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MONGOLIAN ECONOMY

SEPTEMBER, 2014, ISSUE №14 (072)

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EDITOR'S LETTER



Improving our quality of life requires the hard work of everyone. From governors dealing with the current tough economic situation, to the private sector needing to fight against difficulties, everyone is facing setbacks.

The fun days of summer made us temporarily forget our economic difficulties; yet indicators predict a future where we will have to work even harder than before to get over the tough times.

This issue of *Mongolian Economy* provides articles themed around solutions and a way out. Given the current state of the country, we can conclude that political decisions are not having an effect on the economy directly. There is little sign of improvement.

We should not blame the international market. Our current economic difficulties are largely caused by domestic political factors. There are many stakeholders with vested interests in the future of this country. During the past year, we have interviewed foreigners and locals to get their perspective on what is really happening in Mongolia. In this issue, we have looked back through some recent issues to highlight some of these key insights and quotes from the past year.

Also, we have interviews and articles about the development of the country's political parties and how they are becoming a burden on the country's development rather than acting as a strong engine in a reliable machine. In coming issues we plan to have a column and special issue on the development of political parties and how they are shaped.

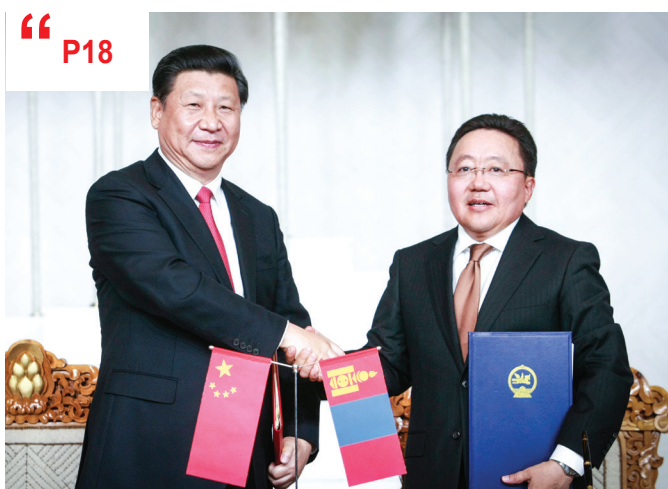
Finally, I also want to thank all our readers. Our subscription rate has increased significantly, year on year. We look forward to providing you with a better quality magazine in the future. We thank you for your continued support.

Bekhbayar, D

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MONGOLIA

REAL ESTATE

The Mongolian Mortgage Corporation (MMC), a state-owned company, has been supporting infrastructure providing Mongolian citizens with affordable and quality apartments. But now the infrastructure project is no longer able to be funded within the planned period of time. Thus, the MMC submitted its proposal to the Government for continued expenditures of more than MNT 50 billion, a fund which still remains from the Chinggis bond's proceeds, for the construction of a new apartment block called Buyant-Ukhaa 2 near the airport.

CONCESSION AGREEMENTS

According the Government's Resolution No. 317 on the approval of state-owned concession items, 51 concession projects have been approved in total. A concession agreement is a negotiated contract between a company and a Government that gives the company the right to operate a specific business within the government's jurisdiction, subject to certain conditions. There are six such projects so far, including a highway to connect Nariinsukhait and Shiveekhuren; a highway to connect Ulaanbaatar with two main border points (Altanbulag in the north and Zamy-Uul in the south); the CHP-5 (combined hydro power plant);

the Telmen hydro-power plant; and the Tuul-Songino water resource complex. The bidding on another 45 projects is also said to be accelerated.

INFRASTRUCTURE

DornynTsas opened its aerocrete (lightweight concrete) factory last month. The factory's production capacity is 200,000 cubic metres of aerocrete per year. Mongolia imports 2,000 to 3,000 train cars of concrete from its neighbouring countries. Mongolia's construction market needs 600,000 cubic metres of aerocrete a year. The new production is expected to represent some 30 percent of the market. The factory uses a new technology that is environmentally friendly, produces no wastewater, and treats and reuses its wastewater.

ENERGY

The Government of Mongolia and Oyu Tolgoi last month signed an Agreement of Cooperation in Energy Sector in Southern Gobi Region. The agreement is an important step toward cementing long-term strategic cooperation and accomplishing a comprehensive plan for sustainable energy supply in the southern region. Under the agreement, funding-related issues have been tackled including Oyu Tolgoi's head company's support for the required fund-raising from international banks to

provide financing for Tavan Tolgoi power plant project. The agreement is expected to increase domestic energy production capacity and attract foreign investment.

SMALL- AND MEDIUM-SIZED ENTERPRISES

The government has already decided to finance Mongolia's small- and medium-sized enterprises (SMEs) from the proceeds of the Samurai Bond. But some SMEs still cannot get funding from the proceeds because their bank deposit assets are considered to be insufficient. Mongolia's Loan Guarantee Fund (LGF) has decided to contribute to those SMEs. Up to 60 percent of a loan to be issued, or MNT 250 million, is now guaranteed by the LGF. More detailed information is available on www.lgf.mn. Loan issuance processes are now relatively easier. As a result, the MNT 19.5 billion fund is now ready to be given to some 37 SMEs.

INVESTMENT

As of the first half of this year, the volume of foreign direct investments (FDI) in Mongolia accounted for USD 370 million, which was equivalent to a mere seven percent of the country's gross domestic product (GDP). This volume was eight times less than the first half of 2011. In 2011, FDI accounted for USD 4.62 billion, which represented 53 percent of GDP.

WORLD

RUSSIA AND UKRAINE

Ukrainian President Petro Poroshenko, in his first talk at a summit in Belarus with Russian President Vladimir Putin, said that a roadmap was discussed to end fighting between Ukrainian troops and pro-Russian separatists in eastern Ukraine. The Kremlin maintained that they would assist in a dialogue between the separatists and Ukraine, but stopping the fighting was a matter for Ukraine itself. The BBC reported that Ukraine and the West accuse Russia of arming the rebels. An accusation repeatedly denied by the Kremlin.

JAPAN – TAX HIKE AGAIN?

By the end of this year, Japan's Prime Minister Shinzo Abe will have to decide whether to proceed with a plan to raise the tax to 10 percent next year, according to Reuters. In April this year, the tax was raised to 8 percent from 5 percent, in an attempt to limit Japan's government debt. The tax hike in the second quarter this year pushed the country's economy into its deepest slump since March 2011, when Japan suffered a devastating earthquake and tsunami.

CHINA'S FOREIGN INVESTMENT

Reuters reported that China's foreign direct investment fell over the first seven months this year to a two-year low, resulting in rising business costs and anti-monopoly

probes and crackdowns on foreign firms. Non-financial FDI accounted for USD 7.81 billion in July this year, the lowest in two years. This slowdown was led by a sharp decline in investment from Japan, which plunged 45 percent in the same period, while investment from Europe was down 17.5 percent and the US, 17.4 percent.

CHEAPEST SMARTPHONE – USD 33

Mozilla has launched a new smartphone in India that will retail at USD 33. The Intex

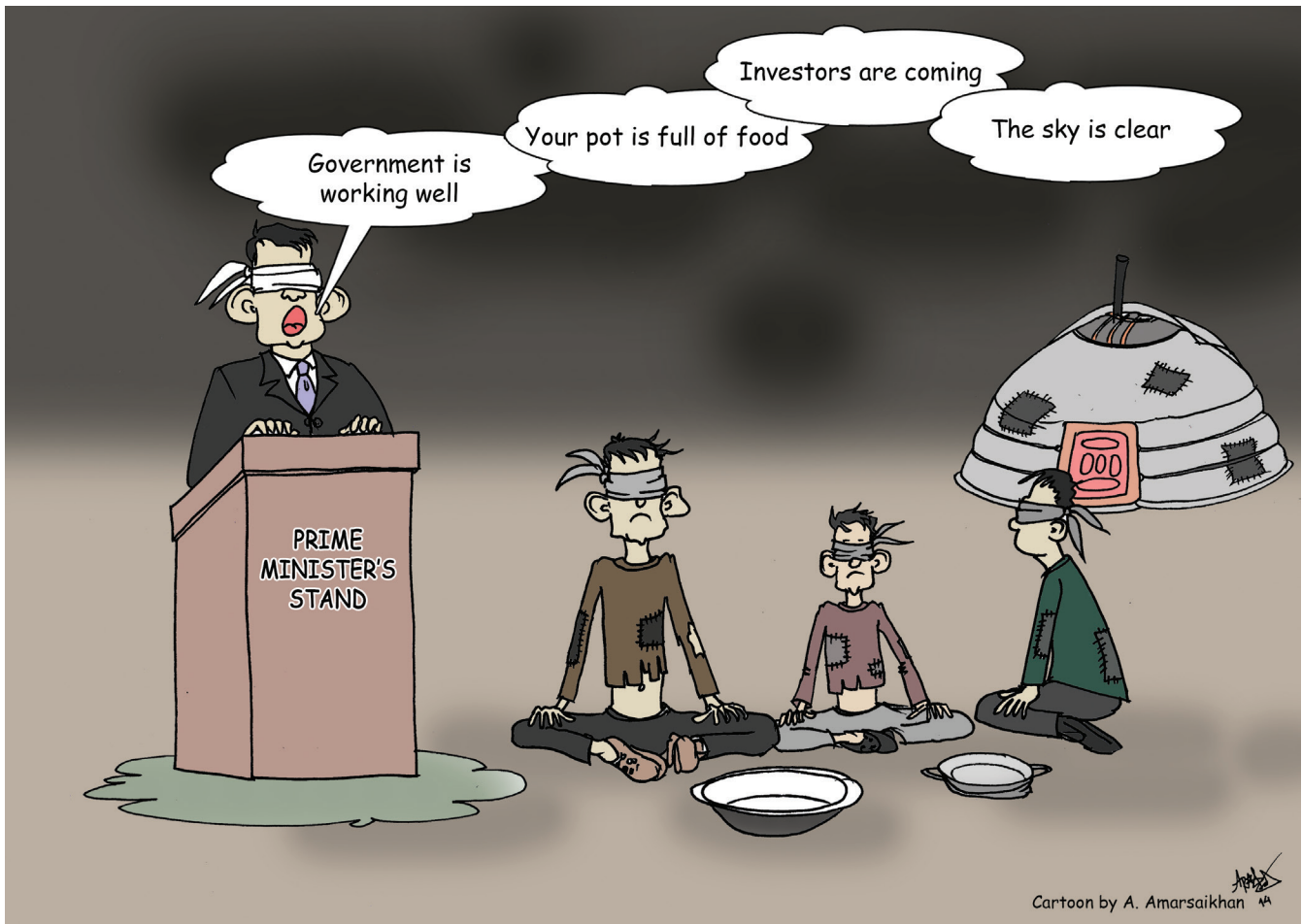
Cloud FX runs Mozilla's Firefox operating system, and can only be bought from India's largest online shopping site, Snapdeal.com. It is the first ever low-cost smart device running Firefox available in Asia. Mozilla's President Li Gong said that the device is expected to build strong momentum in Asia by redefining the entry-level smartphone.

