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INDUSTRY

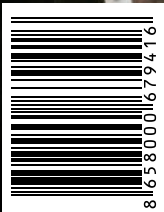
An iPhone-esque Bus

Boost Competitiveness and the Investments Will Flow

Why We Need Trade Legislation



MADE IN MONGOLIA



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
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Editorial Note

Mongolia has set its path for the future of rapid development: the manufacturing sector. The state has established the Ministry of Industry and has approved the guiding policy to develop the sector. The goal of producing more value added products and supporting export-orientated projects has been set in the industrialisation agenda. The state has expressed its willingness to cooperate with partner countries to establish major copper, iron and oil processing facilities. They have internationally announced which projects in which sectors are to be implemented through foreign investment. In this regard, the first ever industrial forum under the name “Made in Mongolia” is being organised in order to provide clearer understanding about the policies, projects and programmes to foreign and domestic investors and manufacturers.

As every human being wants a good life, Mongolia’s objective is to become a developed country with an educated labour force that provides its citizens with peaceful lives and bright futures. Experts and researchers agree that the way to achieve such a goal is through industrial development.

Therefore, Mongolian Economy magazine has jointly published this special issue for the “Made in Mongolia” industrial forum in cooperation with the Ministry of Industry. This issue includes publications related to the issued policies, regulations and rules, its implementation, light and heavy industry projects and concessions to be implemented.

From the experiences of other nations, we know that the development of the industrial sector leads to the development of small- and medium-sized manufacturing and puts the country on the path to becoming a developed one. The relevant officials have heeded the lessons learned by other countries. Mongolian Economy magazine is supporting these first steps in realising these goals and delivering this issue to you, our readers. Furthermore, we will continue to provide reliable information about the Ministry of Industry’s policies, programmes and projects to be implemented.

The editorial team of Mongolian Economy magazine

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MONGOLIAN ECONOMY

**WE ARE TAKING
SUBSCRIPTIONS FOR THE FOURTH
QUARTER OF 2015**



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The state has had the goal of establishing an industrial park for quite a while now. However, the implementation of the guideline and the law has been moving forward sluggishly.

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“Would you rather to use the cheap but effective Nokia 3310, or more technologically advanced but also more expensive iPhone?”

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Introducing and establishing technology is necessary for industrial development. We will only waste our time and money if we try to reinvent the wheel.

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Exports



Ninety-four manufacturing enterprises exported USD 212 million worth of goods last year. Mongolia currently ranks 109th out of in a list of 133 countries by industrial competitiveness. Value-added products account for just 5.5 percent of the sector's total exports, whereas that figure is 28 percent for Russia and 40 percent for China. Technological value-added products accounted for 6.8 percent of the net exports of Kazakhstan, whose economy is similar to Mongolia. Currently, Mongolia has 94 enterprises engaged in manufacturing. These 94 enterprises exported products equal to the USD 212 million in 2014, which was 3.6 percent of net exports. The cashmere, textiles, leather and tanning industries do low-tech processing and export goods. In other words, 4-5 pairs of shoes can be manufactured from a half processed or fully processed cowhide that Mongolia is exporting. This is what is meant by export of value-added finished products.

Oil



The Ministry of Industry will aim to improve heavy industry elements, building facilities such as an oil refinery, a copper smelting and refining plant and a metallurgical plant. The work to build an oil refinery plant has begun in the Gobi region, and the company to develop the pre-feasibility study has been selected. The tender to build an oil refinery with a capacity of 300,000 tonnes per year in

the eastern region has finished. Fourteen companies submitted bids and participated in the tender. As soon as the tenders of preliminary feasibility study developers of oil refineries finish this year, an opportunity to start the tender to select investors at the beginning of the next year will be set. As for the copper smelting and refining plants, investors will be selected at the beginning of next year, and operations will begin starting in spring of next year.

Textiles



Domestic manufacturers have the capacity to process 1.5 million units of horse leather per year, but produce only 250,000. Mongolia has a large potential to process horse leather domestically. Therefore, the Minister of Industry has prohibited export of raw horse leather and is encouraging people storing up to 160,000 hides and skins to sell them to domestic manufacturers for processing. In addition, domestic manufacturers are now able to fully supply the fabric for students' uniforms for the coming year. In other words, students will wear uniforms made domestically by Mongolian fabric manufacturers starting next year.

Project Programmes



The government made the decision to provide MNT 300 million in loans to support both exports and imports. As of today, 31 projects out of 110 projects are ready for initial funding. Most of the submitted projects were related to the processing industry. The project executor will finance 22.7 percent from their own funds, 53.8 percent from foreign investment and 23.5

percent from the Development Bank within the export and import support programme. In other words, these projects will bring in two dollars for every dollar going out. This project has a low risk of inflation excitation, as it creates a positive opportunity not to exchange MNT for foreign currencies in order to purchase equipment.

From Soft Loans to Policy Loans

The government has approved financing of MNT 70 billion for the implementation of a project to develop small- and medium-sized enterprises. A total of 588 projects are to be supported. Previously, 20-30 percent of the selected projects met banks' criteria while 50 percent of this year's projects have qualified. Of those, there were 256 projects unable to receive loans, and 152 projects were funded. In addition, projects worth MNT 150 billion were funded in order to support the export of cashmere goods. Currently, 25 export companies are receive various forms of support. Of those 25, 14 projects were approved and received MNT 70.1 billion in loans, the results of which will be compiled in January of next year. The loans will be extended if these 25 companies can boost their exports. If they cannot, it will affect their potential to receive additional loans in the future. The Ministry of Industry announced that they will shift from soft loans to policy loans in 2016.

Concessions

Out of the government-approved 77 projects to be implemented under concessions, only 15 projects have valid agreements. Of these 15, initiatives such as the Baganuur Thermal Power Plant, TPP-5 and the Erdenet-Ovoot rail projects require USD 5 billion in investment. In addition, a USD 250 million road project is being implemented. The majority of these road projects are undertakings to connect provinces. Four concession projects to connect the western region are being implemented. Connecting the western region by road has strategic importance. During this time when the "Silk Road" initiative is being talked about, connecting the western region with latitudinal and longitudinal roads is the shortest and most economically efficient way to connect Mongolia, China and Russia. Road projects

under concession will be finished by 2017. As for free trade zones, 18 companies' projects were selected for the Zamyn-Uud free trade zone project, and the project tender is in the final stages. On top of this, China's proposal to take a certain amount of land in the region and build factories was supported. Infrastructure issues concerning the Altanbulag free trade zone were resolved, and it is now in the concession agreement stage.

WORLD NEWS

Emerging Markets' Corporate Debt



The International Monetary Fund's Global Financial Stability Report noted a growth in the USD-denominated corporate debt of firms in emerging markets. This poses a financial risk known as exchange-rate exposure, where the depreciation of the local currency against the dollar may make it more difficult to repay debts denominated in USD or another foreign currency. One way of protecting against such risks is through financial hedges such as swaps; however, in many emerging economies, derivatives markets are not well-developed. The US Federal Reserve will most likely increase its policy interest rate in the near future, which would make the USD stronger and other currencies relatively weaker. Sectors are affected differently by exchange rate movements. Export-orientated industries, such as mining, benefit from a weaker local currency, whereas sectors involved in imports and immovable assets, such as construction, are affected adversely. The findings suggest that "emerging markets must prepare for the implications of a continued appreciation of the USD as the US Fed begins to normalize monetary policy."

