

For green development

MONGOLIAN ECONOMY

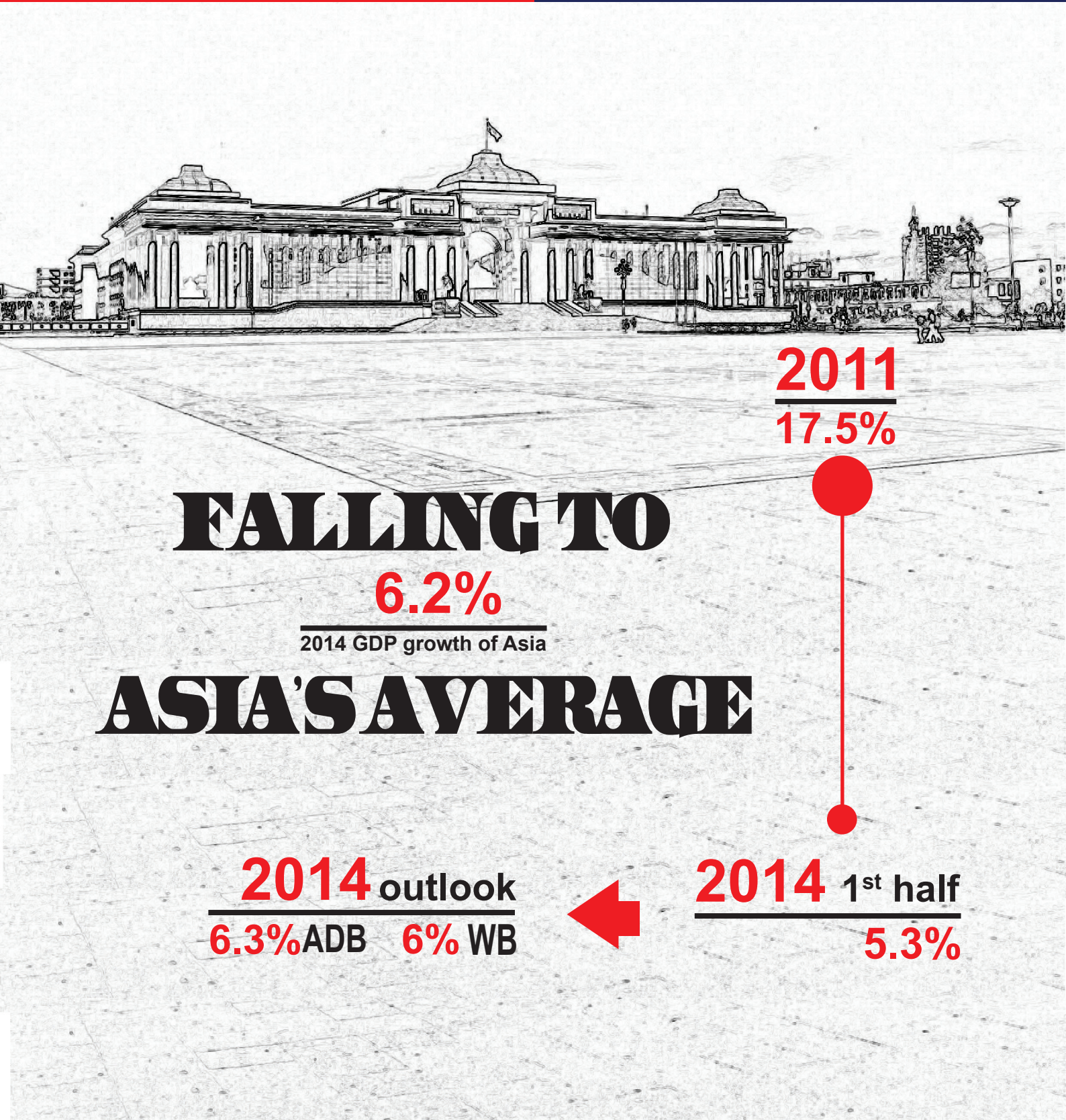
OCTOBER, 2014, ISSUE №17 (075)

ECONOMY
BUDGET OUTLOOK FOR 2015

INFRASTRUCTURE
END THE RAIL GAUGE DEBATE

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2011
17.5%

FALLING TO

6.2%

2014 GDP growth of Asia

ASIA'S AVERAGE

2014 outlook
6.3% ADB 6% WB



2014 1st half
5.3%





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MONGOLIAN ECONOMY

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EDITOR'S NOTE



Dear readers,

It's that time of the year again; Mongolians are busy preparing for the harsh winter cold, while chilly autumn winds sweep through the city. In the meantime, Mongolia's political arena is heating up.

The current government is in the process of making structural changes. Former controversial President N.Enkhbayar returned to Mongolia after spending much of his time in Korea receiving medical treatment and engaging in various activities. Events like these have been the talk of the town for the past month.

In this issue, you can read in detail about the forthcoming governmental change and its wide-ranging repercussions. Important policy measures for 2015, such as the budget draft and monetary policy, were supposed to be submitted for discussion in parliament--however the recent draft budget was withdrawn, given the impending structural change.

In addition to these turbulent political events, you can read analysis covering the latest updates from the World Bank and Asian Development Bank, and what the surprising figures mean for Mongolia.

DEPUTY EDITOR I. OTGONJARGAL

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The "Best Magazine of 2013" as awarded
by the Mongolian Journalists Association

CONTENTS

ECONOMY

8 Budget Outlook for 2015

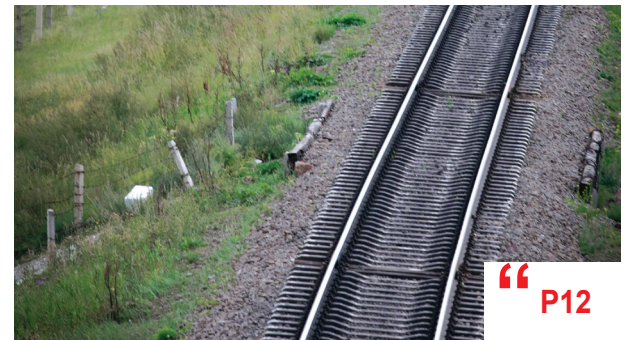


“ P8

9 Opportunity to Control Inflation

10 Government Restructuring

12 End The Rail Gauge Debate



“ P12

14 Expanding Online Content for Mongolians

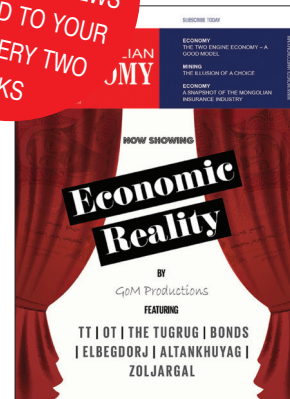


“ P14

16 Asia's Benchmark

17 Foreign Investment and Pragmatic Nationalism

18 Is Mongolia's Economic Road Going to be Bumpy?



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- Bileg store
- Grand Plaza supermarket
- Mir bookstore:
- Grand plaza
- Metro mall
- Sky supermarket
- Ulaanbaatar store
- Max mall

MONGOLIA

Green jobs



The United Nations Statistics Division has started the 'evaluating the transition to a green economy' project, in which Mongolia was chosen as one of four countries to be included from the Asia-Pacific region. The first of its kind in Mongolia, the experimental study was conducted by the National Statistical Office of Mongolia to define the concept of a green working environment. The study included 569,921 jobs, of which only 11.5 percent were labelled as green, covering 6.2 percent of total employment. One of the main goals of the policy is to support and grow green jobs and the green working environment, as part of Mongolia's participation in the UN Environment Programme's global 'Partnership for Action on Green Economy.'

