

MONGOLIAN ECONOMY

November 2015 N° 20 (099)

www.mongolianeconomy.mn

ECONOMY

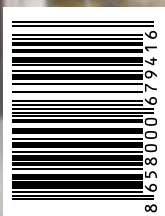
MONETARY POLICY TO FOCUS ON THE STATE BUDGET

HOT TOPIC: THE KHALKH RIVER FREE TRADE ZONE

THE ESTONIAN TECH REVOLUTION

T.Dorjkhand:

The state must have a policy of investing in its people





Wolf Petroleum
Mongolian Oil Exploration Company

www.wolfpetroleum.net
ASX: **WOF, WOFO, WOFOA**

Hunting for Mongolia's Multi Billion Barrel Oil Fields >>>



Your comprehensive guide to the coming
year's global economy

The World in 2016

Mongolian Economy magazine has been granted exclusive permission to translate and reprint in Mongolian the **Economist's** "The World in 2016" annual special issue. On top of articles by "The World in 2016" that provide analyses and forecasts of the coming year's economic news, our own journalists and editorial team will contribute content related to Mongolia's economic, financial and business developments.

MONGOLIAN
ECONOMY

MONGOLIAN ECONOMY

ON ISSUE 15,000₮
 ONE SEASON (6 ISSUES) 90,000₮
 HALF YEAR (12 ISSUES) 180,000₮
 FULL YEAR (24 ISSUES) 360,000₮

NEWSSTAND PRICE

18,000₮

FOUNDER AND EDITOR-IN-CHIEF:
 D. BEKHBAYAR / 9999-4248
 FOUNDER AND DEPUTY EDITOR:
 I. OTGONJARGAL / 8800-6228
 MAGAZINE EDITOR:
 B. UURIINTUYA
 ENGLISH EDITOR:
 O. TUVSHIN
 TRANSLATOR:
 B. ENKHMUNKH
 WEB EDITOR:
 B. ENKHTSETSEG
 JOURNALISTS:
 G. ORKHON
 TS. ELBEGSAIKHAN
 E. ZORIGT
 DESIGNER:
 B. SER-OD

MARKETING MANAGERS:
 D. BARIANJAV / 9409-2904
 E. ZORIGT / 9409-2905

ADDRESS:
 EXPRESS TOWER #1101
 PEACE AVENUE, CHINGELTEI DISTRICT
 ULAANBAATAR, MONGOLIA
 CENTRAL POST OFFICE
 PO Box 2762
 15160 ULAANBAATAR, MONGOLIA
 WEB: WWW.MONGOLIANECONOMY.MN
 E-MAIL: INFO@MONGOLIANECONOMY.MN
 TEL/FAX: 976 - 7011 5476

SELLING POINTS:
 INTERNOM BOOKSTORE
 FLOWER CENTER
 MINJ PLAZA
 ALTANTULKHUUR BOOKSTORE
 NOMIN SUPERMARKETS
 MAX SUPERMARKETS
 FRESCO SUPERMARKETS
 BTSI SUPERMARKET
 ZIG ZAG AUTOSERVICE
 AZ ORCHLON BOOKSTORE
 BILEG STORE
 GRAND PLAZA SUPERMARKET
 MIR BOOKSTORE:
 GRAND PLAZA
 METRO MALL
 SKY SUPERMARKET
 ULAANBAATAR STORE
 MAX MALL



“ P18



Dorjkhand Togmid was born in Ulaanbaatar in 1977. After graduating from Ulaanbaatar Secondary School No. 2, he went on to study public finance in the National University of Mongolia. He earned his master's degree in public policy and economics from Hitotsubashi University in Japan. In 1999, he began his career at the Ministry of Finance's Fiscal Policy Department as a specialist and worked there for 15 years. He held various positions: Specialist at Procurement Policy and Coordination Department of the Ministry of Finance, Deputy Director-General ...

“ P10



The 902 billion tugrik hole in the budget will be plugged with new government securities to be issued worth MNT 1.3 trillion. The same amount will be paid next year for the principal payments on securities issued by the government in previous years.

ECONOMICS

- 10 Time to Come Back Down to Earth
- 12 Magazine Question
- 13 Monetary Policy to Focus on the State Budget
- 16 What Is Happening around the Khalkh River?
- 18 Spotlight: Interview with T.Dorjkhand, Advisor to the Executive Director for Asia and the Pacific of the IMF
- 23 In Order to Make the Labour Law More Effective
- 24 S.Munkhbat: Mongolian Political Parties Are Immature
- 25 The Estonian Tech Revolution

BUSINESS

- 28 Breathing Life into Leather
- 30 The Global Oil Price Slump and Mongolia

“ P25



Now this country, recently dubbed "e-Estonia," uses the Internet as an engine of growth. They use e-services like they breathe air and eat food.

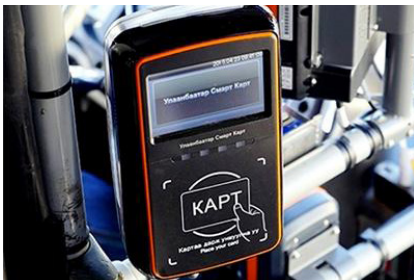
MONGOLIAN NEWS

COOPERATION



Russia put forth a proposal to make amendments to the agreement of the Mongolian-Russian joint stock company "Mongolrostsvetmet" LLC in order to transfer their own shareholders' rights and dividends to Rostec Corporation. The matter was discussed during a cabinet meeting, and it was concluded that "the shareholder can be the Russian government or an authorised state-owned legal entity or organisation." Accordingly, the amendments to the Mongolian-Russian intergovernmental agreement regarding Mongolrostsvetmet LLC's operations dated April 25, 2007 was discussed and approved during parliament's plenary session, with 81.8 percent of MPs voting to ratify the changes.

TRANSPORTATION



The sixth special session of the City Council addressed issues related to the electronic payment system of city transportation. Customers using electronic cards will not be charged an additional fare if they transfer to their next bus within 30 minutes. In order to implement the change, the sector's deficit will reach MNT 2.1 billion, and it is estimated financing of MNT 20.3 billion will be necessary in 2015.

In addition, bus fares of students will be financed from the city budget.

A student meeting the set criteria must order a card and fill out an application, and local administrative bodies will issue limited-use public transport travel authorisation cards and credit the cards on the 1st of each month.

POLITICS



Mongolian citizens Z.Pagmajav and D.Chinbayar, who were advisors to M.Batchimeg MP, were found guilty of treason during a closed trial involving state secrets. The court handed down a 16-year sentence to Z.Pagmajav and a 22-year sentence to D.Chinbayar. The defendants still have two more appeals at their disposal, but if appellate courts uphold the decision, both will head to high-security prisons. M.Batchimeg MP stated that they were convicted for working with foreign intelligence agencies. However, she also considers the events an organised operation to frame the defendants and argues that it is a sign of the upcoming elections.

STATE VISIT



Japanese Prime Minister Shinzo Abe paid a short-term official visit to Mongolia at the invitation of Mongolian President Ts.Elbegdorj. During the visit, Abe and Mongolian Prime Minister Ch.Saikhanbileg conducted formal negotiations, after which both parties expressed their satisfaction in expanding political, social and economic

partnerships in all sectors. They also exchanged ideas on the transferring of technology, strengthening of relations between the private sectors of the two countries, boosting investment, mutually beneficial trade and the expanding of economic relations within the scope of the Mongolian-Japanese economic partnership agreement. During the visit, the Mongolian Minister of Foreign Affairs, L.Purevsuren, and the Ambassador of Japan to Mongolia, Takenori Shimuzu, signed a memorandum of understanding regarding cooperation on the development of Tavan Tolgoi's eastward railway project. This was the second state visit by Japanese Prime Minister Shinzo Abe to Mongolia.

EXHIBITION



The "First China-Mongolia Expo" was held in Inner Mongolia's capital city of Hohhot within the scope of the "Joint declaration on the development of a comprehensive strategic partnership" made between Mongolia and China. More than 800 representatives from the industrial, healthcare, cultural, educational, scientific and sports sectors attended the exhibition. Roughly 400 representatives from more than 230 enterprises introduced domestically produced goods to the Inner Mongolian market.

As for the organising party, a total of 7,500 representatives participated in the expo. In this first expo, which began on October 22 with cultural exchange events, 18 plenary sessions were held under topics such as industry, education, science, mining, energy, trade and investment. Parties signed on to more than 100 contracts, agreements and memoranda of understanding. Sessions such as those on the "Mongolian-Chinese trade and industry summit,"

cooperation between small- and medium-sized enterprises of the two countries and a roundtable discussion about the establishment of the free trade zone at the border were held during the exhibition.

WORLD NEWS

CHINA-RUSSIA FINANCIAL COUNCIL



The China-Russia Financial Council was established in the city of Harbin in the northeast Chinese province of Heilongjiang. Created under the initiative of the private Harbin bank of China and Sberbank of Russia, the council comprises 17 Russian and 18 Chinese financial institutions. The main purpose of the organisation is to promote cross-border trade.

In addition, the council is also designed to facilitate communication, discussion, exchange of information, local currency settlement mechanisms, financing mechanisms and promote new industries, including cross-border e-commerce. China is Russia's largest trade partner, and Russia is China's ninth largest. Having reached a record high of USD 95.3 billion in 2014, bilateral trade between the two nations has been increasing, especially since Russia began looking eastward for economic opportunities after economic sanctions were levied on the country by the US and EU.

