investment. In relation to the deficit in the official settlement balance, the government's intervention in the economy has increased to some extent. The businesses felt pressures such as a push away from the market to the same extent. But Mongolia's economy is a market economy, based on the private sector. The economy is becoming dependent on the government. Also banks and financial organisations are making the [private] sector dependent on the government, too. This is a concerning issue.

Next year will be full of uncertainties. Mongolia's economy was previously based on agriculture. Now the country is deemed a mining-driven economy. The mining sector is dependent on the global commodities market. Our navigation is off course. Thus, we need a vision and an economic policy study that will reduce risk.

Tae Hyun Lee, senior economist at World Bank Mongolia representative's office



The Bank of Mongolia supplied a huge amount of tugrug to the economy. This resulted in the increase in tugrug availability, but a decline in foreign currencies. And the tugrug rate against the US dollar has weakened. This had an impact on the prices of imported goods and is increasing inflation. On the one hand, the amount of loans issued by commercial banks was on the rise, which made the stability of the financial system more vulnerable. This might cause risk to commercial banks. On the other hand, it indicates that the financial system's health is deteriorating.

The central bank really needs to focus on this issue more seriously. Rather than increasing the money supply, it would be more important to stabilise the exchange rate and the official settlement balance.

The approval of the Investment Law was a good thing, but ►►

investors will wait and see how the law will affect the investment environment. It will take some time. The approval cannot bring the investment overnight. I guess that economic growth shall continue in the same way next year. Of course, there will be some risks. The economic vulnerability is likely to grow deeper. Thus, the right policy should be implemented from now on.

There could be unpredictable results to come out. Although on the whole economic growth is high in Mongolia. When it comes to details there is a very unique trend. The number of sectors that contribute to growth the most has shrunk and now there are only two sectors. This is not the structure of a pillared economy.

Another thing is that people are focusing on high growth too much. For other countries, double digit growth is obviously a big success, but we should remember that growth cannot always represent development. Besides that, we have to look back at the spending of the proceeds of the Chinggis bond. Instead of amending next year's budget, it would be better to wrap up the Price Stability Programme and to slightly cut spending on projects funded by the bond. However, there could be one consequence from [ending] the programme: Prices could climb once the programme is closed. However, it is up to the government to make the right decision to maintain the economic stability in the long run.

Stefan Hanselmann, PhD in Economics, project director of the Integrated Mineral Resources Initiative.



2013 has been a year of conflicting messages. On the one hand, the government seems to concede that the sentiment among foreign investors has quickly deteriorated over the past 18 months. Positive efforts have been made to restore confidence, a new Foreign Investment Law was passed and a new foreign investment promotion agency has been established.

On the other hand, important issues such as the new mineral law and the national strategy for the mining sector are still pending. Still unresolved is the conflict with Rio Tinto and Oyu Tolgoi, despite the fact that both sides brought in new representatives.

At the same time, and quite disconcerting, are deteriorating macro-economic fundamentals such as the depreciating tugrug, rising public and private debt, rapidly shrinking central bank reserves, a rising inflation rate and a recent surge in non-performing loans due to the fact that a government subsidized mortgage program has brought people into the housing market who are extremely vulnerable to economic downturns. As if this isn't enough, we see on a global level continued economic woes in all BRIC countries with clearly reduced economic growth in China and a market for the main Mongolian resources that is characterized by falling or stagnant prices and/or a trend towards oversupply.

The number of construction cranes might tell a different story, but the Mongolian economy came increasingly under pressure over the course of 2013 and shows clear signs of deteriorating health.

Many measures that have been implemented in 2013 will not bear fruit immediately and investors' confidence will not be restored

overnight – nor will the resource “super cycle” of the past years. As much as 2013 can be the turning point, it will take all of 2014 to consolidate achievements.

Additionally, Samurai or Dimsum bonds can help through the financial dry spell, but Mongolia should use this money for productive investments with a definite ROI [return on investment] and significant internals, i.e. national value creation. Subsidized mortgage programs have given growth figures a facelift but create the wrong asset allocations.

The economic situation in 2014 will remain precarious as long as there is no budgetary consolidation. A further depreciation of the tugrug towards US dollar and euro will have a devastating effect on private consumers as well as the private business sector, particularly on small and medium sized enterprises which have – quite the opposite to large business conglomerates – usually no possibility for internally cross-subsidising their operations and only limited pricing power.

Nevertheless, there is one major thing that could change everything quite drastically: an agreement with Rio Tinto over the OT project and Rio's subsequent return as an investor. Or, for that matter, any other large scale investment agreement with a potent foreign partner. If this happens early enough in 2014, it could very well be the first stage on the path of economic recovery.

Considering the government's efforts and commitment towards improvement of framework conditions for foreign direct investment, Mongolia could emerge from the ashes as a much more mature, realistic and pragmatic partner for international business.

Ch. Ankhbayar, senior expert of risk management at Mandal Assets Management



In 2013, there was huge deficit in the current account balance. The deficit is the result of declining foreign direct investment [FDI]. Previously, the deficit used to be recovered by FDI. It means that Mongolia's foreign currencies' reserves are too dependent on FDI.

In addition to this, there are some internal factors that put the reserves under pressure. The government should pay USD 195 million for debt [repayment] on average every year. Including the debts of banks and large companies, Mongolia should have at least USD 770 million in reserves a year. This is only short-term debt, but in terms of long-term debt the reserves would be too low to deal with this issue.

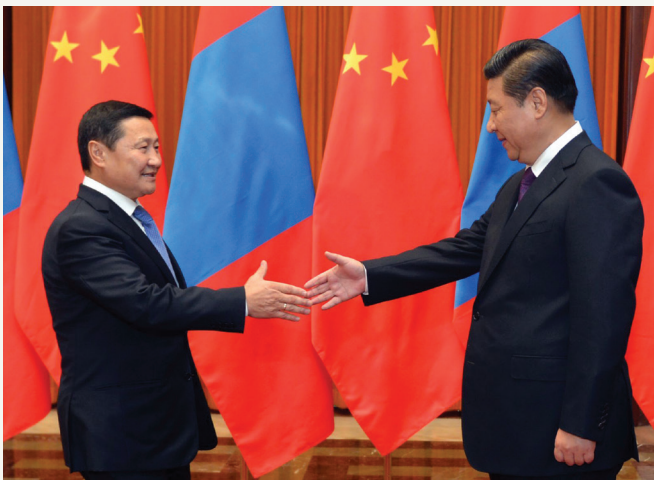
Next year, the amount of reserve will be reduced, which could increase the inflation rate. Mandal Assets Management carried out a technical study on the exchange rate. The rate of the tugrug against the US dollar could reach MNT 1,920 and the inflation rate could reach 17.5 percent.

