

For green development

MONGOLIAN ECONOMY

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ECONOMY
MANAGING MONGOLIA'S DEBT

GREEN ECONOMY
GREEN DEVELOPMENT POLICY
OF MONGOLIA

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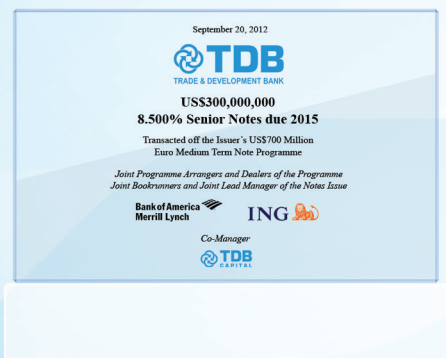
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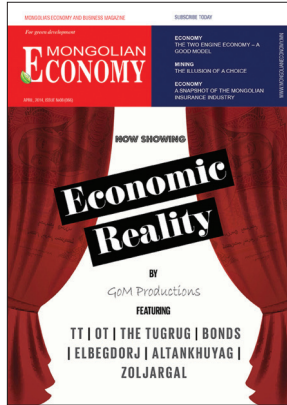
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MONGOLIA

Infrastructure

The Development Bank of Mongolia will sign a contract with Russia's Vnesheconombank, also known as the Russian Development Bank, for a USD 75 million loan to mature in 2022. The bank plans to use the loan to expand the capacity of Power Plant No.4 with the purchase of a new, 100-megawatt turbine generator. The Development Bank had received a total of USD 48.5 million as of 25 June 2014.

Mining

State-owned miner Erdenes Tavan Tolgoi has agreed to supply 4.25 million tonnes of coal a year to eight Chinese buyers. Sales are set to total nearly USD 160 million at a sales price of MNT 35 a tonne. The company plans to mine 7.5 million tonnes of coal, sell 7 million tonnes, and earn USD 250 million this year, Mining Minister Davaajavyn Gankhuyag said.

Light Industry

Mongolia's expanding cashmere industry has created more than 300 jobs. Around 6,000 people are employed in Mongolia's cashmere and wool industries. Between 80 to 90 percent are women. Mongolia has the capacity to produce 7,000 tonnes of cashmere products a year. The country exports 85 percent of its cashmere production, with the remaining 15 percent processed domestically.

Ulaanbaatar

The Ulaanbaatar Citizens'

Khural has ordered the purchase of 40 micro buses, 40 medium-sized buses and 120 large buses as the city continues to expand public transport services. The Public Transport Development Fund will fund the purchases. Parliament included MNT 20 billion in the state budget this year. Ulaanbaatar currently has over 600 buses in operation. The city purchased 40 buses in 2009.

Renewable Energy

Mongolia's Asian Super Grid initiative was discussed at an international forum for renewable energy in the region on May 26 in Ulaanbaatar. Attendees arrived from Russia, China, Japan and South Korea to discuss a renewable energy grid for Southeast Asia. The Gobitech initiative would provide clean energy in Mongolia's Gobi region while exporting energy to nearby countries.

Tourism

The Government has released a list of 42 countries they hope to achieve visa-free status for Mongolian citizens. Citizens of those countries would in return also receive visa-free status when visiting Mongolia for up to 30 days.

The resolution is a part of Prime Minister Norovyn Altankhuyag's 100-day economic stimulus initiative.

Green Economy

Environment and Green Development Minister Sanjaasurengiin Oyun was appointed as chair to the first session of the United

Nations Environmental Assembly (UNEA), held in Kenya's capital city of Nairobi. More than 170 representatives participated in the session. The assembly discussed sustainable development goals, post-2015 Mongolian development goals and the illegal trade of wild animals and plants.

Export-Import

Mongolian Coal Corporation, a subsidiary of Hong Kong-listed Mongolian Mining Corporation, has established a joint venture with China's Risun Mining for the sale of coal products at the Tianjin Port free trade zone. Mongolian Mining owns 51 percent of the The Tianjin Zhengcheng Import and Export Trade joint venture, which was established for the transport and sale of coal at the Free Trade Zone Airport Economic Zone. Risun owns the remaining 49 percent. Total investment for the joint venture is CNY 14 million (USD 2.258 million).

Economy

Bankers have warned the risk of the growing the debt level at a summit for Mongolia's macroeconomic outlook last month in Ulaanbaatar. Bank representatives warned Mongolia was on track to exceed that of other developing countries as debt heads towards 60 percent of GDP. They advised that Mongolia end its Price Stabilisation Programme, cut budgetary spending cut and improve supervision over commercial banks.

WORLD

Global Banking

The world's biggest 1000 banks made a total of USD 920 billion in profit last year, according to The Banker's annual rankings of the profits and capital strength of the world's biggest 1,000 banks. This shows the banks' rise in power since the financial crisis.

China's banks made USD 292 billion in aggregate pre-tax profit last year. This accounted for almost one-third of total profits, or 32 percent of the industry's global earnings.

Asian Markets

Asian share markets edged cautiously higher while the USD stayed under pressure ahead of a packed week of economic data.

As of July 7, most markets across the Asian region were up modestly with Seoul adding 0.7 percent and Shanghai

0.6 percent. Japan's Nikkei recovered from an early stumble to end 0.4 percent higher.

Spread betters in Europe also predicted opening gains of between 0.1 and 0.3 percent for the FTSE 100, DAX and CAC 40. The S&P 500 EMini contract was a whisker firmer.

Europe

EU summit participants postponed imposing economic sanctions on Russia on June 27.

The move came a day after an advertising campaign by two top US business lobby groups warned of

the negative impact on US companies if sanctions were proposed. "Preliminary consultations show that today almost no leaders of EU states find it necessary to impose trade and economic sanctions on Russia," a source in the delegation from a Western European country said with confidence to newsagency Itar-Tass.

However, European officials carried out preparatory work on possible sanctions to implement against Russia if the situation in Ukraine demands so.

China

Chinese e-commerce company, Alibaba Group Holding, has selected the New York Stock Exchange for a US IPO, Reuters reported. The move deals a blow to the rival Nasdaq.

Alibaba handles more than 80 percent of online retail transactions in the world's second-largest economy. The company will list under the symbol "BABA."