VOLKSWAGEN EMISSIONS SCANDAL

The VW emissions scandal saga is still on-going, with a fifth executive, the head of quality control, being fired on October 20. In September, the US Environmental Protection Agency issued a notice of violation of the Clean Air Act to



Volkswagen Group. The EPA uncovered that Volkswagen had been purposefully programming certain engines to deceive laboratory emissions testing. The illegal programming made it so that vehicles would satisfy nitrogen oxide emissions standards during testing, but would produce 40 times higher output in the real world. Eleven million VW cars around the world produced between 2009 and 2015 have this programming installed.

Several high-level executives, including the CEO of Volkswagen Group, were suspended, and others have now taken up their roles. The company has announced that it will refit the 11 million cars, but such a massive recall will take years to complete.

Despite the company being in unprecedented dire straits, a survey by the German tabloid Bild showed that the majority of Germans still have "great faith" in Volkswagen.

VENEZUELAN CRISIS



Venezuela is in the midst of an economic crisis and will see the biggest losses of any economy in the world, with the IMF forecasting a 10 percent contraction of real GDP in 2015. President Nicolas Maduro vowed to expand price controls in an attempt to curb runaway inflation. Although Maduro's government has estimated that inflation will be 85 percent in 2015 and 60 percent in 2016, many institutions, including Moody's, have forecasted inflation being in the triple digits. The president stated price controls will be expanded to cover all goods and

services, and profit margins will be no higher than 30 percent; however, details on the implementation have not been provided. The recent plunge in oil prices has also strained the economy and state budget. Oil accounts for a quarter of GDP in Venezuela, which is a member of OPEC. There will be a parliamentary election in December, and polls have been predicting an opposition win due to public discontent over the government's handling of the crisis.

CHINA-AUSTRALIA FREE TRADE AGREEMENT

In mid-October, Australia's House



of Representatives approved the China-Australia Free Trade Agreement (ChAFTA). The key issue of the trade deal concerned migration regulations, and the ruling coalition led by the Labor Party has agreed to make reforms to ensure Australian employers put forth genuine efforts to hire Australians before looking abroad for employees. There will also be amendments made such that the terms and conditions of work for foreigners must be "no less favourable" than for Australians.

The trade deal was signed June when Toby Abbott was still PM, but needed legislature approval to enter into force. Between June and October, debate over the agreement had been intense, as the former PM was unwilling to negotiate with the opposition; however, newly elected PM Malcolm Turnbull opened the door to negotiations.

Even after the law was approved, Australian trade unions are still not completely sold, and some remain opposed to its approval. The business community has received the deal positively however, and Labor and opposition party leaders praised each other for resolving their political disputes and approving the free trade agreement. ■



2016 BUDGET

The people watch with dismay as the typical politician spends their tax money recklessly
Cartoon by B. Ser-Od

Time to Come Back Down to Earth

By Ts.Buyan

There is widespread criticism that plans do not come to fruition and revenues fall short because budgets are poorly calculated and not transparent. Although the current economic situation is murky, the 2016 draft budget submitted to parliament makes some optimistic assumptions. It is reflected that "budget revenues can be increased by intensifying the investments in major mining projects," but it is doubtful that anything will be accomplished during the scandalous soap opera of the coming election year.

The draft budget also states that the "possibility to boost tax revenues in the coming year will be provided through

the enactment of laws to promote economic transparency to bring to light the shadow economy and taxpayers' undisclosed incomes and assets in order that the tax base to control it expand." However, economists say hidden assets in the shadow economy have already been exhausted during these times of economic downturn, and even if some amount remains, there is little opportunity to increase the budget.

It is estimated that the budget revenues will amount to MNT 6.9 trillion, or 25.3 percent of GDP, and expenditures will be MNT 7.8 trillion, or 28.6 percent of GDP. Tax revenues will account for 79 percent of the total income. The draft

budget takes into account estimations that OT will produce and sell 774 thousand tonnes of copper concentrate and that Erdenet Mining Corporation will produce and sell 587 thousand tonnes of copper concentrate and 3,023 tonnes of molybdenum concentrate next year. Although commodity prices are not likely to rebound, it is projected that budget revenues will increase as OT intensifies extraction and other mining operations.

In addition, MNT 11 billion from gasoline and diesel fuel taxes will go into the budget. It is estimated that one million tonnes of gasoline and diesel fuel will be imported. Vehicle imports will reach 10.8 thousand units, and MNT

51 billion will go into to the budget from the taxes thereof.

However, the more important issue is how policy adapts to the economy. Approval of budgets running deficits is the cause of the lack of coherence between the fiscal and monetary policies. The submitted draft of the coming year's budget has a deficit of MNT 902 billion. Moreover, this deficit is equivalent to 3.3 percent of GDP, violating provision six of the Fiscal Stability Law which states the comprehensive budget balance of a fiscal year must not run a deficit exceeding two percent of GDP.

The 902 billion tugrik hole in the budget will be plugged with new government securities to be issued worth MNT 1.3 trillion. The same amount will be paid next year for the principal payments on securities issued by the government in previous years.

The reason for adopting a budget with a deficit in the trillions is to expand the budget. Budget investment has an important role in the development of infrastructure, something that currently hinders Mongolia's general level of competitiveness. However, according to quantitative indicators, inflation rose in years when the budget was increased and, in contrast, decreased when the budget was tightened. Fiscal expansion takes place especially in election years, alongside high inflation rates of 10 to 20 percent. In doing so, they, politicians, shamelessly lied and sat happy as though the economy would grow by 17-20 percent annually.

The administration, inspired by the large amount of foreign direct investment inflows, has been adopting deficit-running budgets even more. In 2012, budget expenditures were increased by MNT 1.3 trillion, and the budget balance was approved with an MNT 1.2 trillion deficit when investments worth USD 4.6 billion were made in the prior year. Budget expenditures must be financed by revenues. If the revenues cannot match levels of expenditure, the remainder will be funded through borrowing and aid. Since 2011 to date, the sum of the annual budget deficits equal to MNT 3.5 trillion. This is the explanation to the question of why Mongolia has fallen into debt pressure today.

Banking and financial institutions copper price forecast (USD/tonnes)

No	Organisation	Forecast	Forecast (USD)
1	Barclays PLC		5,625.0
2	IMF		5,138.7
3	Westpac		5,272.0
4	Standard chartered		5,325.0
5	Intesa Sanpaolo SpA		5,138.0
6	Itau Unibanco Holding SA		5,150.0
7	Toronto-Dominion Bank/Toronto		5,232.2
	In 2016 budget		5,268.7

Mining products production, price forecast

Types	Unit of measurement	Volume	Price
Gold	Tonnes	23.6	1,156 \$/ ounce
Export	Tonnes	10.1	
Domestic	Tonnes	13.5	
Coal (export)	Million tonnes	19.5	32.8-54.8 \$/tonne
Zinc	Thousand tonnes	95.0	2,200 \$/ tonne
Copper concentrate	Thousand tonnes	1,361.6	5,268.7 \$/tonne
Iron ore	Thousand tonnes	5,000.0	34.8-43.2 \$/tonne

Tax income and expense ratio (MNT billion)

Indicator	2013	2014	First half 2015 performance	Development bank's 2015 performance	2016 plan
Total tax income	5,072.7	6,145.1	2,530.5	5,145.7	5,527.0
Total tax expense amount	359.7	720.9	264.7	622.3	675.3
The total share of the tax expense on tax income	7.1%	11.7%	10.5%	12.1%	12.2%

List of organisations to be privatised and buildings to be sold (MNT billion)

Privatisation revenues		2016
A.1.	Organisation to be privatised	80.0
1.1.	State Bank	75.0
2.2.	Stock Exchange	5.0
A.2.	Buildings to be on sale	91.0
Total		171.0

Source: Ministry of Finance

This large expansion is becoming an unwanted burden on the private sector. Enterprises are seeing their margins narrowing, and unemployment is increasing.

This year's budget's current expenses performance is at 92 percent, meaning 92 percent of the money for expenditures has been spent. These were necessary expenses such as wages, social insurance and building maintenance and overhead. However, capital expenses performance, which includes construction, maintenance, machinery and equipment and liabilities in the budget for concession agreements and investments, is just at 50 percent. Infrastructure development projects are on hold as fulfilment of revenues has not gone as planned and cannot cover the costs.

As it is impossible to cut back more than we already have, the prime minister has put forth a proposal to cut the

salaries of high ranking public officials and amend the budget. Even next year's budget expenditures need to be slashed. From 2010-2013, the number of staff at public institutions increased dramatically, and the government structure has grown.

The inefficient structure, which ballooned alongside economic growth, has overlapping functions and reduces the efficiency of the budget, especially during economic downturns. Hence, the government will pursue a policy of reducing the budget deficit. The number of ministries will be reduced to nine, and the Information Technology, Post and Telecommunications Authority (ITPTA) will be formally dissolved on August 1, 2016.

Proposals to dissolve organisations and agencies such as the State Property Committee, Procurement Agency and the State Commission on Management and Organisation Rehabilitation Political Repression were also submitted. ■

MONGOLIAN ECONOMY MAGAZINE QUESTION

QUESTION: IS IT POSSIBLE TO APPROVE A DEFICIT-FREE BUDGET FOR THE COMING ELECTION YEAR? WHAT NEEDS TO BE TAKEN INTO CONSIDERATION TO ENSURE FISCAL RESPONSIBILITY AND DISCIPLINE?

Ts.Davaadorj, Ph.D. (Economist)



- It is possible to approve a budget without a deficit. It is possible to make decisions on which parts to slash. However, it should be seriously and professionally considered. Decisions must be made for the future by looking at the economic situation instead of thinking about the upcoming election and one's own political ambitions.