Japanese Manufacturing



The Bank of Japan released its third quarter Tankan Survey, which surveys the Japanese business climate. The Tankan Survey's headline index stood at plus 12, down from 15 in June. Factory output contracted by 0.5 percent in August from July, and business sentiment in the country is worsening. Some fear a second consecutive quarter of negative GDP growth, which would put Japan in recession territory. As with most Asian countries, the economic moderation of China plays a large role. Business confidence among non-manufacturing sectors improved to plus 25, up from 23 in the previous quarter. Although the results of the survey showed both worsening and improving conditions in various sectors, the Bank of Japan is likely to pursue an expansionary monetary policy. The manufacturing sectors of China, the EU and the United States are all on the downturn as well.

Chinese Consumption



With the slowdown of Chinese industry, people are now looking to the service and consumption sectors to offset the waning industrial sectors. Wages in China grew by seven percent in the second quarter, and migrants' wages grew by ten percent. Retail sales increased by 10.5 percent this year, outperforming the forecasted 6-7 percent GDP growth. The total amount of money

spent by Chinese outbound tourists is now the highest in the world. The growing demand for consumer products and slowing demand for commodity imports means export-orientated countries will continue to experience difficulties. These economies, such as Mongolia, produce little that appeal to Chinese consumers to make up for the falling exports to China. According to The Economist, China's consumer boom is real and here to stay, but it is not enough lift the global economy. However, if Mongolia can find opportunities to export products, goods or services that Chinese consumers would buy, it would be one area of opportunity in a rapidly growing market.

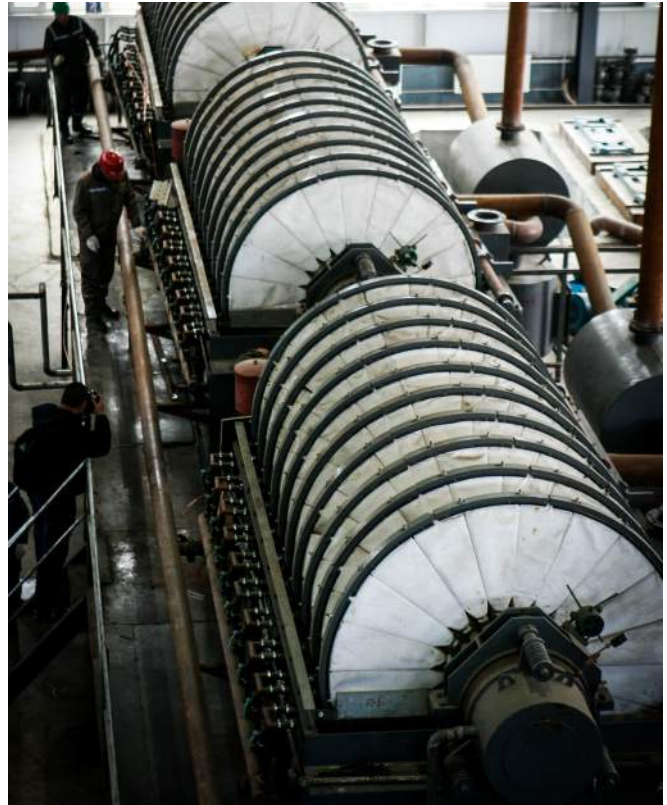
Russian Manufacturing



Manufacturing in Russia has performed slightly better than forecasted. In September, the Purchasing Managers' Index rose to 49.1 from 47.9 in August. Although this figure is higher than predicted by analysts, it is still reflecting a contraction in the sector. A PMI score below 50 indicates contraction, whereas a score above 50 indicates growth. For Russia, the score has been below 50 for the past 10 months. The crash of the ruble increased the cost of imports, and the government has tried to encourage consumption through various means. In large part due to the economic sanctions imposed by the US and the EU and low price of oil, Russia is headed for two years of recession. The ruble has depreciated 39 percent against the US dollar. Despite consumers buying more from domestic producers, overall manufacturing has declined for two years, and the rising costs of inputs are forcing companies to cut jobs. ■

Diversify the Economy through Processed Goods

By Ts.Elbegsaikhan



Imports into Mongolia amounted to USD 5.2 billion last year. Vehicles and vehicle parts accounted for 30 percent of the imports, and gasoline accounted for another 30 percent. Imports of manufacturing equipment and metal products accounted for 12 percent, and chemical products, rubber and plastics accounted for another 12 percent. The rest was food and other products.

How much outflow of USD could we have saved if we had just one automotive factory? How much could we have saved if we had built that oil refinery that has been talked about for so long?

This article is not about saving and preserving, but rather increasing and multiplying. Today, Mongolia only offers raw materials to foreign markets. Mineral products account for almost 88 percent of net exports. Coal, copper concentrates, iron ore and concentrates and crude oil account for 83 percent of minerals exports and 73 percent of net exports. The export price of unconcentrated iron ore is USD 40-50 per tonne. If it were concentrated, molten and moulded into an armature, it would reach USD 600 per tonne.

Examples of producing finished products are not that far away. Erdenet Mining Corporation has a machinery repair factory. This factory manufactures mining

machinery parts. Specifically, this factory is manufacturing conveyor belts on its own. If the belts were to be bought from abroad, the cost would be around USD 480,000, but when they are manufactured domestically, the cost is around MNT 180 million (approximately USD 90,000 – 5.3 times cheaper). On top of its main products, EMC's machinery repair factory currently manufactures a variety of excavator parts and crusher parts. If the factory can be used to its full potential, manufacturing basic mining equipment as well as equipment for agriculture, construction and the food industry is possible.

A subsidiary named "Erdmin" was established under Erdenet Mining Corporation in 1997. The company produces semi-finished products using the mine's waste dump. A semi-finished product is not a finished end product nor raw materials, but things such as 99.9 percent copper cathodes. Price of pure copper is approximately USD 5,000 per tonne on the world market. However, it is USD 30 per tonne when we export the raw material. About 3,000 tonnes of cathode copper is produced per year from the waste dumps. Since 2005, Erdmin has manufactured truss wires, the material used for cables, and a variety of cable wires by themselves since 2007. Today, they have

started producing electrical extension cords as a finished product that reaches the hands of consumers. Net revenue from per tonne from pure copper will triple by manufacturing extension cords using pure copper.

Developing small- and medium-sized manufacturers (SMMs) will do a lot to improve the livelihoods of people. However, SMMs themselves develop following heavy industry. The Mongolian company "MonShibasaki" provides outsourcing services and manufactures small parts to supply to major Japanese automotive firms such as Toyota, Honda and Isuzu. In this case, "small parts" means bolts and screws. It is a small step up from producing socks and slippers. What is stopping these firms from cooperating with domestic heavy industry when they are already working with Japanese heavy industry firms? On the other hand, SMMs are importing raw and intermediate materials with value-added costs and paying customs duties due to the lack of heavy industry in Mongolia. This makes the price of the product uncompetitive on the market.

"Relying on natural resources is necessary because core industries lead the way for other industries. The burdens on the state would be somewhat alleviated if core industries were established and

favourable conditions set. The market will attract domestic and foreign investors only if it's efficient and profitable," stated D.Galtbaatar, Advisor to the Minister of Industry.