The summer debut could be the largest US tech IPO and is expected to eclipse Facebook's USD 15 billion initial share sale in 2012.

Russia

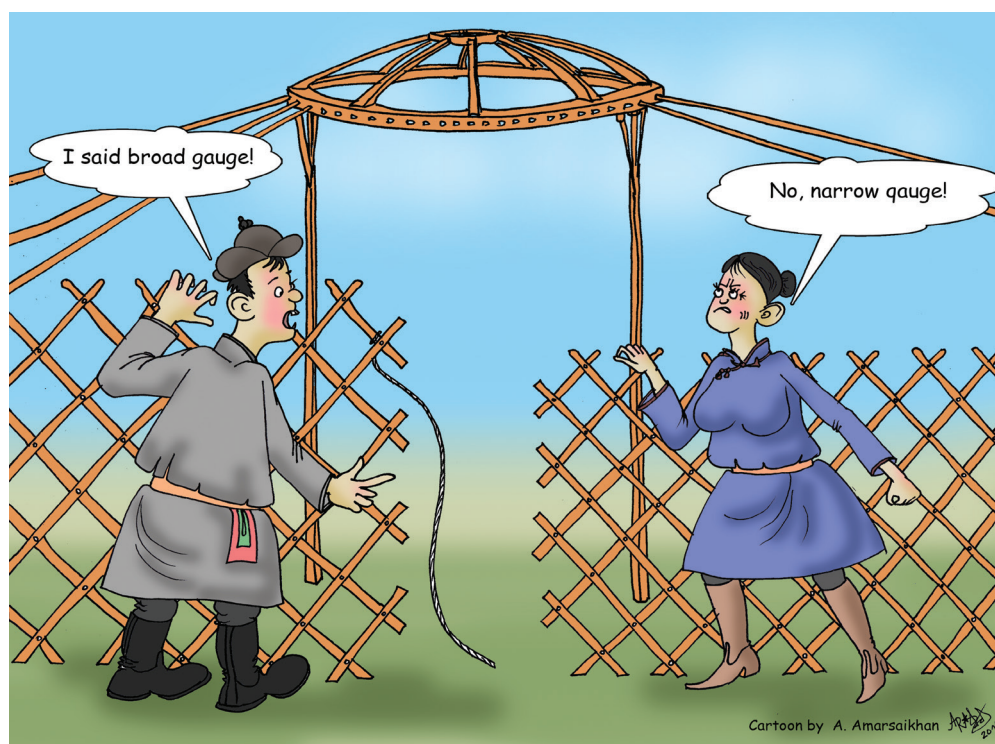
Russian metals and mining group Mechel will boost coal sales to China by 19 percent to 7.5 million tonnes in 2014, Itar-Tass reported. Sales to Japan will grow by 42 percent, to 1.85 million tonnes, and to South Korea by 43 percent to 1 million tonnes, according to Mechel Mining Management Chief Executive Officer Pavel

Shtark. Long-term contracts account for 32 percent, or almost one third of all contracts.

Japan

BBC reported that consumer prices in Japan rose to an annual rate of 3.4 percent in May, the fastest pace in 32 years, as the effect of the sales tax hike started to be felt. Japan raised its sales tax rate from 5 to 8 percent on April 1 this year.

The price growth in May follows a 3.2 percent jump in April and is a big boost for Japan's attempt to trigger inflation. Japan has been battling deflation, or falling prices, for best part of the past two decades which has hurt domestic demand and stifled growth. ■



FEATURE

THE GREAT DEBATE – PUBLIC VERSUS PRIVATE

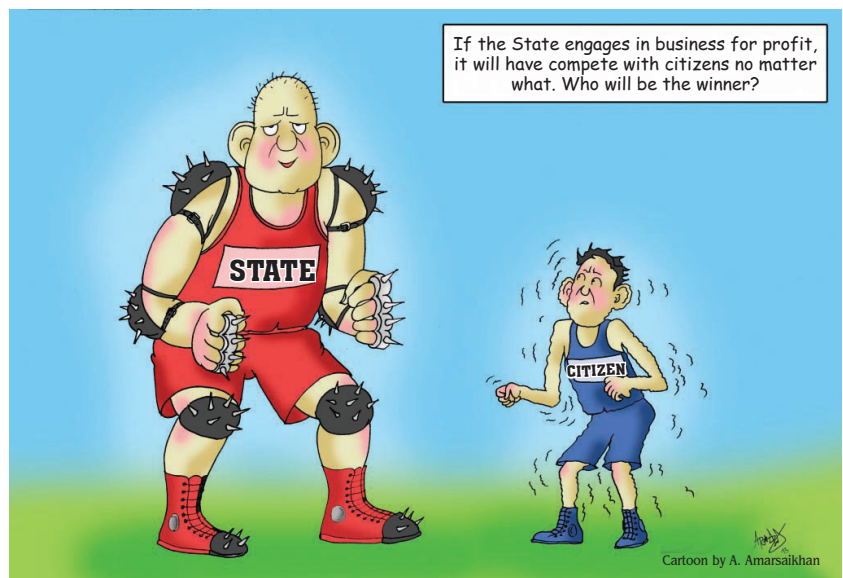
BY I. OTGONJARGAL

An address by the President, Tsakhiagiin Elbegdorj, at the 2014 Mongolia Business Summit had a clear and direct message: State intervention is stifling the growth of the private sector and the economy.

“Mongolia’s State can pave the right path when we create an organised society in which laws are enforced by the State, but on the other hand, the public demands the State to be responsible. I can see that the strongest sector, which can be the most organised, is the private sector,” said President Elbegdorj.

“I think that today’s summit, organised by the private sector and supported by the government, is the beginning of a new environment for entrepreneurs. I will always support the private sector in the future because entrepreneurs make optimal and cost-effective solutions. They can be responsible, efficient and in control. But when the state intervenes in their activities, everything turns costly, undervalued and politically motivated. From today on, we need to make it a habit that we support the private sector instead of intervening.”

Mr. Elbegdorj also said the issue of contributing to the private sector was



From top: Current cover picture and then cover picture Mongolian Economy special edition on state intervention in private sector, published November 2013.

being discussed at a policy-making level. He made a clear decision with the Premier and the Parliament Speaker to not pressure the private sector and to stop acting as a competitor.