In my opinion, public institutions need to be allowed to earn a certain amount of income and determine how to spend the funds themselves in order to improve fiscal responsibility and discipline. Consolidated budgets are making organisations too dependent and passive, waiting for the public funds. The system of dispersing funds after collecting them is overloaded, which weakens fiscal discipline. Instead of that, if certain expenses were not covered by the state budget and organisations were given the ability to spend from its own revenues, fiscal burdens will be alleviated and discipline will improve. Public service agencies and scientific organisations can earn income from their operations. However, this would not be suitable for regulatory bodies.

B.Munkhsoyol (Executive Director of the National Strategy Institute)

- Looking at the situation realistically, it is not likely. Originally, the Fiscal Stability

Law (FSL) was approved to keep the deficit as low as possible. However, the law was amended due to unfavourable economic and financial conditions. There are a number of reasons. First of all, companies have cut back on employees, and some have even closed their doors because of the economic situation. The state budget's main sources of revenue are corporate income tax and personal income tax. Budget revenues are not reaching the planned amount because



companies are facing difficulties and struggling to keep their workers.

Secondly, everyone is saying that Mongolia has become debt ridden. The Genghis bonds and Samurai bonds are nearing maturity, so it would be unrealistic to think about abiding by the FSL. The funds raised by the sovereign bonds were not allocated to profitable projects, and this is becoming a burden on the budget as a result.

Thirdly, members of parliament are exercising unlimited authority. When the ministry of finance and other experts submit their developed draft documents, MPs alter them freely. Even when they are aware of the current circumstances, they seek only to boost their reputations in their own electoral districts by using their powers recklessly.

Fourth, faulty budgets get approved despite so much talking and discussing. Because of this, amendments are made

more than once a year, and plans do not actualise.

Fifth, the election is going to be the biggest risk. Do they care more about the economy, or getting re-elected? Ordinary people and even economists can't tell. There is no oversight. Fiscal responsibility and discipline will not improve until long-standing issues regarding improving auditing systems, arraiging MPs who spend budgeted money illegally and establishing a mechanism to oust MPs are resolved first.

J.Unenbat (Executive Director of Corporate Governance Development Center)

- It is unlikely the budget will be



approved without a deficit. Budget deficits were approved even when the economy was recovering thanks to increasing commodity prices. There is not a single instance of a balanced being approved. If the idea of approving a budget without deficit is sincere, it would be an important step in the right direction leading to fiscal sustainability. Moreover, I hope we pursue a medium-term policy of balancing the budget more adamantly. However, whether this can be achieved depends on political fortitude, but it's doubtful because parliament dominates the approval process of the budget rather

than the executive branch. A regulation restricting any additional expenses being added onto the government submitted budget is required.

N.Dashzeveg (Academic and Director of Mongol Institute)

- If the coming year's budget gets



approved without a deficit, it would be beneficial for repaying foreign debts in 2017 and 2018. We don't need to take on more debt right now. Discipline will be adhered to if the officials spending in excess of the budget are held

accountable and removed from office.

L.Ariunaa, Ph.D. (Professor at the Academy of Management)



- It would be good to approve the budget without a deficit, as the economic situation is difficult. However, necessary investments should not be cut or stopped. Everyone must work in accordance with the law. Looking at next year's draft budget, some investments are discretionary and could be done without. There is no need to push the deficit to its limit. Transparency must

be improved in order to improve fiscal discipline. Provide clear information to citizens; they have the right to know how their money is being spent. On top of that, the decision makers need to be well-informed.

Today, our budget is too loose. By "loose," I mean it has too many pages; it is disorderly and so unprofessional that even experts cannot make a straightforward conclusion. It may take a considerable amount of time to reach conclusions. The current planning system is just placing numbers after names. They mistakenly believe that placing that on the internet is transparency. Economic calculations must be clear. Where the figures come from and what they are based on should be clearly understandable. This would give the people the chance to know how their taxes are being spent and discuss what is wrong and right. Because such conditions are not in place, those managing the people's money seem to be quite wasteful. ■

MONETARY POLICY

Monetary Policy to Focus on the State Budget

By Ts.Elbegsaikhan

During the current deteriorating economic situation, taking out and repaying loans have become a torturous ordeal for entrepreneurs. "Banks are tightening their lending policies due to the rising rate of non-performing loans," stated D.Angar, former Acting Executive Director of the Mongolian Stock Exchange. In other words, applying for loans has become a daring move. In September, the average interest rate on loans was 18.7 percent.

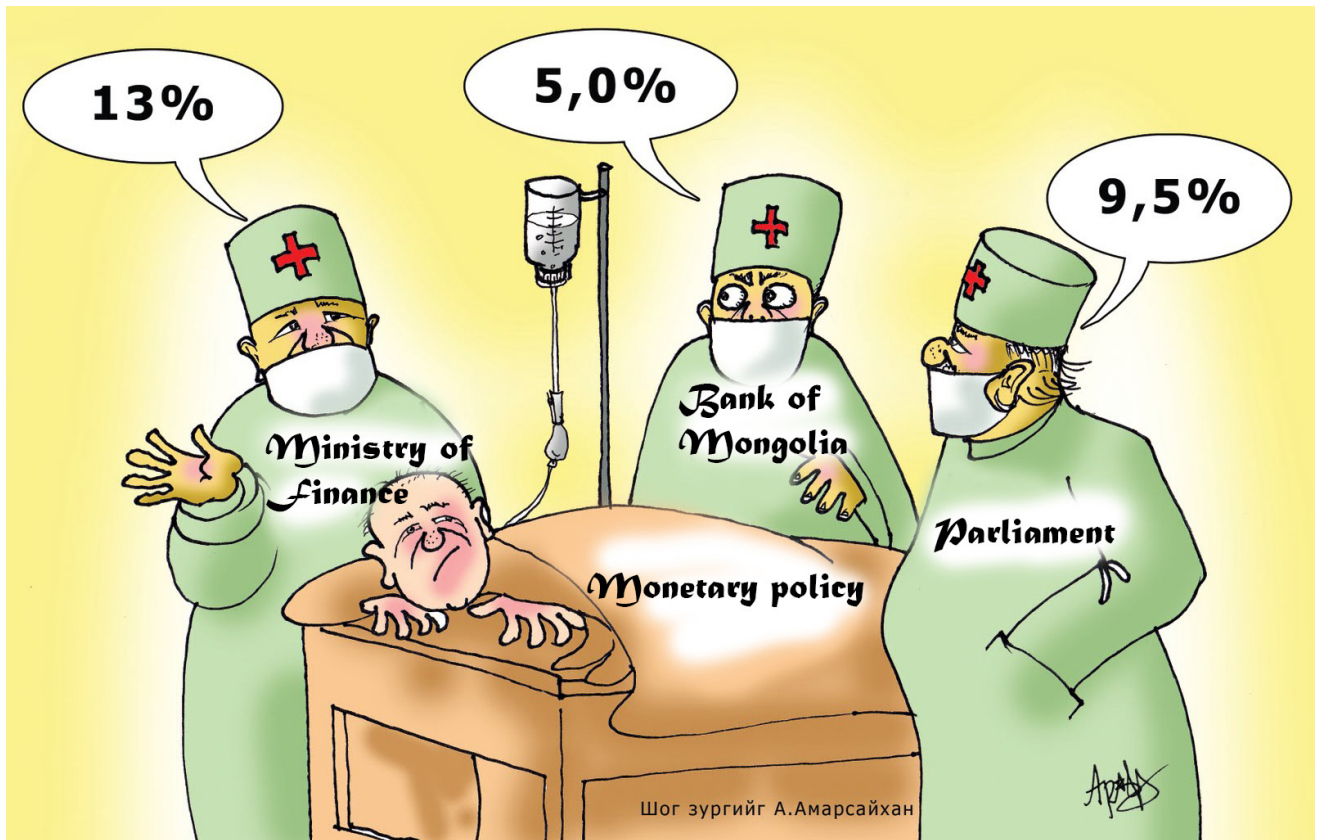
The annual interest rate on securities issued by the government, which are recognised as least risky, is 15 percent. When the government itself takes out

short-term loans at such a high rate, finding long-term, low interest loans is almost a dream for private entities. Long-term loans tend to be riskier with a higher interest rate, and there is no possibility of private enterprises taking out low-interest loans from the government, as the credit ratings of the private sector are weak. Hence, short-term, high-interest government bonds, instead of lending, are becoming the rational choice for banks.

As set in the previous year's monetary policy, annual inflation is in the single digits, even below the target rate of seven percent. Inflation and interest

rates are positively correlated, so rising interest rates alongside a falling rate of inflation is a peculiar phenomenon. As of September, the average interest on loans increased by 0.4 percent from a year ago. Also as of September, annual inflation stood at 4.9 percent, down from the 13 percent that it was a year ago.

D.Angar posits that the reason why inflation and interest rates are moving in opposite directions has to do with the central bank's policy interest rate. The Bank of Mongolia (BoM) has increased its policy interest rate twice since June 2013. Today, it stands at 13 percent, and the average interest rate on BoM



Cartoon by A. Amarsaikhan

securities is 13.1 percent. Under such conditions, the government cannot issue bonds at low interest, as it becomes an indirect burden to the private sector. Bringing the policy rate closer to the rate of inflation will benefit both the government and the private sector, as it will increase the available options for low-interest loans as well as improve banks' credit ratings.

Further tightening monetary policy at a time when inflation is decreasing is not without reason. The deficits in foreign trade, the current account and the balance of payments are falling, and some are even showing surpluses. The decision makers who set monetary policy say that fiscal policy has been too soft. In recent years, the state budget has expanded significantly, increasing the deficit. This deficit has created a higher demand for USD on the market, and this is the main cause of the tugrik's depreciation. Thus, it was necessary that monetary policy be tightened.