We have an opportunity to enrich the resources hiding under the ground if we can develop heavy industry and dig the riches out. Mongolia has significant reserves of oil, iron and coal. Many of our problems would be solved if we built a single oil refinery

and iron ore smelting plant. Technologically speaking, it works similar to distilling alcoholic beverages. On top of this, we can manufacture gasoline by processing the crude oil. Diesel fuel and heating oils can be developed from the remainder, and the rest can be processed into other useful products. For example, the basic ingredient we import from abroad to make asphalt is also oil. All in all, the ultimate goal of the government policy to develop industry

is to establish high-tech manufacturing. Today, 97 percent of Mongolia's products are without technological elements and low-tech products. The share of high-tech products accounts for merely 0.1 percent of the total. Economists, politicians, local and foreign consulting organisations all point to the need to diversify the economy. Well then, here is the gateway to creating that opportunity by strengthening the heavy industry sector. ■

DIVERSIFICATION



An iPhone-esque Bus

By E.Zorigt

The controversial "Ecobus" vehicle assembly factory is meticulous. The factory that assembled 20 J-800T buses for the city administration recently is quite silent today. It is so silent that you would have guessed that not a soul was behind the huge door of the Ecobus factory, which used to be a warehouse during the socialist era.

When I pulled the door open, the pungent fumes emitted by machinery oil pierced through my nose. The vehicle

assembly factory was refitted so well that there is barely any trace of the fact that it used to be a warehouse. A woman was standing next to one of two J-800T buses when I entered. She is the CEO of Ecological Bus LLC, A. Tsetsegmaa. She is almost 70 years old, but looked young and sharp. She was waiting next to a bus after hearing that a journalist from an economics magazine was coming to the factory.

It seemed as though the operations of

this factory with the capacity to manufacture 120 buses per year has only recently started. However, the media was quick to dish out criticism, saying Mongolians did not manufacture the bus – they brought everything from China and just assembled it. Such sentiments must have been borne of a person without knowledge of engineering.

"I like to compare the factory to a bread factory. In order to produce bread, a factory

does not do everything – such as milling wheat, packaging, making leavens or even producing the sugar and salt – self-sufficiently. They buy ready products from their respective manufacturers to produce bread that has its own features and mixture of ingredients. It is same for us. The design

the orders domestically, and more than 10 Mongolian companies receive their orders. For example, they domestically buy all the small parts, such as the body, the front and rear ends, the paint and the windows. However, some types of equipment have to be purchased from abroad, such as the

of 30 employees assembles a bus in 21 business days on average. However, the bus must go through 12 production stages from design to operation and must satisfy three checks – examination, configuration and testing. The factory is open to anyone who wants to see all these things for themselves.

A Green Bus

The J-800T is an eco-friendly bus. It is equipped with additional equipment such as the computer-controlled Euro-4 diesel engine, which also produces less harmful gases. “Compare the smoke exhausted by the imported buses with the Ecobus. International quality standards bodies confirmed that it produces almost no toxic fumes, and our bus meets the world technical requirements approved by UNECE,” said A.Tsetsegmaa.

This Mongolian bus has many other advantages. For example, the Ecobus is suitable for Mongolia’s climate, and the bus floor is twice as low to the ground, which makes it suitable for people with disabilities and the elderly. It has a smart system that can announce bus stops without human prompting and vacuum windows that do not frost during the winter. The list of features is endless: shaped like a train car, body manufactured domestically, security, performance and fuel consumption control, double suspension, rear and hall cameras, a GPS system and much more. In addition to the eco-friendly engine, city buses’ electronic payment system has brought change to Mongolia’s public transportation sector.

Price or Quality?

“Would you prefer to use the cheap but effective Nokia 3310, or more technologically advanced but also more expensive iPhone?” This was A.Tsetsegmaa’s Socratic response when I asked her how much the buses cost. Many people grumble about the fact that the J-800T is more expensive than imported buses, but the J-800T and imported buses are just like the iPhone and the Nokia 3310. The odometers of most buses in the capital have surpassed 500,000 kilometres. Buses that are nearly falling apart are flying through the city. On the other hand, the Ecobus is completely new. Another reason for the higher costs is taxes. There are tax incentives for imported buses. However, there are no rebates or



department develops bus blueprints, and we assemble buses suitable for Mongolia’s climate, roads and passengers. It is exactly the same as our bread factories. Some people say that assembling is not manufacturing. However, transportation is considered the fourth branch of discrete manufacturing,” said A.Tsetsegmaa.

The J-800T is undoubtedly a bus made using the skills and knowledge of Mongolian engineers. Many people say what kind of manufacturing is it when we cannot even manufacture the engine, but this is simply how economics and the world work. Branch factories are being established along with the head assembly factory. The front end, or face, of the bus is being manufactured by a Mongolian company. Currently, 10 small factories are engaged in making complementary products such as seat covers for the Ecobus factory. Industrialisation in any country of the world developed in such a way.

The Birth of the Ecobus

Design is the first step in manufacturing the J-800T eco bus, which is adorned with writing boasting “Made in Mongolia” on its forehead. They designed the blueprint on a 3D programme and then plan the what and the how of production. They place orders with companies in accordance with the developed plan. They try to make most of

engine, transmission, front and rear axles and windshields. Although Mongolians are able to manufacture windshields, we are not yet able to manufacture large round windshields with the greater visibility that can meet Ecobus’ standards. Perhaps it would be wrong to say that we cannot manufacture the windshields; Mongolia just does not have a furnace large enough to build such large pieces of glass. Ariunbold, the factory’s chief engineer, said that if the company bought such a furnace, they would have to manufacture many more buses in order to make up for the costs. In addition, the development of the metallurgical industry is simply not the level where engines and other parts can be ordered domestically.

After receiving their orders, assembly takes place. The assembly section is the first section in the production process. All the parts are assembled here. After that, we move onto the second section, the painting section. The factory has a total of 2,000 square metres of production space, and manufacturing is organised into 2-3 shifts depending on the order. The factory’s production capacity can be increased, and different products can be manufactured simultaneously. The factory has technological design, computing and technology engineering staff. This factory

discounts for the equipment and parts used in the domestically assembled Ecobus. In addition, as the European engine's quality grade increases, the price also increases by USD 10-18,000. However, imported buses brought in without paying taxes have the Euro-2 and Euro-3 engines, whose unit price is around USD 60-70,000. Most of them are old, used buses and end up requiring costly maintenance.

During the deliberations regarding the draught industrial law, MPs said that

it was possible for the customs duty on used for domestic production to be reduced by 20 percent. Customs duties on some import products are said to have actually been increased, which relays to us that the talk of lowering import tariffs has not come to fruition. On top of all this, Ecobus is creating jobs for Mongolians, while the activity of importing old buses brings no tax revenue and creates no jobs. During government officials' visit to the Ecobus factory, Speaker of Parliament Z.Enkhbold

stated, "Tax exemptions were not given to this factory that imports its parts. Parliament made a decision favourable to imports and unfavourable to the country. With this assembly factory, at least the money remains in Mongolia in the form of salaries of workers who assemble the buses. Hence, we must exempt from taxes such import of parts. Parliament and the government can study and resolve this issue." However, despite such appealing words, nothing has changed thus far. ■

POLICY

Shifting Investment from Mining to Manufacturing

By D.Bekhbayar

We sat down with Minister of Industry D.Erdenebat and asked for his thoughts on the process of industrialising Mongolia.

- The government has recently approved a major law concerning the industrial and manufacturing sector. What industrial policies were there in our country before?