Additionally, the President discussed the transition to a new attitude where foreign companies can talk and negotiate freely with Mongolian companies on their own, and not via any state organisations. He ►►

► said that when businesspeople meet each other, they don't talk politics, they talk business.

The business community's feedback and complaints about extreme state intervention in the private sector is more apparent during annual events and meetings held in Mongolia, such as the Mongolia Economic Forum. For example, critics of the Price Stabilisation Programme, jointly implemented by the Government and the Bank of Mongolia, repeatedly claim it's ineffective. Critics argue that the price of goods has to be set fairly according to the market economy. There is also concern over state-owned companies competing with private companies in certain key areas, such as road construction and coal exports.

"There are several ways to assess the volume of state intervention in social life. The easiest way is to assess the percentage of the state budget to GDP. In developed countries, the state budget is always well below 30 percent of GDP," wrote philosopher Yo.

Enkhbayar in his article called 'State Intervention Is Too High', published in *Mongolian Economy* in November 2013.

He also said, "When it comes to Mongolia, the 2013 budget revenue accounted for MNT 7 trillion which was equivalent to 40.2 percent of GDP while spending was MNT 7.4 trillion or 42.2 percent of GDP, making a loss of MNT 356 billion, which was equivalent to 2 percent of GDP. From these figures, I would say that state intervention contributed to 42.2 percent of GDP in 2013. It means that if you earn MNT 100, then you have to pay MNT 42 back to the state."

State intervention encourages corruption

Some politicians and businesspeople say that recent actions aimed to reduce corruption in Mongolia have not worked because of the power the State holds. However, the Corruption Perceptions Index 2013 shows that Mongolia's corruption rate has reduced slightly and

that economic freedom is on the rise.

It is understood that more initiatives and engagements by the private sector are expected to hold the Government accountable. President Elbegdorj expressed that he will continue to work on achieving his From Big to Smart Government campaign.

Mongolia's entrepreneurs flourished during the early 1990s. Today, some of them are successful businesspeople who broke through challenging conditions. They are a part of the 80 percent contribution that the private sector makes for Mongolia's GDP. In the past two decades, the country's economy has faced two to three crises, during which entrepreneurs were among the most affected.

Mongolia's business environment is evolving and changing to meet the demands of its society. As it grows, the business community is encouraged to collaborate with the Government to create a setting that not only fosters innovation and entrepreneurs, but also contributes to an economy which can benefit everyone. ■

INVESTMENT

THE 2014 MONGOLIA BUSINESS SUMMIT

BY B. BAYARTOGTOKH

The inaugural Mongolia Business Summit saw the signing of an investment deal worth USD 1.3 billion for the construction of Power Plant No. 5 – a project shared between France's GDF Suez, Japan's Sojitz and South Korea's Posco Energy. Each company will invest USD 100 million for the project, expected to start June 2015.

The 2014 Mongolia Business Summit

formed a vital part of Government's 100 Day Action Plan. The summit, organised by the Mongolia Economic Forum non-government organisation, the CEO club and the Business Council of Mongolia, was attended by more than 400 international and national representatives, including the president and prime minister, as well as members of the State Great Khural and the Cabinet Secretariat.

"As a part of the 100 Day Action Plan,

the government is working to make the business climate more stable and remove difficulties and pressures that are faced by businesspeople and wealth creators. The government has amended some 23 laws and submitted them to the Khural for approval aimed at contributing to businesspeople and manufacturers," said Prime Minister Norovyn Altankhuyag.

Despite these changes, the government continues to receive criticism regarding ►

► its attitude towards foreign investors. The Oyu Tolgoi mine has been at the centre of a long dispute between the government and its 66 percent shareholding partner Turquoise Hill Resources, of which Rio Tinto owns a majority. An agreement has not been reached over the financing of the mine's second stage of development.

"There cannot be an issue about whether or not Oyu Tolgoi can move forward or survive in the future. If Oyu Tolgoi was an airplane, it has already taken off and is heading for its destination," said Davaadorjiin Ganbold, chief executive of the state-owned body holding ownership of Oyu Tolgoi.

However, the mine's development has faced a series of setbacks, the latest being a disagreement about a recent audit report claiming unpaid taxes penalties and disallowed entitlements.

Investor confidence will be hard to restore. The Oyu Tolgoi disagreement has undermined foreign investment and has made Mongolia's investment environment volatile and unclear. Director of the Invest Mongolia Agency, Sereeteriin Javkhlambayar, said that investors are still looking to Mongolia for investment into sectors other than mining.

"Investors will absolutely need some time. The structure of foreign investment inflow towards Mongolia has changed. Investment is diversifying. Previously, foreign investors were only interested in the mining sector, but now other sectors are also drawing their attention."

According to an estimate by the Ministry of Economic Development, Mongolia needs USD 60 billion – five times GDP nominal growth – to fund infrastructure works during the next 15 years.

During the summit, presidential advisor P. Tsagaan introduced a report called "Where to Invest Around the World in 2014" by Daniel Altman, a global economics columnist at the magazine Foreign Policy. Mongolia is ranked 10th, behind other Asian countries including Cambodia, Singapore and Hong Kong.

Tsagaan, quite unwaveringly, said that foreign investors can trust in Mongolia and the right time has come to invest in the right place. If Mongolia can sustain its double-digit growth over the next 20 years, its economy will reap the benefits of a USD 100 billion injection, he said.

According to the Economic Research Institute of Mongolia (ERI), Mongolia's GDP grew as much as ten times from

USD 1 billion in 2000 to USD 10 billion in 2011.

The Power plant at the Tavan Tolgoi mining site will also require huge investment – an estimated USD 1 billion. Four companies have been shortlisted through a tender process, including South Korea's Daewoo and POSCO, France's GDF Suez and a consortium of Japanese companies, Kansai Electronics and Marubeni.

To give visitors a taste of Mongolia's strategic sectors, on the third day of the summit investors visited various sites including the Oyu Tolgoi copper mine, the Ukhua Khudag coal mine, APU's beverage factory, the Gobi Cashmere factory and Mongolyn Alt's cement factory.