Corruption

The 'Transparent Ulaanbaatar 2014: Anti-Corruption Forum,' organised by the Mayor's office and the Independent Authority Against Corruption in Mongolia, took place on the 6th and 7th of October 2014, with 250 representatives from 18 countries in attendance. Panel discussions tackled ways in which public and private institutions should increase accountability and transparency to reduce the systemic corruption that has plagued the city. The

event concluded with Mayor Bat-Uul's signing of the Ulaanbaatar Declaration Against Corruption.

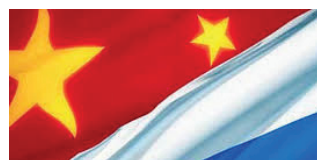
Investment

The fall session of parliament will discuss the approval of a law "Insuring Transparency in International Trade and Investment between Mongolia and the United States."

According to Speaker of Parliament Z. Enkhbold, the investment environment in Mongolia has improved, with more opportunities than



ever for investors. The 17th Conference of the North American and Mongolian Business Council took place on 7th and 8th of October 2014. The conference attendees said it was crucial for Mongolia to strengthen its third-neighbour policy, to avoid relying on its two



bordering neighbours as its main partners in international cooperation.

888 projects

An open call by the government in January for projects to enhance exports and replace imports enabled the approval of 56 projects out of 888 submitted. According to the Development Bank of Mongolia, financing has been released for the first

56 projects, which include 20 for food processing and agricultural products, 18 for garments and other light industries, 16 for construction material production, and 2 for pharmaceutical production.

Economy

The World Bank has released its biannual economic report on the East Asia and Pacific region. The updated report downgraded the economic projection for Mongolia by 3.2 percent to 6.3 percent, down significantly from the 9.5 percent growth calculated at the outset of 2014. The economy is expected to grow by only 6.2 percent in 2015 and 6.6 percent in 2016. The Asian Development Bank similarly released its annual report in October. 2014 GDP growth in Mongolia was projected to be 6.1 percent last year. This year growth reached 6.2 percent. The projections for next year show 6.4 percent. Growth in the first half of the year was triggered mainly by 16.3 percent growth in Mongolia's agricultural sector.

WORLD NEWS

Russia looks to China for growth

In the midst of imposed sanctions from the West, Russian Prime Minister Dmitry Medvedev met with Chinese Premier Li Keqiang in Moscow to increase bilateral trade between the two countries, which Medvedev said had already doubled over the past six years. Among the dozens of trade pacts to be signed, the most highly touted ahead of the meeting was a 30-year gas deal with Russian state-owned Gazprom, which would supply China with 38 billion

cubic meters of gas each year starting in 2019, at a total value estimated to be near USD 450 billion. As the conflict in the Ukraine and Russia's subsequent isolation has reduced economic growth to a paltry 0.2 percent for 2014, per IMF forecasts, Russia looks toward China and other eastern neighbours to avoid a long-term recession.

Singapore construction-debt crisis

Singapore's once-booming condo market nears crisis, as 80 property companies owe a combined USD 18.5 billion to be repaid within a year. Condo prices have fallen to the lowest in two years, while vacancy rates are the highest since 2006. Home prices are expected to drop further, as population growth slows and economic expansion cools. Although demand is weak, the supply of available residences remains high since record levels of construction in 2013. The government of Singapore has introduced measures to address the low interest rate environment and avoid a property price bubble. Construction in general fell 2.4 percent in the second quarter of 2014 and 2.7 percent in the third quarter, the largest drop since 2010, according to the Singapore Urban Redevelopment Authority and the Ministry of Trade and Industry.

Kazakhstan oil debacle

Kazakhstan's Kashagan oilfield in the northern waters of the Caspian Sea is one of the largest in the world, yet despite an already spent USD 43 billion—30 billion over budget—production remains suspended and nine years behind schedule. In addition, the Kazakhstan

government has approved expansion of a second oilfield, Tengiz, expected to cost another USD 40 billion. The oilfields are owned by state oil company KazMunayGas and a consortium of foreign companies including Exxon, Chevron, Lukoil, and Shell. The government has levied near USD 2 billion in fines and additional taxes against the consortiums for supposed breaches of environmental regulations, a small percentage of which has been paid, although the foreign firms and analysts argue the impositions will only reduce the field of potential investors. Kashagan oil production will remain suspended until at least 2016, say government officials.

Mongolia pledges UN peacekeepers

Mongolia has pledged a new round of peacekeeping troops to be made available to the UN for rapid deployment to conflict zones. In 2013 Mongolia contributed 937 peacekeepers to operations, according to UN statistics. Mongolian peacekeepers have had a significant presence for several years in South Sudan.

Mongolia among top 10 in inflation

According to October forecasts released by The Economist Intelligence Unit, Mongolia sits at number 10 in the world among countries with the highest consumer price inflation. Mongolia's 13 percent inflation is slightly down from the 14.9 percent recorded in July, according to statistics from the Central Bank of Mongolia. Mongolia's inflation is the highest in Asia outside of the Middle East. Venezuela remains number one in the world, with nearly 65 percent inflation.



MONGOLIA THE LATEST ON TWITTER

Politics SouthAfrica @PoliticsZA Oct 5

#Liberia and #Mongolia are the 2 most corrupt countries in the world - 86% of residents believe corruption in the public sector is a problem

If Mongolia is to advance beyond its culture of corruption, then it must start today to impart faith in government to the next generation.

IRI @IRIglobal Oct 7

Great @Asia_Foundation piece looking at the #TransparentUB2014 forum <http://bit.ly/1skPdjl> #Mongolia

Quotes from the Transparent Ulaanbaatar 2014: Anti-Corruption forum:

"In Mongolia, however, corruption is so common that it has become a kind of social norm. In the end, it makes the state turn against the interests of the public. The state becomes the enemy of its own people. It ruins the main principles of democracy."-E. Bat-Uul, Mayor of Ulaanbaatar

"The Transparent Ulaanbaatar 2014 forum will help to consolidate considerable gains in addressing the damaging impact of corruption and strengthening Ulaanbaatar's and Mongolia's democratic processes."-Ambassador Mark Green, IRI President

Julian Dierkes @jdierkes Oct 7

K Priestly (of @TurquoiseHillRe) is 100 on list of Canada's highest-paid CEOs \$1.8mio (4th highest woman) <http://fw.to/A02NeyT> #Mongolia

Canadian mining company Turquoise Hill Resources, formerly Ivanhoe Mines, whose majority shareholder is Rio Tinto, is responsible principally for the Oyu Tolgoi project.