- During socialist era, the industrial policy was based on the development of animal husbandry. We established factories based on raw materials from animals, with the help of other socialist countries. Some factories were built through loans. We see that the policy was insufficient and economically unsustainable, as everything was done according to central planning. However, the foundation of the industrial sector was set during those days. The term "manufacturing" started being used starting in the 1930s and continued until 1968. In 1968, the Ministry of Industry ceased to



exist and the sector was regulated through the policies of other ministries.

The economic system was completely changed after the democratic revolution. The truth of the matter is that many factories went bankrupt due to the double prong of obsolete technology and sustained losses. We have been going without a clear, systematic industrial policy since transitioning to a market economy. Only after the transition did the government focus on revitalising the economy. The state was actively working on loans and debts, market dependency and support of the free market. After that, mineral prices on the global market rose, so the state guided its policies toward the development of the mining sector and export of mineral products. Policies regarding the export products of the agricultural and livestock sector had basically come to a full stop due to independence from the USSR. This

situation has been continuing on for many years.

Private enterprises played a large role in the development of basic economic industries alongside the mining boom. They built small factories that can provide for the needs of citizens through the money they earned from conducting light trade. Some light export industries revived their operations and started modernising its technology. To date, we have been a country that sells its mineral resources to get by. In what condition have we found ourselves after the prices of raw materials on the world market plunged? The development of domestic production has been left way too far behind. The government began focusing on the industrial sector starting in 2012, but it is still unclear exactly how we should focus our efforts. It is true that there were not any ready light or heavy industry projects, which is all the more reason for



the government to support the industries through the money from exports.

- A Ministry of Industry has now been established, and policies integrated. What was the reason for the reshuffling and creation of a new ministry?

- There was a necessity to establish a Ministry of Industry to unify industrial policy. Mongolia now has a policy framework for the industrial sector thanks to the ministry's establishment. Some steps to promote domestic manufacturers were taken. We are addressing the issues that Mongolian manufacturers have long faced. The results and industrial activities will be quantified. Domestic manufacturers are starting to recover, and their operations are picking up. We see that focusing on and supporting domestic manufacturing will create positive conditions in the future despite the current economic difficulties. In this regard, policies concerning the economy and industry are steadily changing.

Foreign investment has fallen, but we must analyse the type of foreign investments that have decreased. Investments were made only in the mining sector as 90

percent of net exports were raw mineral materials. It has been demonstrated that such investments decrease when prices of mining commodities fall on the international market.

- Where do we go from here?

The state should have sought solutions to what a country dependent on mining and imports must do further down the road. The first solution is a policy on the development of the domestic processing industry. Secondly, we must wean the country from dependence on imports by meeting domestic demand with processed products from mineral resources. Thirdly, we have seen that establishing industries in cooperation with other countries is an opportunity to satisfy people's levels of consumption. Many other issues, such as work environments, will be addressed. Our country will gradually move in such a direction. The establishment of a factory is no easy task. It takes time. We are taking the time to reflect this policy in our international trade and economic relations policies, and to make it understandable

internationally.

- Can you briefly summarise the main tenets of the state industrial policy?

- We are transitioning from being dependent on exports of raw materials and commodities to developing manufacturing based on said raw materials. We want to deliver the manufacturing products to international markets and are aiming to create the necessary conditions to boost exports of domestic industrial products. We are rich in minerals and agricultural products. We fully have the capacity to meet domestic demand and export domestic surpluses. Not every country is so fortunate. Today, Mongolia is exporting raw copper, steel and coal. It would be greatly beneficial if we could export these products as value-added finished products, opening many windows of opportunity to earn profits within the country.

We issued policy guidelines that reflect exactly how the state must support domestic manufacturers. For example, work to establish heavy industry factories such as a copper smelting plant, an oil refinery and steel mills is going in full

swing. The Ministry of Industry informed the cooperating countries about the plants being built and about our proposal to introduce their technologies and cooperate with them. Investment in this sector has become quite difficult due to the decline of mineral prices on the global market. Therefore, we are announcing to the international community that Mongolia is shifting the focus from investment in the mining sector to investment in processing and manufacturing.

The initial reaction of countries has been positive. It is only right that countries demand mutually beneficial cooperation. Preliminary studies are needed, and laws and regulations need to be sorted out in order to create a more favourable legal environment. Many new developments and projects are on-going. We are working on them from scratch. Deciding the project to give policy support to and selecting the investors with whom to cooperate and effectively export products are of utmost importance.

We started paying attention to this issue in the area of international economic cooperation, an example of which is the Mongolian-Japanese economic partnership. This will provide opportunities to introduce new technologies, build new factories and supply finished products to the Japanese market. The Mongolian market is too small. Even with that being the case, the potential to boost exports by using domestic resources and bringing foreign technology is undeniable. Hence, countries are receiving positively our proposal to bring foreign technology and experience through investments and supply products to the international market.

- What's the Ministry of Industry's policy regarding economic relations with our two neighbours?

- The two neighbours have proposed participation in the establishment of the heavy industry. We have no alternative but to cooperate with our two neighbours in order to reduce the country's dependency on imports. It is a key priority. Crude oil accounts for one-third of the country's total imports. A feasibility study on establishing an oil refinery designed to meet domestic demand is being carried out. Many countries are interested. Mongolia lacks the financial resources to implement this large project on its own, so we are looking

for countries to cooperate with us. This is the open foreign policy aspect of our industrialisation policy. Let's create better understanding between the three countries, address the challenges we are facing, and strive for equitable development with this policy.

- It is clear that heavy industry will not advance without foreign investment. Does the necessary legal environment exist?

- The legal environment has been set. Foreign companies will come after conducting research and studies on the investment in a refinery plant. Investment in this sector will require a lot of time. It is not same as the mining, where equipment and machinery are bought to dig land.

The reception by the international community has steadily turned positive. We want to take our relations with Germany to a new level. Germany and other European countries are leaders in technology. Germany is a country with advanced technology for light as well as small- and medium-sized manufacturers. They also excel in heavy industry technology. Europe itself is a large consumer of raw materials. Demand for minerals and raw materials is high there. Our country lacks the technology, manufacturing and funding. How can we make up for these lacking areas? The state used to try to do everything, but this time around the state will just provide guarantees to profitable export projects. We are creating the conditions for manufacturers to bring in their technology and investment capital. We will soon see more cooperation with competitive manufacturers engaged in mineral production. Currently we are working on a few projects with substantial funding. The ministry is directing the policy to empower companies, improve technology and establish modern industries.

EU countries are big consumers. These countries are already accustomed to wool, cashmere and leather products. In order to sell our products there, we have to ensure production up to their standards, technology and tastes. It may sound as if it is too far away or impossible. However, we need to work together in order to bring the far a little bit closer.

- Regarding the Japanese market, opportunities for Mongolia to enter the Japanese market under the Mongolian-Japanese economic partnership are quite

vague. Has there been any research conducted on this?