The summit, expected to continue to take place annually, introduced Mongolia's business and economic climates to foreign investors; it also introduced new business opportunities in an effort to regain investor confidence.

Along with new laws, a resolution with Oyu Tolgoi and a general shift in attitude from the country's lawmakers, will peak investors appetite for this frontier market. ■



Above: President Elbegdorj addressing the business community at the Mongolia Business Summit 2014.

Photo by B. Byamba-Ochir

FREE TRADE ZONE

ALTANBULAG – FREE TRADE ZONE OPENS



Photo by T. Chingee

Above: Altanbulag FTZ entrance

BY S. AZ

Even in the 13th Century, Mongolia served as a gateway to its neighbouring countries.

However, it was only last month that Mongolia created the Altanbulag Free Trade Zone (FTZ) in Selenge, near the Russian-Mongolian border, where international freight and trade is expected to start in the near future. A few months ago, it was just an empty steppe with no paved roads. Now, it's a bustling place with an overwhelming number of cars where people gather to conduct business.

In the zone, commodities can be traded free of tax. The free zone's vision is

to become a border point. A company can own 200 square metres in the zone, which would be a stimulus for the company to run its business activities more liberally. Altanbulag's Governor's Office has the same policy towards the issue. Foreign invested companies are also entitled to use land here in the zone.

"One branch of the Silk Road, a series of trade and cultural transmission routes, was developed passing through Mongolia in the past. Altanbulag free zone is considered to be a continuation of this opportunity. Mongolia needs to make clear a legal setting for developing this free zone," said B. Shinebaatar, the state secretary at the Ministry of

Economic Development.

"From this aspect, the Ministry of Economic Development has formulated a bill on the free zone and submitted it to parliament. There might be either a positive or negative aspect from business activities in the free zone. Based on these, we will make an assessment and conclusion on what changes could be made in the future."

This FTZ was talked about for more than 10 years but officially launched on June 22 this year as part of the Government's 100 Day Action Plan. It has created a new development gate for Mongolia with a number of commodities from Russia and China expected to travel through here. ▶

► Business people from Russia, China and South Korea attended the opening ceremony. However, the number of Russians attending was down due to no firm action in the past and a lack of confidence by businesspeople from the two neighbouring countries.

A number of Ulaanbaatar citizens also attended the ceremony. They paid MNT 100,000 a day for booth rental for eight days.

“Our expectation is not only to expand trade cooperation between Russia and Mongolia, but to trade a number of commodities imported from China via this free zone. During initial stages, only commodities will be traded here. But in the future, we want manufacturing products to also be traded,” said Ts. Tsolmon, member of parliament, during the opening ceremony of the FTZ.

“This would also be an opportunity to diversify the manufacturing industry. Of course, there are a number of obstacles during the launch phase. Information is insufficiently provided for potential buyers. This needs to be advertised through both Russian and Mongolian media.”

For entrance to Altanbulag FTZ, foreign citizens were not issued a visa while Mongolian citizens were issued an entrance form. International experiences suggest the main principles for the free zone are visa exemption and the creation

of a convenient foreign investment climate with good service.

When planning Altanbulag FTZ, these principles were kept in mind. For those who want to live and work in the free zone, they are required to get permission for temporary residency from the Governor’s Office. But for those who want to visit here from Southeast Asian countries including China and South Korea, they must obtain a transit visa from their home countries. Russian and Mongolian citizens can visit the free trade zone without a visa.

“Altanbulag free zone is creating big opportunities for business people. International experiences reveal that all types of operations are allowed in any free economic zones. In this sense, the free zone has the potential to be further developed. This convenient duty free environment positively affects foreign and national investors,” says Ch. Chimedtseren, head of the Governor’s Office at Altanbulag FTZ.

“In 2015, a strategic trade partnership contract worth USD 100 billion is expected to be made between Russia and China. If Mongolia could get some business activities of a mere USD 1 billion through this economic trade zone, domestic markets can benefit from USD 100 million to USD 200 million a year from now. This will create the opportunity for Mongolia’s retailers and

even for large companies to handle these activities.”

Furthermore, he said commodities imported from China accounted 70 to 80 percent of GDP of the Republic of Buryatia, according to Chimedtseren. These commodities are transported from China to Russia through Manchuria, a border point located on the Russian-Chinese border situated more than 1,000 kilometres away from Buryatia. However, the new free zone is located 300 kilometres away from Buryatia.

Currently, building materials and car sales centres are under construction in the free zone. There will be more than 80 booths for rent with an area of 24 to 72 square metres each. The construction of other trade centres is planned to be launched from July and August this year.

The trade fair finished on June 29 while trade and business activities are expected to continue until September 22 this year. If FTZ could attract foreign and national investors during this period, its operation is expected to turn into 24 hours a day. Paved roads will also be constructed in Altanbulag as a part of the Chinggig highway project.

“This was a timely move not only for Mongolians, but for Russian and Chinese businesspeople. The Parliament of Mongolia is currently in discussion over legislation on Altanbulag. In the future, a number of issues will be addressed in the hope that this move could become a large cooperative effort between Russia, China and Mongolia,” said S. Bayartsogt, member of the parliament.

Officials at the Governor’s Office of Selenge believe the province will develop in connection with the development of the free zone.

The main direction and functions are given to the Government and to the Ministry of Economic Development on making the right policies and providing 24-hour operation in the free zone.

Mongolia has just taken its first step towards trade with its neighbouring countries and creation of financial flow that will be transited through Mongolia. Whether this step will translate into results now depends on effective state policy. ■



Above: A Russian truck entering the Altanbulag FTZ.



Photo by B. Byamba-Ochir

Above: President Elbegdorj and Latvian President Andris Bērziņš walking into Government House from Chingghis Square.

OFFICIAL VISIT

HIGH PROFILE VISITS TO MONGOLIA

BY B. BAYARTOGTOKH

The Latvian President, the Assistant General Secretary of the United Nations and North Korean officials were among several recent high-profile visitors to Mongolia. Cooperation and collaboration, sector strategy, the forthcoming visit from Vladimir Putin, visa issues, democratic governance and human rights were just some points of discussion amongst the esteemed guests. A breakdown of whom and why they touched base in Mongolia follows.