The EIU @TheEIU Sep 30

#Mongolia expected to hit 8% growth in 2015 on the back of new #mining investments and increased exports <http://bit.ly/1oQcDeB>

Missing from the tweet is the caveat: "...but only after an economic crisis in late 2014 or early 2015 forces substantial policy adjustments." Although the Economist Intelligence Unit predicts a rise in GDP growth for 2015, it would only come about after an imminent economic crisis.

Mongol Er @Baatarnkhat 12 October 14 @Battumur: If a man sells small things he is a salesman. If he sells big things he is a businessman. If he sells his country he is a politician. #sosad

A survey conducted last April by the UN and the Mongolian Civil Education Centre revealed a vast majority of the 1,248 young people that responded said their trust in the government was faded. They added that they felt their influence on government policies relating to their rights was limited or minimal.

Alagshagai @alagshagai 06 October 14: I try to support domestic manufacturing and production. I ordered a pair of shoes from a shoe manufacturer. Made them too big. A bag. Wasn't what I wanted. So disappointing

The Ministry of Industry and Agriculture first implemented the 'Developing manufacturing in Mongolia' project last year. Small and medium-sized enterprises that participated in the first phase of the project were later involved in a second phase to improve and stabilise their production, with the aim to create Mongolian brands that could compete on the international market. Mongolian and international consumers are alike in that they want brands that produce quality manufactured products. Satisfy domestic demand for quality first, and international marketability will follow.



Photo by B. Byamba-Ochir

BUDGET

BUDGET OUTLOOK FOR 2015

BY BAYARTOGTOKH

With imminent government restructuring, Mongolia's leaders soon will have much-needed discussions concerning the budget for 2015. In the first eight months of 2014, the budget deficit reached MNT 623.8 billion; by the end of this year, MNT 130 billion will be added. This means Mongolia faces a budget deficit to the tune of MNT 750 billion.

"The budget deficit looks quite high. Mongolia must cut its unnecessary expenditures and turn into savings' mode." World Bank Senior Economist Taehyun Lee said in a report on Mongolia.

Administration expenses will not increase, stated the budget proposal, limiting certain expenditures such as

government expenses. The Minister of Finance, Ch. Ulaan, stressed that all unprofitable expenses must be eliminated in 2015. As a consequence, no investment will be made for new schools, kindergartens or hospital buildings as the budget proposal also did not include the previously halted construction budget—worth MNT 420 billion.

Investment in social welfare, however, will increase. The budget will reserve MNT 500 billion for increasing salaries, pensions and human development allowances. This is 2.5 times such provisions in last year's budget.

"With the government restructuring, the current government must recall its previous budget proposal and present a new one. The current proposed budget is not sufficient to finance the

increasing salaries, or allowances for pensioners and disabled peoples," said D.Oyunkhorol, vice director of the Mongolia People's Party in Parliament. The Minister of Finance disagreed, however, saying allowances were just enough and need not be increased.

Budget income is to increase by MNT 900 billion for 2015, while expenditure is to expand by more than MNT 1 trillion. GDP growth is estimated at 7.1 percent. The budget's balanced income equaled 29.8 percent in 2014, and is poised to increase to 35.8 percent of the GDP.

Government debt this year reached MNT 22 billion, raising total debt to 70 percent of GDP, according to the Ministry of Finance. The Budget Stability Law of 2011 stated that government debt must not exceed 40 percent of GDP. As the current debt level is breaking the law, ▶▶

- ▶ Parliament members are rumoured to present a draft to the law to expand debt limits to 90 percent.

Budget income next year will reach MNT 7.2 trillion, while expenditure is expected to be MNT 8.4 trillion. This includes financial resources from the Chinggis Bond and investments from the Development Bank of Mongolia.

A total of MNT 828 billion will be devoted to domestic investment expenditure. Although investments from the budget decreased, certain investments from bonds will continue. Sources from the Chinggis Bond and the Development Bank of Mongolia said subsidised loans will increase, leading to a rise in domestic investment, said the Minister of Finance.

“The budget deficit looks quite high. Mongolia must cut its unnecessary expenditures and turn into savings’ mode,” says World Bank Senior Economist Taehyun Lee.

Mining will contribute MNT 1.7 trillion to budget income. Coal exports are estimated at 20 million tonnes. According to the Ministry of Finance, a tonne of coal will be sold at USD 80-130. Although the plan was to export 31.4 million tonnes of coal this year, Mongolia has managed to export only 12.2 million to China. At Chinese sea ports, washed coal costs USD 120 per tonne. Currently, Mongolia is selling its raw coal for USD 35 per tonne.

Despite positive projections for the country’s mining industry, Mongolia’s budget will need to be tightened to alleviate increasing inflation concerns. Curbing unnecessary spending will help lower the country’s budget deficit and help positively position the country during its formative years. ■

MONETARY POLICY

OPPORTUNITY TO CONTROL INFLATION

BY TOGTOKH

The Central Bank of Mongolia has vowed to fight inflation according to a new report ‘General Directions for the Government’s Monetary Policy in 2015’. Although the increasing inflation rate seems to be unstoppable, the new monetary action is to bring inflation—now at 13 percent—down to a maximum of 7 percent. According to the Central Bank, the inflation rate was 8 percent in 2013.

Unfortunately, if inflation continues to rise at its current speed, it could reach 14 percent by the end of 2014. The Central Bank’s own estimation shows inflation reaching up to 12 percent—0.9 percent lower than the current rate. Experts from Mandal General Insurance estimate inflation could fluctuate between 13 to 17.5 percent before the end of 2014.

A decade of struggle

The Central Bank stated in its new policy that it would cut inflation by nearly half its current rate. Yet the Central Bank has struggled to rein in inflation over the past decade, achieving no major successes and few positive results.

The foreign exchange flow to Mongolia has fallen recently. According to official numbers, foreign reserves decreased by 40 percent in 2014 from the previous year, reaching USD 1.3 billion. This would supply 12.1 weeks of imports in foreign currencies—whereas the economic average should be at least six months. For this reason, the Central Bank intends to avoid an expansion of cash supply, another tightening measure in the new monetary policy. This means that next year the Central Bank will withdraw from participation in the Price

Stabilisation Programme, which has increased currency circulation over the last two years to stabilise commodity prices. Furthermore, it will slowly minimize its participation in five other stabilisation sub-programmes, cutting loans step by step. However, the bank will continue its participation in the 8 percent mortgage housing programme.

Troubles in the balance of payments have continued throughout the past year and a half, as the total payment balance slid into a deficit of USD 2.8 billion, equal to 23 percent of Mongolia’s GDP. In addition, as of the first eight months of 2014, foreign direct investment (FDI) dropped to only 8 percent of GDP. FDI that once equaled 40 percent of Mongolia’s GDP dropped by about 70 percent in 2014. ▶



▸ Losing trust

Mongolia's downgraded international credit and delays in big domestic projects have brought about negative consequences, which have been exacerbated by a monetary policy whose current framework has done little but spur doubt in the minds of the people. The public has lost its trust in the Central Bank's monetary policy, reported the 2014 'Consumers' Confidence Index,' an annual study from the National University of Mongolia. "If the Central Bank does not present and implement a realistic goal, the chance to control inflation would become risky," the study said.