Members of parliament had the aforementioned issues in mind when developing "The state monetary policy in 2016." The draft resolution of parliament titled "Adoption of the guidelines for

monetary policy in 2016" reflects the aim "to implement a policy ensuring the unison of the budget and to keep the budget deficit-free." As a result of the tight monetary policy, macro-economic conditions have become relatively stable. However, we need policy support for the private sector, which carries a significant load of the economy. The BoM is aiming to keep the inflation rate between 5-7 percent until 2018, as there would be no sharp depreciation of the tugrik unless imports suddenly increase. This situation would present an opportunity to decrease the policy interest rate by tightening fiscal policy and making the budget more accountable. Achieving this would result in a mutually beneficial situation, and the economy will go forward without stumbling, just as D. Angar envisions.

Mongolia has no options to receive credit and financing in the near term. Therefore, approving budgets without deficits has become the only option to get out of this predicament. If the state budget were balanced, this would free the government from reliance on credit financing, which, in turn, should give more breathing room for the economy to recover. ■

“

Further tightening monetary policy at a time when inflation is decreasing is not without reason. The deficits in foreign trade, the current account and the balance of payments are falling, and some are even showing surpluses.

”

MONGOLIAN ECONOMY

MONGOLIAN ECONOMY

Mongolia's Economy and Business Magazine

May, 2013, No.09 (143)

"Don't expect others to ask to dance"

Partners Linked Through History

www.mongolianeconomy.mn

MONGOLIA: HEART OF DEMOCRACY

Here Comes Cash Floods

Dig Deep!

HOT TOPIC



A demonstration at Genghis Square organised by the National Labour Party in opposition to parliament's approval of resolution no. 75 concerning the Khalkh River free trade zone.

What Is Happening around the Khalkh River?

By I.Otgonjargal

Our magazine is establishing a new column that discusses a hot topic of the past two weeks. We will focus on issues taking place during the issuance of the magazine. This time, we are going to take a look at issue of the Khalkh river free trade zone (FTZ). This topic started developing last summer, but it had been quiet for a while, until the past 14 days. The National Labour Party disseminated through social media the results of the preliminary studies conducted on the Khalkh river FTZ parliament resolution number 75, and they just recently held a gathering at the Genghis Square

related to the issue. The residents of Khalkh river soum did not give a warm welcome to R.Burmaa, the Minister of Food and Agriculture, when she tried to give information and discuss the establishment and implementation of the Khalkh river FTZ. In addition, independent members of parliament, led by S.Ganbaatar MP, collected signatures calling for the annulment of parliament resolution number 75. Many more events took place alongside this.

About Khalkh river soum

How the issue did begin? Parliament resolution No.75 concerning the Khalkh

river agricultural FTZ was issued on July 9, 2015. So, what kind of place is the town? Khalkh river soum of Dornod province resides in the eastern part of the country and is known for the battle of Khalkh River, which took place during WWII. This region has been imprinted in the hearts of Mongolians as the symbol of independence. Hence, generations of governments avoided discussion of crop production in this region, but all that changed.

It is an ecologically healthy region with fertile soil. However, agricultural scientists believe that this region is unfit

for farming using older technology, as powerful storms occur during the spring. Thus, the area has remained untouched to this day. However, Minister of Food and Agriculture R.Burmaa developed a project to establish a 500,000-hectare agricultural zone in the Khalkh River region and got it approved by parliament. Protesters are arguing that the FTZ on 500,000 hectares of land is almost equal to a whole soum. It is currently unclear how much of the land is to be used for farming, livestock, factories and services. The residents have many questions that

land leasing to foreign companies by the soum's governor and council. "We were late in providing information about the FTZ to the local residents. Since last summer, massively distorted information has been given to the residents, especially by the soum's governors, who attempted to give misleading information when their illegal decisions started to be uncovered. The residents don't have a single piece of true information about the FTZ," stated the minister.

She revealed a document signed by the soum's former Governor

with S.Ganbaatar MP at the forefront, delivered a proposal to annul parliament resolution number 75. What will happen if this resolution is invalidated? R.Burmaa answered, "First of all, it will turn to exploration licences, because it was announced that mining exploration licences will be issued this year. This area was in the attention of 'Petro China Daqing Tamsag' for 13 years until the withdrawal in 2013. If licence starts being issued, the land will be transferred to the hands of oil companies soon thereafter. Also, the governor will continue to freely



Translation (left to right): No sum of money is more valuable than our land; Khalkh River 1939-2015; We will not leave a wasteland for future generations; Khalkh River 1939-2014

demand answers, such as the amount of foreign investment and foreign labour. Although R.Burmaa, who is responsible for starting implementation of the project, headed to Khalkh river soum on October 21 to provide information about the FTZ to the local residents, the locals wanted nothing to do with her. Several people representing the residents of the soum expressed that they will not receive her and sent her back after the harsh words "We will greet you here with open arms only after you rescind parliament resolution number 75. If not, we will greet you with guns."

Mongolians usually approach issues with a level head, but this process was carefully planned and politicised from the beginning, as a usually calm people insulted a minister so scathingly. Ordinary citizens were surprised by such a harsh insult. Although her intended purpose has failed, R.Burmaa continued her assignment by visiting the border security of Dornod province to provide information about the FTZ to the officers and exchange idea on the use of the land. R.Burmaa failed to meet with the local residents, but she revealed several significant documents detailing illegal

Ts.Sukhbaatar and the Head of the soum's Council Ts.Nasankhuu to allow the South Korean-invested company "Hansolmo" to use 30,000 hectares of land for farming and planting forage crops. In addition, the current Governor B.Munkhtaivan also gave several thousand hectares of land to companies. For example, he gave "Soyombo Buudai" LLC permission to use 1,621 hectares of land for 15 years. Behind this company is the 95 percent Chinese-invested "Erlian Deyu Organic Agriculture" LLC. She also claimed that the governor has given 7 to 8 illegal land permissions, such as 7,000 hectares of land to "Uizen Tal" LLC. The minister will provide a report about this issue to the government.

In any case, a minister was insulted by the locals instead partaking in her planned meeting with them, but she was able to reveal illegal land allocations. The issue is likely to deepen further on. Originally, the government issued a resolution approving usage of 30 thousand hectares of farrow land near the Khalkh River for agricultural purposes in April 2010. In 2011, the proposal was submitted to the local administration.

Independent members of parliament,

give land permits to foreign and domestic companies. Therefore, we need to stop illegal land allocation before anything else. After that, the FTZ issue should be discussed." The reason for parliament's approval of resolution number 75 was also to have this region in state protection.

As for the preliminary studies conducted by the National Labour Party, they concluded that: the decision to establish an agricultural FTZ has no connection to national and sector development policies; impacts on long-term food security, the environment, land, plants, animals and water resources were not assessed; and there are serious inconsistencies with national security policies. The exact basis for why the FTZ is to be established in this region and estimates on what benefits the implementation will bring were not mentioned. Therefore, they believe that it is necessary to reassess the research on the development of the FTZ and consider impact, risk, project planning and policy.

We will continue to provide information on the Khalkh River agricultural free trade zone issue in our coming magazine issues. ■

PRIDE OF MONGOLIA



T. Dorjkhand:
“Investing in the people brings the highest returns. This needs to be the policy of the Mongolian government.”

By D. Bekhbayar

Dorjkhand Togmid was born in Ulaanbaatar in 1977. After graduating from Ulaanbaatar Secondary School number two, he went on to study public finance in the National University of Mongolia. He earned his master's degree in public policy and economics from Hitotsubashi University in Japan. In 1999, he began his career at the Ministry of Finance's Fiscal Policy Department as a specialist and worked there for 15 years. He held various positions: Specialist at Procurement Policy and Coordination Department of the Ministry of Finance, Deputy Director-General of the Department of Development Financing, Head of the Project Finance and Debt Management Office,

Director General of the Department of Financial Policy and Debt Management, Trainee at the National Tax Agency of the Ministry of Finance of Japan, government procurement consultant at the ADB, Programme Coordinator at the Central Asia Regional Economic Cooperation of the ADB and Coordinator of the UN's "Greater Tumen Initiative." Since 2013, he has been working as an Advisor to the Executive Director for Asia and the Pacific at the IMF. In addition, he also studied financial theory and project financing at the Harvard and Oxford.

- Several Mongolians work at the World Bank and IMF. However, I understand that you are the first Mongolian to hold an administrative position at such a global financial and economic organisation. Why did you choose to work in this organisation, and what requirements did you need to meet to get this position?

- I am not sure whether that many Mongolians have worked for the IMF. However, several Mongolians worked at the World Bank. It is an open field in which anyone can work if the desire and ambition are there.

As for me, I had dreamt of working at this organisation since I started working at the Ministry of Finance in 1999. At the time, I used to cooperate with IMF economists on many policy solutions when they came to Mongolia. Frankly, we learned much from them also.

As for this position's requirements, they require professional criteria, such as knowledge of economic theory, experience developing policies and a possibility to represent one's own and regional countries. Also, they see whether you have previously worked in other countries, and knowing a language other than English is advantageous as well. Generally, you have to meet all the general criteria set by international organisations.

- Working on an administrative level in an international financial organisation that regulates monetary relations will naturally give invaluable experience and knowledge. What kind of experience and knowledge have you obtained from there?

- I gained a lot of experience and knowledge by working at the headquarters of the IMF. I hope that any and all interested Mongolians work here. Many international experts and researchers work here because it is an organisation that aims to ensure global financial and economic stability. It is a firmly established organisation. The advantage of working here is that solid information about nations' economies, research facilities and archives are rich and open to the employees. Thus, 95 percent of the organisation's economists have a Ph.D., and all of them are people who have conducted

their own research and have experience developing policies. In addition, Nobel Prize-winning economists and world-renowned university professors regularly come to give lectures and hold debates.