If no measures are taken by the Bank of Mongolia in the future, the main reason for double digit inflation could be the exchange rate. Thus, a new Investment Law should be announced internationally to change the attitude of foreign investors. The economic risk will be reduced if FDI increases. ■

10 FEATURE EVENTS OF THE YEAR

The year of 2013 was a full of political, economic and business events in Mongolia. Here *Mongolian Economy* names 10 featured events of the year.

1. Official State Visits



Prime Minister Norovyn Altankhuyag paid an official visit to China this year. As a result of negotiations made there, Mongolia agreed to export one billion tonnes of coking coal to China for 20 years for some total USD 50 billion. Coal deliveries will be made from each of Tavan Tolgoi's miners – Energy Resources, Tavan Tolgoi, and Erdenes Tavan Tolgoi. There is wide opportunity for companies to participate in terms of logistics and marketing and this is a large step forward for China-Mongolia relations. Mongolia has also signed a memorandum of understanding for the supply of USD 20 billion worth of brown coal to China.

In addition to the coal trade, Mongolia and China have negotiated a strategy for the development of their relationship and cooperation in the coming two decades, with the approval of a mid- and long-term strategic partnership development programme.

The premier also paid an official visit to Japan this year, where he negotiated for the issuance of the yen-denominated bonds.

President Tsahyagiin Elbegdorj paid official visits to numerous countries with the aim of developing closer relations with the rest of the world. The president's visit to North Korea was one that attracted global attention. During his visit, the president said Mongolia

was interested in cooperating with North Korea in agricultural and negotiated for the possibility of investment cooperation at the Kaesong special economic zone.

Most recently, Elbegdorj made official visits to countries throughout Southeast Asia for the benefit of political and economic ties.

2. Building a Reputation

This year, a number of international events were held in Mongolia, including the seventh Ministerial Conference of the Communities of Democracies in April. That event attracted about 1,300 representatives from more than 100 countries. Other events include the 30th Asian Bankers' Association Meeting and Conference



and Northeast Asia Economic Forum held in August, and the World Economic Forum Strategic Dialogue on the Future of Mongolia held in September.

3. Welcome the Internationals

This year was beneficial to banking and finance in Mongolia – with exception for the failure of Savings Bank and its incorporation by State Bank. A new Invest-▶



ment Law was approved in the beginning of October this year, which has freed up restriction to open the tap to allow foreign investment dollars to pour in again. The long-anticipated Securities Law, too, received approval from the State Great Khural last spring and will take effect in January next year

Both the Bank of China and Sumitomo Mitsui Banking Corporation (SMBC) opened branches in Mongolia. Although some are wary of the entrance of new competitors in the Mongolian market, many expect they will raise the bar for the quality of businesses operating in Mongolia.

SMBC has USD 1.5 trillion in assets, ranking eighth in the world. The opening of a representative branch in Mongolia holds great potential for investment for the large-scale projects that will determine the course of Mongolia's development. They may also play an important role in restoring the confidence of foreign investors.

4. Innovation in Business

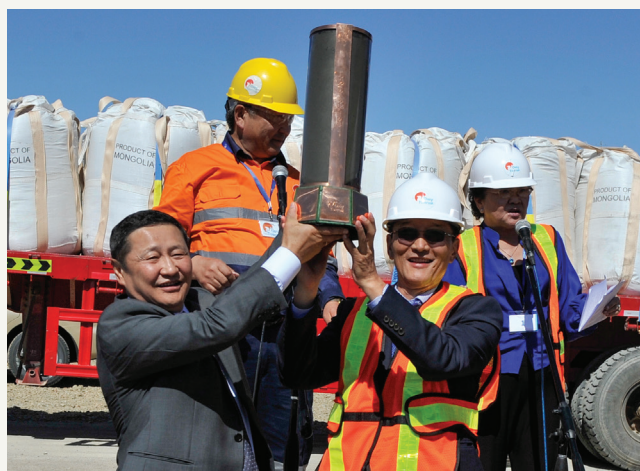


Mongolia ranked 76th in the world in the World Bank's "Doing Business" index. That puts Mongolia four places ahead of the year before.

The government has taken measures to encourage innovation in the business environment for construction licences, linking new buildings to the central electricity grid, encourage foreign trade, registering assets, and protecting investors. Although these decisions have already been implemented at the top of government, lower levels are still riddled with bureaucracy and inefficiencies. This year saw many initiatives roll out, so many are hopeful that the fruits of these efforts will be seen in the coming year.

And finally, the "From Big Government to Smart Government" national consultative meeting initiated by the president sets out to strengthen the business environment of Mongolia. The president hopes the initiatives to come out of this will define his legacy as president.

5. Oyu Tolgoi's Export and a New Opportunity



Oyu Tolgoi's processing plant was put into operation one year ago, making Umnugobi an industrial centre for the country. This year saw Oyu Tolgoi begin the processing of copper ore into concentrate and the start of export to China. Oyu Tolgoi is one of the top five mines in the world, and has become a golden ray of hope for Mongolia's state budget. It also brought out a new opportunity for the mineral processing industry.

The processing plant is expected to produce 650,000 to 700,000 tonnes of copper concentrate containing 27 to 30 percent copper in its first three years of operation. By the end of this year, Oyu Tolgoi expects ▶

▶ it to produce 85,000 tonnes of copper concentrate. The processing plant is currently producing 100,000 tonnes of ore a day. Throughout the mine's lifetime, the plant will produce 78 million tonnes of copper concentrate, 22.7 million tonnes of copper, 808.6 tonnes of gold, 5,287 tonnes of silver and 129 million pounds of molybdenum.

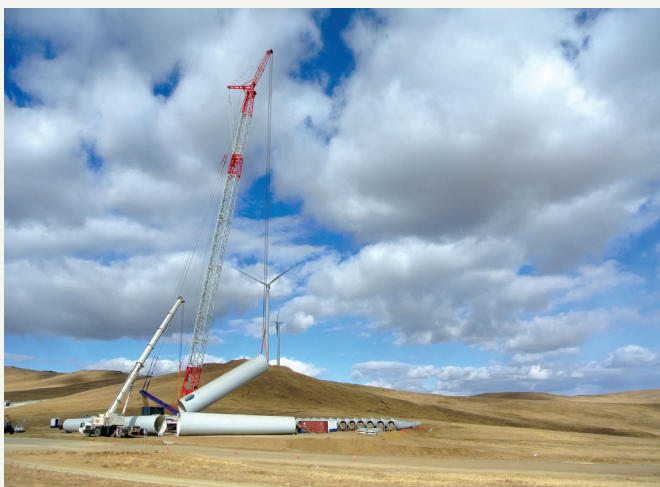
The plant's current annual production capacity of 12 million tonnes of copper ore exceeds that of Erdenet Mining Corporation. By 2018, the capacity of the Oyu Tolgoi concentrator will be grow to 54 million tonnes of copper ore a year for at least 600 million tonnes of copper concentrate production a year.