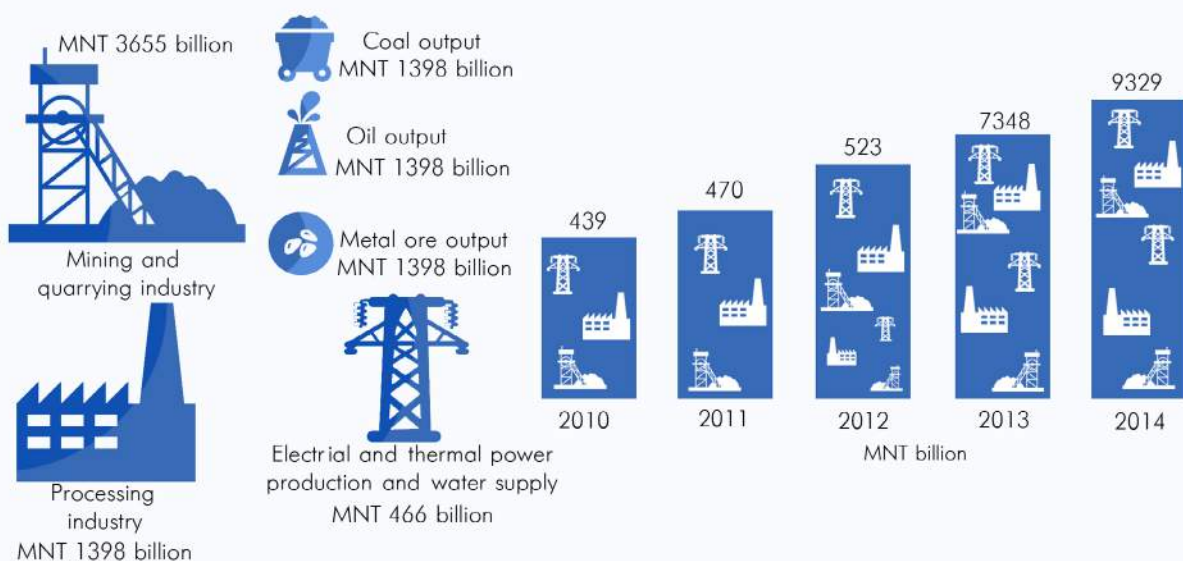
- Japan is a world leader in technology and small- and medium-sized manufacturing. We are conducting research on how to enter this huge market with a population of 250 million people. The products with the most potential are agriculture-based products such as food and wool products. In addition, we need to build an industrial park that manufactures small spare parts for Japanese vehicles and machinery. The required raw material to build such factory is cheap here, and the labour force is here too. Today, a few small companies are working on this. Further on, the issue must be raised at the level of industrial parks. The Japanese people study and conduct research into work. Thus, we need a patient, stable and consistent policy to cooperate.

- The Industrial policy has been issued, and many major works are underway. Entrepreneurs are uncertain on how long it will last. This question is arising because policies tend to be changed with successive governments.

- There are doubts. Although our ministry has been established recently, several policy decisions have been made in a short period of time. Foreign and domestic manufacturers have received the new changes positively. However, there are doubts on how long this policy and plan will last and what will happen after the 2016 election if a new government takes over. It is not just an issue of the Ministry of Industry. As a member of parliament myself, I am demanding that we renew the legal environment that sets the path for sustainable policy to continue through successive governments. In particular, provisions on consistency in governance must be added to the constitution as soon as possible.

Making it so that new governments inherit the previous government's decisions and policies is absolutely the right thing. Currently, state policy towards the industrial sector has been in force for 15 years. Parliament has re-approved it as a reminder. Future ministers and members of parliament must not radically alter such policies. We believe this policy will be implemented sustainably, as all the MPs, representatives of political parties, and manufacturers are supportive of it. ■

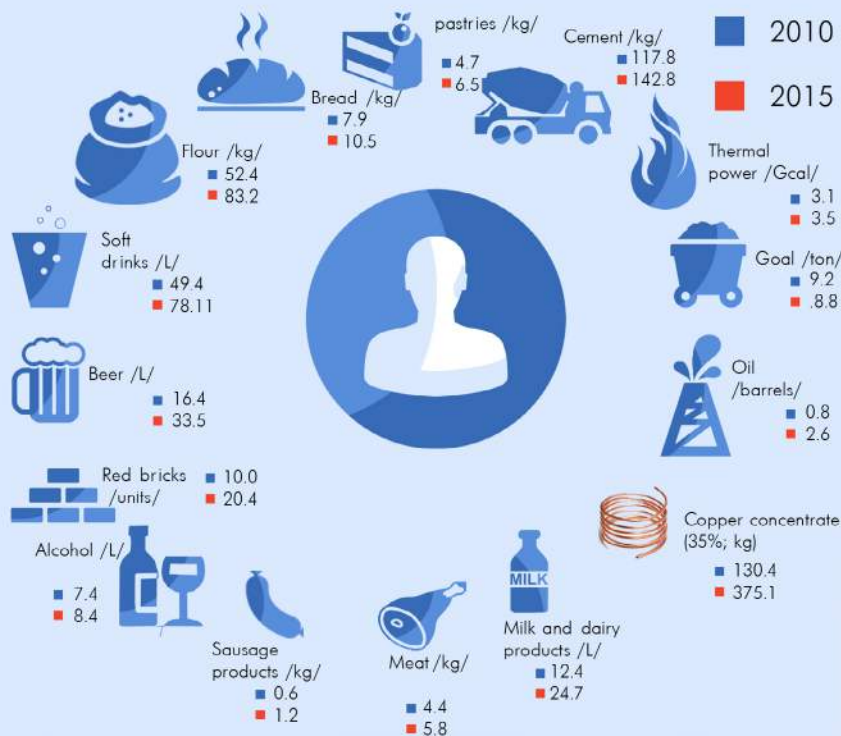
TOTAL INDUSTRIAL PRODUCTION



MANUFACTURING SHARE OF GDP



Per capita production of industrial commodities



Industrial products sales

Province	2014, MNT million
Western Region	50,322.6
Bayan-Ulgii	15,577.3
Gobi-Altai	14,407.7
Zavkhan	7,946.2
Uvs	8,418
Khovd	3,973.4
North-central	1,488,070.4
Arkhangai	5,028
Bayankhongor	4,991.6
Bulgan	9,857.3
Uvurkhangai	21,962.9
Khuvsgul	10,074.6
Orkhon	1,436,156
South-central	1,188,341.1
Dornogobi	12,736.5
Dundgobi	3,071.5
Umnugobi	573,667.5
Selenge	344,701.2
Tuv	41,697
Darkhan-Uul	172,334.9
Gobisumber	40,132.5
Eastern region	146,026.2
Dornod	19,207.8
Sukhbaatar	119,512.4
Khentii	7,306
Ulaanbaatar	8,203,780.6

INVESTMENT

Boost Competitiveness and the Investments Will Flow

By Ts.Buyan

Net inflows of foreign direct investment (FDI) into Mongolia account for just one percent of GDP. Gone are the good old days when that figure stood at 44 percent. It is an accurate reflection of Mongolia's struggling investment environment. As for the total amount of investment made last year, MNT 5.5 trillion was invested in Mongolia. Of that amount, about MNT 800 million was spent on mining and MNT 400 million on the manufacturing sector. In addition, about MNT 300 million was invested in electricity, gas, steam, air conditioning and water supplies. Most of this was funded from public investment, or in other words, through the state budget and bonds. Concession projects accounted for a rather small percentage.

"Investors are pondering whether producing finished products in Mongolia is more beneficial or exporting raw materials to China and producing there is better," stated S.Javkhlanbaatar, Director General of the Invest Mongolia government agency.

The issue is general competitiveness. How industrialised is Mongolia today? Before 1990, Erdenet Mining Corporation's factory and several thermal power plants had been established. Following that, some small leather processing, footwear and textile factories were formed. However, most of these factories ceased operations during the transition to a market economy in 1990, because they were far behind in terms of competitiveness, and some experts who used to work in these factories established smaller private factories. This was the mistake of centralised planning that chased after numbers.