US CONSUMER INDEX

According to a private sector report released on Aug 26 by The Conference Board,

an independent industry association, US consumer confidence rose last month to its highest level since October 2007. It shows the improved feelings Americans have regarding the country's current economic situation. The index rose to 92.4 last month from 90.3 in July this year; a pleasant development as economists were expecting a reading of only 89. At the same time, the consumers' labour market assessment has improved and there has been a slight increase in inflation. ■





FEATURE

RESPONSIBLE GOVERNMENT?

BY D. BEKHEE

Should the current government, headed by N. Altankhuyag, resign? Mongolia's current situation clearly reveals its main economic indicators have dropped, a number of businesses have shut down, and the number of unemployed is on the rise. Citizens are fast running out of cash. The currency rate against the USD exceeds MNT 1,800 and foreign trade has dropped by

more than 70 percent this year.

For foreign investors, the market is risky. The debt chain has increased and debt management issues are apparent. Even the construction sector, a leading industry for Mongolia last year, is in sharp decline. Ongoing construction projects are rarely found, as there are just a few potential apartment buyers in Ulaanbaatar and materials are expensive.

In other countries, if the economy had

deteriorated like Mongolia's, government officials would have already handed in their resignation. We have seen in media reports, many times, that government officials around the world are forced to resign.

According to other nations' experiences, if the government's decisions leads to such a negative impact on citizens' lives, then citizens may demonstrate against their government and protest until its resignation. ▶▶

► But in Mongolia, the situation is different. Its government is acting like it is innocent and did not make any mistakes. Government officials explain that the current difficulties are due to a global economic crisis, but is that the case?

People often say current economic difficulties are not due to external factors, but are due to internal issues such as conflicts between political parties and factions among the ruling party; desperate fights for better positions; money and power; useless policy putting the parties' interests before the country's; corruption; red-tape; and a lack of education and experience.

In June this year, the International Monetary Fund's (IMF) deputy managing

The main role of a new government would be to revive the economy, to set policy in the right way, to define a development strategy, and to create system that subsequent governments comply with.

There are two options:

To continue until the end of next year with the current government, or to see the resignation of the government.

What would it be like to spend another two years with the current government? Confidence could possibly be restored if it confesses its setbacks and mistakes to the extent that it is reflected in further policy.

Prime Minister Altankhuyag needs to learn responsibility, as does his party – the Democratic Party of Mongolia (DP). We can see from today's situation, the government seems quite unsure of its ability to restore voter confidence. R. Amarjargal, member of parliament and member of the DP, doubts if his Government can do just that.

In an interview he said, "Political leaders should stand in the front with the shield to establish a government with mainly non-party representatives and preferably professional requirements. And this government should be the one to save the national economy by lifting up the economy, to revive it and to create the right way to do this."

Former Vice Minister of Finance G. Chuluunkhutagt, however, said that the best way to get over this economic difficulty is through political agreements between the two parties.

We have the common ground, time, and opportunity to get rid of economic difficulties and lead the economy in the right direction for the short term, but if we can get a new government that works responsibly with experienced and knowledgeable professionals, and that is inclusive of non-party members as well, then stable long-term agreements may be reached.

The main role of a new government would be to revive the economy, to set policy in the right way, to define a development strategy, and to create system that subsequent governments comply with. However, every time a new government wins an election, they reject the concerns and past doings of previous governments because Mongolia doesn't have a sustainable strategic policy.

Mongolians care about the leaders of the future. The two major parties—the DP and the MPP—say their policies are divided into right and left wings; interviewed experts on a recent television show, however, say that the parties have almost no difference.

It's hard to differentiate between each party's policy and what they stand for. Common to each party is their need to hold power and get rich through public money and authority, by lying to their people. How can Mongolia really develop if this is the development policy we're stuck with? ■

director Naoyuki Shinohara and other officials visited Mongolia to meet officials and advised them to revisit their economic policy. The visiting officials recommended tighter expansionary monetary and budget policies in order to overcome short-term economic difficulties.

According to Mongolians who work at the IMF and World Bank in Washington, DC, Mongolia is fast headed toward becoming the next Argentina – renowned for flirting with economic default. A new economic policy and responsible government is necessary to prevent this looming crisis.



Photo by B. Byamba-Ochir

MONGOLIAN ECONOMY'S TOP QUOTES

Mongolian Economy speaks with and interviews a number of international dignitaries and high-profile Mongolians regarding the development of Mongolia and its economic

growth. The following is a selection of prominent quotes and opinions from interviews and articles as published in our magazine.



“Regarding Mongolia’s economy, it seems to me that it is grasping a big tractor manufactured in China. In other words: China’s economy is growing, and Mongolia shouldn’t just hold on to China’s tractor. Instead, it should have its own engine.”

Dashiin Byambasuren, former prime minister of Mongolia (Jan 2014, Issue No. 60).



“We should be very precise and careful when communicating with foreign business communities, especially at this time when foreign investment has become idle in Mongolia. ‘The economic hit man’ could possibly come to Mongolia. There are no safeguards if some of them are already in Mongolia.”

Dumaagiin Sodnom, former prime minister of Mongolia (Jan 2014, Issue No. 60)



“The time has come for the Parliament of Mongolia to transition to a classical system. It should have upper and lower houses. With a relatively large territory and a very small population, this system is needed in Mongolia. In maintaining national unity, this transition would play a very important role.”

Sharavyn Gungaadorj, a former prime minister of Mongolia (Jan 2014, Issue No. 60)



“So there are three key decisions Mongolia really needs to respond to now. As it is really at a crucial moment. How do we manage the mining and potential revenues? How do we diversify and into what? And which trade and investment relations do we want to have in the future?”

Kristel van der Elst, senior director, head of Strategic Foresight at the World Economic Forum (Apr 2014, Issue No. 66)



“More than anything, there has to be a fundamental shift in the philosophy of the average Mongolian citizen about what it means to be successful. You have to have some belief in your own economy and your own stock market. Without that it is very difficult to succeed.”

Jordan Belfort author of The Wolf of Wall Street (June 2014, Issue No. 70)



“It is better to lose rather than to succeed in a wrong way, because any success that comes in a shameless and wrong way is not real success. This is a big morality mistake among human beings. If you can become a more skilled person, organisation, or even nation by overcoming your failures, then that would be a bridge that leads you to future success.”

Aung San Suu Kyi, National League for Democracy Myanmar (May 2013, Issue No. 43)



“From ancient times, Mongolians learned how to deal with issues related to the state and their descendants. First, they were far-sighted for the distant future, not just the five to ten-year future. Second, they respected their elders and prayed to their ancestors’ spirits. Third, they were a nation who closely coexisted with nature and taught their children to protect the environment. Mongolia is the only nation where these three important things have been combined together for one person.”

B. Ganbold, former director of Asian Affairs at the Ministry of Foreign Affairs (Jul 2012, Issue No 23)



“The state creating more billionaires is not a policy. Everybody agrees and a liberalised market economic policy is to continue because the public made their choice and knew this was wrong.”

Baataryn Bold, former chief executive officer of Altan Dornod Mongol and now Managing director, Marine at Rio Tinto (Feb 2013, Issue No. 36)



“What we are realising today is that the way we use natural resources is not sustainable. We cannot feed and keep happy 10 billion or 11 billion people on this planet if we continue to use resources as we do today. We have to get into a new economy which is resource-lighter.”

Peter Barabeck-Lethmathe, chairman of board of directors at Nestle (Apr 2012, Issue No. 17)



“Populists have little knowledge and they are making many mistakes and then learn from their mistakes while they are running the economy which negatively affects our lives.”

Chuluuny Gankhuyag, former vice finance minister of Mongolia (Jul 2014, Issue No. 71)



“We used to live in very egalitarian societies, where everything was distributed equally to everyone. In this regard, I do believe that everyone’s, means, methods, and tools to fight corruption are very important and should be used.”

Roza Otunbayeva, former and the first female President of Kyrgyzstan (Oct 2012, Issue No. 30)

ISSUE

ECONOMIC DIFFICULTIES OR ECONOMIC CRISIS?

BY B. ENKHTSETSEG

On the back of weak economic indicators and a barrage of wary media reports warning of impending doom, it's no wonder Mongolians are bracing for the worst. Whilst alarm bells are sounding is there cause for major economic concern for one of Asia's most promising frontier markets?

By definition, a recession implies a fall in real GDP; a period of negative economic growth for two consecutive quarters. In the first half of 2014, the National Statistic Office recorded Mongolia's GDP growth at 5.3 percent. However three years of growth-oriented economic policies have led to large economic imbalances, according to the World Bank's July report on Mongolia.