6. Wind farm

Another major event was the establishment of Clean Energy's Salkhit wind farm. Salkhit was Mongolia's first-ever renewable energy source to link to the central electric grid.

The wind turbine stands 120 meters high, including the tower and blades. The tower is 80 meters high and weighs 125 tonnes. The length of each blade is 40 meters and weigh 6.2 tonnes. A foundation of 240 cubic meters was laid down for each turbine. Each turbine has a capacity of 1.6 megawatt, with 31 wind turbines in total. Construction involved some 18 companies and more than 500 workers.

At full capacity, the wind farm will save from burning 120,000 tonnes of coal and the consumption of 1.6 million tonnes of water per year. It also will prevent green gas emissions equivalent to the planting of trees in a 20-hectare area.



7. Monetary Policy



Foreign investment has fallen substantially. Work on a crucial underground mine shaft has come to a halt at Oyu Tolgoi. The exchange rate against the US dollar changes daily, climbing to above MNT 1,700 at the beginning of December and put a heavy burden on businesses.

The depreciation of the currency has wreaked havoc on the livelihood of many in Mongolia. Although Mongolia raised USD 1.5 billion from the Chinggis bond in 2012, according to the president, just as much was lost in revenues to the government due to the currency fluctuations. The exchange rate has depreciated more than 20 percent against the US dollar.

And amid all these challenges, government introduced its new 2013 monetary policy. This year the macro economy took back seat to fiscal concerns. The MNT 1.5 trillion shortfall in the budget has made the monetary policy an important factor for the market. The central bank lowered its interest rate three times this year and circulated MNT 2.8 trillion to the market. There was also the Price Stability Programme and the mortgage system launched.

8. Growth Factor

Real estate was one of the biggest contributions to maintaining the double digit growth this year. According to National Statistical Office, 11,349 new apartments were built in Ulaanbaatar in 2012, and 19,390 apartments are expected for this year.

As of 28 November, 38,311 apartments were sold in Ulaanbaatar. According to the Bank of Mongolia ▶



and World Bank, construction output sharply increased 125 percent following the implementation of the state-backed 8 percent mortgage loan programme. City officials hope Ulaanbaatar will become a central region for construction activity between 2012 and 2020. During the 2013 Mongolia Investment Summit, foreign investors expressed great interest in opportunities to invest in construction.

9. Road Construction

2013 saw a great deal of road construction, including the construction of 116.5 kilometres of road between Ulaanbaatar and Zamyn Uud.

“By commissioning this road, Russia and China are now connected via paved road in Mongolia”, said Prime Minister Norovyn Altankhuyag at the commissioning ceremony for the Ulaanbaatar-Zamyn Uud Road.

A total 1,824 kilometres of road was paved in 2013,



requiring the employment of 9,000 workers and use of 5,000 pieces of equipment, said R. Onon, head of the auto road policy implementation department at the Ministry of Road and Transportation.

The government also plans to connect the capital city with every province of the country via paved roads, including 239 kilometres between Ulaanbaatar and Khuvsgul, of which 79 kilometres was completed this year. In Tuv, another 7.4 kilometres of road was paved to Bornuur, 24.7 kilometers to Jargalant, and 25 kilometres road between Nalaikh and Zuumod. Uvs saw the completed construction of 100 kilometres of road between Naranbulag and Khyargas Lake, while Khovd saw 85 kilometres of road built. In Ulaanbaatar was the construction of several new four-way intersections.

10. Investment Law



Mongolia has seen phenomenal economic growth since 2010, and 2013 looks to be on par despite the hiccups experienced this year. Those hiccups include a sharp fall of more than 40 percent in foreign investment, waning interest from investors, and a depreciating currency.

The economic downturn is largely due to some poor, sometimes hasty, decisions by lawmakers. Four laws passed since 2006 have driven out foreign investors, including the 2012 Strategic Entities Foreign Investment Law, approved just weeks before the parliamentary elections. The consequence of such laws was a steep tilt downward for the economy. Much is riding on the recently approved Investment Law to address the concerns of both foreign and Mongolian investors. ■

BUDGET

THE BUDGET RISK



BY B. BAYARTOGTOKH

Mongolia projected exports of 31.4 million tonnes of coal next year in the 2014 budget. Failure to do so will mean more budget cuts for investments. Although the budget for next year falls in line with the Fiscal Stability Law, the expansion of off-budget funding such as the Chinggis bond brings new risks for the mid-term. That necessitates careful budgetary planning and hedging risks.

The 2014 budget has a projected deficit of MNT 410 billion, which falls below the 2 percent threshold of debt to GDP mandated in the Fiscal Stability Law. Yet, it is still unclear if Mongolia will be able to reach the budget revenue goal post it plotted for itself, and many are already predicting tough times ahead for the country in the coming year.

"The difficulties facing the economy this year have reduced the potential of making an optimistic projection for next year's budget", said Ch. Enkhbayar, a PhD and Professor at the National University of Mongolia's School of Economic Studies. "But the unreasonable expansion of the budget has been reduced and the relationship between macroeconomic indicators has been improved".

Budget drafters have estimated revenues to fall below 2013 revenue by 5 percent, or MNT 363 billion, because of sluggish economic activity and low expectations for taxes generated from the mining industry - which represents one-fifth of total budget revenue.

The World Bank's predictions for 2014 are similarly dull, expecting growth to fall below that of 2013. Continued de-

lays to the development of Oyu Tolgoi's underground mine shaft would certainly bring the situation to an even lower level, said parliamentarian Richinyamyn Amarjargal.

"The underground mining operation at Oyu Tolgoi has generally stopped. If the government could make a deal with Rio Tinto, it would take at least two years before the relaunch of the underground mining work", Amarjargal said.

He said this year's budget deficit has grown between 7 and 8 percent of GDP - an unprecedented figure - and the banking sector was also weak.

The Bank of Mongolia has warned of possible risks to the real economy that could result in stagnation and even contraction. In the past five years, economic growth has sustained double digit growth, but the decline in foreign direct investment has put into question if that will continue to next year, with the central bank has warned that economic growth might even fall to 5 percent.

According to a study by the Open Society Forum, making a budget plan is best for achieving the full potential for budget revenue generation. In 2014, MNT 1.4 trillion is expected to be generated from the mining industry, of which 43 percent would come from the export of coal, 27 percent from the export of copper concentrate, and 13 percent from the export of gold. That would put the mining industry at 12 percent of total budget revenue.

Oyu Tolgoi is expected to comprise 5 percent of total revenue generation for the year, and the Ministry of Finance has projected a 30 percent increase in earnings from coking coal exports to China. (Export volume is projected to hit 31.4 million tonnes)

The Open Society Forum, however, is not convinced. The 2013 budget had 28 million tonnes of coal projected for export, but Mongolia will be lucky to make even half of that. T. Naran, chief executive at Mongolian Coal Association said that it would be impossible to export a larger volume of coal in 2014 than this year.