The President of Latvia, 11–13 of June

This was the first visit to Mongolia for Latvian President Andris Bērziņš. The two parties held talk on strengthening the relations between Mongolia and Latvia. This visit played an important role in identifying intentions to further cooperate.

During the visit, an agreement on visa exemptions for those who hold diplomatic and official passports of the two countries was also signed. This will allow this type of passport holder to visit each country without a visa for up to 30 days. The President of Latvia also invited the President of Mongolia to ►

► visit Latvia in the future.

Latvia, a member of European Union and NATO, is successfully overcoming its economic crisis and is now seeing rapid economic development. Latvia will also be chair to the Council of the European Union next year.

North Korea's Officials, 20–25 June

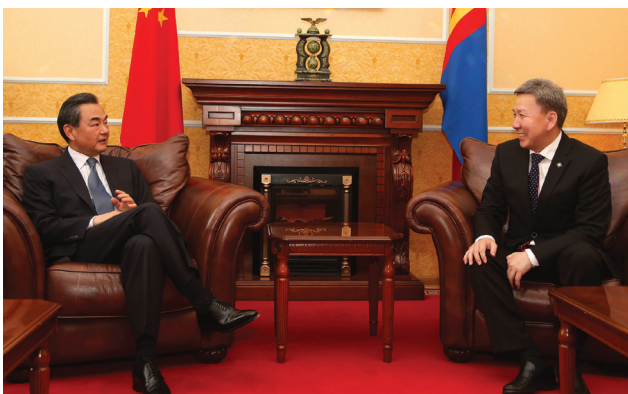
Several representatives from North Korea visited Mongolia, led by Vice Director of the General Department of Tourism, to attend a workshop called "Development Trend of Mongolia's Tourism Industry and its Future Policy".

The purpose of the visit was to learn about certain policies implemented by Mongolia's tourism, develop cooperation between the two countries and exchange experiences. Mongolian companies with a similar scope were introduced to the North Korean team who also visited the Institute of Finance and Economics to discuss the possibility of joint personnel for the tourism industry.

Assistant General Secretary of the United Nations, 16–20 June

Assistant General Secretary of the United Nations and Director of the Regional Bureau for Asia and Pacific at the United Nations Development Programme (UNDP) Haoliang Xu visited Mongolia. During the visit, he expressed his satisfaction with the cooperation between United Nations and Mongolia. He also emphasised that Mongolia was successfully implementing the ninth goal of the Millennium Development Goals about affirming human rights and developing democratic governance. Mr. Haoliang Xu also expressed that the UNDP is working closely with Mongolia as a future partner, and not only as a donor.

Minister of Foreign Affairs of China, 24–26 June



Wang Yi's visit aimed to strengthen mutual understanding and cooperation issues, and to deepen collaboration between the foreign ministries at international and regional levels. The visit came in preparation for an imminent state visit by China's

President Xi Jinping.

His visit was also in response to the Mongolia's Foreign Minister's visit to China earlier this year. This year also marks the Year of Mongolia-China Friendly Exchanges as the two countries celebrate their 65th anniversary of diplomatic relations and the 20th anniversary of cooperation.

The Speaker of the Parliament of Turkey, 23–26 May

During the visit, The Speaker of the Parliament (the Grand National Assembly) of Turkey Cemil Cicek expressed that Turkey was interested in working with Mongolia's tanneries and in the areas of infrastructure, energy and tourism. Turkey and Mongolia are celebrating their 45th anniversary of diplomatic relations this year. Turkish and Mongolian citizens can now visit each other's countries without a visa for 30 days.

The Chairman of the Federation Council of Russia, 22–23 June



The Chairman of the Federation Council of the Russian Federation, Valentina Ivanovna Matviyenko, visited Mongolia for the first time. Mrs. Matviyenko met Mongolia's Prime Minister Norovyn Altankhuyag. During the meeting he said, "Developing multi-lateral friendly relations to an advanced strategic partnership level is one of Mongolia's priorities in terms of its foreign policy."

During the visit, a draft mid-term programme for a strategic partnership between the two countries was provided to Russia. The two parties reached an understanding to do without visas for citizens of both countries; this has been a controversial discussion for the last five years.

It has been 93 years since the two countries established diplomatic relations. This August, the 75th anniversary of the Soviet-Mongolian victory in the Battles of Khalkhiin Gol River will be celebrated. The President of Russia, Vladimir Putin will pay a state visit to Mongolia during the celebration. During Mr. Putin's state visit, a strategic partnership program is expected to be signed and ratified by the two parties. ■

LAW

MANAGING MONGOLIA'S DEBT

BY S. ZAYA

Traditionally and culturally, most Mongolians prefer not to borrow money or to be in debt. "Those who are in debt cannot thrive" is a saying passed down from Mongolian ancestors. The reality is, however, development comes with the cost of borrowing money; something that this developing nation has experienced in the past 20 years.

The experiences of other Asian nations with smaller territories show that they managed to develop their countries by converting money they borrowed from other countries into wealth. Mongolia's Government is also striving to develop its economy by borrowing money from other countries. Whether the government's efforts and intentions are working properly is questionable.

Earlier this year, Mongolia's total external debt amounted to USD 19 billion, of which the government's external debt accounted for USD 4.5 billion.

The Government's external debt increased by USD 2.8 billion in the past two years — the equivalent of all Mongolia's debts between 1990 and 2013. According to some economists, the national external debt totalled USD 3.17 billion in June 2014. With exponential economic growth and hype, many felt assured that the economy was meant to grow. But instead, it declined.

Can more loans rein in the slowing economy?

Amid this economic difficulty, the government has drafted a Debt

Management Law. If passed, this law is expected to monitor the end-to-end process for borrowing money.

The bill defines the term "national debt" differently from its definition in the FSL. As of April this year, state-owned and local government-owned enterprises' debts totalled MNT 1.8 trillion. If the bill is approved these debts will be eliminated from the national debt. It will make these government-owned enterprises responsible for their own debt risks in accordance with the Company Law of Mongolia. This will reduce national debt and new loan opportunities will be created.

Before this bill, debt-related regulations were reflected in several laws such as the Budget Law and Fiscal Stability Law (FSL). The proposed legislation would

act as an umbrella law to regulate all debt-related relations in an attempt to force politicians to respond to debt-related issues carefully and monitor future projects in terms of return on investment.