Whilst this once high-performing frontier economy may not be in recession just yet, the country is certainly experiencing a period of stagnation – economic growth of less than 2 to 3% annually.

However, today's situation does not quite compare to its position in 2009 – post Global Financial Crisis – when the country's economy experienced negative growth. More time travelled on this precarious path, may lead to a similar situation.

GDP growth

Currently, GDP growth has decreased to single digits from consecutive double-digit growth from previous years. GDP growth was recorded at 5.3 percent in the first half of this year. However, this somewhat positive figure was accompanied by 14.9 percent high inflation, a 32.4 percent increase in bad loans and a staggering 70 percent



Photo by B. Byamba-Ochir

decline in FDI, according to the National Statistics Office (NSO) and the Bank of Mongolia.

The depreciation of the tugrug is also often talked about, fluctuating at MNT 1800–1900 against USD. Total debt now stands at 227 percent of GDP, including local debt, according to McKinsey Global Institute and National Central Bank.

Despite weak indicators, in-country analysts remain positive.

“A crisis is something that you don't have to ask. A crisis is when you go the bank and you don't get money. A crisis is quite obvious and we're not in one.” Said Robert Schoellhammer, Country Director for the Asian Development Bank, in a recent interview with *Mongolian Economy*.

“We have a lot of indicators to be worried about. You have to look at the real economy and differentiate

between economic difficulties and economic crises.”

In July, the World Bank report for Mongolia said economic growth is slowing due to weakening non-mineral economic activities. The country's mineral sector remains robust but domestic industry is weakening and GDP growth will likely stay at a single digit level and will still remain high relative to most other countries in the region for 2014.

For now, the situation looks stable but if indicators show no sign of improvement, concern may be justified.

“It's possible to see a crisis if the negative growth of 2009 occurred in Mongolia again next year. If we keep going on the current path,” says the President of the Financial Market Association, Ganzorig Ulziibayar. ▶

► Risky loans

One major factor contributing to an increasing number of bad loans is that they were taken out in USD. However, local banks offer loans mostly in USD due to their own international financing arrangements.

Also, banks offer only one extension for loans that cannot be repaid. A second extension is out of the question. So companies with extended loan repayments due will be moved to the bank's bad-loan list.

According to the NSO at the end of July 2014, non-performing loans reached MNT 599.7 billion, or 32.4 percent from the same period of the previous year. And the rate of non-performing loans is 4.9 percent of total loans outstanding, while United Mongolian Corporation Holding analysts predict that this rate will reach 6 percent.

Meanwhile, household loans increased by more than 50 percent, due to the popularity of the housing mortgage programme, which offers an 8 percent (+/-1) annual interest loan scheme. Average household debt to annual household income rose close to 60 percent in 2013. And at the end of May this year, total debt increased by 63 percent. This rate of current debt is fast approaching the 2009 crisis rate of 78 percent.

Achit-Erdene Darambazaz, the president MICC investment bank, says: "If the banking sector experiences turbulence, then the whole economy will experience crisis. This is the lesson from the 2009 financial crisis. We might be fine if the current economic difficulties are not associated with the banking sector."

He also said, "It is a good decision that banks have started to curb their loans in the real estate sector because you cannot cluster too much money in one sector. That is too dangerous."

The Bank of Mongolia has raised interest rates up to 12 percent and has also taken measures to maintain the liquidity of the banking sector.

However, Altantsetseg Shiilegmaa, economist at the World Bank, warns that these measures will not be felt

"A crisis is something that you don't have to ask. A crisis is when you go the bank and you don't get money. A crisis is quite obvious and we're not in one. We have a lot of indicators to be worried about. You have to look at the real economy and differentiate between economic difficulties and economic crises."

overnight. "Tightening monetary policies won't just curb the bank loans and take the inflation rate down from day two right after the interest rate is increased. It will only have an impact in the real economy after at least three months."

She also said, "Along with monetary policy, we remind to tighten the fiscal policy as well by cutting unnecessary spending. By having the fiscal and monetary policy tightened together, it will result in the short term."

High inflation weighs on purchasing power of households and domestic demand. The inflation rate is exceeding the growth of nominal household income. Growth contribution of consumption and investment has decreased according to the World Bank Report in July.

Inflation is a major concern for Mongolia's business community and foreign investors.

"What's the point of having growth if most of that growth is inflation? Inflation is really a killer. What's highly important is don't have an interest rate below inflation otherwise you'll have a gradual erosion," says Robert Schoellhammer, ADB country director.

In an attempt at a short-term defense for MNT depreciation, the Central Bank continues to raise its interest rate to stabilise inflation and target foreign currency hikes.

China to the rescue?

During a recent visit from China's President Xi Jinping, both countries

agreed on a three-year bilateral currency swap arrangement for CNY 15 (USD \$2.44 billion). However, neither the new swap arrangement nor Bank of Mongolia intervention will serve as a long-term shield and define MNT competitiveness.

According to the World Bank's July report, a large balance of payments imbalance put pressure on currency value and international reserves. External financing gaps became significant due to a large current account deficit and dropping foreign capital inflow. As a result, currency value weakened and international reserves decreased.

Currency rate pressure

Companies say that they are the ones most affected by MNT depreciation as it creates uncertainty in their operation and makes them vulnerable to currency risks.

"If you're going to invest and your revenue is in tugrug, you want to know what the amount is. The key thing is certainty. Currencies do fluctuate. It's when they fluctuate too much is what makes it hard to keep certainty," says Robert Schoellhammer, ADB country director.

Mongolia imports almost everything. Analysts say that if foreign currency is too high this is not much help to exporters unless exports exceed imports.

"The way to keep the currency fluctuation at adjusted levels is to establish an accurate base economy. Don't talk about replacing all imports. That is nonsense. Instead, we can produce some selected food products and clothing locally so that they can be competitive. But it needs some market research and a professional experienced team to calculate economic benefits," says the President of the Financial Market Association, Ganzorig Ulziibayar.

Stabilizing prices and decreasing the rate of the tugrug are obvious indicators for the general public. Tightening economic policies can help this along. Whilst the price of consumer goods and the rate of the tugrug are cause for concern, if Mongolia were in a crisis it would be quite apparent to everyone. And Mongolia, for now, is not in a crisis. However, as long as a sustainable model for development is ignored, an economic crisis may soon become a stark reality. ■