With its introduction of the monetary policy for 2015, the Central Bank has made its first move to fight inflation. The main aim is to ensure economic balance and keep the inflation at a low, stable level. In addition, strengthening financial stability and creating a mid- and long-term stable environment are a priority.

Tough road ahead

The Central Bank may not receive as much support as it needs from the government. "Salaries, pensions and social welfare will be increase by 2.5 times," said Ch. Ulaan, Minister of Finance. If so, it would be even harder to bring inflation down to single digits. Apart from fighting high inflation, the Central Bank must keep unemployment rate as low as possible. A limited focus on inflation could have expensive consequences.

For the Central Bank of Mongolia, next year is the year to stabilise the economy. The Central Bank will face a rough patch, and a difficult task from parliament to proceed smoothly with the least expenditure. In addition, if export prices and FDI don't increase, and second stage financing of the Oyu Tolgoi project does not resume, monetary policy will hit a dead end. Despite the proposed 2015 report to the contrary, a sustained reduction in the inflation rate down to 7 percent or less may be harder to achieve in reality than it seems on paper. ■

POLITICS

GOVERNMENT RESTRUCTURING

BY S. AZ

Parliament discussions on government restructuring have concluded. After operating for years with 16 ministries—a situation highly criticised by opposition to the current reform government, as its big structure, high expenditures, and inefficiencies burdened the economy—there are to be 13 Ministries, 11 regulating agencies, and 19 implementing agencies. Prime Minister, N. Altankhuyag conceded to the opposition and called for a reduced yet more integrated structure. If the restructuring is approved, the Ministry of Energy and the Ministry of Mining will be called the Ministry of Mining and Energy, while the construction and urban development, road and transportation sectors will be combined into a Ministry

of Road, Transportation, Construction and Urban Development. The Ministry of Economic Development would merge with the Ministry of Finance.

Appointments will be issued as soon as the law is passed. Double assignments will be terminated, said the Prime Minister. He proposed to have two Deputy Ministers. If so, the current Deputy Minister will be named the Premier Deputy Minister. The suggestion to affiliate the Ministry of Foreign Relations to the new Deputy Minister was not approved. If restructuring is passed, the ministry is to be called the Ministry of Foreign Relations and Economic Cooperation.

Commenting on restructuring in the energy and mining sectors, D. Erdenebat, Head of the Democratic ▸



Party group in Parliament, said “Although the Ministry of Energy and the Ministry of Mining are big implementers of big projects, their disjointedness has caused tenders to delay. Decisions to connect mines to electricity might not proceed the way it should. Thus, merging these Ministries is a good solution.” The opposition Mongolian People’s Party, meanwhile, demands the Finance Minister and the Minister of Economic Development to step down. The party has levied heavy criticism against the State Budget, the decision to entrust investment to the Ministry of Economic Development, and the dispensing of the Chinggis and Samurai bonds.

“Although the Ministry of Energy and the Ministry of Mining are big implementers of big projects, their disjointedness has caused tenders to delay. Decisions to connect mines to electricity might not proceed the way it should. Thus, merging these Ministries is a good solution.”

to combine the Ministry of Labour and the Ministry of Social Security as one. They suggested that the State policy to protect and develop its citizens should be taken as a whole in order to better employ, educate and allocate pensions and allowances. However, the Prime Minister said, “Although social welfare issues can be considered as a whole, the ministries should be separate. The Ministry of Labour was originally established with the intention to implement the ‘Employed Mongolian

with Steady Income’ programme, initiated by the Reform government. There is also the need to continue to have the Ministry of Culture, Sport and Tourism, because a country must protect its culture and tradition by having the necessary policies made by the associated Ministry.”

The restructured government will operate with 13 Ministries and 14 Ministers, who are yet to be appointed. ■



For this reason, they insist that investment and finance related issues should be considered as one. The Prime Minister ultimately conceded to joining the Ministry of Economic Development and the Ministry of Finance under one roof.

During discussions on restructuring, suggestions were made to attach culture to the Ministry of Education and Science, sports to the Ministry of Health, and tourism to the Ministry of Environment and Green Development. This would suggest disbanding the Ministry of Culture, Sport and Tourism, a motion which was not approved. Mongolian People’s Party affiliates in parliament and the Board of Independent Parliament Members likewise sought



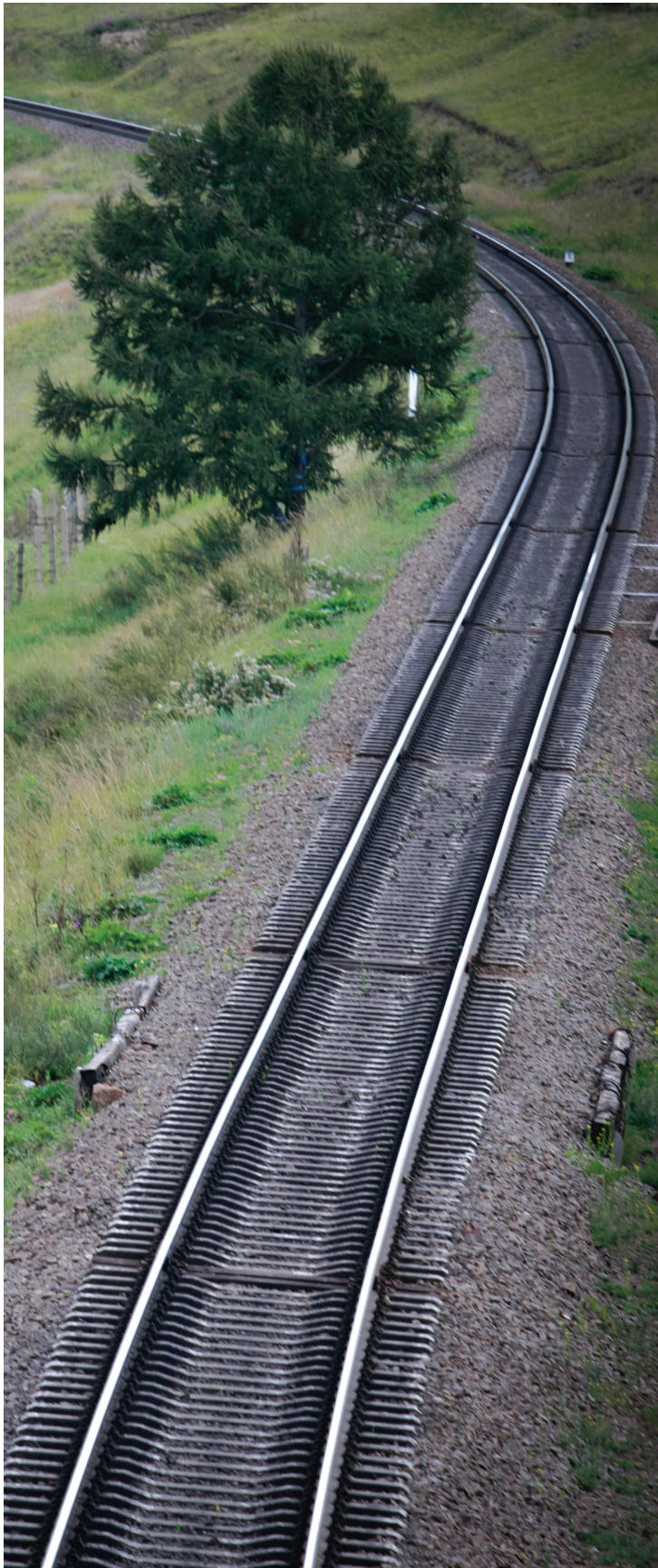


Photo by B. Byamba-Ochir

INFRASTRUCTURE

END THE RAIL GAUGE DEBATE

BY S.ZAYA

For eight years, Mongolia has debated which gauge the rail transport system should adapt—Russian or Chinese, a difference of 85 millimeters. During recent visits to Mongolia, both Russian President Vladimir Putin and Chinese President Xi Jinping advised officials to make an immediate decision on the rail gauge.