This bill includes a clause to raise the national debt to 90 percent of GDP in a bid to improve the country's economy. The Opposition Party is severely critical of the clause as there is doubt over whether the bonds' proceeds are being properly spent. Critics say some of the proceeds were used to fund off-budget programmes to avoid the FSL, which puts a cap on debt.

The Government wants this bill approved but it will not have the support of the Opposition Party because of the national debt clause. ►►



▶ Another amendment in the bill is to increase the national debt ceiling. Currently the debt ceiling cannot exceed 40 percent of GDP from 2014, according to Clause 19.3 of FSL. The new bill aims to raise the national debt to 70 percent of GDP and the government guarantee to 20 percent of GDP, which would be 90 percent of GDP in total. In terms of FSL, which is currently enforced, the country's internal debt includes bonds and guarantees of the government; and debts, loans, interests and losses of all state-owned enterprises.

The government has estimated that Mongolia's debt will reach MNT 24 trillion by 2016 not including the debts of state-owned enterprises.

"Some of Mongolia's state-owned and local-government owned enterprises are making losses. But this new bill is to bring more risk to them. In this moment, when the country's debt has already reached the ceiling, the government is having the opportunity to get loans from foreign and national sources through the state-owned and locally owned enterprises," said Ch. Enkhbat, the economic policy adviser to the opposition party.

How to control debt without integrated development policy?

Ch. Enkhbat said that foreign countries are creating good investment climates and leaving the responsibility of possible risks with foreign companies. But when it comes to Mongolia, state intervention was often seen in the private sector and took responsibility for such risks.

In 2011 and 2012, Mongolia increased its revenue from mining products and the budget revenue increased enormously due to increased prices of coal and copper. Economists say the implementation of some projects attracted large foreign investors and impacted positively on the economy.

"In 2012 and 2013, Mongolia earned money by issuing bonds, which has created debt because the coal industry was hit by the crisis. The country is earning money in both ways: from mining and from bonds. But there is a huge gap in between. The budget finance

is considered to be the cheapest as it consists of tax and is not debt. The most important thing is that whether it is going to be profitable or not and if it is funded from the national debt. Private sector people and foreign investors carry out detailed studies on return on investment," said Ch. Khashchuluun, economist and lecturer at the National University of Mongolia.

The bill also includes a clause defining debt and when it can be created. According to FSL, debt can be refunded if it only aims to reduce the debt's interest rate and cost, and if it is necessary to be refunded – period extensions are prohibited. But according to the new bill, these principles will change. If debt cannot be repaid, refund opportunities will be created without any

period limitation – no matter what the cost would be.

For example, Mongolia will make the principal payment of USD 580 million for bond issued by the Development Bank of Mongolia by 2017 and the first principal payment of USD 500 million of the Chinggis bond by 2018. If these repayments cannot be made in time, then a refund would be needed. It means that more money will be borrowed from other markets in order to make the repayments completely.

Despite these changes, a law integrating development policy and planning in Mongolia is absent. Some Parliament members believe that Mongolia needs this law. They have developed legislation and submitted it to the parliament. It is unclear when this will be discussed. ■

BUSINESS

PROMISING MARKET, RISKY BUSINESS

BY B. BAYAR & LIZZY HOO

Featuring everything from universities and beverage companies to hospitality supplies and corporate management solutions, the recent Germany-Mongolia Corporate Days 2014 Exhibition & Conference, held 17-18 June, was a taste of all things German. This year's event was themed "Made in Germany" and showcased companies in three strategic areas for German trade development in Mongolia: engineering, urban services and corporate management.

The event reinforced the cautious but optimistic attitude felt at various recent investment events; event goers described Mongolia's investment market as promising despite the current economic climate.

"We are starting our businesses at the time when the market here in Mongolia is risky. But consumers need to be supplied by quality products and services," said Gerhard Wackenhut, managing director at CLEOS AG. "As Mongolia's population is very small, it has the potential to drag itself out of risk. Thus, we are not very concerned about the current economic difficulty. Everybody is confident that the economy will regain its rapid growth."

The majority of imported goods to Mongolia from Germany include vehicles, equipment, air transport equipment and spare parts. Exports from Mongolia to Germany include animal products and mineral resources.

German products are synonymous with quality and attract a higher price. Logistics and high custom tax also add ▶▶

▶ to expenses.

Since the two countries started cooperation some 20 years ago, the total amount of development funding provided by the German government and multi-lateral organisations has come to EUR 450 million.

Last year, trade circulation between the two countries was USD 270.6 million, and currently, there are around 300 German companies operating in Mongolia.

The following interview with Stefan Hanselmann, the director of the Integrated Mineral Resources Initiative (IMRI) at GIZ – Germany’s development agency – explains further the issues of price, quality and how German brands and expertise can play a part in Mongolia’s development.



What types of industries were represented at the event?

We are basically covering three areas: Engineering and processing, the second is urban services – infrastructure and energy, and the third one is corporate management – in terms of business services such as IT, HR and consulting services.

Are these the main sectors that Germany can really assist Mongolia with?

I do believe so. I mean Germany is not primarily a mining country. Germany, as you probably know, is phasing out mining all together until 2018, but Germany still has a lot of know how when it comes to infrastructure, when it comes to urban services such as water treatment and energy efficiency and when it comes to renewable energy.

The parliament of Mongolia last week passed a law saying Mongolia will go for a more green economy and I believe this is something that could be very well supported by Germany, since we are very strong on engineering and energy.

In your welcoming note you compared Mongolia’s economy to the likes of Qatar? Is that just in figures or are there things Mongolia can learn from Qatar?

It’s primarily in terms of a vision; in terms of a development vision of where Mongolia could go. Obviously the country has a very small population, which is in some terms, a good thing because whatever wealth the country generates it benefits a relatively small number of people. In terms of providing healthcare providing education and providing a very high standard of living, Mongolia has potentially a very bright future, similar to countries like Qatar.

The second part of the question refers to what Mongolia could do to diversify its economy, and Qatar, for example is trying very hard for the past several years to develop alternative sources of income and diversify its economy away from petrochemicals and oil and gas, and that could be some source of inspiration for a country like Mongolia.