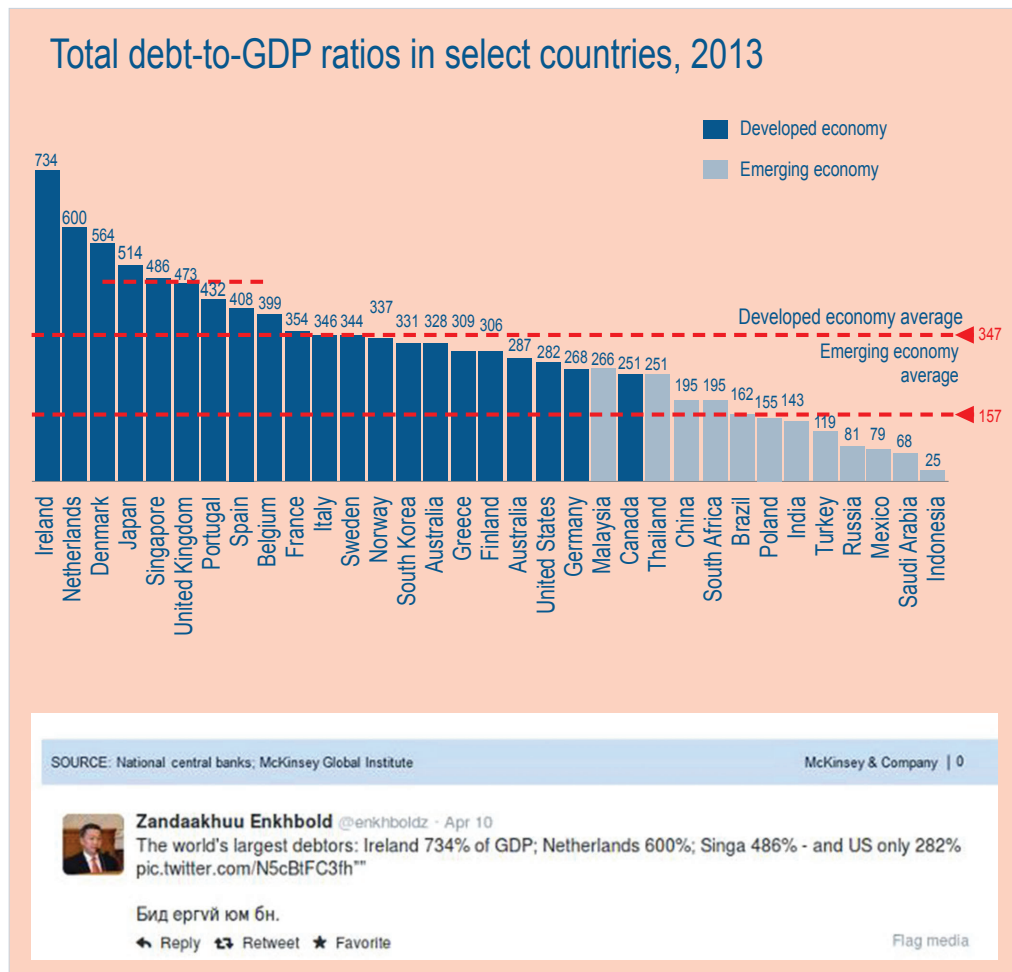
DEBT

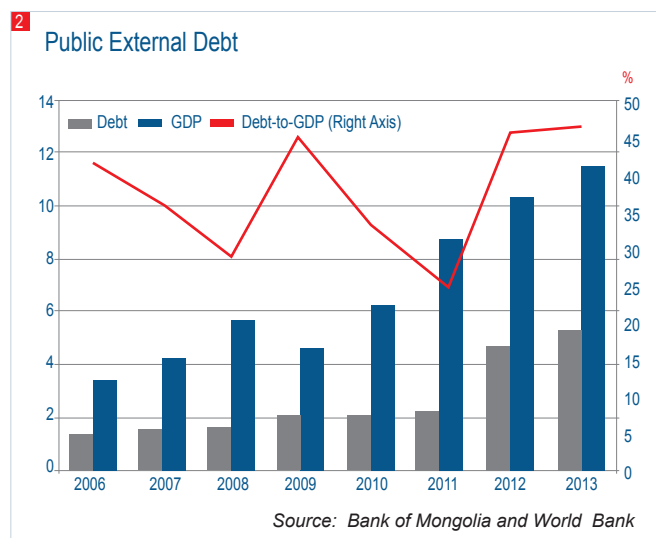
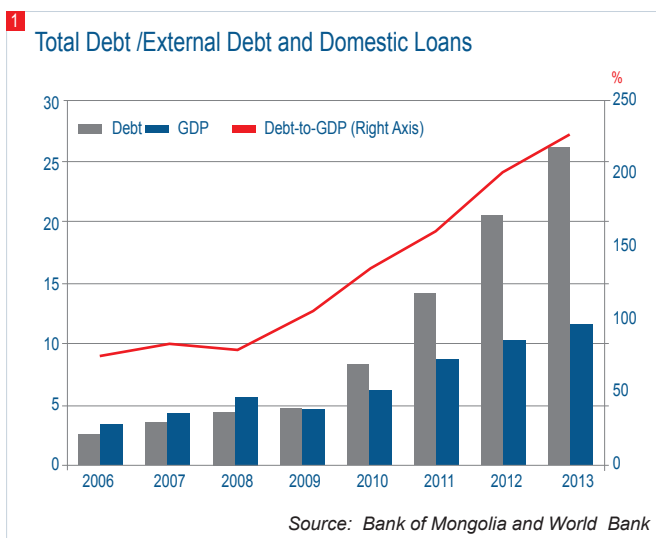
YESTERDAY GREECE, TODAY ARGENTINA, TOMORROW MONGOLIA

BY B. UURIINTUYA

Speaker of Parliament Zandaakhuu Enkhbold tweeted last April, “We have no debt.” Yet Mongolia’s total debt is statistically above average, and raising alarm amongst watchdog NGOs like Debtless Mongolia. As external debt increases, and the depreciated tugrug continues to trigger skyrocketing inflation, the outlook for both the government and its citizens remains grim.

The chart (right) shows the countries with the highest debt-to-GDP ratio in 2013. Mongolia, though unlisted, should be ranked between Thailand and China. Total debt includes a country’s public and private debt, including external debt and domestic borrowing ranging from car loans to mortgages. In the chart, countries with a developed economy have an average debt-to-GDP ratio of 347 percent, while those with an emerging economy average 157 percent. As for Mongolia, the ratio has already exceeded the emerging economy average, reaching 227 percent in 2013. ▶▶





► In recent years, Mongolia has acquired a high percentage of total debt, while its external debt account has reached USD 19.88 billion, leaving each citizen with a debt burden of over MNT 12 million.

Greece and Argentina have suffered recently – they have borrowed more money than they can afford. Mongolia could be one of them in no time. Just two years ago Mongolia’s external debt was around USD 5 billion. Problems have been compounded by the tugrug’s 36 percent depreciation within the past year.

The consequences are harsh, because with each percentage depreciation of the tugrug, the amount of dollars Mongolians have to repay rises. For example, the full repayment of the Chinggis bond once accounted for MNT 2,114,474,699,430. This was calculated when one US dollar cost MNT 1,398. With the dollar reaching more than MNT 1800, bond repayments will cost much more.

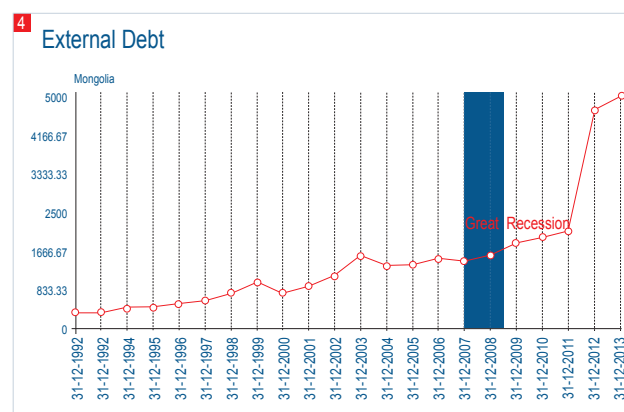
Full repayment schedule

Year	Instrument	Amount
2017	Development Bank	USD 580 million
2018	Chinggis Bond	USD 500 million
2022	Chinggis Bond	USD 1 billion

According to the Mongolian government, it spent money that would equal 76 percent of GDP in order to give its citizens decent living standards. Unfortunately, the World Bank in its July report on Mongolia entitled ‘Recent Economic Development and Challenges’ said, “Detailed monitoring for growing family debt is crucial. Increasing mortgage loans have caused family loans to increase by 50 percent. The average loan in annual income in a family rose by 60 percent in 2013.”

During a press conference, representatives of Debtless Mongolia said government borrowing over the past two years has increased by USD 3.1 billion, not all of which was necessary. The organization emphasized its opposition to government plans that would increase its borrowing up to MNT 21.3 trillion, and raise the government loan guarantee to MNT 6.1 trillion. The NGO stated such a huge amount of borrowing would only burden citizens more than they are experiencing now.

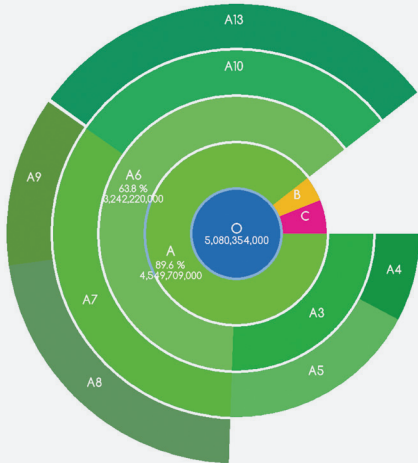
“While the issuance of international bonds was successful from a market perspective, its size and structure has substantially changed the cost and risk profile of public debt,” described the World Bank. ■



5 Latest bond issues

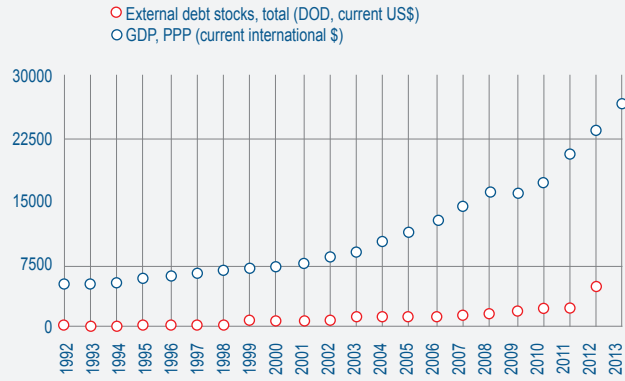
Issue	ISIN	Coupon	Volume	End of placement	Maturity date
Trade and Development Bank of Mongolia, 2017, CNY - International bonds	XS1013890220	10%	CNY700 000 000	01/15/2014	01/21/2017
Mongolia, 2018 - International bonds	US60937GAA40	4.125%	USD500 000 000	11/28/2012	01/05/2018
Mongolia, 2022 - International bonds	US60937GAB23	5.125%	USD1 000 000 000	11/28/2012	12/05/2022
Trade and Development Bank of Mongolia, 2015 - International bonds	XS0831336192	8.50%	USD300 000 000	09/13/2012	09/20/2015
Mongolian Mining Corp, 2017 - International bonds	USG6264VAA01	8.875%	USD600 000 000	03/21/2012	03/29/2017
Development Bank of Mongolia, 2017 - International bonds	XS0755567301	5.750%	USD580 000 000	03/14/2012	03/21/2017
Trade and Development Bank of Mongolia, 2015 (conv.) - International bonds	XS0559513493	12.50%	USD25 000 000	11/10/2010	11/17/2015

6 Mongolia: Debt Detailed Statistics and Infographic

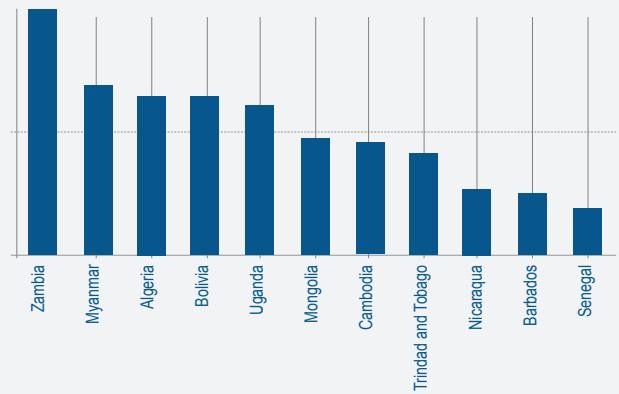


- O** External debt stocks, (DOD US\$)
- A1** External debt stocks, long-term
- A3** External debt stocks, private nonguaranteed
- A4** PNG, commercial banks and other creditors
- A5** PNG, bonds
- A6** External debt stocks, public and publicly guaranteed
- A7** PPG, official creditors
- A8** PPG multilateral
- A9** PPG, bilateral
- A10** PPG private creditors
- A11** PPG, other private creditors
- A13**
- B** Use of IMF credit
- C** External debt stocks, short-term