As for me, I mainly work on policy documents being discussed by the Board of Directors and on economic assessments of member states. I came upon some interesting results when I compared policy mistakes and successes of resource-rich countries like Mongolia. For example, the IMF has 188 member countries and provides economic assessments to these countries annually. About 45 countries of the member countries have significant natural resources, and most of them are developing countries that depend on mineral exports. There are many examples of economies of some these nations being tarnished because of political instability, weak governance, incompetence and indulgence of populist promises by ruling parties. Sounds familiar, right? The main point is that there are many countries that have bitter stories similar to Mongolia. We need to simply read, learn and study about them to develop a policy.

- You worked at the Ministry of Finance for more than ten years. Would you tell us more about the first time you started working there?

- I am a Mongolian person who was born in Mongolia and raised around livestock. When everyone was avoiding government jobs during the transitional period, I went on to work as a specialist at a state ministry. I am one of the guys who was overwhelmed with work and had to work 18 hours per day. I have always taken pride in that. On my first day of work, the Head of the Fiscal Policy Department, Dashdorj, told me, "The Ministry of Finance will not pay you that much. Don't even think about being provided with housing, and you will not even have time to get married. All you're going to get is work." It was true, and I was overwhelmed with work as soon as I entered the job. When it came time to make the budget, I slept at the office for two months. I truly experienced for the first time what it is like smell awful, having not showered in a long time. I realised my dream of working at the IMF by not losing

my thirst for knowledge when starting my career at such a ministry where work never stops.

- You worked as a director of two departments at the Ministry of Finance. What projects have you worked on, and what outcomes have you achieved by working there?

- I used to work a lot on the improvement of fiscal policy, accountability and discipline. We worked on many draft laws to expand tax income when budget revenues were disrupted and introduced a new budget-saving system that significantly contributed to Mongolia.

When you take an oath of a state official and work for the state for a long time, a person's heart gradually starts to beat for the good of the public and gives you satisfaction. I think that developing the drafts laws on debt management and a Sovereign Wealth Fund before coming here was a timely work, and I am glad about that. These reforms are very important in the long run, as they foster fiscal discipline and economic counter-cyclical fiscal rules.

- You used to work at the Ministry of Finance of Japan. There are many interesting things to be asked. How does Japan's main public policy ministry operate? What kind of systems are in place? How do the personnel go about their work?

- Yes, I worked at the Ministry of Finance of Japan as a trainee for over a year while studying in Japan. It was a great opportunity to gain experience and theoretical knowledge. Despite being aware of the Japanese people's diligent and precise nature, we don't know much about the systems of work. Japanese people do not know about laziness, because the state creates the conditions and instills a mentality to work diligently, honestly and wholeheartedly. They are a people that know the country will develop by working like that, and if the country develops, their lives will be much more comfortable.

- When you were in Japan, you translated into Mongolian a book on economic theory written by Nobel Prize recipient Joseph E. Stiglitz. Would you please tell us more about this?

- The book is titled "Economics of the Public Sector." I used to study from this book when I was studying for a master's degree in public policy and economic theory. One day, the author of the book came to Japan for a lecture and gave a presentation about his Nobel Prize-winning work. His lectures were fascinating. I translated it into my native language because I was impressed when I studied from his book, and the author talked about the book in detail. I wanted to translate it since it will be of great benefit to Mongolians, especially to the people who develop public and economic policy.

- Thinking in terms of economic theory, how can Mongolia's economy be developed?

When talking about a country's developing economy, we have to think about growth theory. There are many economic growth theories. Of these, the most recently accepted theory is new growth theory. In short, the previous standard growth theories considered assets and land as the main factors of growth, while new growth theory says that human knowledge is the main factor in growth. It is an idea which holds that limited resources can be increased by human knowledge. However to achieve this, the state must make investments to develop and educate the people. It is considered a work to be done by the state because individuals and companies have less incentive to invest in this area.

Now let's apply this to Mongolia. Our country has underground reserves equal to USD 1-3 trillion. The population is three million. However, we lack qualified human resources. So, the assets are there, but the human capital is not. The idea is that sustainable, long-term growth cannot be achieved without investing in people's education in such unbalanced and unstable circumstances. In other words, it means it is impossible to fairly distribute the riches when education is a question of the individual and his circumstances. Therefore, it is important to focus on the development of the Mongolian people. Investing in people brings the highest returns. This needs to be the policy of the Mongolian government.

- The IMF relayed advice and warnings to the government during the current economic downturn of Mongolia. Experts say that our government ignores their advice. What pieces of advice have they given us up to today?

- The balance of payments (BOP) is under pressure and the fiscal position is weak. These problems are partly due to declining FDI and weak commodity prices, but also due to overly loose fiscal and monetary policies. As noted in the latest IMF Article IV assessment of the Mongolian economy, published

• Governance reforms at the DBM and BOM would help strengthen these institutions;

• Steps should be taken to move ahead with major mining projects, improve the investment climate, boost FDI, and support growth;

• Social safety nets should be strengthened and better targeted to the poor.

• Some monetary tightening would be desirable, to strengthen the BOP, macroeconomic policies be tightened, and the exchange rate be allowed to move flexibly.



T. Dorjkhand with Nobel Prize-winning economist George Akerlof in the US in 2014

in April 2015, we made the following recommendations:

• The fiscal deficit—covering both the traditional budget and the Development Bank of Mongolia (DBM)—should be reduced, and the monetary stance too could be tightened, to bring public debt under control and moderate BOP pressure;

• All fiscal or quasifiscal activity currently undertaken by the DBM, the Bank of Mongolia (BOM), or other agencies should be conducted on-budget by the government;

• Exchange rate flexibility should be preserved;

• Banks' provisions and capital buffers should be bolstered, and supervisory and crisis preparedness frameworks strengthened;

- Our government is not heeding the given advice. So what needs to be done?

- I understand that the government and the Bank of Mongolia have started working on these things. However, they started taking measures late. The price of overcoming today's difficulties will be greater the longer we lose time without making policy adjustments.

- There is research conducted by international organisations that states Mongolia is one of the leading countries at risk of falling into a debt crisis and possibly defaulting. Can you provide us with specific information about such research and its indicators?

- Debt sustainability analysis uses

a variety of criteria. For example, it includes accumulated debt remainder, debt servicing ability, economic growth and export prospects-based debt dynamics. By the Debt Sustainability Assessment, we reached the conclusion that Mongolia's current debt levels are too high. More specifically, debt risk is high as the global commodity market is deteriorating, and exports and foreign investment outlooks look poor. The possibility to improve our credit rating and finance the existing debt with cheaper debt instruments will be created if the government corrects policy mistakes and

immediately makes adjustments. It is an essential tool for reducing the risks Mongolia is facing.

- What about the impact of the mining sector on our economy? How should we create long-term, sustainable economic growth in the long run?

- Mining will continue to have a crucial role in Mongolia's economy given the huge potential reserves of coal and copper. With the second phase of OT now back on stream and the Tavan Tolgoi coal mine under negotiations, we expect large inflows of FDI over the next several

years and substantial export revenues thereafter. Putting into operation the proposed Sovereign Wealth Fund and implementation of the Fiscal Stability Law are critical in ensuring that the pickup in the commodity cycle results in an accumulation of savings and not a buildup of debt. A sound macroeconomic environment is crucial for sustainable growth, and this includes maintaining low and stable inflation, a competitive exchange rate and prudent fiscal and monetary policies.



With IMF Managing Director Christine Lagarde in Washington, DC in 2015

- Have you worked on any issues relevant to Mongolia while working at the IMF?

- When I first entered the job, I was responsible for Mongolia, Uzbekistan and Micronesia and visited these countries many times, making assessments on their economic situations to let the issues to be discussed by the IMF Board of Directors.

I got some issues relevant to my country resolved. The biggest one is that I initiated was the work to increase

to mismanagement of fiscal policy expansion and financing debt with debt. Furthermore, they announced a default in 2001, and the situation is still the same today. Defaulting carries a great risk of state assets going to the hands of lenders.

- How are the future prospects of the global economy?

- Global growth declined in the first half of 2015, reflecting further slowing down in emerging markets and a weaker recovery in advanced economies. It is

projected to improve: in particular, growth in countries in economic distress in 2015 (including Brazil, Russia, and some countries in Latin America and in the Middle East), while remaining weak or negative, is projected to be higher next year, more than offsetting the expected gradual slowdown in China.

When will your term of work at the IMF end? When will you come back to Mongolia?

- As for contract terms, it can be extended by 2 years after initial



Group photo of Mongolians who work for the IMF, World Bank, IFC and other international organisations. Washington, DC, 2013

Mongolia's credit rating and getting it approved by the board, which I am very happy about. Our country is in the list of the IMF's least developed countries with low-income status. It means that Mongolia has the option to receive USD 150-200 million loans from the IMF in case of emergency if the economy collapses. We had the right to receive a relatively small loan. Today, Mongolia's status has changed to middle-income country and carries with it the possibility to taken out a loan of USD 500-600 million.

The most interesting issue discussed by the council was Argentina's debt issue, because Mongolia is right behind this country in terms of foreign debt. In beginning, Argentina raised funds through bonds on the international market and took out loans with an annual interest rate of 4-5 percent, similar to Mongolia. However, later on, the annual interest rate reached 24 percent due

now projected to be 3.1 percent for 2015 as a whole, slightly lower than in 2014, and 0.2 percentage points lower than the forecasts made in the July 2015 World Economic Outlook (WEO) Update. Prospects across the main countries and regions remain uneven.

Relative to last year, growth in advanced economies is expected to pick up slightly, while it is projected to decline in emerging markets and developing economies. With declining commodity prices, depreciating emerging market currencies and increasing financial market volatility, negative risks to the outlook have risen, particularly for emerging markets and developing economies.