The price of coking coal at the Mongolian-Chinese border currently stands at USD 50 per tonne while washed coal goes for anywhere between USD 70 and USD 80 a tonne. Next year's budget has jacked up the expected price of raw coking coal and washed coking coal by about 30 percent year, at USD 81.6 per tonne and USD 115.9 per tonne respectively. Unfortunately, that projection does not match the reality of China's coal demand, said credit rater Fitch.

"China is reducing its demand of coal", reads a Fitch report. "The way that local companies are reducing the prices in order to improve their competitiveness has an impact on declining the price of coal on global market. This situation is likely to continue next year".

The government plans to generate MNT 39 billion from the export of copper concentrate. This represents 6 percent of total budget revenue projections. For Mongolia's two largest mines, Mongolia is banking on over 700,000 tonnes in exports of copper concentrate by Oyu Tolgoi and 10 million tonnes of coal by Erdenes Tavan Tolgoi.

Anything less will likely see the State Great Khural head back to the budget for some tweaking, just as we have seen for this year. ■



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PROGRAMME



COUNTING FORESTS AS AN ECONOMIC PART OF INFRASTRUCTURE

Many countries, scientists and environmental activists around the world have agreed reducing green house gas emissions is the most important activity for climate change mitigation. In 1992, the United Nations Climate Change Framework Convention was approved, to reduce emissions and prevent disasters resulting from global climate change. According to the IPCC study of 2004, emissions from deforestation and forest degradation is 17.4 percent of all anthropogenic-sourced emissions as classified by sectors (IPCC, 2007). The Convention emphasized the development and implement of REDD+ mechanisms to reward developing countries for activities for reducing emissions from the deforestation and forest degradation sector, and for increasing carbon stocks in forest areas.

Since 2008, The UN-REDD Programme, a United Nations collaborative programme jointly implemented by United Nations Development Programme (UNDP), Food and Agriculture Organization (FAO) and United Nations Environmental Programme (UNEP) to ensure REDD+ readiness and assist developing countries prepare to implement REDD+ activities. In June 2011, Mongolia joined the UN-REDD programme and as a partner country started to implement several activities related to the REDD+ Readiness. In 2012, The Ministry of Environment and Green Development successfully developed the National REDD+ Readiness Roadmap in Mongolia with targeted supports assistances from UNDP and FAO. Also FAO developed the Action Plan for Mongolia's National Forest Monitoring System for REDD+ under the UNFCCC and started to implement it.

One activity was a study of Forest sector financing flows and economic values in Mongolia, conducted in the first half of 2013 by UNDP Mongolia. Currently public awareness of the Forestry sector's contribution to the economy, national GDP, and its role in green development is low, particularly compared to the contributions of other environmental sectors. Therefore, we conducted this study to increase the correct understanding of the forest sector's ecological value, and its importance for the Mongolian society, economy and the forestry sector's financial allocation. We aim to communicate the main findings of this study through this article to the public, decision makers and domestic and foreign investors.

Infrastructure can be defined as the stock of facilities, services and equipment that are needed for a society or enterprise to function. In turn, the provision of adequate and accessible infrastructure is widely – and rightly – seen as lying at the heart of economic growth and poverty reduction. In Mongolia, as in most parts of the world, a high priority is accorded to mobilising the private and public investments that are required to improve and expand the nation's infrastructure base.

Few people would deny the importance of housing, roads, bridges, communications, energy, water supply and the like to either human wellbeing or economic development. What is less well-understood is that, just like built infrastructure, the natural environment provides a suite of services that are required for the economy to prosper and grow. Conventional definitions of infrastructure (and the bulk of investments in it) have however tended to ignore the value of this "natural" infrastructure – an omission which may, ultimately, prove to be extremely costly in economic terms.

Mongolia's forests are a case in point. According to the latest figures from the Forest Survey and Development Centre, forests cover around 12 percent, or 185,000 square kilometres, of the country. They include the dense stands of larch, birch, pine, aspen and spruce that comprise the boreal forest found in the northern mountain region as well as the dry "zag" shrublands of the southern Gobi.

Looking at the recorded contribution of the sector to GDP (currently less than 0.5 percent and around MNT 70 billion or USD 40 million), it would be easy to believe that forests have little or no value. The reality is, however, very different from this. A recent study carried out by the UNDP found that selected boreal forest services are worth around MNT 430 billion a year to the national economy: a figure that is more than six times higher than that found in "official" GDP estimates. (It is worth noting ►



Photo by P. Jargalsaikhan

▶ that the UNDP study focuses only on those forest services which could be valued on the basis of existing data: timber and fuelwood, wild plants and animals, pasture, tourism, watershed protection and climate change mitigation. These figures should therefore be seen as minimum estimates)

In fact, the problem is not that Mongolia's forests have no economic value, but rather that these values are poorly understood, rarely articulated, and as a result remain largely invisible in the statistics that are used to measure economic performance. Economists still tend to calculate the monetary worth of the environment just in terms of the raw materials and physical products it yields. Recorded GDP estimates thus take account of little more than the value-added from industrial wood production.

Seeing the value of the environment in these rather narrow terms leads to significant underestimation of its "real" economic worth. It also runs the risk of leading to decisions being made on the basis of only partial – and often flawed – information. Commercial, extractive uses represent only the tip of the iceberg as far as forest values are concerned. Formal sector earnings from timber and fuelwood production comprise less than half of the values enumerated in the UNDP study. The lion's share, more than MNT 235 billion a year, comes from the services that forests provide to

other sectors and production processes.

These economic benefits are spread across many different users and accrue at multiple levels of scale (not just the relatively small number of producers that are involved in the wood harvesting and processing industry). At the household level, the net value-added to rural herders from forest-based sources of energy, pasture and wild foods is calculated to be equivalent to more than 12.5 percent of per capita GDP. The forests that protect the upper reaches of the Tuul River Basin are worth almost MNT 30 billion to water consumers in Ulaanbaatar, while forest-based recreation leverages visitor spending and wage earnings of more than MNT 40 billion in the travel and tourism sector. By sequestering carbon, Mongolia's forests help to mitigate global warming and climate change to a value of some MNT 80 billion a year.

It is clear that the status of forests is not just a biological or ecological issue, but is also an economic concern. The UNDP study shows that that investing in forests yields high development and economic returns. At current levels of funding, every MNT 1 that the government spends on the forest sector is helping to leverage almost MNT 30 worth of benefits to Mongolia's economy and population each year.