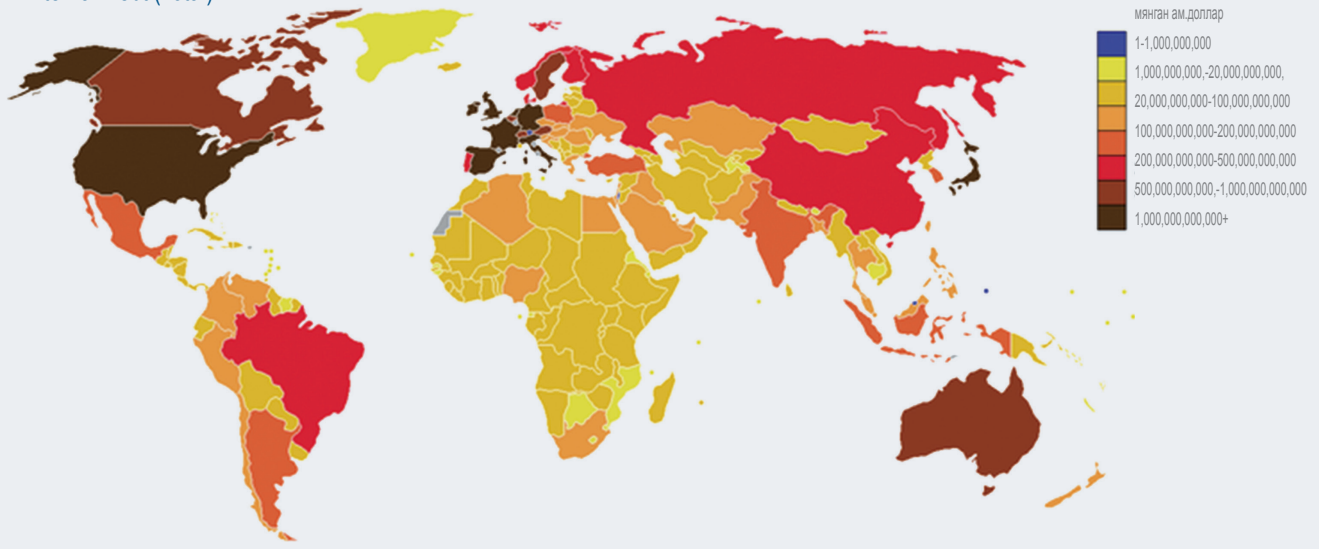
How to read and make sense of the Circloid!
 O=A+B+C
 A=A3+A6
 A3=A4+A5
 A6=A7+A10
 A7=A8+A9
 A10=A11+A12+A13



7 External Debt (Total)



8 External Debt (Total)



Spending of the Chinggis Bond

Mongolia successfully issued a USD 1.5 billion bond on the international market in November 2012. Today, most of this money has been used on construction and agricultural sectors. However, bond allocation has not been very transparent to the public. *Mongolian Economy* will be sharing this information in

our upcoming issues. This time, the magazine has specific details on companies that have received financing from the bond. The list includes agricultural companies and companies that participated on the “Gudamj” Project – a street renovation project.

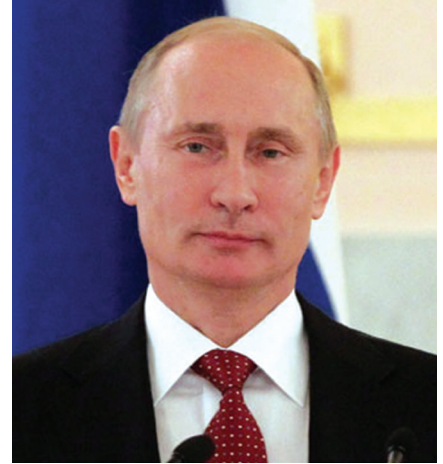
Repayment capacity of Bonds (Chinggis bond+ USD 580 million bond from the Development Bank)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP, year price, MNT billion	3,041.41	4,027.56	4,956.65	6,555.57	6,590.64	8,414.50	11,087.72	14,012.90	17,550.17	21,213.39
GDP growth, year price, percentage	28.81%	32.42%	23.07%	32.26%	0.53%	27.67%	31.77%	26.38%	25.24%	20.87%
Enclosed budget, MNT billion	764.60	1,237.01	1,747.31	2,466.77	2,336.63	3,080.69	4,997.04	6,017.80	6,177.98	7,293.90
Enclosed budget/ GDP, percentage	25.14%	30.71%	35.25%	37.63%	35.45%	36.61%	45.07%	42.94%	35.20%	34.38%
Enclosed budget expenditure, MNT billion	89.82	175.67	299.50	624.39	460.56	591.04	1,280.92	1,525.36	1,447.34	2,006.20
Bond investment, MNT billion	-	-	-	-	-	-	-	488.35	1,667.15	2,174.49
Enclosed budget expenditure+ Bond investment, MNT billion	-	-	-	-	-	-	-	2,013.71	3,114.49	4,180.69
Chinggis Bond, the Development Bank bond's interest + repayment, MNT billion	-	-	-	-	-	-	-	-	22.8	93.4
Bond interests + repayment/ Budget expenditure, percentage	-	-	-	-	-	-	-	0.00%	1.58%	4.66%
Bond interests + repayment/ total investment, percentage	-	-	-	-	-	-	-	0.00%	0.73%	2.23%
Bond interests + repayment/ enclosed budget, percentage	-	-	-	-	-	-	-	0.00%	0.37%	1.28%
Bond interests + repayment/ GDP, year price, percentage	-	-	-	-	-	-	-	0.00%	0.13%	0.44%

Year	2015	2016	2017	2018	2019	2020	2021	2022
GDP, year price, MNT billion	25,456.07	30,547.28	36,656.74	42,155.25	48,478.54	55,750.32	64,112.87	73,729.80
GDP growth, year price, percentage	20.00%	20.00%	20.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Enclosed budget, MNT billion	8,696.80	10,041.80	11,287.21	12,122.71	13,020.06	13,983.84	15,018.95	16,130.69
Enclosed budget/ GDP, percentage	34.16%	32.87%	30.79%	28.76%	26.86%	25.08%	23.43%	21.88%
Enclosed budget expenditure, MNT billion	2,809.80	3,246.30	3,286.02	3,529.25	3,790.50	4,071.08	4,372.43	4,696.09
Bond investment, MNT billion	2,200.00	2,200.00	2,200.00	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
Enclosed budget expenditure+ Bond investment, MNT billion	5,009.80	5,446.30	5,486.02	6,029.25	6,290.50	6,571.08	6,872.43	7,196.09
Chinggis Bond, the Development Bank bond's interest + repayment, MNT billion	100.9	101.5	526.0	68.1	68.1	68.3	68.1	1,164.9
Bond interests + repayment/ Budget expenditure, percentage	3.59%	3.13%	16.01%	1.93%	1.80%	1.68%	1.56%	24.81%
Bond interests + repayment/ total investment, percentage	2.01%	1.86%	9.59%	1.13%	1.08%	1.04%	0.99%	16.19%
Bond interests + repayment/ enclosed budget, percentage	1.16%	1.01%	4.66%	0.56%	0.52%	0.49%	0.45%	7.22%
Bond interests + repayment/ GDP, year price, percentage	0.40%	0.33%	1.43%	0.16%	0.14%	0.12%	0.11%	1.58%

Chinggis bond capital payment and interest

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Government's payment to investors /USD million/	71.88	71.88	71.88	71.88	71.88	551.25	51.25	51.25	51.25	1,051.25	2,115.63
Interest payment	71.88	71.88	71.88	71.88	71.88	51.25	51.25	51.25	51.25	51.25	615.63
USD 500 with 5 year term	20.63	20.63	20.63	20.63							103.13
USD 1000 with 10 year term	51.25	51.25	51.25	51.25	51.25	51.25	51.25	51.25	51.25	51.25	512.50
Capital Payment	-	-	-			500.00	-	-	-	1,000.00	1,500.00
USD 500 with 5 year term						500.00					500.00
USD 1000 with 10 year term										1,000.00	1,000.00
Disbursement of interest payment by the Central Bank of Mongolia and the Development Bank of Mongolia through the government /USD million/	71.88										71.88
Interest payment /USD million/	71.88										71.88
The Central Bank of Mongolia /USD million/	52.96										52.96
The Development Bank of Mongolia /USD million/	4.82										4.82
The Development Bank of Mongolia /MNT million/	23.38										
Capital Payment	-	-	-	-	-	-	-	-	-	-	\$
The Development Bank of Mongolia /USD million/											
The Development Bank of Mongolia /MNT million/											



OFFICIAL VISITS

THE ROAD TO DEVELOPMENT

BY I. OTGONJARGAL

The Presidents of Mongolia's two neighbours have turned their attention to their landlocked neighbour. Russian President Vladimir Putin visited Mongolia on September 3, and Chinese President Xi Jinping visited August 21-22, at the official invitation of Mongolian President Ts. Elbegdorj.

According to official releases, Putin's visit took only half a day. President Elbegdorj, during his attendance at the Asia-Pacific Peace and Security Summit in Shanghai, China last May, invited the President of Russia to visit Mongolia. Originally planned, Putin was to visit during the celebration of the 75th Anniversary of the victory of Khalkh Gol – a joint celebration between Mongolia and Russia for commemorating the battle between Soviet-Japanese border conflicts in 1939. He last visited Mongolia in 2009.

Xi last visited Mongolia in 2008 when he was the Vice President of China. His recent visit marked the 65th Anniversary of diplomatic ties between the two countries as well as the 20th anniversary of renewal of friendly relations and mutual cooperation.

Mongolia is one of the first countries to

establish a diplomatic relationship with the 'new' China. Furthermore, China was the first country to recognise Mongolia's independence and the second country to establish an embassy in Mongolia in 1950.

It is an economic and geopolitical advantage for Mongolia to have no disputes with its powerful neighbours. Xi acknowledged this fact during his visit. Both sides have accentuated that his visit opened up economic, political, and foreign policy opportunities and brought cooperation between each country to a new level of cooperative development.