What challenges are German companies coming up against when they’re operating in Mongolia?

There are several obstacles I would think. Number one – the Mongolian market is very small, so that’s the downside of a small population. So for many companies and many industries Mongolia is not a very attractive market in terms of market size. The other aspect is that the market is dominated by imports, for example from China, so a lot of competition is simply done through price. It’s very much a price-sensitive market. It’s hard for a relatively pricey product from Germany to come and compete with imports from China.

Thirdly the question is about financing projects. Most Mongolian companies have interesting projects, interesting ideas; they also pursue projects that certainly make sense in terms of developing the economy. However, the financing is always a problem. The

financial resources companies have are still very limited – particularly now with the current situation with the economy. So unless the German partner brings the finance with him, it’s always very hard to come up with the necessary capital. So these are the main aspects.

Your welcoming note also said the “early bird gets the worm”...

Yes, I strongly believe in that. Obviously there’s a lot of talk about the economy, there are a lot of investors sitting on the fences, looking at what’s going to happen – what is the Mongolian Government doing in terms of improving the investment climate? What is the Government doing in terms of improving the legal framework? There’s a lot of skepticism at the moment, people are very reluctant, quite obviously. I think that’s a fact we have to admit and we have to acknowledge.

However this is not how it’s going to be forever, there will eventually be a change, and this will provide companies with the necessary lead time of two –three years and those companies coming into the market now and committing themselves to the market, and to the country, will literally be the early worms that eventually catch the worm – once the economy gets up again.

I have been here for 6 years now and I have found Mongolians to be very pragmatic in a very positive way. They obviously do make mistakes, they try out new things, they try to find their way – even if it hurts sometimes. Overall it’s a positive development in terms of trying out new things, figuring out what works and what doesn’t work. But they learn and really try to make things better the second time.

Overall I am optimistic and they will figure out eventually how to do it and what it needs to bring investors back and how to develop the Mongolian economy, in a way that is sustainable and in a way that benefits all people. And with a population of three million, there will be enough growth and surplus to benefit everybody. ■

POLICY

GREEN DEVELOPMENT POLICY OF MONGOLIA

BY B. TOGTOKH

The Green Development Policy, approved 13 June 2014, is a step in the right direction for Mongolia's environmental and economic future. The policy will be implemented in two phases – the first phase from 2014–2020 and the second from 2021–2030. Having these objectives and policy is one thing, however, how the policies are integrated in every strategic sector – mining, manufacturing, tourism and infrastructure – will determine whether or not this vision is achievable.

Today we live in a world affected by climate change, rapid economic growth, overpopulation, high consumption and service growth, and a scarcity of natural resources. According to an estimate by the United Nations, the current production and consumption rates will double by 2030, in terms of ecological footprint. To accommodate this, countries and families need to transition to a greener lifestyle model by changing their behaviours.

“Every country is changing by directing their development trends to an efficient level of consumption and production. UN's Millennium Development Goals for Mongolia will reach an end next year. In line with this, the green development policy was approved during the time when Mongolia's sustainable development policy was in discussion,” said B. Tulga, vice minister of Environment and Green Development.

“The right legal framework will give Mongolia an opportunity to pave a green development path. The conventional attitude suggesting that development should take place first before we think about restoration is outdated. A new

attitude for development heading the right way has been created.”

The majority of Mongolia's territory has kept its pristine nature. The country's geographical location, ability to adapt to nature, culture and traditions are assets worth protecting. Yet, the country's future rests on its abundant mineral resources and mining – an industry not renowned for its environmental compatibility.

Building a sustainable future isn't the only challenge this developing country faces: Eradicating poverty, wealth disparity, reliance on mineral wealth, inefficient solutions and consumption of energy and other resources, outdated technology and equipment, and the country's vulnerability to climate change all need to be addressed in the coming years. Incorporating sustainable solutions into each area of development, whether it be mining, technology or manufacturing, is the green policy's aim.

The Green Development Policy focuses on the following principles:

- Efficient and appropriate use of natural resources
- Policy creation that is consistent with the Green Development Policy
- Contribution to clean and advanced technology
- Public engagement for green economic growth
- Public awareness of being environmentally friendly and having a correct attitude on the environment
- Transparency, responsibility and control.

To achieve green development, Mongolia will implement the following six strategic objectives: ►





Photo by B. Bayartogtokh

- ▶ **1. Develop resource-effective production and consumption and emit less greenhouse gases.** By 2030, the Government hopes to increase energy efficiency by 20 percent by upgrading technology, reducing current consumption and optimising the price policy. Renewable energy will increase by 20 percent of total energy supply for Mongolia by 2020 and to 30 percent by 2030. Central heating deficiencies will be reduced by 20 percent by 2020 and by 40 percent by 2030.
- 2. Accelerate environmental protection and rehabilitation projects, reduce environmental pollution and degradation and preserve ecological balance.** No less than 60 percent of total river upstream in Mongolia (where river runoff originates) will be protected. The size of the total protected area will reach 25 percent of Mongolia by 2020 and 30 percent by 2030. A stable financial system for protected areas will also be created. The forestation work will accelerate and the size of forest area will increase to 9 percent of Mongolia by 2030 in an effort to increase CO₂ absorption.
- 3. Incentivise the green economy and increase the amount of investment for the environmental protection, human development and clean technology support.** The Government will spend no less than 2 percent of the GDP on green development every year. No less than 20 percent of all purchases by the government will be spent for efficient and cost-effective products, services and works.
- 4. Public awareness about green employment and its ability to reduce poverty.** This objective will be achieved in a way of gaining education that meets international standards, having a competitive and skilled workforce and improving labour productivity.
- 5. Develop lifestyle and cultural values in line with the environment.** Education, science, technology and innovation will become accelerators of green development. Between 2 and 3 percent of GDP will fund clean

technology and innovation supporting green development. Scientific and technological studies by 2020 and 2030 will also be introduced.

- 6. Population settlement will be planned and developed consistently with climate change, regional natural resources and self-restoration capacity.** Several planned projects include waste recycling and the production of value-added products. This will reduce the volume of waste by 20 percent by 2020 and 40 percent by 2030. In addition, small self-funded “smart and green” cities and towns will be created.