Yet at the same time, and notwithstanding these high economic

values, forest sector budgets remain low – both in terms of the allocations made to the Ministry of Environment and Green Development and for the on-the-ground activities undertaken by province and county governments. The UNDP study suggests that the annual funding available for forest management, development, protection and research is only around MNT 1,250 per hectare. This is considerably lower than Asian and global averages (MNT 34,000 and MNT 12,750 respectively, according to the Food and Agriculture Organisation of the United Nations).

The net result is that the forest sector faces pressing budget constraints, and that there remains a critical lack of funds for essential activities, equipment and maintenance. While vast amounts of money are being sunk into the built infrastructure that is so critical to Mongolia's continued development, natural infrastructure remains largely absent from the investment equation. At the worst, there has actually been a "negative investment" process whereby forests and other ecosystems have been destroyed, degraded and converted in the course of expanding built infrastructure.

And herein lies the major challenge: how to overcome the current undervaluation of Mongolia's rich natural environment, and to ensure that ecosystems are not just counted as economic parts of the infrastructure base but invested in as such? It is clear that a shift in paradigm is required if the full economic potential of the forest sector is to be achieved — moving from an approach that fails to factor environmental costs and benefits into the calculations that are used to inform economic and budgetary decisions, to one which recognises natural ecosystems as valuable and productive assets. From an economic perspective, ecosystems should be treated in the same way as other components of infrastructure — as a stock of facilities, services and equipment which are needed for the society to function, and for the economy to continue to develop and grow in the future. ■

INVESTMENT

L. DULMAAZUL:

SMBC IS INTERESTED IN MONGOLIA'S MEGA PROJECTS



Photo by E. Zorigt

BY D. BEKHEE

Sumitomo Mitsui Banking Corporation (SMBC) last month opened its first Ulaanbaatar branch. SMBC hopes to invest more investment for mega projects valued above USD 100 million each.

Luvsandorjiin Dulmaazul works at SMBC in London and helped open the branch in Ulaanbaatar. She graduated from the Charles University in Czech, the University of Tokyo and the University of Oxford. She is head of the British-Mongolian Trade Council and a member of the steering committee at the Association of Mongolian Women's Development in Europe.

What separates SMBC from the other banks operating in Mongolia?

SMBC is the fourth foreign bank and the first-ever [foreign] bank to open a branch of its own in Ulaanbaatar. In terms of the amount of capital, SMBC ranks ninth in the world and second in Japan. The bank has many years of experience in funding a number of projects, including mining, infrastructure and power plants throughout the world - including the Asian and African frontier markets.

In recent years, Japan's banks have gained in popularity in the world. This is due to the decline of European banks' financial resources. SMBC received the "Global Bank of the Year" award in 2010.

Japan is a country of enormous assets. When the deposits in its banks grow, financial resources also rise. Funding mega projects means making a contribution to infrastructure development. Making contributions is a good idea. SMBC is a bank of good ideas. For example, solving funding-related issues for mega projects such as Power Plant No. 5 would have the advantage of improving infrastructure to accelerate Mongolia's development. »

▶ SMBC follows the principle of investing in guaranteed mega projects.

What role did you play in opening the branch in Ulaanbaatar?

I work at SMBC's London branch. I am in charge of mega projects that are implemented in the infrastructure, energy and oil sectors of Europe, Central Asia and some former Russian satellite nations.

The decision to fund projects was made based on market research after visiting countries to get to know their economic situations. I was inspired by the successful implementation of mega projects funded by SMBC in countries such as Kazakhstan and Turkmenistan. And I really wanted for Mongolia to receive investment from SMBC.

In 2011, my colleague and I came to Mongolia to meet some representatives from the government, banks and large companies. We carried out research on whether there was the potential to fund mega projects in Mongolia. Next, we wrote a report on Mongolia's economic, business and investment environment and the large companies to submit to the whole of SMBC's branches. From that moment, SMBC's experts began to grow interested in Mongolia.

We have been in contact with our branches in Singapore, Tokyo, and even New York. Within the past two years, my colleagues and I came to Mongolia more than ten times. And we started to work on several mega projects that have been implemented by large companies. Our work ranges from signing [an agreement] with the Development Bank of Mongolia to cooperation with Khan Bank and Trade and Development Bank.

In order to make Mongolia more attractive among my colleagues, I needed to raise Mongolia's reputation within the bank I worked at. SMBC increased its investment for Mongolia while some credit rating agencies such as Moody's and Standard & Poor's had reduced its credit rating. SMBC believes Mongolia will be [a good investment] for the long-term. It

was not easy to enhance Mongolia's reputation at SMBC, especially at a time when the country was facing economic difficulties.

There are some ongoing projects and future projects in Mongolia. Those projects seemed politically motivated and their implementation was slow. I am disappointed with the slow progress of Oyu Tolgoi and Tavan Tolgoi's power plant projects, which SMBC wanted to participate in.

Why is SMBC only interested in financing large-scale projects? What criteria does the bank look for in a project for investment?

Mega projects means, firstly, it should be highly beneficial to the economy. Secondly, there should be the condition that it is not risky for SMBC. Thirdly, there should be a respondent who will be responsible within the international legal environment.

SMBC sees Mongolian banks as having the capacity to fund other projects. As I said before, SMBC has many years of experience funding mega projects. Thus, the bank is interested in introducing its experience to Mongolia and contributing to its development. One factor of great impact was the official visits by Japanese and Mongolian government officials this year. The government of Japan is also interested in making contributions to Mongolia.

What mega projects are supported by SMBC?

SMBC has got a permit that enables it to recommend credit services to fund Oyu Tolgoi's underground mine, just like other banks. Aside from mining, the bank is interested in infrastructure, energy, road, transportation and industrialisation. SMBC is now working as an adviser to the government of Mongolia, supporting it to raise USD 1 billion of investment for Tavan Tolgoi's power plant project. Also there are some other projects including Power Plant No. 5.

It is not only about finance when needed. It would be better to get in-

involved in mega projects from the beginning. Thus, it is important to provide both advisory and financial services in combination. We do not only wait for mega projects to appear. We are also focusing on projects such as those for green development, mining industry loans, inter-bank loans, and trade finance.

SMBC is a green bank which received the "Sustainable Global Bank of the Year" award in 2012.

Could you offer an example of mega projects that have been funded by SMBC's London branch?

Mega projects that were financed by SMBC include a USD 670 million project for the construction of a new D terminal at Sheremetyeova airport in Moscow and a USD 3 billion project for the construction of a new oil refining plant for Abu Dhabi National Oil Company.

What should Mongolia do to attain investment from SMBC? What has your experience from foreign countries shown you?

There are a number of foreign investment banks that are interested in funding the implementation of mega projects in Mongolia. I have noted that there are some issues that need to be tackled. It seemed to me that Mongolia's policy makers are suspicious of foreign investment banks, treating them carefully and making the progress of mega projects slow. Globally renowned banks aim to tackle investment issues for any project quickly and to push forward cooperation because they are completely aware of their responsibilities. Politicians have to act in a working manner when dealing with issues, without any doubt.