During the two-day visit, Xi delivered a speech at the Parliament of Mongolia, signed agreements with President Ts. Elbegdorj, and met with Speaker Z. Enkhbold and Prime Minister N. Altankhuyag. In total, 26 deals were signed, including an agreement declaring the development of a full strategic partnership. This agreement encompassed five areas, including political relationships, economic and trade partnerships, education and health cooperation, and cultural and humanitarian collaboration.

Eight of the 24 agreements included the Ministry of Economic Development

of Mongolia, while other significant deals involved the transportation and infrastructure sector. Both sides amended the agreement set in 1991 to include Chinese land-to-sea passages for transportation usage. The agreement has always stated "China will allow Mongolia access to its north and north-east international trade sea ports."

However, despite this long-held agreement, the transportation of goods through Chinese seaports has never transpired. The only official trade routes have been through land crossings at the Erlian and Gantsmod border points.

With access to China's seaports, Mongolia can sell coal to its third neighbours such as Japan or South Korea through Chinese sea gateways, increasing Mongolia's competitiveness for its natural resources.

Although the border of the two countries stretches over more than 4,700 kilometres, there is only a single rail crossing Zamiin Uud-Erlian. Now, railway ports in Sumer (Dornod), Bichigt (Sukhbaatar), Gantsmod and Shiveekhuren (Umnogovi) are also to be established after years of negotiations. ▶▶

- ▶ Other negotiations include a prisoner transfer agreement, a loan settlement agreement worth USD 162 million, student exchange programmes, and other cooperation deals.

China holds about 90.4 percent of Mongolia's exports and 30 percent of its imports. Russia accounts for only 1.3 percent of Mongolia's exports according to Investment Mongolia Agency. Xi expressed that China is willing to buy every product available made in Mongolia. His words might just respark the interests of foreign investors.

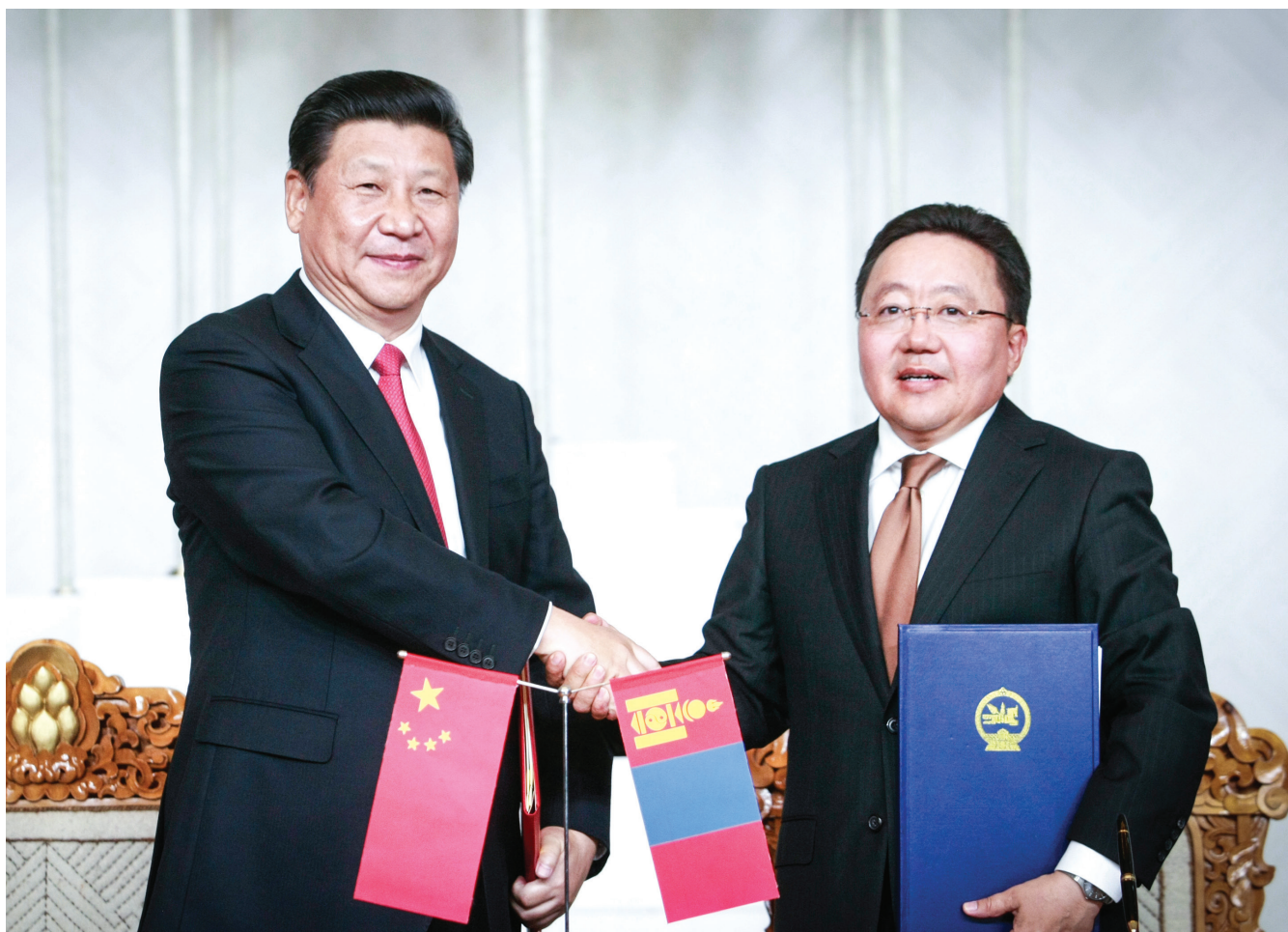
According to national experts, Xi's visit announced to the world that Mongolia can have multi-sided relationships with its neighbour, but also warned that the country runs the risk of becoming increasingly dependent. Xi's words showed that Mongolia is indeed one of China's biggest partners.

Other important deals were to increase the swap agreements increased by CNY 5 billion between the Chinese Central Bank and the Bank of Mongolia. About 60 to 70 percent of Mongolia's foreign trade is handled with Chinese currency. With resource prices falling, especially coal's, domestic and international media reported that Xi's visit could see more money flow into Mongolia. Following Xi's visit, the MNT skyrocketed to MNT 1900, but later fell to MNT 1790 as of August 31st 2014.

International trade between China and Mongolia, which was worth USD 324 million in 2002, reached USD 6 billion in 2013. Xi suggested bringing the number to USD 10 billion by 2020. In addition, both sides have agreed to research the possibilities to improve cooperation in energy by building power plants and exporting energy to China.

Chinese delegates have invited Mongolian students and 500 soldiers to advanced trainings, as well as 500 youth and 20 journalists to visit China. Also China's government officials expressed their interest to improve travelling conditions to China. China and Mongolia have long been neighbours, but their tumultuous history has meant its citizens have never really been aware of each other's history or culture. Exchange programmes could bridge the culture gap between the two countries and support the recognition process.

China is the world's second biggest economy and has invited Mongolia to join its development journey. "A Chinese does what he says and finishes what he starts. Thus, whatever China says and promises must be accomplished," said Xi Jinping. ■



Chinese President Xi Jinping meets Mongolia President Ts. Elbegdorj

Photo by B. Byamba-Ochir

2014 OUTLOOK UPDATE

HOW WILL MONGOLIA PERFORM IN 2014?

The Financial Markets Association of Mongolia and Mandal Assets Management jointly develop Mongolia's economic growth forecast report on a semi-annual basis, some of which is profiled below.

Global economy environment in 2014

The global economic growth forecast remains optimistic, with the trend set for continued growth. Developing countries are likely to play an important role. Yet as the US Federal Reserve curtails its \$85 billion stimulus programme, there is greater risk of a slow-down in the global recovery process.

The 2014 average global GDP growth forecast stands at 3.2 percent; with 2.7 percent for the US, 1.1 percent for the Eurozone, and 7.3 percent for China. Compared to forecasts set at the beginning of this year, growth prospects have increased for the Eurozone and decreased for China.

Mongolia in H1 2014

Despite economic growth in the first half of 2014, persisting structural weaknesses remain. Key macroeconomic indicators have deteriorated, starting to signal a downturn in economic health.

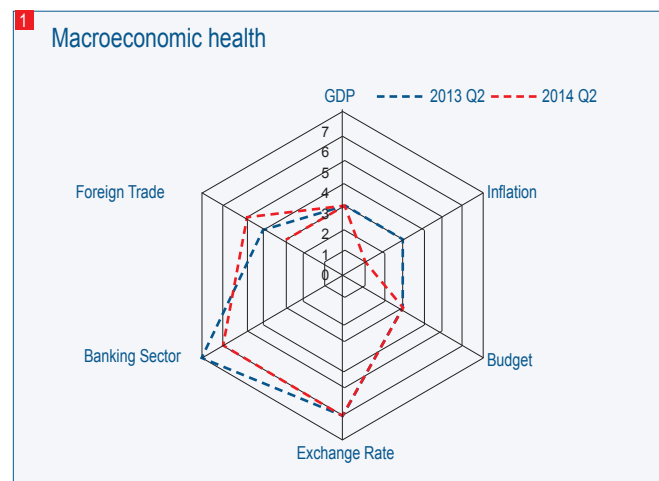
Growth supported through policy measures put pressure on balance of payments, foreign exchange, and inflation.

As shown in Graph 1, which charts macroeconomic health by measuring six main indicators, scoring for Q2 2014 fell to four points out of seven.

1 GDP growth forecast for 2014, 2015, %

	World		US		Eurozone		China	
	2014	2015	2014	2015	2014	2015	2014	2015
Fitch	2.7	3.1	2.7	3.1	1.1	1.5	7.3	7
Fitch	3.4	3.9	2.6	3.5	1.2	1.7	7.4	7.3
OECD	3.1	3.4	2.8	3.1	1.1	1.3	7.3	7
Citibank	3.4	3.5	2.7	3.2	1.1	1.2	7.4	7.1
WB	3.7	3.9	2.8	3	1	1.4	7.5	7.3
OYBC								

Source: reports from respective institutions



Source: Financial Markets Association of Mongolia

Main factors that will influence 2014 economic outcomes.