Global activity is projected to gather some pace in 2016. In advanced economies, the modest recovery that started in 2014 is projected to strengthen further. In emerging markets and developing economies, the outlook is

expiration. For me, my first contract will expire pretty soon. I am thinking of coming back to Mongolia without extending my contract. I am very happy to see many educated youth joining forces to serve their country. I will go back to Mongolia and join forces with those young people to contribute what I can to the country.

When I asked him about his hobbies, he said he enjoys any sport with a ball, especially basketball. He also said that he likes playing chess and checkers, going hiking, familiarising himself with multi-ethnic cultures, reading refreshing books and watching movies.

After going to the US, he developed the new hobby of making food for his children and grilling meat for guests. Pushing 40 years old, T.Dorjkhand is a father of four children, and says he does his best to fulfil his fatherly duties. ■

LAW

In Order to Make the Labour Law More Effective

By Ts.Badral

Labour relations are starting to improve in Mongolia. After the approval of the "Labour Law" in 1999, a new type of relationship between employer and employee was introduced. Although the law was amended a total of 18 times in the past, the existing law has become ineffective at governing labour relations. Thus, the need to reform the law has been increasing over time.

In general, enforcement of the law has become negligent as it has become less relevant to the current situation. It is no secret that there is little regard for the law, especially among small businesses. The advantage of the new draft of the labour law submitted to parliament is more precise regulation of relations. For example, long shifts at mining companies and three-party relations of labour were legislated quite narrowly. Experts say a lot of hard work was required to develop this draft law.

If the new law gets approved, the problematic issue of employee compensation at private companies can be better managed. However, organisations' internal regulation is something that still needs to be addressed. The revised law protects the interests of the workforce, and many provisions to evaluate an employee's labour have been included. For example, employees who work night shifts must receive remuneration equal to 15 percent or more than the base salary, and wages of employees who work during weekends must be doubled. According to the existing law, wages for weekend labour must be 50 percent higher than normal business days.

But on the other hand, these provisions may impose a significant financial burden on employers. For example, the draft law has a provision which states "when work starts or ends, the employer is responsible for covering

the employee's cost of transportation, and the hours of going to and returning from work must be considered work time." According to the law's provision, a company has to take on substantial additional costs as some workers come from rural areas. During the members meeting of Business Council of Mongolia, a foreigner investor said, "I don't know how to manage this provision, as where an employee lives and works is a human rights thing." Minter Ellison law firm's full time resident partner in Mongolia, Elisabeth Ellis, warned that this burden may severely affect entities, especially companies during times of economic difficulties, and companies may be forced to slash a large number of jobs. Such a case would be detrimental to the economy. In other words, unemployment will increase. She said that the provision has authoritative attributes, although it says that it aims to regulate labour relations. For example, fixed-term contracts can be made only in certain cases. The new law states that the maximum period for fixed-term contracts must be two years.

It is said that a "tripartite labour dispute committee" will be newly established with involvement of the government, trade unions and the Mongolian Employers Federation. As for the structure, it is planned to be established at city, district, provincial and soum levels and funded from the national and local budgets. Economist Ch.Khashchuluun thinks that it will become another reason to increase the expenditures of the state budget. He believes that there is no need to establish a committee while the legal framework for a mediator to resolve labour disputes before and during trials has been already established. In addition, Elisabeth Ellis believes that the dispute resolution process between an employer and employee will become slower, as one

more procedure gets added before a court trial, causing both sides to lose time and money.

Even though the scope of the law is expanding, uncertainties still remain. According to the draft law, "a family person with specific responsibilities" is an employee obliged to care for children and other family members, and carries with it limited work performance and opportunities for promotion. This kind of employee would be provided with a more flexible work schedule by the provision. Parents tend to arrive late or leave early from work in order to drop off their children at school or kindergarten and then pick them back up in the afternoon. This raises the issue of whether these kinds of cases are regulated within the law, and if so, how will companies with hundreds of employees manage work schedules? In addition, it was reflected in the law that base salary of employees performing work with same value must be equal. However, resolutions on how to determine the value of the work and how to settle disputes are still in question.

Although the draft law has made some progress, the President of National Council for Private Sector Support, Ch.Khashchuluun, and the Business Council of Mongolia's working group on law has submitted a proposal to modify and improve the current submitted version of the draft law. The main change is meant to avoid setting excessively stringent rules on the relationships between parties. Elisabeth Ellis believes that employees and employers must have the ability to resolve certain issues by discussing them directly. "The Mongolian labour relations formation process is continuing, and new kinds of relationships are continuing to form, so provisions that are too strict are unlikely to be implemented in real life," stated Ellis. The draft law was discussed among

the government, trade unions and the Mongolian Employers Federation, but the discussion lacked one key element – the opinions of enterprises that are

creating real jobs. The real issue of the draft law is that the draft was not newly created. They just fixed, cut or added onto the provisions of the old law.

These deficiencies can be corrected, as a number of criticisms are sure to be voiced during the approval process. ■

POLITICS



S.Munkhbat: Mongolian Political Parties Are Immature

By Ts.Saikhan

Many link Mongolia's current economic difficulties with political instability. Future governments and decision makers must find appropriate solutions to issues such as governance and election laws. We have sat down with Professor S.Munkhbat, Director of the Political Studies Department of the National University of Mongolia, to discuss some on-going issues within political sphere.

- How do you see the current political situation from the perspective of a researcher? Is the instability in governance a systemic issue?

- What we are seeing today is a political and governance crisis caused by economic hardships. Looking from a political perspective, there is a rising risk of a parliamentary ineffectiveness. The ruling party's implemented social policies provide little benefit. On top of this, the economy has slowed down, and market circumstances are making it difficult to complete the budget. All of these show that no matter how expansive the developed policies and programmes are, implementation depends mostly on the political parties that execute them. First off, implementation of social policies by Mongolian political parties is weak. Secondly, the parties have severely lost their capability to develop policies. In addition, factional in-fighting within

parties for positions has worsened. All of these things are having a significant negative impact on the stability of the government. This lowers people's confidence in the state and could even give rise to social crises.

- Then is there a need to change the party structures?

- There's a need to improve the structure and organisation of political parties. In particular, the legal framework that discloses the funding of parties and ensures the development of parties needs to be regulated. Today's crisis of governance is related to the fact that state privilege has exceeded the norms set by the constitution. Mutual monitoring systems have disappeared. Secondly, unruly actions of political parties also weaken the state. We are establishing a bad precedent, because parties are breaking the set norms as parties are administering unrealistic and arrogant policies. It is also a question of party discipline. Therefore, wide-reaching legal framework reforms aimed at mature party financing, membership and policies are required.

- Some politicians say strict party membership needs to be abolished. Would this be possible in Mongolia?

- It seems a bit too early to abolish party membership in the same way

developed western countries such as the US have, because the parties are immature and will forget its function of being the bridge between the state and society. Therefore, the main issues on which to focus in the future are transparency of financing structures and maturity of party policies, operations and values. These should be comprehensively emphasised and legally regulated.

- Some politicians have proposed making amendments to the constitution and election laws. Are these legal issues an influential factor in whether a parliamentary crisis will occur?

- It is becoming necessary that we make amendments to the constitution. However, any potential changes must focus on defining the authority of state bodies and system of oversight. Legislative, executive and judicial functions must be on the same level and not override one another.

- So do you believe the current constitution has become ineffective in those areas?

- Not entirely. I see that changes should be made only on the balance of powers addressed in article three, to rectify the issues causing the current political crisis. ■

IN OTHER PLACES

The Estonian Tech Revolution

By B.Enkhtsetseg

In some countries, computer programming may be seen as the realm of only nerds, but not in Estonia, where it is seen as fun and simple. The people from the northernmost of the three Baltic states break the stereotype and redefine trends in global development. Now this country, recently dubbed “e-Estonia,” uses the Internet as an engine of growth. They use e-services like they breathe air and eat food.

It is a paperless society where its 1.3 million citizens use their digital signatures to pay taxes, pay for parking space, and the population's health records are stored in the cloud. The interconnected computer network covers Estonia like a spider web. In 2007, it became the first country to allow online voting in general elections. This year, they became the first to offer e-residency to foreigners.

To understand the digital culture of this powerful player in the tech arena, seven journalists from Mongolia travelled to Estonia with the help of a cooperation project between Tallinn University's Baltic Film, Media, Arts and Communication School and the Estonian Ministry of Foreign Affairs.

Even though Estonia is 5,137 kilometres away from Mongolia, the weather is quite similar, having four diverse seasons and the challenges that come with them. However, the weather in Estonia is largely dictated by its closeness to the Baltic Sea. The journalists from Mongolia had a pleasant stay, enjoying sunshine and gentle seas, though it was that time of year when the sea breeze gives you chills and



The “old city” part of Estonia’s capital Tallinn

pushes you indoors. Our wish to see and experience Estonia's tech dominance took us to the capital city of the country, Tallinn. There aren't many skyscrapers, but a number of modern buildings in the newer parts of the city hide the large, old city in the middle where you can see remnants of its long and historic culture. Nowadays, the old city is a real cash cow for the tourism industry. Tallinn is only 43 miles from Helsinki, Finland, to which it is connected by high-speed hydrofoils and other vessels.