I have seen some countries, including Azerbaijan and Turkmenistan, deal with this issue very quickly, considering the financing and implementation of their projects. If there are fewer policy makers the implementation of projects will hasten. Also, in Russia a number of mega project issues have been tackled quickly under the management of President Vladimir Putin. ■

SMALL AND MEDIUM ENTERPRISE

FELT WORLD

BY E. ZORIGT

When visiting the Tsagaan Alt felt products store, one is greeted with a beautifully decorated Christmas tree. The decorations were made of felt in the forms of Santa Claus and livestock. The traditional customs were combined with the traditional Christmas tree. And there were a number of products that were made of felt and wool in the store, including souvenirs, clothes, gloves and hats.

A beautiful Christmas tree is decorated with Santa Claus figures made out of felt. A number of products made using traditional Mongolian felting techniques line the walls. Everything from gloves, clothes, hats and Christmas decorations can be found

at Tsagaan Alt — a non-profit store selling high-quality felt and wool craft products locally and abroad.

“I am shopping here to buy some Christmas gifts. I think that Mongolians need to support domestic production instead of buying products imported from China. Locally made felt products are better quality and cheaper”, said Tsagaan Alt customer T. Oyun-Erdene.

It has been five years since Tsagaan Alt was founded. The store’s management participated in a training course on household wool production marketing as a part of a project implemented by Norwegian charity organisation Norwegian Lutheran Mission.

Tsagaan Alt receives materials from several cooperatives in Ulaan-



baatar. In 2006, the Nooson Zangilaa Cooperative Union was established to unify participating cooperatives. Some 10 cooperatives have partnered with Nooson Zangilaa in Ulaanbaatar. Most operate in the basements of several buildings. All they need is cheap raw materials.

The store’s annual profit ranges from MNT 200 million to MNT 250 million. Products are not only sold in Mongolia; this tiny store sends products abroad to the United States, Japan, Germany, Britain, Austria and Norway. Tsagaan Alt felters have participated in international exhibitions and contests and have received special awards from the Ambient Fair exhibition held in Germany.

“Our suppliers are skilled. There are some suppliers who are doing very well internationally”, said T. Chingerel, manager at Nooson Zangilaa.

R. Erdenetsetseg is the founder of the Nooson Yurtunts cooperative, which is located in the basement of building No. 116 of the 14th micro-district. This cooperative has 34 staff ▶

Photo by E. Zorigt



R. Erdenetsetseg is combing wool

► and has been operating since 2004.

“Under the project implemented by the Norwegian charity organisation, I took a course in 2003 and became a knitter. Since then I have been working here”, said R. Erdenetsetseg.

The majority of workers at the cooperative are women with a lower-than-average income. Elderly worker S. Naidankhuu and her daughter S. Serjmyadag work together at the cooperative.

“My mother earns money by knitting products. She is the one who sustains me and my three children”, Serjmyadag said.

“To be honest, we are living like parasites. My sister is deaf and she brought herself with her two children to my mother’s home. In the past year, my mother has been feeding seven people”.

The cooperative manufactures ten types of products, including knitted and textile wool clothes. It exports wool scarves, gloves, slippers and felt Christmas tree decorations to Germany and Japan.

From Wool to Felt

The design and quality of products manufactured at the cooperative is competitive. The wool is obtained from the Gobi or Goyo cashmere factories. Workers create wool textiles by using the equipment and machinery supplied by the cooperatives, combing wools to make the end product softer, lighter and clean. The wool is then layered up to eight times and then washed with soap water. Manufacturing slippers and bags requires thicker wool than the felt used for decorations. Layering the wool also requires workers to manually massage the wool with their hands.

“When massaging wool, the skin on the hand is not damaged and no machines are required. This makes clothes feel soft and are good for people with skin allergies. Tourists like buying our products because they are interested in hand-made products rather than machine-made ones”, Erdenetsetseg said.

Manufacturing Setbacks

Felt can be used to make a number of things, however these items lack popularity among the general public because of the higher price tag. For example, the production of a pair of slippers costs anywhere from MNT 12,000 to MNT 15,000. In the market, the price for these goods is between MNT 20,000 and MNT 25,000. But there are not many Mongolians who can afford slippers for MNT 25,000, making a sad case for cooperative workers.

“There are many women like me who work really hard to sustain their families, but the current price of our products is not enough for us”, Erdenetsetseg said. “Raw materials comprise about 40 percent of overall costs. We set the price by adding hourly wages and our profits to the cost. Unfortunately, we do not have a chance to increase the price”.



Ts. Adiyatovuu, worker at cooperative



Products made of felt



Setting the price for hand-crafted products has been a challenge. In Mongolia, the minimum hourly wage is MNT 1,060 per hour. Manufacturing felt products takes five to 10 hours, which makes the price of the product roughly MNT 10,000 to MNT 15,000 – a small sum for the effort required. Manufacturing Christmas tree decorations also takes considerable time and skill, although these products are typically seen as cheaper.

The felt cooperatives are experiencing tough times. Chinese decorations are half as much as the price of felt products and the price of raw materials has doubled in recent years.

Workers used to pay MNT 5,000 for a kilogram of yarn when the cooperative was first established com- ►

▶ pared with MNT 18,000 today. Similarly, the price of a kilogram of camel wool has grown from MNT 25,000 to more than MNT 50,000. Manufacturers cannot increase the prices of their products. There are also general overhead payments imposed on a small business operating out of a basement to consider, including electricity, heat and waste fees.

“We are here to sustain our families”, said Ts. Adiyatovuu, a 72-year-old cooperative worker. “We are not large companies”.

She said her cooperative was able to operate while producing much less waste than its big-box competitors,

noting that “even one gram of wool has its own value”. Still, the expense for waste removal has doubled, and the cooperative has fallen behind on its last two utility payments. The one bright point, she said, was the tax exemptions it receives.

“It is good that we do not pay income tax”, she said. “This was the biggest incentive that was provided by the government for us, but we still carry a great burden on our backs”

Export potential

These tiny cooperatives have the

potential to be successful exporters. They use raw materials supplied domestically to produce domestically manufactured goods. There are a number of cooperatives working under the same name, exporting their products abroad, that need to be supported and unified.

Why should anyone not want to decorate their Christmas trees decorations made of local felt and wool? Decoration ranges from MNT 1,500 to MNT 10,000 each, depending on their appearance and size and are better quality compared to Christmas decorations imported from China. ■

OYU TOLGOI

WILL COPPER PRICES RECORD A NEW HIGH?