The following factors will have the most influence on Mongolia's year-end economic performance.

- Political instability
- Oyu Togloi's second phase financing
- High level visits from China and Russia. »

First, political instability created by the possible change of all or several members of the Cabinet may have a negative short term effect on the economy. If major change occurs, this will further exacerbate uncertainty in the market, delay decision making, and damage consumer confidence.

Second, ongoing delays in Oyu Tolgoi's second phase of financing will mainly affect the economy through an indirect negative influence on restoration of investor confidence. Although steps are being taken to attract investors by improving the legal and tax environment, foreign investors are watching the decision on Oyu Tolgoi and are not in a rush to come back.

Third, if the Mongolian Government is able to reach an agreement on major deals with the visiting leaders of China and Russia, there certainly will be a positive effect on year-end results. These deals include concessions, trade agreements, and most importantly a MNT-RMB swap agreement.

In addition, the tightened monetary policy effected late July may saddle the markets with delays towards the end of the year, through subsiding inflation and a more stable yet weakened tugrug.

2014 year-end forecast

Oyu Tolgoi's second phase financing, due in June this year, was expected to have the most positive effect on the performance of the economy in 2014. The delay in financing has aggravated the fragility of the economy, and is likely to lead to poor year-end results.

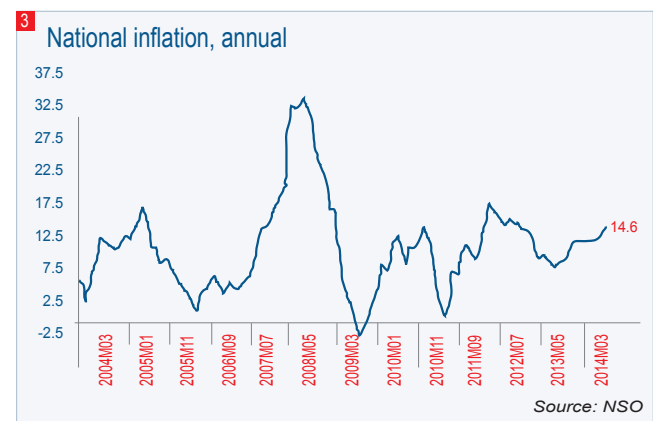
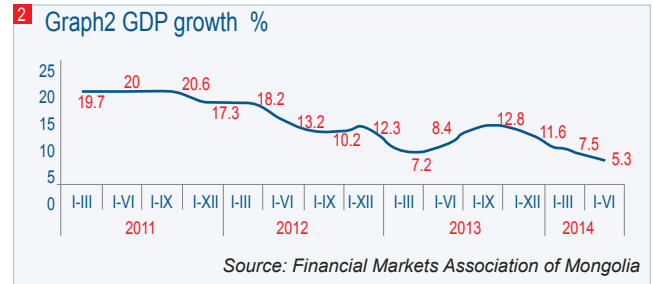
2014 GDP growth is expected to be at 6.3 percent, down from the 10 percent forecasted at the end of 2013.

There is unlikely to be a strong reversal in foreign currency flows as long as foreign direct investment falls and exports in monetary terms remain flat. Therefore it is expected that the USD will continue to appreciate against the MNT. However, it is possible that the MNT-RMB swap agreement with the Chinese Central bank could break the trend.

To lower inflation, the Bank of Mongolia has tightened its policy for H2 of 2014. Yet an analysis of the composition of inflationary pressures reveals the likelihood of imported inflation supported by a weakening tugrug. Thus the tighter H2 policies will likely be ineffective in reducing the inflation rate.

Additionally, any attempt to stop the tugrug's drop by reducing currency supply may curb price stabilization programmes and Development Bank loan issuances. This in turn may reverse growth of sectors supported by policy programmes. Paired with fiscal tightening, growth may halt substantially and create liquidity issues.

Within the framework of the Economic Revitalization programme, a number of measures have been taken to improve the legal and taxation environment. Yet in terms of timing, it is unlikely that their effect will impact market performance within 2014. ■



Forecast of key indicators for 2014

	2013 forecast	2013 performance	2014 forecast (at the end of 2013)	2014 forecast (updated in August 2014)
GDP growth, %	10%	11%	10%	6.3%
Inflation, %	10%	11%	12%	17.5%
Loan interest rate, %	18%	18.6%	18%	18.5%
USD/MNT, year end	1,700	1,716	1,900	1,800*
NPL rates, %	8%	5.3%	6%	6%

*based on assumption that MNT-RMB swap agreement will be signed

Negative consequences	Probability of occurrence	High	
		Medium	High
High	• Foreign investment outflow	• Distress in some segments of the construction sector, especially in office building supply • Increase foreign trade deficit	• Heavy involvement of the government in private sector • Decrease of FDI • Increasing budget deficit • Increasing public debt • FX instability • Rising inflation
Medium	• New Chinese government policies not favourable for Mongolia	• Worsening liquidity of banks • Scarcity of loans, reducing turnover of the economy • Increased NPLs, banking sector instability	• Plunging global commodity prices • Increasing prices of imported fuel from Russia
Low	• Epidemics and pandemics in neighboring countries • Natural disasters		• Slow recovery of the global economy

Source: Mandal Asset Management

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MINING

MINING SECTOR MOVES FORWARD

BY S. ZAYA

How does the Mongolian mining sector move forward? With an aim to revive the sector, the Government looks to restore the confidence of foreign investors by creating a favourable legal setting in Mongolia for foreign investment.

Altankhuyag's Government, during its recent 100 Day Action Plan made attempts to resolve the recent controversy surrounding the 106 revoked mining-related licenses. The licenses were illegally issued in 2009 and 2010. Their 2012 revocation, handled by the Minerals Authority, alarmed international mining companies and delayed operations nationwide. Now the government has decided to undertake a

procurement process for the reissuance of the mining licences to potential companies.

Resumed bidding

"According to the Minerals Law adopted in 2009, bidding had to be re-announced among mining companies if their licences were over, cancelled, or withdrawn, or when reissuing the licence to mining companies if their mining sites still contained minerals. But mining companies violated this law's clause. Their violations have been verified through three-stage courts' decisions," said B. Batkhoo, head of the policy implementation and coordination department at the Ministry of Mining.

"The court decision ordered 'the 106 licences must be reissued through bidding'. Of course, the mining companies have incurred some losses and damages to some extent. Thus, a special regulation for their damages and losses is being released."

According to the regulation, companies are subject to verifying their damages and losses through documentation, which they submit to a committee within the Ministry of Mining. After examination by the committee, a tender fee for participating in the procurement process is set. Those companies that were already conducting mining operations onsite will be given special privileges, and will not be subject to the payment required to tender. ▶



► For other companies, they will be able to participate in the tender process by paying no less than 30 percent of the total procurement fee. This payment varies depending on the size of the mine site. For example, the minimum payment is to be near MNT 20 million, while the maximum is MNT 410 million, according to the committee.

Tavan Tolgoi

Preliminary bidding on Tavan Tolgoi began in December 2010 with bids from 15 companies, of which six were shortlisted for a consortium—Shenhua Group, ArcelorMittal, Kores, Peabody Energy, Vale S.A., and Xstrata. The consortium was submitted to the National Security Council of Mongolia in 2011 and has still not progressed.

In May this year, the parliament adopted several clauses regarding Tavan Tolgoi, in its Resolution No. 34 on actions to be taken toward accelerating the economy. As a part of the resolution, the Government carried out a study that set procurement conditions, requirements, and principles needed to be amended.

Chimediin Saikhanbileg, member of parliament and chairman of the secretariat cabinet of the government, is to head a new committee which will conduct the resumed bidding into November. The goal is to quickly and efficiently establish the domestic processing and exportation of coal, addressing the required manufacturing, infrastructure, and railway issues while avoiding any additional pressure on the State Budget.

Amended Minerals Law

At the end of the 2014 spring session, Parliament amended the Minerals Law. One section of the amended law prescribed for the mining ministry a Policy Council, consisting of representatives of public and private sectors and civil society, to provide recommendations for the law. Researchers consider that this was a step towards providing a voice for the private sector to include its feedback and opinions in policy-making.

According to the previous Minerals Law, a licence was cancelled if a mining

company did not pay a special licence fee. This clause was strictly enforced at that time, which caused a number of misinterpretations. According to the amended Minerals Law, the above clause has been mitigated. Now a company has 30 days to pay the license fee, a necessary amount of time to prevent undue loss.

Over the past several years, as the mining sector's growth has stagnated, Mongolia has taken a number of actions designed to regain foreign investments. With moves to finally address the illegal issuance of the 106 licenses, resume the bidding for Tavan Tolgoi, and amend the Minerals Law to better involve the private sector, the government hopes that investor confidence will be restored. ■

CASE STUDY

RECLAMATION OF EREEN MINE

BY D. BEKHEE

Mining is a temporary activity. What happens to the mine once resources are depleted or the mine is no longer considered feasible?

Global mining giant Peabody Energy, started introducing the best reclamation practices in the Ereen mine in Saikhansoum of Bulgan aimag since the company entered Mongolia.

The company views that although mining can negatively affect the natural environment, it can reclaim it, bringing the land back to its original condition. Furthermore, it might even be improved. In 2009 Peabody Energy started working on reclaiming 18 hectares of the Ereen mine with left-over pit dumps and red land in place of the previous grassland. A team of more than 60 international and national experts was employed. Special attention was paid to technical and biological reclamation works based on scientific research.

As a result of the company policy in the past five years, the direction it followed,



and enormous efforts and commitment, the used mining site has become green again, grazing land, plants and flowers have grown and the environment has been restored to its previous condition.