Way back in 2010, parliament passed its rail transport policy: 1,800 kilometers to be constructed immediately, and up to a total of 5,600 kilometers in the coming future. Apart from 225 kilometres of railway construction underway between Ukhaakhudag and Gashuunsukhait on the Chinese border, little has been done since. The decision to use two different types of gauge—the Chinese narrow gauge for Tavantolgoi-Ganshuunsukhait, Sainshand-Zamiin Uud and Khuut-Bichigt, and the Russian broad gauge, covering 550 kilometers, for Tavantolgoi-Sainshand, Khuut-Choibalsan-Numrug, and Erdenet-Mogoin Gol at the Russian border—has sparked heated debate.

A speedy end to the rail gauge debate will bring about far-reaching economic benefits—dramatically increased commodity exports, increased exit points to Russia and China, and lucrative expansion of exports to third neighbours through direct access to an already-agreed-to seaport in China.

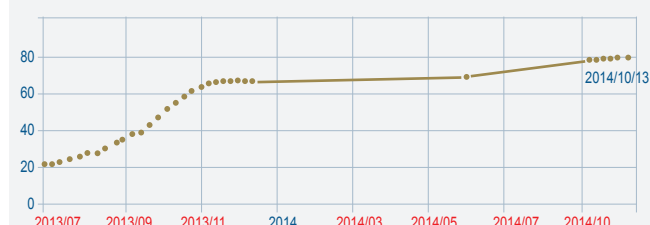
Mongolia has lost its way

Mongolia is increasingly dependent on commodity exports like coal. The Prime Minister, during a visit to China in 2013, signed a deal to export 50 million tonnes of coal, a contract worth billions. Thus far in 2014, only 12 million tonnes of coal have been exported ▶

1 Expenses to build 1 kilometer of rail (USD/million)

MONGOLIA	////////////////////	2.5-3.2
AUSTRALIA	////////////////////	3-4
INDONESIA	////////////////////	3-4
LIBYA	////////////////////	4.7
NIGER	////////////////////	4.3

2 Construction process Ukhaakhudag-Gashuunsukhait railway



► to China. What's the holdup? The preferred method is by rail, which can transport 10,000 tonnes. The current method of delivery is by truck, which carries 140 tonnes of coal. The lack of rail transport is keeping a vast windfall of cash out of Mongolia's pocket.

"We have to settle our domestic matters urgently. Mongolia has lost its way in the railway sector. So the railway transportation policy must be cleared up as soon as possible," said G. Bayarsaikhan, Member of Parliament and Head of the Standing Committee for the Environment and Agriculture.

As of 6th October, 2014, the 225 kilometers of rail from Ukhaakhudag to Gashuunsukhait are close to 80 percent completion. When completed in 2015, Mongolia's total rail capacity will reach 30 million tonnes, rising to 67 million tonnes in 2016. Total rail currently extends to 1,905 kilometres, of which 1,807 kilometres are owned by the joint Mongolian-Russian Ulaanbaatar Railway Company. The company employs 15,000 people. According to the state-owned Mongolia Railway Company, a commissioning of railways in the east would offer new jobs for as many as the aforementioned.

Third neighbours

Coal demand is projected to increase in Japan and Korea by 2020 to 40 million and 15 million tonnes respectively, according to the Mongolian Railway Company, which insists these demands can be supplied by Mongolia.

To link the rail network to domestic sites and the rest of the world, Mongolia will need to construct 5,600 km of rail. The first stage of 1,800 km construction will connect Tavan Tolgoi mines, through Tsagaan Suvarga cooper mine to the

Sainshand Industrial Complex. Two exits to China are planned, one at Gashuunsukhait and the other at Bichigt. The exits correspond with regions in China where coal shortages mostly occur. Hebei province in China will face a shortage of 85 million tonnes of coal by 2020, while Liaoning province 30 million tonnes, according to the Mongolian Railway Company. Despite debate over whether to export through Gashuunsukhait or Bichigt to reach Hebei and Liaoning provinces, exits to China mean more than increased access to Mongolia's southern neighbour.

"The President of China, Xi Jinping, signed various agreements during his visit to Mongolia last August. One of them was to make Mongolia a country with a sea exit," said G. Bayarsaikhan.

A sea exit would allow Mongolia access to third-market demands. According to the Ministry of Road and Transportation, Mongolia could deliver mining products to Japan and Korea, where the steel and coking coal demand is still high.

Financing the rail projects

Preliminary estimates suggest approximately USD 5.2 billion is needed to build the initial 1,800 km of rail—far more than Mongolia's State budget can handle alone.

Both domestic and foreign investment will be needed to complete the projects. Mongolia announced an open tender, where 20 companies from 12 countries have sent their proposals. The Ministry of Road and Transportation estimates to attract 60 percent of total expenses from investors, whose investments are expected to return in just over 9 years.

Samsung Corporation is currently in charge of constructing the 225 km of railway between Ukhaakhudag and

Gashuunsukhait. Once completed in 2015, the new rail would enable transportation of commodities from Tavan Tolgoi and Oyu Tolgoi to China. The completed rail transport will kick-start a significant boom for the economy—a boom that should continue as the rail network sees further development.

Mongolian Railway Company associates said, "It is not important which gauge is favoured by the government. The most important thing is that the rail policy must be stable. Frequent changes cause certain damages in the project implementation. Rail is cost effective. Thus construction needs to proceed."

And so the argument continues over which gauge Mongolia should use. Time passes and coal demand in China, Korea and Japan is filled by other countries, despite Mongolia's ample supply. ■

- 55th Resolution from the State Property Committee on 28 February 2013 approved establishing of a 'New Railway Company' and its rules.
- A working group—established by the Prime Minister's 65th ordinance of 2012—must gather 49 percent of total investment from domestic and international investors.
- A memorandum was signed between China's state owned Shenhua Group Corporation, Mongolia's state-owned Erdenes Tavan Tolgoi, Energy Resource LLC and Tavan Tolgoi to cooperate with the state-owned Mongolian Railway Company
- Experts from the Ministry of Road and Transportation approved the first sketch plans provided by the Samsung C&T Company. The rest is in progress.