BY B. BAYARTOGTOKH

The world's largest producing copper mines are expected to deplete their resources soon. This might lead one to believe a scarcity could appear along with higher prices. However, the copper industry has attracted large investment in recent years due to the high prices that characterised the industry for years. The result: a copper surplus in 2012.

With supply increasing and demand slowing, there seems to be an uncertain future for the price of copper. The Central Bank of Chile predicts that copper prices will drop to USD 6,784 on average in 2014 – a 7.5 percent reduction from this year's price. Chile supplies 32 percent of total global copper demand, which largely comes from China.

The World Bank predicts the price of copper will be USD 7,050 per tonne in 2014 while USD 6,650 is projected by

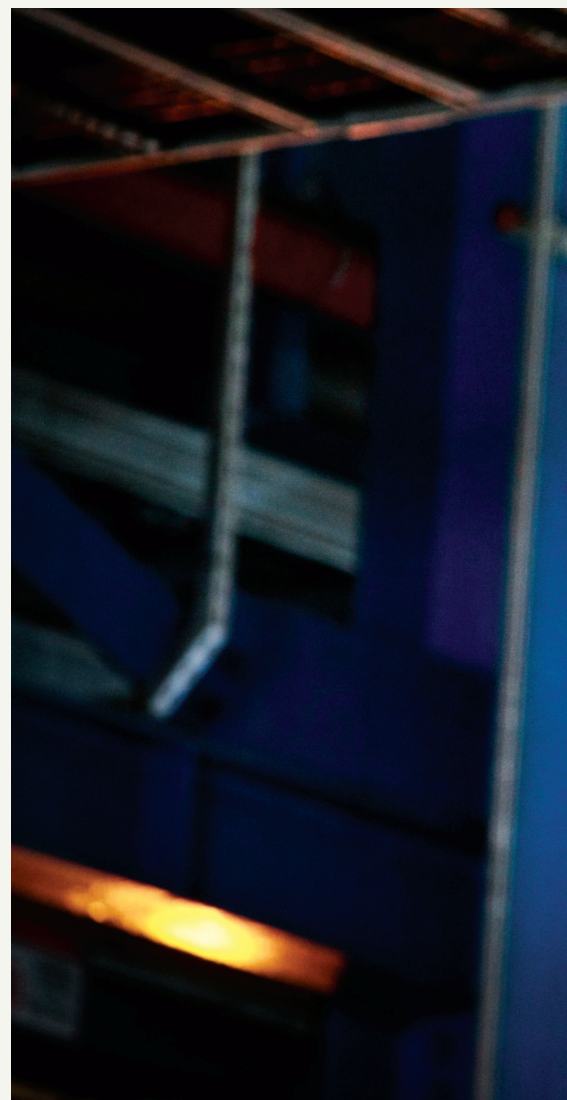
Goldman Sachs.

According to the International Monetary Fund, the price of copper from 2013 to 2016 is projected to reach USD 7,336 per tonne on average. The 2014 state budget of Mongolia projects the balanced price of copper to be USD 6,242 per tonne, with revenue from copper totalling MNT 273.8 billion.

The China Effect

According to copper research by the Mineral Resources Authority, China leads the world in copper consumption, with demand reaching 21 percent of the global copper supply. The United States consumes 13 percent while Japan and Korea take in 7 and 5 percent, respectively.

A resurgence in China's infrastructure development is expected by Anglo-Australian miner Rio Tinto between 2015 and 2020. This ▶



includes manufacturing production and urban development. During that time, China's copper demand is expected to grow to a record high of 7.2 million tonnes per year, with the price to grow alongside.

By 2020, China and India will comprise 50 percent of total global copper consumption, predicts Rio Tinto, the leading organisation behind the Oyu Tolgoi mine. Meanwhile, current copper consumption in all of Asia stands at 62 percent of the total copper demand.

Global increase in copper supply

Between 2012 and 2015, more than 60 copper deposits are expected to enter the mining phase: 11 copper deposits are in Peru, 10 in Canada, six in

Chile and one in Mongolia. There are an estimated 3 billion tonnes of copper in underground reserves and 700 million tonnes of copper beneath the ocean.

Independent Canadian researcher Metals Economics Group suggests that the total cost for global minerals' exploration has grown from 45 to 50 percent from 2010 to 2011, of which more than 20 percent was spent for copper exploration and research. From 1999 to 2010, 62 copper deposits were discovered and their resources amounted to 229 million tonnes. Most large deposits were discovered by US companies.

According to a mining authority to one of Mongolia's copper mines, the number of copper deposits to undergo an easy exploration period and transition to exploration is very few. Once exploration is complete, cop-

per mining requires significant investment.

Comparison

In terms of its size, the Oyu Tolgoi copper mine compares most similarly to the Mes Ayanak copper mine in Afghanistan and the Las Bambas copper mine in Peru.

The Udokan mine is a large copper mine located in the south of Russia in Zabaykalsky Krai. Udokan represents one of the largest copper reserves in Russia, and the world, having estimated reserves of 1.2 billion tonnes of ore grading 2 percent copper. Comparatively, Oyu Tolgoi is set to be the world's third largest mine in the world, once the underground mine shaft is online, with 1.39 billion tonnes of reserves with 1.3 percent copper. ■



Photo by B. Byamba-Ochir



NEWSWIRE HIGHLIGHTS

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

BUSINESS

G-MOBILE GIVEN MNT 1.9BN DEBT REPAYMENT DEADLINE BY YEAR END

Local mobile telecommunications company G-Mobile LLC may have to raise its prices to pay for MNT 1.9 billion in debt owed to state-owned Information and Communication Network by the end of the month, or else see its services cut off.

"We haven't increased our prices, which is a reason that our company collected the heavy debt of MNT 1.9 million to the state company", said D. Basbish, chief executive of G-Mobile.

Also, he said G-Mobile is expected to pay for the connection points that link Mongolia's provinces to the network. That is unusual, he said, compared with other countries. He said rent-free usage was in the interest of end-users, as it is reflected in a lighter bill for them.

"If we calculate the ex-

penses paid in five years, the reality is we still didn't reach a profit because communications is a quickly developing area, which requires many additional expenses", he said.

He said repaying the debt owed by the deadline would be impossible and the 150,000 G-Mobile users with services cut through no fault of their own would be the ones to bear the greatest burden.

Source: Udriin Sonin

PETROVIS NANO RAISES 92 FUEL PRICE BY MNT 50

Petrovis LLC increased the price of its Nano-92 type gasoline by MNT 50.

The recent price increase was because it was initially selling fuel at a MNT 50 discount to entice customers into first time use.

Nano 92 was introduced by Petrovis in July this year. The price stood at MNT 1,620 for five months.

Source: Zuunii Medee

XACBANK WINS 2013 "BEST BANK" IN MONGOLIA AWARD

XacBank LLC took the "Best Bank" award this year from The Banker magazine.