The Green Development Policy is a long-term plan that requires coordination across multiple sectors. As Mongolia’s economy is reliant on natural resources, it must use its resources efficiently and distribute wealth equally. The mineral resources sector needs sustainable development.

“The Green Development Policy is the main principle that should be implemented in the activities of all sectors based on natural resources”, said Kh. Khishigiargal, senior officer in charge of Green Development Policy and planning at the Ministry of Environment and Green Development.

This sentiment is supported by recent achievements and events. Mongolia has recently become a member of the Global Green Growth Institute (GGGI), and the Minister of Environment and Green Development, Sanjaasurengiin Oyun, was appointed as the President of the First Session of the United Nations Environmental Assembly (UNEA) on June 26 this year.

At Rio +20, the United Nations Conference of Sustainable Development held in 2012, the green economy was declared as the main way to achieve sustainable development and reduce poverty. During the conference, Mongolia was selected as one of seven model countries by the United Nations under the Partnership for Green Economy (PAGE).

After two years, this new policy is starting to reflect the Government’s green sentiment and how it can work alongside companies working with the natural resources sector. ■



BCM'S NEWSWIRE HIGHLIGHTS

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

BUSINESS

TURQUOISE HILL FILES NOTICE OF DISPUTE WITH MONGOLIAN GOVERNMENT

Turquoise Hill Resources Ltd. said it filed a notice of dispute with the Government of Mongolia, after tax authorities in that country claimed unpaid taxes and penalties related to the development of the Oyu Tolgoi copper and gold mine.

Turquoise Hill, which owns 66 percent of Oyu Tolgoi, said it strongly disagrees with the claims that are contained in the audit report, and believes the mine has paid all legally required taxes and charges. The company said on Thursday the filing is the first step in the dispute-resolution process and includes a 60-day negotiation period.

"If the parties are unable to reach a resolution during this period, the dispute can be referred to international arbitration."

Rio Tinto-controlled Turquoise Hill said the distribution of the underground feasibility study will be delayed as outstanding shareholder issues, including tax claims, must be resolved before further investment in the underground can

proceed. Oyu Tolgoi's open pit is in production, but an underground expansion was put on hold last year after the Mongolian government became concerned that cost overruns would cut into profits. In May, Turquoise Hill said talks with the government on restarting development had been "constructive" and the feasibility study would be finished by the end of June.

Source: Reuters

MONGOLIA BUSINESS SUMMIT KICKS OFF WITH SIGNING OF \$1.3 BN POWER DEAL

Over 400 participants arrived for the first Mongolia Business Summit at Ikh Tenger, Ulaanbaatar on 19 June 2014, where a concession agreement was signed for the Combined Heat and Power Plant No. 5.

Prime Minister Norov Altankhuyag opened the summit with the message that the first thought before any policy is passed in Parliament: "How does this support private business?" The cabinet is meeting twice a week to decide on reforms that would support the growth of business growth and attract foreign investment, he said, with the greatest focus on strengthening rule

of law, stability, predictability of the legal and regulatory environment, and business growth.

President Tsakhia Elbegdorj addressed the summit on the second day, highlighting the capabilities of citizens, profitability of business, and the initiative to introduce smart government as three pillars of growth.

"The business community is eager to engage and transform the investment climate," said Bayanjargal Byambasaikhan, managing partner of NovaTerra and chair of the summit. "This Summit brings together the private businesses, which produce 80 percent of the economy, together with the government that is expected to bring on key economic reforms."

Presenters introduced 18 investment projects in areas such as mining, infrastructure, construction, finance and industrial processing. The highlight of day two was the signing of a concession agreement between the government and international energy consortium for the USD 1.3 billion, 450 megawatt CHP No. 5. The consortium groups together France's GDF Suez Corp.,

Japan's Sojitz Corp., Korea's Posco Energy Corp., with each investing over USD 100 million to fund the project.

Source: Mongolia Business Summit

ECONOMY

ALTANBULAG FREE TRADE ZONE OPENS

An opening ceremony for the Altanbulag Free Trade Zone (FTZ) at the border with Russia in Selenge Aimag was held on 22 June.

Some 87 businesses have made land ownership in a 500 hectare space. Construction of enough infrastructure for a population of between 15,000 and 20,000 people is under way. Meanwhile, Russian citizens and other passport holders of nations given visa-free status may enter Mongolia via the free-trade zone.

Altanbulag FTZ is set to establish an economic corridor for trade between Asia and Europe. Located 335 kilometers from Ulaanbaatar, the Altanbulag FTZ was first agreed upon in 2002.

Source: Info Mongolia ▶

► RENTAL PRICES FALLING BETWEEN 10 AND 20%

Rental prices in Ulaanbaatar are falling by up to 20 percent due to the surge of new space opening in the city.

Leases for A-grade office space in Ulaanbaatar have reportedly seen less change compared with B-and C-grade locations. Some renters are offering up to 10 percent discounts because of the economic challenges. Meanwhile it has become common to find second- and third-tier space at 10 to 15 percent discounts because of the degrading economy.

Rents for residential and commercial space have fallen 20 and 15 percent, respectively, mostly because of the new buildings opening up, according to real estate firm Aktiv Zuuch.

Source: Zuunii Medee

POLITICS

MONGOLIA'S MINISTER OYUN CHAIRS U.N. ENVIRONMENT ASSEMBLY

Delegations at the U.N. Environment Assembly (UNEA) in Nairobi, Kenya unanimously agreed Monday to appoint Mongolian Environment and Green Development Minister, Sanjaasuren Oyun, as the assembly's chair.

Over 150 high-level delegations attended the UNEA meeting last week to discuss environmental legal issues, financial mechanisms for green development, illegal wildlife trade, environmentally sustainable industry and consumption, and development targets to start from 2015.

Oyun was invited to the first UNEA held in Nairobi from 23 to 27 June, where over 1,200 participants from 170 nations gathered. A Mongolian delegation will present the government's green development measures and share its experiences in its "Partnership for Green Economic Activities" that was initiated by the United Nations. Ministers will discuss issues such as the black market for wild game and the rule of law for the environment.

Source: Montsame, NAMBC ■

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