INTERVIEW

EXPANDING ONLINE CONTENT FOR MONGOLIANS

BY D. BEKHEE

Former parliament member D.Enkhbat—also known as Mongolia's 'godfather of the internet'—was the founder and CEO of Datacom, the first internet service provider to bring internet to the general population of Mongolia in the 1990s. In 2012, he declined an opportunity to stay in parliament, believing that the best way to affect positive change in Mongolia was through an ongoing campaign to expand online knowledge access into every Mongolian household. He is a current board member of the Open Knowledge and Open Education Fund, which is pioneering a network of online educational content for Mongolians of all ages. As the majority of online content is accessible only to English speakers, D. Enkhbat hopes to translate a wide variety of content into Mongolian, to add a new dimension to every Mongolian's opportunity to learn.



How many Twitter followers do you have now?

Over 60,000.

How well is social media developing in Mongolia?

Very well. We have developed here to the point where we now underrate Facebook. Now it's time for us to move on to the next stage of internet development.

What direction should Mongolia's development go in the internet era and Information Age?

The development engine of the country is the skilled working force. The development of Mongolia is rated by its citizens' mind capacity. Foreigners see us in two ways—'Mine-golia' on the one hand, 'Mind-golia' on the other. Mining

growth and mind capacity growth. How can we turn growth into development? We can compete internationally only when our three million Mongolians learn continuously for all their life to improve their skills, professionalism, and acquire high technologies, while keeping up the era's innovations. This country should be a nation with a culture of knowledge. We don't have the chance to educate people in their 40s, 50s or 60s with the current system. But the worldwide contemporary education system creates a condition where 7-year-old kids to 70-year-old seniors can learn.

How can we build a continuously learning nation?

There are two ways. One is to join the world culture, the wave of open knowledge and information that has spread worldwide. 70 percent of all

software currently active in use is free. Thousands of people have been working and distributing to let others use them free. Many academics and scholars have gotten together to develop secondary school books, which are then made public to be used for free. There are books, scripts and movies. Some are not completely free, but are distributed through exchange. I am starting one project for Mongolians. I am going to hand out 50 training and operational videos to companies starting out in business. The company will take 49 movies in exchange for sponsoring one movie. 100 percent free knowledge, minus the price of one video. This is polite and open exchange based on partnership. The biggest example in the world of such a partnership and exchange is Wikipedia. If 80,000 people do Wikipedia, on the other side six billion ▶▶

▶ people read and use it for free. This is the foremost successful project of its kind in the world. Mongolians need to take part in this open culture.

There is also a second big model that can be installed in Mongolia. The world is functioning under an 'everybody give and take' principle. So now, how can we make that happen in Mongolia—joining together open knowledge and the education system—in terms of intelligence, technology, management, finance, the legal environment and international partnerships?

Is that the reason you established the Open Knowledge and Education Fund?

Yes, the main reason is that the integrated system for funding this work must be developed. We don't have an ownership form for partnering. Mongolia is working to create this kind of open ownership form. We have recently registered our fund. Although there are many problems in Mongolia, our fund is a good example of getting together to work hand in hand with government. Parliament approved our programme and designated it a government-sponsored programme for 15 years. Though a related law has not been passed, the state approved the programme and its financing. The programme involves King Academy, which has 4,000 videos that are all free. These are 15-minute videos of lessons in all subjects such as math and physics, and they are all in English. They are free to every kid in the world. Our fund signed a contract with this academy and obtained a license to translate them into Mongolian. Through the Ministry of Education, we have had support from select parliament members, and have the financing verified for an initial 1,000 movies to be translated.

I have heard about the development of Wikipedia Mongolia. Tell me about it.

We are working on the Wikipedia project designated to cataloguing Mongolian history, language, and culture. And we have made deal with Google to bring all services and software to Mongolian youth through a partnership. Furthermore, there are many more big works that we have already started and are on the way.

What is your vision of Mongolia's future online?

At the first stage of internet development, we needed to introduce and deliver the internet to all citizens. Now at this point we are starting the second phase of introducing Mongolians to the internet, which is delivering content and knowledge. Within 10 years, Mongolians will be supplied with 24-hour access to all online schools and online training. In other words, we are creating a wide-open, online Narantuul-style flea market. There is high demand for internet content. Mongolian youth need English, companies need computer skills. University students need different kinds of subjects, lectures and rehearsals, while both public servants and private companies need knowledge and advice. Modern people must be learning continuously. The four-year university can complement this need, possibly through an online education system. Other countries have already made a transition to this development. We are testing it in many different ways. The state needs to support this second phase of internet development that gives Mongolians better access to knowledge. After a while, the state's help won't be necessary. But in starting, activating and developing, we need the state to step in for support. The state should spend tax payer's money on what is most vital to its three million people.

Do policymakers understand you?

Politicians are supporting us because they do understand its importance now. This is not an issue to politicise, but an affair to work on together with great support. We need to have this mindset that we Mongolians must feed ourselves through knowledge. In order to make it happen, a person will face the need to recharge the battery or their brain all the time. But this environment where you can make changes and choices needs to be accessible to all. The problem today is that so much research and so many studies need to be done. Currently, the project is just at its starting point; some deals are signed with international partners, but much more needs to be done.

Are you out of politics completely? Or are you still member of the Green Party?

I had a choice: get reelected as a parliament member or move on and do a different thing. But I understood that Mongolia's problem is not in politics but in its way of thinking. Advancing the domestic development of the internet is a much more significant and wide-reaching cause than taking a seat in parliament. I have made this choice because this will reform Mongolian culture. Now, I do not belong to any party.

Recently, there has been a lot of talk about the development and formation of political parties. Is this happening because the development of the country depends on these political parties?

Everything in the country has changed since 1990—except political parties, which have stayed the same as they were before. We have kept an outdated mechanism at the national level, in which vital issues go through political parties. And these parties are all very primitive. Whoever is more aggressive, richer, or talks more is the winner of any debate. Thus, Mongolian politics needs to transition out of emotional decision-making to responsible institutional decision-making. There were some years in the past when politics needed emotion. But today, we need to get rid of outdated methods, and move on to a high technology, science, knowledge and skilled workforce-based era. We need to tackle issues in healthier ways rather than talk about if they are democratic or not every four year election cycle. Those in charge should stop running the country with politics.

How would you grade the performance of current Prime Minister Altankhuyag's government?

I want to say that they did not use a very big opportunity. So much money came from mining when Mongolia had quite a good reputation. But they could not absorb it, and our reputation has been harmed. So, if what they've done is not enough, and they haven't received good marks on what they have managed to accomplish, then it's better to let them go. ■



NEIGHBOR

ASIA'S BENCHMARK

BY B. BAYAR

China's economic prospects

There is a high chance that Chinese GDP growth will fall given current domestic risks, according to international analysts. Chinese domestic investment has deteriorated as its real-estate market loses steam, and an increase in non-performing loans in the banking sector is negatively affecting foreign trade and commodities prices. In addition, coal prices are expected to drop, as changes are made to China's environmental policy.

China's growth is projected to slow to 4.8 percent this year, while accelerating slightly to 5.3 percent in 2015. The economy, which saw 7.5 percent growth in the second quarter, is expected to see lower growth figures at the end of this year.

To combat low growth, Mongolia's influential southern neighbour aims to free financial markets step by step while cutting unnecessary spending and increasing investment yields. Chinese officials likewise seek to change the country's economic structure by promoting domestic consumption rather than supporting exports.