The industrial sector will not develop sustainably if it just receives funding and other types of support from the state without addressing the issue of competitiveness. For example, various subsidies were provided grants for the

development of the wool, meat and dairy industries, but the results were lackluster. Taking the cashmere sector as an example, S.Javkhlanbaatar said that the sector has a natural competitive advantage and is relatively industrialised, accounting now for a significant part of export revenues.

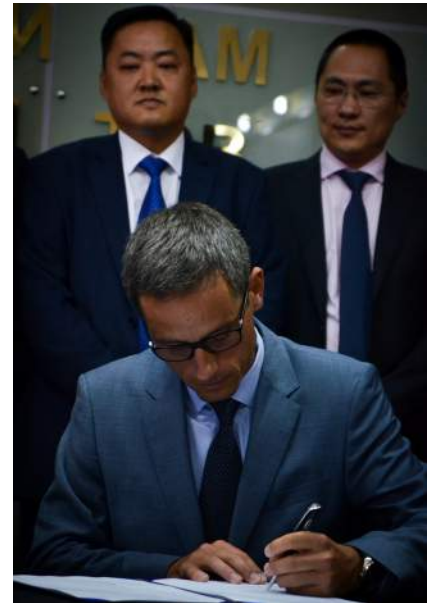
There are three factors holding back Mongolia's competitiveness: infrastructure, governance and corruption. High transportation costs due to bad roads, bureaucracy, and uncertain and unstable government policies are the reasons to back away from doing business in Mongolia. S.Javkhlanbaatar said that looking at the investments made in the industrial sector, investments were made in small- and medium-sized factories, but investment in manufacturing that creates value-added products is weak.

Even with that being the current reality, we cannot just sit and do nothing. It is necessary that we seek and find solution. The investment environment has not yet fallen completely into the abyss.

"Although overall foreign investment is decreasing, we need to analyse what kinds of investment have actually decreased," stated Minister of Industry J.Erdenebat.

These diminishing types of investment are investments made into the mining sector few years ago, meaning investments made in the mining sector are fleeting away. According to S.Javkhlanbaatar, the collapse of the mining sector gives opportunities for other sectors to develop. In other words, investors are looking to invest the money they withdrew from mining in another productive sector. In particular, infrastructure investments should attract the interest of foreign investors.

As such, we need to take the necessary steps to attract investors' attention to this sector. They say that foreign investors are more interested in investing in research-



based projects, and the Invest Mongolia agency knows this. Currently, concession projects are the most compatible with the agency's policies, as a certain amount of feasibility studies were conducted on various concession projects, making them agreeable to the interests of investors. Currently, a total of USD five billion worth of investment agreements have been signed on 15 concession projects. These projects need three to four years to be implemented. An average of MNT two to three trillion will be invested annually. Road projects amounting to USD 250 million are being implemented and should be completed next year.

Of course looking at the big picture, investment in the overall economy affects investment in individual sectors. When asked what is needed in order to boost investment and improve the business environment, S.Javkhlanbaatar said that there are two things. One is to improve the funding system. Although the legal environment to attract investment has been improving, the funding issues are still problematic. He said the funding process is complex and confusing. Thus, investors demand guarantees, while the guarantees that Mongolia gives are nothing to bank on. The other is that the law must be able to regulate all intra-governmental relations. He stated that policymakers must consider what effects and side-effects a pursued policy will have on broader economic relations, how to minimise undesirable effects and how to manage them. ■

Fueling the Engine of Development



By Ts.Elbeg

Let's develop industry! Yes, Mongolia has been dreaming of becoming an industrialised country for many years, and it is a rather ambitious goal. Policies concerning this area have been approved by parliament, and some initial major manufacturers have started operations. However, the human resources aspect must also be emphasised, as we are talking about the development of an entire industry, not just one factory. A single individual or single ministry cannot work alone on the development of industry. In the end, highly-skilled personnel that possess technological aptitude are the engine of this sector.

As such, the "State Industrial Policy" clearly includes the provision "support for the training of the industrial sector's human resources and improving skills," and the "State Policy on High-tech Industry" includes aspects to improve "the high-tech sector's human resource policies, to develop and implement the strategy."

As a result of Japanese-Mongolian cooperation, 1,000 engineers are to go on a study trip to the Land of the Rising Sun. They will become an invaluable resource to the future of the industrial sector. The leading industry, how many engineers we will train and where they will work when they come back all need to be determined within the policy. The Ministry of Industry has two general policy goals to implement personnel training. Firstly, students will

be sent to national and international universities and institutes. The fees are to be covered by government scholarships and other grants. Secondly, people who have technical expertise and know-how of industries will be supported and provided with opportunities for work.

The head of Strategic Policy and Planning Department of the Ministry of Industry, D.Battogtokh, stated that Mongolia will have a deep pool of human resources if the conditions to work in Mongolia were to be set for people who have already mastered technologies in foreign countries. More than one million citizens are of working age in Mongolia, and about 1.2 million citizens are economically active. However, about 10 percent, or 120,000 people, are working abroad in about 80 countries around the world. They bring back and introduce the field's know-how when they come back to their homeland. S.Khurelbaatar, Director of Sanko Solar Mongolia LLC, is a shining example of this. The company manufactures solar screens with the label "Made in Mongolia" and supplies them to the Japanese market. They named their product "Wolf" and has successfully exported solar screens with a total capacity of nine megawatts to Japan. Moreover, they built a solar power station with a capacity of two megawatts in Japan.

Before the collapse of the Soviet Union, Mongolia used to send many of its personnel to its northern neighbour to

have them study specialised professions such as petroleum engineering and aircraft engineering. Unfortunately, they were unable to use the skills they learned when they came back, as the technology had not been introduced into the country, and soon, society entered a turbulent period of transition.

Introducing and establishing technology is necessary for industrial development. We will only waste our time and money if we try to reinvent the wheel. Instead, correctly introducing proven technologies would be the right decision. Perhaps the best option to introduce these technologies is through Mongolians who are working abroad. However, D.Battogtokh also believes that creating a national technological brand should not be completely forgotten. We still have not started producing value-added, high-tech products.

Article three of the "State Industrial Policy" clearly states that "The purpose of the policy is to establish high-tech manufacturing and services to develop the industrial sector into Mongolia's leading sector." The ultimate goal is to master the high-tech field and break into the high-tech market in order to become a technology exporter. If this can be achieved, Mongolia's development will be more sustainable, and perhaps, the day when we step into the ranks of developed countries may come that much closer. ■

INDUSTRIAL PARK



Industrial Ambitions

By E.Zorigt

There is no doubt the industrial sector was the sector that fell the hardest as a result of the transition to a market economy. The reason for such a bold statement is the fact that factories that used to operate smoothly were privatised, and its employees were left out on the street. Sh.Erdenebat, who used to work in the shoe industry during that time, is one such individual. Now he runs a shoe repair shop. "Many expert shoemakers that I know have become unemployed alcoholics," he said. "Like me, some others are repairing shoes to live. We have the factories and the workforce to produce shoes domestically instead of importing from our southern neighbour."