The business hub in Tallinn is home to more than 150 tech companies. Given the country's tiny domestic market, start-ups have been forced to think and do globally. According to the Economist, the country has the most start-ups per capita. The nation's global emergence

in the high-tech field was spurred by the momentum of the success story of Skype, which was created by Estonians and later bought by Microsoft in 2011 for USD 8.5 billion. Skype's success story created a domino effect for other rising Estonian entrepreneurs with the latest and greatest idea for a start-up. This showed other potential entrepreneurs what was possible and gave the necessary experience to make it on their own. Skype's success is not just a story one company's achievement but that of the nation. Although Skype was acquired by a foreign company, its headquarters is still in Tallinn and employs hundreds. According to the World Bank, over 14,000 new companies registered in Estonia in 2011, 40 percent more than during the same period in 2008. High-

Photo by J.Khulan

tech industries now account for about 15 percent of GDP.

“In the 80s, every boy in high school wanted to be a rock star. Now everybody in high school wants to be an entrepreneur,” said Taavet Hinrikus, Skype’s first employee and co-founder of TransferWise, a peer-to-peer money-transfer service. Estonian schools teach coding beginning in primary school to children as young as five. Today’s Estonia is known for two big things: Skype and Olympic medals.

The Germans forced out the Soviets in 1941, but in 1944, the Soviets reoccupied Estonia until it proclaimed its modern-day independence in 1991 after the “Singing Revolution.” Estonia has been the most successful of the former communist-controlled countries. Mart Laar, who served as prime minister from 1992-1994 when he was only 35 and again from 1999-2002, was the father of the economic reforms. In less than two years, his young government instituted policies of a flat income tax, free trade, sound money and privatisation. New businesses could be registered easily without delays, an important spur for geeks lying in wait. Feeble infrastructure, a legacy of the Soviet era, meant that the political class began with a clean sheet. When Finland decided to upgrade to digital phone connections, it offered its archaic 1970s analogue telephone-exchange to Estonia for free. Estonia declined the offer and built a digital system of its own. The country’s young minister put their faith in the Internet.

The whole economy today stands at USD 26 billion, and GDP per capita is almost USD 27,000, putting it in the range of high-income economies. “We would like to see the biggest sector in economy become IT. After independence, the biggest sector was transport and logistics, as Estonia has unique harbour where the water does not freeze. We expect the IT sector to be biggest in 3-4 years in terms of our export rate,” explained Oleg Shaikovsky, a board member of Nortal, a leading IT company in the Baltics.

FROM ESTONIA TO E-ESTONIA

All the former communist countries

were plagued by the corruption of the Soviet system. To radically reduce corruption, the Estonians moved to an e-government, whereby citizens could conduct many of their necessary business with the government over the Internet, thus greatly reducing personal interaction between the government and the people – eliminating most situations where bribery is possible or likely. This is how they have been turning their society into an e-society, with electronic tax submission, Internet voting, electronic health records and helping push the new wave of entrepreneurship forward. Using only a computer and an ID card, Estonians can now do all the necessary work to establish a new business in as few as 18 minutes.

The Information System of Government Sessions, better known as the e-Cabinet, lets ministers prepare for cabinet meetings, conduct them and review minutes, all without paper. At its core, the system is a multi-user database and scheduler that keeps relevant information organised and updated in real time, giving ministers a clear overview of each item on the agenda. According to a member of the media staff of the Estonian Parliament with whom we talked, once Estonia adopted its e-Cabinet system, the average length of the weekly cabinet meetings was cut from 4-5 hours to just 30 minutes. The government also eliminated the need to print and deliver thousands of pages of documents each week – a significant reduction in environmental impact, not to mention the savings. Today, hardly anyone needs to sign physically on paper. However, President of the Parliament of Estonia Eiki Nestor said that the one of few instances of having to use a writing utensil in parliament was to sign an official letter to the speaker of Mongolian parliament. He also said that in all other domestic cases in Estonia, it is impossible to sign with a pen. The president of Estonian parliament showed us his own experience of using the e-cabinet when we visited the Parliament house.

Almost every service in Estonia carries the “e-” prefix. If you see the letter e, it means that you can get that service online. Over 2000 services are



- 80% of the population aged 16-74 years uses the Internet
- 83% of households are connected
- 98% of households with children are connected
- 98% of banking transactions in Estonia are conducted through the Internet.
- 95% of income tax declarations are presented through the e-Tax Board

offered through X-Road, the backbone of e-Estonia. One of the key elements of e-Estonia is that its databases are decentralised in X-Road. Over 170 databases offer their services through X-Road. Today, 98 percent of bank transfers are done online, and 30 percent of people vote online. Ninety-five percent of income tax declarations are done online. It takes just five minutes to register a firm in Estonia, says Mihkel Tikk, the head of the country’s online portal, a one-stop-shop for e-government services. Entrepreneurs wishing to start a firm log in with their national electronic ID card, and a few clicks later the confirmation arrives by e-mail.

One of the key innovations in Estonia’s cutting-edge e-healthcare system, e-Prescription, is a centralised, paperless system for issuing and handling medical prescriptions. When a doctor prescribes medicine using the system, he or she does so electronically, with the aid of an online form. At the pharmacy, all a patient needs to do is present his or her ID card. The pharmacist then retrieves the patient’s information from the system and fills the prescription. All hospitals and pharmacies in the nation are connected to the system.

By 1998 all schools were online after a project to equip classrooms with computers was implemented. In 2000, the government declared Internet access

to be a human right. “We have Internet even in the forest,” joked Karli Suvisild, Project Manager at the e-Estonia.com showroom. But this joke is closer to reality than you may think. There is free Wi-Fi everywhere.

Estonians are starting with the young people and giving them the kind of education that will allow them to face the future in order to manage a society. Estonia teaches children how to code, while most schools in the US don't do anything related to coding. High-ranking officials think that it would take at least 15 years to see benefits from the computer study programme that is being pushed onto schools. For most kids in Estonia, the “eKool” programme is their first connection to information and communication technology (ICT). Children don't like this programme because parents can find out exactly what their kids have missed and what they need to catch up on. Estonians are preparing to use this school software starting from kindergarten.

The Estonian Information System Authority recognises the best e-services of the private as well as public sector each year. The best private e-service of 2015 is Barking, a smart parking app that lets people who have a vacant parking spot rent it out and earn extra money. As the Estonians say, “parking finds me.” For this year, Estonia's best e-services are the e-Residency application portal, Barking, SportID, Estonian Movie Database and services offered by the Road Administration. On the other side,

the best public service, implemented the Road Administration, allows users to do vehicle history checks, renew driver's licences and register cars to new owners online. According to the Road Administration, the online driver's licence system alone will help to save around 5,000 labour-hours this year.

Oleg Shaikovsky of Nortal said that he has been checked 200 times from distance without having to stop for the duration of the year. There was only this one time when he was stopped by the police to check if he had been drinking as it was his birthday the day before.

Estonia is the vanguard in electronic ID cards as well as Mobile IDs. It has by far the most developed national ID card system in the world. Much more than simply a legal picture ID, the mandatory national card serves as the digital access card for all of Estonia's secure e-services.

Mongolians have the similar electronic card with limited usages. But in Estonia, people use their ID Cards for travel, health insurance, logging into bank accounts, public transport, voting and so much more. There are more than 1.2 million active e-ID cards in Estonia – nearly 94 percent of Estonia's population.

Estonia, ranked 131st in the list of countries by total area, dominates start-ups per capita in Europe. Despite the start-up boom, Estonia has strengths and weaknesses in this industry. For bigger markets with more customers, successful Estonian start-ups tend to move management abroad. Experts are

quite critical about how long Estonia's start-up boom will last. But for Estonians, who see the Internet as a place where anything is possible, they seem to have found the answer: e-Residency. Nearly 6,000 e-residency cards have been issued to individuals in 119 different countries. “We created e-Residency to grow the digital economy, attract new investment and connect with new businesses. E-Residency provides enormous advantages in convenience and flexibility for anyone who has an existing business or other connection to Estonia,” said Kaspar Korjus, e-Residency Programme Director

Forbes wrote that in Estonia, thinking globally has become a national mindset. The next big thing that Estonians are striving for is the fifth generation of e-services. According to their definition of different e-service generations, Mongolia is currently in the third generation. In a country that turns fictional movie ideas into reality, people try fast, fail fast and improve fast. Estonians are living in the future, ahead of us. The public sector did not do it all alone. They let the private sector invent and create without any barriers. Why are other developing countries not rushing into this model?

According to officials from Estonia, this development model requires full political commitment and readiness to lay everything out in the open for everyone's eyes to see. It is highly doubtful whether a country full of politicians with dirt-laden hands would be ready for this level of transparency. ■



Journalists have a sit-down with the President of the Estonian Parliament, Eiki Nestor (middle-right)

Breathing Life into Leather

By I.Otgonjargal

The topic of this instalment of our "Made in Mongolia" column is the leather production company Mon-Lans LLC. On the 16th of September, the Ministry of Industry organised the first ever industrial forum "Made in Mongolia," with about 500 foreign and domestic representatives in attendance. The organisers of the forum gave leather handbags to 400 honoured guests to promote the domestic manufacturing. The 100 who did receive handbags were left a bit envious as their colleagues shared their pictures through social media, giving Mongolians surfing the web a taste of their country's products. People were saying "Mongolians are able to make quality leather products. It's time to establish a global brand of leather goods." The number of shares and likes has already exceeded several hundred thousand as of now. The Ministry of Industry did not select the handbag from just one of those common leather goods manufacturers. They announced a competition among leather bag manufacturers to select the best handbag design and tested the abilities of the manufacturers. The handbag's design allows for a laptop or tablet to be placed beside documents, making it suitable for people who regularly attend meetings. Mon-Lans LLC used leather processed by Darkhan Nekhii LLC, and the design was developed by Khishgee Fashion LLC.

Mongolia has many leather factories that produce final products. D.Baasan, the Director of Mon-Lans LLC, said that leather bag manufacturing has been ramped up in Mongolia. According to her, handbags are manufactured for a variety of uses, and manufacturing is rather intensive, as there are lot of steps and procedures. In addition, many shoe makers have recently started to manufacture bags, and even bag manufacturing by individuals has started to increase.