A focus on domestic consumption compounded by weaker demand from the US and Europe for Chinese goods has resulted in slower production growth. For a producer country, export downfall is followed by huge risks—yet 10 percent import growth indicates an increase in local demand, which can soften export pressures.

The Chinese government is also taking a strong stand on curbing loan growth this year. This gives room to decrease demand and to limit inflation to a low rate. In a counter-analysis of the situation, celebrity economist Larry Lang Xianping states that it is impossible for China to have inflation triggered by strong demand, because average hourly

pay is only USD 0.8, the lowest in the world. With such low wages, inflation caused by significant demand should never be a worry for China. What does worry many is that even a slight rise in inflation means that the wages of the world's lowest paid workforce are worth even less than before.

Although the National People's Congress of the PRC has already acknowledged growth to be lower than the 7.5 projected earlier in the year by international analysts, Chinese leaders remain unfazed, as they anticipate success in Real GDP growth.

China's GDP has averaged 10 percent growth per year over the past decade because of infrastructure spending and intensified production. Steel and concrete have been the main factors contributing to GDP. Steel and concrete consumption was 57 percent of GDP in 2008, rising to 67 percent in 2009. The Chinese economy—predicted to overtake America's economy in seven years—has always used infrastructure development as the main driver of its remarkable economic growth.

Relying on the Chinese economy

"The [Asian] region which saw 7.2 percent of growth last year is expected to experience a slightly lower growth rate of 6.9 percent for this year," said Sudhir Shetty, Chief Economist of the World Bank's East Asia and Pacific Region. This is unfortunate news for Mongolia, which is targeting 20 million tonnes of coal in exports to China, and is hoping for a commodity-hungry neighbor. In tandem with China's shrinkage, Mongolian economic growth is expected to decrease, as long as its growth relies so heavily on its neighbour.

China's economy is 860 times bigger than Mongolia's. China has averaged 9.9 percent growth for the past 30 years,

and has a foreign currency reserve equal to USD 3 trillion. According to the World Bank, the Chinese economy will see a small drop in terms of growth rate, but experience no serious economic difficulties. China appears on track to meet the Asian Development Bank 2014 growth forecasts of 7.5 percent in 2014 and 7.4 percent in 2015, while Mongolian growth is expected to rise to 6.3 percent, according to World Bank economists.

Yet there are those who worry that if China's economic growth falls under eight percent, the country will suffer a deep economic and social crisis. "Economic and industrial growth feeds confidence and the belief that the population will keep their jobs and homes in the future. If this growth slows down, they will lose faith in their country, and administrative or structural change may become a necessity," said, B. Ariunzul, Researcher at the National Security Council of Mongolia.

Chinese President Xi Jinping is considered a savior of the people. His experience and success are often touted by the Chinese. He raised the local economy by 14 percent when he was mayor of Zhejiang province. And after 30 years of Chinese reform and growth, he sits atop a colossal domain of economic experience and success, in a position where he can now spearhead new initiatives to help the people.

Currently, one third of the population, mostly farmers, live below the living standard with a minimum income. At such low wages, they are seen as incapable of increasing their consumption. But China—which uses only 35 percent of what they produce locally—wants to increase this to 50 percent over the next 10 years. What kind of effect this has on its neighbouring countries will be revealed over time. Developing strategies in line with China's may see more positive outcomes for countries like Mongolia that are reliant on the world's second largest economy. ■



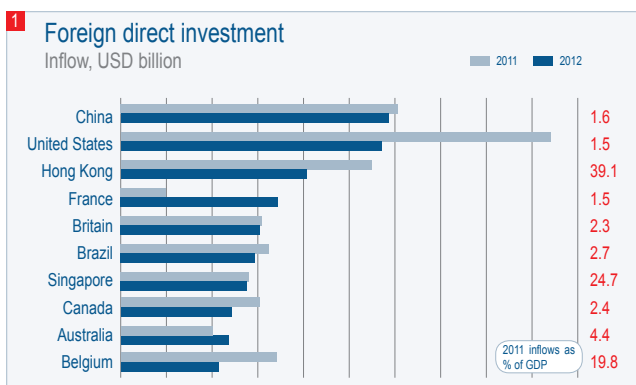
By Mendsaikhan Enkhsaikhan, Former Prime Minister of Mongolia and the Head of the Mongolian National Democratic Party.

PRESENTATION

FOREIGN INVESTMENT AND PRAGMATIC NATIONALISM

Why foreign direct investment?

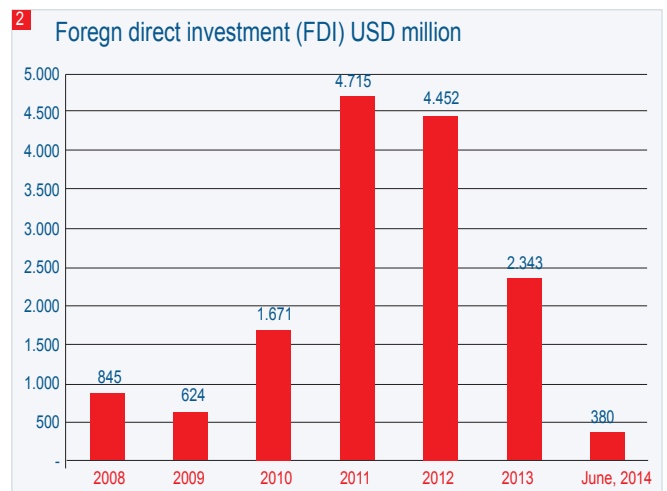
Countries try their best to attract foreign investment. The US and China are leading successes in this field. Today, more than a trillion dollars circulates the globe under the name foreign direct investment (FDI), with developing countries attracting about 50 percent of the total share. It's no secret that the more investment a country takes, the further its development can go. FDI has played a crucial role in China's economic development over recent decades. And as FDI transfers the risk to the investors' shoulders, it doesn't leave domestic debts, making it a better financial solution than bonds.



Sources: UNCTAD; IMF

Foreign investment and Mongolia

The latest and most crushing blow to the economy of Mongolia was a sharp decrease in FDI.



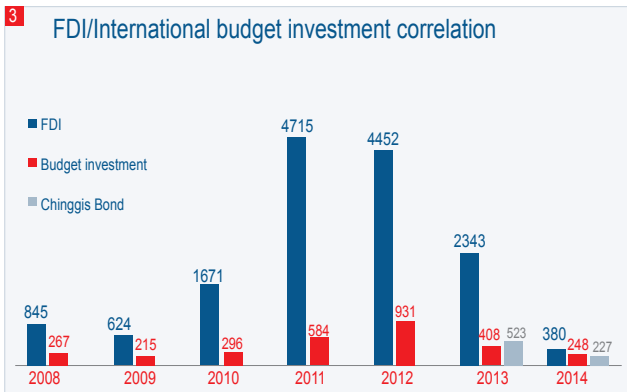
Foreign and domestic investment

It is important to understand the correlation between domestic and foreign investment. The rise and fall of foreign investment affects the increase and decrease of domestic investment. Taxation from foreign investors makes domestic investment possible. If FDI decreases, domestic investment will drop as well. The draft budget of 2015 shows no signs of foreign investment. Yet no matter how hard politicians try, money does not grow on trees. The future won't look bright, unless FDI is attracted. Although the Chinggis Bond helped the economy in 2013 and 2014, there is the question of whether the projects the bond financed are able to ever turn a profit.