The heavy and light industries of the previous society closed their doors after the transition to democracy, and now after 25 years, we are delighted to say "Mongolians manufactured nails," when we used to manufacture them before. However, now the dream is to become a manufacturing

country. The government and parliament issued many short, medium and long term plans to get out of this economic slump. One of these plans is to support industry and establish an industrial park. If Mongolians can establish an industrial park, it would go a long way in filling the pockets of many people. The state has had the goal of establishing an industrial park for quite a while now. A guideline for developing industrial and technology parks was approved in 2003, and the law on industrial and technology parks was approved in 2009. However, the implementation of the guideline and the law has been moving forward sluggishly. This failure can be attributed to factors such as an immature social understanding about industrial and technology parks; a lack of infrastructure development where the park was to be built; uncertainty in investment policies; low technological level of industries and enterprises that should have cooperated as an organised park; and, finally, vague

legal regulations.

The Dream Can Be Realised

The reshuffled government promised to save the economy by establishing an industrial park in Sainshand right after taking over. However, the park has been forgotten after rumours of crisis.

"As for this issue, 'Sainshand Industrial Complex LLC' was established by the State Property Committee's decree number 107 of 2013. The company's name and bylaws were revised by the State Property Committee at a meeting on September 3, 2015. Currently, plans for the layout of the industrial complex as well as some qualitative research have been completed. Now we are getting set to begin the infrastructure works and attract investment," stated B.Chimegsanaa, Head of the Department of Free Trade Zone and Industrial Park Development of the Ministry of Industry. Based on what she said, although the physical evidence of

progress cannot be seen or grasped, the project is moving forward little by little.

Mongolians who dream of becoming manufacturers now do not need to wait for the establishment of the Sainshand industrial park, because parliament approved the state industrial policy and the “law on support for manufacturing” during its spring session. The law in clear support of manufacturing has even designated certain regions where industrial parks are to be built.

Minister of Industry D.Erdenebat stated: “The government granted permits to establish industrial parks in five locations. Since its establishment, the Ministry of Industry has signed an agreement with the authorities of Erdenet Technopark LLC, Darkhan Industrial and Technology Park and the Bayangobi Nutag industrial and technology park in South Gobi (Umnugovi) province. Within the agreement, industrial and technology park operations will commence in the cities of Erdenet and Darkhan as well as South Gobi province. New technological innovations will be introduced. Also, we’re working on attracting foreign and domestic investment in infrastructure development, developing the park’s organs in sections and increasing the production of export products.”

In addition, each soum (town, village) in the provinces have their own industries and strives to process agricultural raw materials. The Ministry of Industry is cooperating with the Investment Authority to select the concessionaire to build agricultural, industrial and technology parks under concession agreements in various soums in various provinces. The Ministry of Industry also developed strategic, planning and industrial maps within the state industrial policy. They soon expect to present them and get them approved by the government. Locations such as Ulaanbaatar, Khovd, Choir and Dornod will likely see the establishment of industrial parks over the coming years.

On top this, tax incentives and other kinds of support will be provided to any entity that is going to engage in the development of industry. For example, the state will pay the interest on commercial bank loans of domestic manufacturers that were able to export more than 30 percent of their produced goods. Also,

reimbursements equal to 75 percent of the money spent on the introduction of efficient, advanced technologies, research and the development of production of export products will be given to a factory from the state budget. The new laws and policies contain many beneficial provisions, such as the fact that export production will be supported by a variety of financing instruments. All in all, this means that Mongolians can expect the establishing of industrial parks in several places, not just in Sainshand.

In order to promote industrialisation, establishing industrial parks is not enough. Another important thing is free trade zones. Hence, we sat down with the Head of the Department of Free Trade Zone and Industrial Park Development of the Ministry of Industry, B.Chimegsanaa.

- The law on free trade zones was amended. What benefits for manufacturers do the amendments provide?

- This law has many advantages compared to the old one and has aspects uniquely its own. The previous law was administrative, and some regulations were vague and inconsistent with other laws. The revised law regulates economic and business relationships in a broad framework, and it is highly supportive of business and allows for more openness. For example, the previous law was strict on free trade, economic and tourism zones. As a result, the regulation allowed only operations such as a few types of trade and improvement of product packaging. This time, we made it so that the free trade zones are more open. There is less legal confinement on type of trade. The government will also further address this issue when the free trade zone is established. The free trade zone’s scope of activities has expanded. All kinds of activities such as trade, manufacturing, tourism, services, international banking, finance and gambling can operate in free trade zones under the law in force. Free trade zones are a business opportunity open to everyone.

It is said that there are various discounts. Would you please elaborate on this?

- Special regulations on free trade zones were legislated well. “Special regulations” means softer regulations. Regulations on tax discounts and exemptions have been specifically reflected. Free trade zones

will give a variety of tax discounts. For example, entities operating in a free trade zone are exempt from real estate taxes. Entities invested in a free trade zone can enjoy corporate income tax rebates equal to 50 percent of the investments made. In addition, land fee rebates will be granted to entities depending on the nature of operation. For example, entities operating hotels, tourism and trade services are fully exempted from land fees for five years, and after that, they will enjoy 50 percent rebates over the next three years. As for entities engaged in manufacturing and infrastructure, they will be fully exempted from land fees for 10 years. Any goods imported into the free trade zones will not have customs duties levied on them. Taxes will not be imposed on export goods going out of the free trade zone. The free trade zones have a favourable tax environment as products and services produced and sold in the zones will be exempted from VAT. There is no way that industry will not develop in such a favourable environment. Therefore, entities should study the laws and start their business in the free trade zones.

- Would you tell us a bit about the implementation of this endeavour?

- It has been six months since the law was approved. During this period, regulations and procedures were approved, and activities and events have been organised. Free trade zones’ organisational structure was revised. We also reached agreements with professional organisations that will cooperate. Infrastructure works of the Zamyn-Uud and Altanbulag free trade zones have been added to the concessions list, and some works are under way. Foreign and domestic investment in the Zamyn-Uud and Altanbulag free trade zones is growing as events such as the Investors Forum was organised in order to promote the law and attract investment.

- Can the free trade zones or border regions have industrial parks?

- Seeing from international experiences, there were cases where industrial parks have been built on the territory of a free trade zone or at the border, which is also possible for Mongolia. According to the industrial and technology park development guideline’s provisions, industrial and technology parks can be located within the borders of free trade zones. ■

Industry through Their Eyes

The Made in Mongolia conference will be an open dialogue for public and private organisations, researchers, civil society representatives, and foreign and domestic investors. The conference, held for the first time, will focus on taking steps to advance the development of manufacturing in Mongolia. We sat down with a few participants to learn about the key topics to be discussed at the conference.

T.Bayarsaikhan, Head of the Leather Industry Association of Mongolia:



- Today, the light industry sector is responsible for more than 30 percent of GDP and exports about 40 percent of the products to more than 20 countries in the Americas, Asia and Europe. The leather industry reached its peak during the 1980s, when its output accounted for more than 13 percent of Mongolia's total manufacturing and more than 10 percent of the country's net exports. In 2014, the leather industry's exports amounted to MNT 120 billion, of which 65 percent was semi-processed leather exports. Reviewing the leather industry's current state and export-orientated production, the majority of the total exports were semi-processed leather exports, which shows the need to produce finished products. There is a need to establish a leather goods manufacturing complex and to improve the quality of the raw materials and health of livestock. Modern slaughterhouses and material maintenance workshops need to be built. The Ministry of Industry was established, and the industrial policy was issued shortly thereafter. It is commendable that the Law on Industry was developed and approved. In my view, it is the right thing to do as long

as they do not focus too much small- and medium-sized manufacturers and polarise the industry.