One challenge for Mongolia's banks is keeping up with the pace of growth. In line with this trend, XacBank has modified its strategy to adjust to the changes in the

domestic market and has been working on improving its service as well as enhancing its electronic channels.

"The main challenges were advancing institutional transformation in our business processes, IT infrastructure, and delivery channels", said Bat-Ochir Dugersuren, chief executive of XacBank.

XacBank had additional challenges in the context of the slowdown in the global economy and weak investor confidence. The bank was able to maintain its market share in challenging conditions and maintain a higher growth in its retail deposits when compared to the rest of the market in Mongolia, said Bat-Ochir.

"The bank wants to build scalable and efficient institutional capacity to expand both in the small and medium enterprise [SME] and corporate and retail segments", he said of XacBank's plans for 2014.

He sees high growth potential in the SME and corporate segment once a stable investment environment in Mongolia has been established and confidence has returned to the market. The SME sector is expected to expand alongside Mongolia's mining boom, as it is hoped that smaller companies will benefit in the supply

chain of the mining industry. In recent months, XacBank has increased its SME loan book as well as its foreign exchange trading volume. The bank is also notable for its emphasis on corporate governance and has a three-pronged philosophy of 'planet, people and profit' as well as a focus on financial inclusion.

Source: The Banker

ECONOMY

MONGOLIA'S FDI IN OCTOBER DECLINES 30% YEAR-ON-YEAR, SAYS MONGOL BANK

Mongolia's foreign direct investment (FDI) in October declined to USD 148.2 million from USD 211.2 million a year earlier, according to the nation's central bank.

January-October foreign direct investment was USD 1.966 billion compared with USD 3.995 billion a year earlier, the Bank of Mongolia said in statement. FDI for the first nine months was revised to USD 1.818 billion from a preliminary figure of USD 1.923 billion, according to the Bank of Mongolia.

Source: Bloomberg First Word, Cover Mongolia

MONGOLIA GAINS IN CORRUPTION PERCEPTION INDEX AS CENTRAL ASIA FLOUNDERS

Mongolia saw itself gain 11 spots on this year's Cor- ➔

ruption Perceptions Index released by Transparency International on 3 December while five Central Asian republics remained close to the bottom.

Both Armenia and Mongolia performed well, each rising 11 places to 94th and 83rd place respectively while Turkmenistan and Uzbekistan were, as usual, among the worst performers on the index—which ranks countries and territories based on how corrupt their public sector is perceived to be. Turkmenistan and Uzbekistan were in 168th place on the index of 177 countries, rising two places since last year, but remaining among the top 10 most corrupt countries worldwide. Georgia—the highest ranked country across Central Asia and the Caucasus—was in 55th place on the index, down from 51st in 2012.

As well as ranking countries, Transparency International also assigned a score on a scale of zero to 100 based on the perceived level of public sector corruption, with 0 meaning that a country is perceived as highly corrupt and a 100 means that it is perceived as very clean. While other republics in the region did somewhat better, neither Kazakhstan, Kyrgyzstan nor Tajikistan managed to gain more than 26 points. According to Transparency International's report, any score of less than 50 points indicates "a serious corruption problem."

"Corruption continues to have a devastating impact on societies and individuals around the world," said Transparency International.

Globally, the best performing countries were

Denmark and New Zealand, which tied in first place, with other countries from the European Union and Western European also continuing to perform well. At the other end of the scale, Sub-Saharan African countries had the highest level of perceived public sector corruption.

Source: BNE

ELBEGDORJ WANTS TO CUT STATE-OWNED FIRMS BY ONE-THIRD

The government plans to slash the number of state-owned enterprises (SOEs) by one-third to encourage private investment and set up a sovereign wealth fund, said President Tsakhia Elbegdorj last week in Hong Kong.

Mongolia will also enact a law that will discourage companies owned by Mongolian ministers from competing with foreign and private firms, he said. Competition between Mongolian SOEs and private firms is "not good", Elbegdorj told a Hong Kong Trade Development Council (TDC) luncheon audience that included Hong Kong businesspeople.

"The Mongolian government should serve your interests, not challenge your interests. We have to create that favorable environment in Mongolia. In two years, we will have in Mongolia full rule of law", Elbegdorj said.

The government plans more laws to foster privatization and reduce state ownership, said Javkhlanbaatar Sereeter, acting director general of the Invest Mongolia Agency of Mongolia's Ministry of Economic Development. The elimination or privatization of one-third of Mongolian SOEs will be "a

long process", said Javhlanbaatar. Tsogsai Khan Chagnaadorj, an executive with Eagle Group, a private Mongolian construction firm, welcomed Elbegdorj's plan to privatize Mongolian SOEs.

"It's hard to compete with government companies as they have government funding and monopoly power", he said.

At the TDC luncheon yesterday, Elbegdorj witnessed the signing of two memorandums of understanding. One was between the TDC and the Mongolian National Chamber of Commerce and Industry, to strengthen economic and trade ties between Mongolia and Hong Kong. Another was between InvestHK and Invest Mongolia, to boost investment between Hong Kong and Mongolia.

"This is the largest Mongolian delegation ever to Hong Kong", said TDC Council Member Benjamin Hung.

Source: Southern China Morning Post

POLITICS HERDERS DEMAND NEW TAVAN TOLGOI-SAINSHAND RAILROAD PLANS

The local residents of Tsogttsetsii Soum, Umnugobi Aimag held a press conference last week on Thursday to announce their opposition to the "New Railway Network" project for the construction of a 468 kilometer rail track on the Tavan Tolgoi-Sainshand route.

Local residents, mostly herders, urged the government to preserve their homeland as a preserved wildlife site. Plans for the Tavan Tolgoi-Sainshand railway have it running through the

northern part of Tsogttsetsii, where the majority of the local population is settled. Local residents demanded that project developers reconsider the location decided on for the railway, instead building on the southern end of the county.

In addition to wild grasslands, the area decided for the railway is also the habitat of the Mongolian antelope. The local residents said they would like for Minister of Road and Transport A. Gansukh to see the area for himself. They added that they do not oppose the Tavan Tolgoi-Sainshand railroad itself, but wish the government would reconsideration the location due to the social, ecological and environmental impacts it would have.

Source: News.mn

MONGOLIA DOUBLES VOCATIONAL STUDENT STIPENDS

A Labour Ministry official announced that monthly stipends for vocational students will double to MNT 70,000, effective 1 January 2014.

The government-backed vocational training program trained 3,300 individuals in 2011 and 2012, and 6,600 in 2013. For 2014, vocational training centers hope to train 6,600 individuals. The government is currently running a survey to find where demand is strongest in the labor market. There are no restrictions for entry, such as age for admittance into the programs.

The Ministry of Labour said Mongolia has 78 vocational training facilities nationwide, 33.3 percent of which are state-owned.

Source: News.mn ■