Political ideology

Mongolian politicians are no different than regular people. Their every opinion is laced with three psychological dimensions: polarisation, the free market, and pragmatic nationalism. In order to distinguish which is which, let me give you a brief definition of these three perceptions:

Polarisation: This perception can be divided into two ►►



negative sides. The first side opines that FDI is a form of exploitation and gives no profit—Marxism, you can say. There is no other way to explain this than as traditional communist psychology. This opinion does not reflect reality and is not based in fact or research. The second side argues that FDI is a tool to oppress and to colonize. They argue from a position of nationalism—in some forms it is populism. Populism also does not need facts or research.

Free market: People do what they do best and develop trade.

Not many countries support the idea—or so the traditional view goes.

Pragmatic nationalism: This perception believes FDI is profitable, but has its own type of costs. The idea is to cooperate with the foreign investors on both sides knowing the good and the bad. This perception might be too new for Mongolia. However, I would like to repeat that it is very different from nationalism.

An alternative conclusion



Wrong or right perceptions of important economic issues by politicians and those in the government will—for better or worse—define the future of Mongolia. Thoughtless words and actions will only cause fear and destroy trust between those with different cultures. Unfortunately, this is the current picture we see in Mongolia. ■

OPINION

IS MONGOLIA'S ECONOMIC ROAD GOING TO BE BUMPY?

BY PAUL MILLS

In a recent article on the mining-dependent Australian economy, writer Greg Jericho suggested a bumpy ride was in store as the Chinese economy continued to slow, because much of the output from Australian mines goes to China. This is especially the case for iron and coal exports, as lately the slowdown in China has seen iron ore prices decline quite a bit.

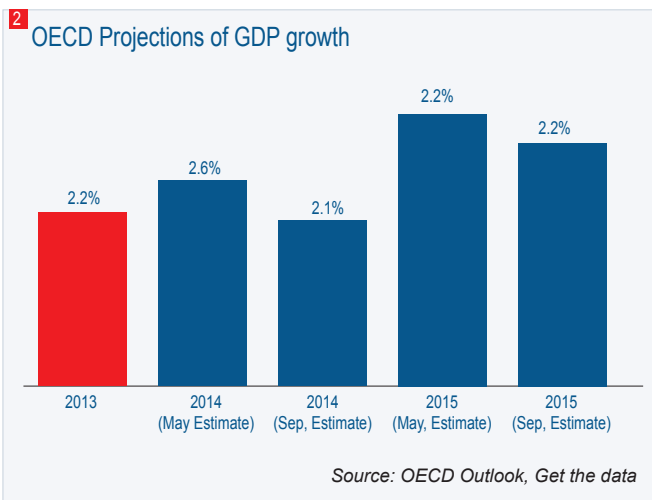
“The joy of the mining boom is over and China’s growth is waning. Now Australians must remind themselves of life in an economy where income growth and increased standards of living don’t come easy,” wrote Jericho.

China’s economy is expected to grow 7.4 percent in 2014 and 7.3 percent in 2015, according to the Organisation for Economic Co-operation and Development (OECD). The last time China’s economy grew by that little in a calendar year was 1990. Jericho commented there is additional evidence suggesting that the OECD’s prediction for China’s growth this year is already optimistically out of date. ▶



- ▶ At the time that Jericho wrote his article, the latest figures for year-on-year value added by Chinese industrial enterprises showed a “stunning drop from 9 percent in July to just 6.9 percent in August.” Jericho noted that the last time its growth was that low was in January 2009, when China was suffering through the global financial crisis.

And economic growth appears to be slowing elsewhere. In the latest OECD outlook, the US, UK, Germany, Italy, France, the Eurozone as a whole, Japan and Canada all saw their projected growth for 2014 reduced.



The International Monetary Fund (IMF) is similarly concerned about world economic growth prospects. Its latest report on the world economy released at the end of September 2014 suggests rich countries are facing the risks of weak demand, so much so that the IMF suggested the time is right for an infrastructure push—such as constructing better roads, railways and airports—using borrowed funds. The report said “Public infrastructure is an essential factor of production. Increasing public infrastructure investment raises output in the short- and long-term, particularly during periods of economic slack and when investment efficiency is high,” the report noted.

What does this mean for Mongolia? Mongolia is linked to the rest of the world, and a world economy that is slowing is not good news for Mongolia. Moreover, the economy of Mongolia’s biggest customer, China, appears to be slowing, as is China’s demand for commodity imports.

Mongolia is like Australia in that economic growth prospects are closely linked to the fortunes of the mining sector. The difference, however, is that Mongolia’s economy is even more dependent on the mining sector than Australia, which has a much broader economic base. And unlike Australia, Mongolia is landlocked. Whereas Australia can easily export commodities and products to many countries, Mongolia lacks the same easy access to outside markets, and must sell most of its exports to China.

An economic slowdown in China, coupled with lower demand for mining commodities such as iron, coal and copper, is unwelcome news for Mongolia in the short and long term. The IMF remains concerned about a variety of aspects of the Mongolian economy, especially the high rate of inflation. On September 27th, the IMF acknowledged that Mongolia had taken measures to strengthen the economy, but stated that the country is still in need of strong fiscal and monetary reforms to shore up growth and control inflation.

The IMF noted GDP growth had slowed sharply in 2014 as inflation soared, and while the country’s foreign reserves improved this year, this was only on account of increased borrowing from abroad.

Commenting on the Development Bank of Mongolia’s (DBM) continued sidestepping of fiscal law, the IMF commented “The Fiscal Stability Law’s deficit and debt targets should be maintained, and DBM spending should also be covered” by the Fiscal Stability Law. This Law limits the size of Mongolia’s government budget deficit, but DBM borrowing has not been subject to this law up to now, which means that the law is not working as intended. The IMF went on to state that “Monetary policy should also be tightened, and the exchange rate kept flexible. Finally, measures to improve bank supervision and strengthen the banks are a priority.”

The future for Mongolia is not entirely doom and gloom. Although the economy’s growth has slowed, the rate at which it grows is still the envy of most countries. Moreover, several important projects are apparently going ahead, such as the projected USD 2 billion coal-to-liquid MCS/Posco joint project. And a number of additional government projects coming down the pipeline are expected to quicken economic growth—including important infrastructure projects, which the IMF would applaud.

That said, the most significant development would be an agreement on the second stage of the giant Oyu Tolgoi project. This project will be the engine room of growth in the Mongolian economy for the next decade. The trick is to save some proceeds from this project, and use them to strengthen Mongolia’s long term economic future. Otherwise, Mongolia’s short-term and long-term economic prospects are far less rosy.

About the author: Paul Mills came to Mongolia in 2011. Prior to that he worked as a senior economist for the Australian government, leading analysis of future Australian mining industry skill needs while working with Skills Australia. He previously worked as a Senior Adviser, Education to the then Australian Prime Minister. He is now the CEO of English World LLC in Mongolia and has lectured at the National University of Mongolia. English World LLC provides English language training, including business English training. ■