D.Baasan noted that household manufacturing of leather bags are not meeting quality standards. As for her, she has been working in this industry for over 30 years after studying leather design in the Czech Republic. She started working at Mon-Lans LLC in 1996. Her past

work experience is a testament to her designer skill and experience. Today, it has been 25 years since Mon-Lans LLC was established. Although the company had the possibility to produce a variety of products, including leather clothing and shoes, D.Baasan decided to only carry out handbag production, attending her own interest area and to leave that market to others. Most Mongolians know that Mon-Lans is a leader in domestic leather handbag production. In addition to handbags, the company manufactures leather accessories such as wallets, belts, pouches and key chains. They mainly manufacture their products upon receiving orders and export them. In other words, not many of their products are sold in the domestic market. As of today, the company exports its products

to Russia, Kazakhstan, Germany, China and South Korea. They recently opened retail stores at the Night market and Hunnu Mall in the capital. Tourists are quite familiar with their products, as they are one of Mongolia's first leather goods manufacturers. D.Baasan, who described her company operating for 25 years as small factory, said she is confident that the time for Mongolian leather products to amaze the global market is near. Hence, we sat down with her to talk briefly about the leather industry and its potential to direct the foreign currency into Mongolia.

- Products made using Mongolian leather tend to be of good design and quality. However, people do not use it widely since the domestic prices



*Top: the bag gifted to 400 guests of the forum
Bottom: a newer version of the bag with side compartments for carrying documents*

are high, especially those of leather shoes. How can the prices be brought down?

- The high prices are related to the limited capacity of factories producing end products. Small factories with few personnel can't produce a large number of products. The price will go down as unit output increases. Prices will never fall given such small scale production. Cheaper products will be offered to the people if the factories and number of units produced expand. It is understandable that people criticise domestic prices because there is no mass production. Of course, prices will be higher when orders seldom come in. A profit margin of 20 percent is considered quite high in manufacturing. But Mongolia's small- and medium-sized household production is raking in 200-300 percent profit, because all the materials, such as zippers and harnesses, need to be imported. Only the leather is from a domestic source. Import goods cannot be found for such cheap prices. Thus, we need large factories which can produce in large numbers instead of many small factories. However, our factory's products are actually relatively cheap.

- It has been a while since Mongolia started talking about the development of small- and medium-sized manufacturers (SMMs). However, there is no definition to clearly differentiate small and medium. How do you foresee the development of SMMs?

- Currently, we are rather small compared to the sector at large. We will penetrate the global market by putting into operation bigger factories and increasing manufacturing capacity. Mongolians talk about the number of employees when they talk about SMMs. In my opinion, this is not all too important. The real questions we should be asking are: How is a manufacturer contributing to Mongolia? What is the share of GDP of the products? How much do they export? There is no need to slap the SMM label on things. We need to set the goal of expanding the nation's factories. There is the possibility to enter the global market if 10 large factories from sectors such as shoes, bags and clothes were built. Doing so would even satisfy domestic

demand.

- You said that we are very close to establishing global leather brand in Mongolia. When will this become possible in your opinion?

- This industry has a bright future. Mongolian livestock eat the best grass because the animals graze throughout the four seasons. So, it would not be an exaggeration to say that even their skin contains vitamins. Also, the skin of Mongolian livestock withstands the cold better since the climate is so harsh. It has flexibility and quality. Thus, we need to develop this industry and make fantastic products. I envision that it would take three years to get Mongolian leather on the global market. Things are gradually improving on all levels. Our leather processing factories are moving to modernise its technology by taking out big loans. We have seen good results from that. With the establishment of the Ministry of Industry, we began viewing industrial development from an appropriate angle. Policies to develop strong, large factories are likely to be issued seeing from the recent industrial forum. Hence, this industry has a bright future. Herders simply need to focus on improving the quality of their livestock and leather, and manufacturers need to prepare to leap onto the global market in this span of three years. It is also important to participate in international exhibitions and prepare customers after testing the brand products and developing the designs. All of these will need time. Mining can dig and extract. We are different from that. We have little time to introduce Mongolian leather to the global market. We need to use this time wisely. In doing so, I am confident that a Mongolian leather brand will captivate the world.

- How often do you take part in international exhibitions? I heard that the director of a large Dutch



Photo by B. Byamba-Ochir

The Director of Mon-Lans LLC, D. Baasan

handbag company provided advice and training.

- Today, all of Mongolia's manufacturers cannot afford to reserve the big booths in international exhibitions, but we do participate within our means. We gain something every time we go. For example, our company participated in an expo held in Japan and found a good partner. We are flying to Germany to participate in "Bazaar Berlin," which will be held November 18-22. In addition, we are preparing to go to Italy, South Korea and the United States in search of market opportunities. We complete at least one deal every time we leave. Last year, the owner of the Dutch handbag maker Bulaggi, Wim Walraven, came here for a month to train and provide advice to us, and he told us he believed that Mongolian leather products are nearing international competitiveness. Also, the director of Dutch handbag company "O My Bag" came here to have us make handbags. The director of the company liked our handbags and decided to work with us. It shows that Mongolian leather products are fully capable of entering foreign markets. ■

Oil

The Global Oil Price Slump and Mongolia

By O.Tuvshin

Crude oil is not a topic widely discussed in Mongolia. However, oil is the key commodity in many economies. Various factors on both the supply and the demand sides have forced the per barrel price of oil to be cut in half over the past year. Global crude oil prices are tracked by two major indices. The West Texas Intermediate (WTI) is used mainly by the North American oil industry, while the Brent Crude Index is used by the rest of the world. The prices expressed by both indices are always quite close, although Brent Crude tends to be a little bit higher.

In June of 2008, during the peak of the Great Recession, a barrel of oil reached USD 147, the highest recorded price in history. Starting around the end of summer 2008, oil prices then took a nosedive, bottoming out at USD 44 in February of 2009. As nations began to recover from the global credit crunch, oil rebounded and stayed between USD 80-100 for a good while, until October 2014, when it started the descent to the levels we see today.

There is a global supply glut. Russia, despite economic sanctions, and Iraq, despite the ISIS insurrection, have both managed to increase output. In recent years, the US has significantly expanded its own oil industry, becoming the world's largest producer of refined oil products and even a net exporter of natural gas. This domestic source of energy in the US means that countries such as Saudi Arabia and Nigeria are selling less to the Americans and need to look elsewhere, such as Asia and other developing economies, for revenues.

As far as global demand, the EU economy is showing signs of weakness, and China, the world's biggest importer of oil, is in a state of transition to a "new normal," which implies slowing demand. Gone are the days of double-digit growth in China. The recent devaluation of the yuan also means importing has been

become more expensive for the Chinese. In addition, there is plausible speculation that China's slowdown is more severe than predicted.

Although nothing is certain, Moody's predicted that the price of oil will not reach USD 70 until the end of this decade. In addition, OPEC's next meeting is scheduled for December 4, 2015, and it is not expected that the cartel will cut production. Although some member countries are calling for cuts in production to boost prices, the heavyweight of OPEC, Saudi Arabia, along with other US allies in the region are refusing. Iran also had international sanctions placed on the country for its nuclear programme, but the Iran nuclear deal has been completed, and major sanctions are set to be lifted before the end of the year, provided Iran complies on its end. This means Iran's capacity for oil production can be exploited once again, further adding to global supply.

Whether low prices hurts or helps a nation depends on whether it is a net importer or exporter of oil. Countries where oil is a major sector of economy have been feeling the negative effects of low prices. It has caused significant declines in state budget revenues of oil-exporting nations such as Brazil, Nigeria, Iran and many others. For a net importer like Mongolia, lower oil prices are generally a good thing. However, the depreciating value of the tugrik somewhat offset the falling global oil prices, which is denominated in USD. Since October 2014, the global price of oil has fallen by half, and the tugrik has depreciated by roughly 17 percent against the US dollar. On top of this, the annual inflation rate was at 4.9 percent as of September, according to the National Statistical Office.

There a multitude of factors that determine how much the per litre price of gasoline will be at a certain time. We do not extract oil from the ground and



Market Realist[®] Source: NYMEX & ICE

transfer it straight into the gas tanks of vehicles. In general, about half of the price at the pump is derived from the price of raw crude oil. About a quarter is derived from the process of refining crude oil into gasoline, diesel and other fuels. The remaining quarter can be chalked up to transportation costs, retail margins and taxes.

However, in Mongolia the price of gasoline is heavily regulated by the government. When oil was much more expensive over a year ago, gasoline importers were subsidised so that consumers can buy cheaper fuel. Then, when the price began plummeting a year ago, the government imposed import tariffs to keep the price at the pump steady at MNT 1,550-1,660 per litre, which is roughly the level at which it has stayed since the beginning of 2013.

There are no oil refineries in Mongolia, and in 2014, the country imported 91 percent of its petroleum products from Russia. All the gasoline, diesel, jet fuel and other processed petroleum products are imported, and all but two of Russia's major oil fields are in the western part of the country. The small amount of crude oil Mongolia extracts within its own territory is exported as a raw commodity to be processed.

There has been talk of establishing an oil refinery as part of the greater industrialisation agenda, but it is still in the talk stages, and nothing concrete has been planned yet. If this oil refinery were built, it could go a long way in reducing Mongolia's demand for oil imports, but it is difficult to estimate exactly how much difference a refinery would make to the import-export balance of oil. It would depend on the capacity of the refinery. However, before making any hasty plans, researchers need to study whether pulling investment into an oil refinery would be economically profitable given sustained low oil prices. ■