“Local herders say that Ereen mountain returned to its previous state. This ►



Ereen mine before the rehabilitation

► reclamation changed the mindset of our people,” said N. Mend-Amar, the governor of the Saikhansoum.

The herders saw that the land can be mined, but then restored. Not only herders, but the Minister of the Environment and Green Development S. Oyun, the State Secretary of the Mining Ministry R. Jigjid, officials from the Ministry of Food and Agriculture, the staff of the Governor’s Office of the Umnugovi aimag could see it with their own eyes. The land is not only reclaimed, but used effectively for hay making.

area. Peabody Energy donated a 80 horse power hay baler machine with a capacity of pressing 13 tonnes of hay an hour.

The Minister of the Environment and Green Development S. Oyun said “We saw today a mining site and a reclaimed area next to it. It is a good example for comparison. I am happy to see an area, which was dug 40 meters deep, reclaimed according to international standards. It is extremely important for Mongolia as a model of mining reclamation, as a standard to follow.”

new level, our Ministry has developed specific standards and 7 of them were approved by the Mongolian Agency for Standardisation and Metrology.”

Today, the reclaimed Ereen mining site is a habitat of over 40 species of plants, 28 species of insects, 31 species of birds and 5 species of mammals. In the process of reclamation the issue of drinking water for wild animals and livestock was resolved by drilling a deep well and making a small pond.

Although general reclamation was finished in 2010, the area is regularly monitored.

Professors and students from the Mongolian Agriculture University and Mongolian University of Science and Technology, researchers from the Mongolian Academy of Sciences played a significant role in reclamation of the Ereen mine. In this sense, the 18 hectares of reclaimed Ereen mine had become a substantial scientific, research and practice base.

Arshad Sayed, President of Peabody Energy for Mongolia and India said: “We should focus on what to do after mining is complete. Now we see how important the mining reclamation is. We had some obstacles during the reclamation at the



Rehabilitation was conducted on 18 hectares at Ereen mine



Experts, headed by Oyun, ministr of nature and environment visited the rehabilitation process

Last year, 40 tonnes of hay was made, this year 20 tonnes of hay was made, the remaining grass was left for the wild animals and livestock. The volume of hay made from the reclaimed area was four times greater compared to the natural sites, which shows a richer harvest per hectare from the reclaimed

“It can be said that in 2008 there was a lack of established standards to follow when reclaiming mining sites. 5 years ago 5 standards of reclamation were approved, which were developed mainly on the basis of reclamation of gold deposits,” said Minister Oyun. “In order to bring reclamation of mining sites to a

Ereen mining site. But we gained an experience which is suitable for Mongolia’s case and we learned from each other.”

Today, at Ereen Mountain in Saikhansoum of Bulgan aimag, the natural beauty is evident. It is a clear example of how it is possible to reclaim land once used for mining. ■



BCM'S NEWSWIRE HIGHLIGHTS

NewWire 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 August.**

BUSINESS

CHINA SET TO LEND USD 162 TO DEVELOPMENT BANK

The China Development Bank (CDB) is set to sign a USD 162 million contract agreement with the Development Bank of Mongolia.

Negotiations for the contract occurred when Deputy Prime Minister and the Mongolian representative to the China-Mongolia's Intergovernmental Commission D. Terbishdagva met with CDB President and Vice Chair Zhijie Zeng. "This is the start of our cooperation, and it will become closer and will finance more projects and programs," Mr. Zhijie said. CDB is China's largest bank with an asset value of USD 350 billion and cooperates with 115 nations.

Source: Montsame

TAIWAN PLANS TO HELP MONGOLIA IN CAPITAL MARKETS

Taiwan plans to help Mongolia set up trading on an emerging stock board and a deposit insurance system, Financial Supervisory Commission

(FSC) Chairman Tseng Ming-chung said Wednesday.

Tseng plans to visit Mongolia Thursday, a reciprocal visit following the country's financial supervisory officials' trip to Taiwan in July. The FSC may sign a supervisory memorandum of understanding with its Mongolian counterpart during the trip for trading on an emerging stock board, a market with less strict regulations than the over-the-counter market, according to Tseng. The Mongolian authority has also shown interests in deposit insurance, he added.

Tseng said helping Mongolia improve its capital markets could showcase the international credentials of Taiwan's capital market.

Source: Focus Taiwan

ECONOMY

CHINA, MONGOLIA EYE \$10BN TRADE BY 2020

China and Mongolia agreed on 21 August to work toward lifting bilateral trade to USD 10 billion by 2020.

Two-way trade between

China and Mongolia stood at USD 324 million in 2002, but the yearly volume rocketed to nearly USD 6 billion in 2013, accounting for more than half of Mongolia's total foreign trade.

China has been Mongolia's largest trading partner and largest source of foreign investment over the past 10 plus years.

Source: People's Daily Online

CHINA STATE VISIT TO MONGOLIA SEES RAFT OF RAIL, RESOURCE DEALS

China and Mongolia have signed 26 new deals on railroads, mining and power generation during Chinese President Xi Jinping's state visit that began last Thursday, Mongolia's Ministry of Foreign Affairs said.

Xi's visit, the first by a Chinese head of state since Hu Jintao in 2003, could give rise to more than 30 deals, said Mongolian President Ts. Elbegdorj on Thursday evening during a joint press conference. The foreign affairs ministry and the Mongolian President's Press secretary both said there was

at present no available figure for the value of the deals.

"Assuming these projects move forward, these accords represent the most significant economic development since the Oyu Tolgoi agreement was signed [in 2009]," said Nick Cousyn, chief operating officer at Ulaanbaatar-based brokerage BDSec.

Four agreements were signed on Thursday for the development of Mongolia's rail network, with two still pending. Poor rail infrastructure has prevented Mongolia from capitalising fully on China's need for raw minerals, while at the same time its lack of access to sea ports makes it overly dependent on the Chinese market. Mongolia is keen to use China's rail network to deliver coal and other minerals to other Asia markets, and one of the deals will involve trans-shipment of resources to Chinese ports. Elbegdorj said he and Xi had also discussed the use of the Trans-Mongolian railway as a land route for trade between Asia and Europe.

The goal was to see the transport of 100 million ➤

- ▶ tonnes of cargo by rail to Europe by 2020, he said.

Source: Reuters

CHINA GRANTS CNY 1.3 BN (USD 212 MN) TO MONGOLIA'S MINING SECTOR

China gave a grant of CNY 1.3 billion (USD 211.6 million) for the development of Mongolia's mining sector, said mining officials during a press conference during Chinese President Xi Jinping's visit to China. Xi also signed an agreement for a USD 1 billion purchase agreement loan.

Source: Business-Mongolia.com

POLITICS

SOUTH KOREA, MONGOLIA VOW TO STRENGTHEN STRATEGIC PARTNERSHIP

Mongolia and South Korea's top diplomats established an official government channel to discuss trade, economic and other bilateral issues as part of efforts to strengthen their countries' strategic partnership, Seoul's foreign ministry said.

Foreign Minister Yun Byung-se arrived for a three-day visit to Mongolia starting on Monday. On Tuesday, he held talks with his Mongolian counterpart Luvsanvandan Bold, the South Korean

foreign ministry said in a news release. The two foreign ministers agreed to launch a ministerial-level consultative channel within this year, through which the two nations will closely discuss an array of bilateral issues, the ministry said.

Yun and Bold also shared the view that North Korea's denuclearization is the key to peace and stability in Northeast Asia and vowed to closely cooperate in curbing the North's nuclear weapons program, it added. "Yun expected Mongolia to play an active role in prodding the North into a course of reforms and liberalization, given Mongolia transferred itself into a country with democracy and the market economy," the ministry noted.

Yun also participated in an economic forum where he stressed the need to expand business cooperation between the two nations, the ministry said. To that goal, he suggested that the countries need to increase cooperation in the infrastructure area in order to beef up connectivity and expand cultural and other exchanges. South Korea is Mongolia's fourth-largest trade partner. As of 2013, two-way trade amounted to USD 427 million with Seoul's exports reaching USD 400 million.

Source: Korea Herald

CHINA PITCHES FOR CLOSER NEIGHBOURHOOD TIES FOR GROWTH, STABILITY

President Xi Jinping's two-day visit to Mongolia highlighted the importance China places on ties with neighbours and showcased the country's positive approach to neighbourhood diplomacy.

The short but fruitful tour, the second of its kind made by Xi this year, also represents a new strategy for foreign policy. China tops the world in terms of the number of neighbouring countries. It shares land borders with 14 other countries and maritime boundaries with six. Neighbourhood diplomacy is an important part of China's foreign policy and the country views its surrounding countries as a community that shares a common goal.

It is easy to understand why Chinese leaders have proposed a series of strategic concepts aimed at promoting regional prosperity and development. These include the Silk Road Economic Belt with Central Asian countries, a Shanghai Cooperation Organization (SCO) development bank, and a 21st-century maritime Silk Road with Southeast Asian countries. The country also called for concerted efforts with the Association of Southeast Asian Nations

(ASEAN) to build a China-ASEAN community.

Mongolia is the seventh country at China's doorstep Xi had visited after he took office as the Chinese President in 2013. Already, the play-well-with-neighbors approach has seen him in Russia, Kazakhstan, Tajikistan, Indonesia, Malaysia, and South Korea. Economic cooperation constitutes a major theme of these visits.

But there is more to China's neighbourhood diplomacy than just economic cooperation. China established strategic partnerships with Turkmenistan and Kyrgyzstan last year, and upgraded bilateral ties with Indonesia and Malaysia to comprehensive strategic partnerships. The recent visit to Ulaanbaatar also saw Xi and his Mongolian counterpart Ts. Elbegdorj sign a joint declaration to upgrade bilateral ties to a comprehensive strategic partnership, signaling a higher level of political trust between the two sides. Greater emphasis was put on the security front as well. China is devoted to building a closer neighbourhood of growth and stability which is conducive to regional development and peace. ■

Source: CNTV