Ch.Davaabayar, President of the Wealth Creators Association of Mongolia:



- Production of export-orientated products is not at a satisfactory level of development in our country. Looking at the overall picture, the foreign trade deficit is decreasing, but that is related more to the fall in imports rather than increased exports. Also, mineral products remain the main commodity exported. Other than that, textile products have a bit more weight in exports. From this, it can be seen that we need to diversify the range of export-orientated products. Almost 97 percent of net exports are raw products. These kinds of products low-tech products and need to be replaced with value-added products. On top of this, only a few brand name products solely produced in Mongolia are being exported. A small amount of meat and meat products are also there. Many kinds of products that can be exported are being produced in Mongolia, but the quality and aesthetics of these products need to be improved to meet international standards and tastes. For the time being, these

products can be sold in the provinces, the capital city as well as throughout the region.

In Mongolia, manufacturing should be developed in accordance with unified policy. Firstly, we need to study our resources. Secondly, we need to study interest and demand in foreign markets. The policy must be implemented based on these two main indicators. By expanding the productivity of small- and medium-sized enterprises, we can diversify the range of products exported. However, it would be naive to say we can enter foreign markets in our current state.

In addition to improving the quality of products and encouraging technological innovations, we must focus on the skills base of human resources. The packaging of products needs to be redesigned. Mass production is required. But the most important thing is market research and establishing relationships. The state needs to take quick and concrete steps to support such aspects of industrial development.

Uchida Hajime, Chief Representative of Sumimoto Mitsui Banking Corporation Ulaanbaatar Representative Office:



- We believe that industry is one of the key factors when talking about Mongolia's economic recovery. The ups and downs of the mining sector have taught us that a diversified trade policy is an essential part of a healthy economy. This year, Mongolia signed its very first economic partnership agreement with Japan, one of the leading

industrial countries in the world. This is a good opportunity to collaborate with Japanese corporations to enhance the technological state of Mongolian industry, gain high-level know-how and increase trade volume between the two countries.

A.Munkhbold, Head of the Mongolian Logistics Association:



- Trade policy must be an integral part of the industrial policy. Policies focusing simultaneously on domestic as well as external aspects of support for commerce must be present. Trade policy is very important. In 2012 for instance, Vietnam established an assembly factory for Samsung mobile phones on its own territory. In 2013, they managed a sales volume of USD four billion throughout the world. In 2014, they established the second factory and made USD eight billion in sales. These assembly factories created more than 12,000 jobs. If Mongolia wants to be a manufacturer and supply its products globally, the first necessary step is to study consumer behaviour. It is a good thing that Mongolia has established a trade agreement with Japan, but satisfying the requirements demanded by Japan's market and consumers will be orders of magnitude more difficult than satisfying Mongolian consumers.

What I am saying is that meeting the wants and needs of foreign markets sounds a bit farfetched when we cannot even meet Mongolian consumers' needs. Consumer- and market-orientated production requires a reliable supply chain and excellent logistical solutions. It is understandable why some traders and oligarchs oppose this trade policy – they care only about their personal fortunes. However, the country needs to develop, and we need to learn to protect consumers. Our competitiveness

in foreign markets is important. Industrial development is impossible without creating an optimal legal environment for trade. In addition, a legal framework for logistics will also be required.

D.Battogtokh, Head of the Strategic Policy and Planning Department of the Ministry of Industry:



- As of 2014, mining accounted for 58.9 percent of total production; refinery plants accounted for 30 percent; production of heat, water and electricity accounted for 11.1 percent. It is obvious that low-tech production will dominate in a country in which mining exploration and production of concentrates dominate overall production. Currently, there are no available official statistics and data that can indicate the nation's level of industrial and technological development. However, if it were calculated by the methodology of the Organisation for Economic Co-operation and Development (OECD), 83.6 percent of our country exports are raw materials without technological content or technological development, and 13.8 percent are semi-processed and low-tech products. It shows our country's underdeveloped industry and level of industrial technology. Mineral resources are mainly exported in the form of raw material without added value, and this is the main reason behind low economic diversity and low competitiveness.

The main economic sector's scientific and technological capacity was significantly weakened due to the past 20 years of misunderstanding that the economy can develop all on its own. In order to develop a tech-based industry, economic and industrial policies, education and human resource policies and scientific and technological policies must be comprehensively developed. Only then can

there be sustainable economic growth. The processing industry is creating the most jobs out of all the industrial sectors. For example, the energy sector creates 1,100 jobs annually, and the mining sector creates 1,300 jobs annually, while the processing sector creates 12,200 new jobs per year. From this, we can see which sector needs to be developed more. Today, about 10 public and private universities are preparing engineers and technological personnel, and then about 70 vocational training and industrial centres are preparing the skills of the workforce. As for vocational training programmes, implementing a curriculum that combines theory and practice would be more effective than programmes based solely on theory and demand.

S.Javkhlanbaatar, Head of the Investment Authority of Mongolia:



- Mongolia needs to administer the industrial policy on three fronts. The first is the mineral products industry. The most important thing here is identifying what products to produce. For example, Mongolia is rich in copper resources with deposits such as Erdenet, Oyu Tolgoi and Tsagaansuvraga. But then how should we process these products, and what kind of final products should be supplied to the market in order to compete?

The second aspect is the industrialisation of the agricultural and farming sector. In particular, we have a wide range of opportunities to boost production of import substitutive products, as well as export products. The third aspect is mental capacity and knowledge-added production. There is much room for development of this type of manufacturing. As for foreign investment, investors are quite interested in infrastructure investment projects.

D.Nemekhbayar, Head of the Department of Heavy Industry Policy of the Ministry of Industry:



- Before anything, we need to attract investment in the manufacturing sector. To date, mining, light industry, food and small- and medium-sized factories have developed in our country, but the manufacturing industry needed to process mining and agricultural raw materials has not developed all too well. Therefore, attracting foreign and domestic investment in manufacturing projects, including the establishment of iron ore, copper and oil processing plants to process mining products into finished products, has become the main focal point of national industrial development. Domestic enterprises are also investing in manufacturing projects,

in metal and cement factory projects, a mineral wool plant and construction material factories. Domestic and foreign investors have interest in investing in the copper concentrate and smelting plant as well as the oil refinery project. Proposals and initiatives to build a metal casting and parts factory, a coal and chemical plant and a vehicle assembly factory have been picking up momentum in recent years, and certain works have already started.

K.Enkhchuluun, Deputy Director in Charge of Production at Darkhan Metallurgical Plant:



- The "Mining and Metallurgy Complex" project implemented by Darkhan Metallurgical Plant started in 2010. The project was scheduled to be implemented in two phases, and the first phase was fully implemented in 2014. Developmental works in mining, a processing plant and the construction of its infrastructure were a part of this phase. In 2015, we started the preliminary works and research on an iron ore processing factory, expansion of the steel plant and renovation and related infrastructure works necessary for the implementation of the second phase of development. According to preliminary estimates, about USD 700 million in investment is required in order to fully implement the second phase. By completing implementation of the project, Mongolia will meet the domestic market's demand for steel foundry products and will produce import substitutive, value-added steel products from iron ore. We will produce goods of international standards in a cost-effective manner and will introduce environmentally friendly, world class technology. On the other hand, the project has tremendous social and economic impact as it will increase tax revenues paid to state and local administration budgets, create jobs and develop SMEs alongside the complex. ■

SUPPORT

Why We Need Trade Legislation

By G.Tushee

It has been 25 years since the days of when there was nothing except salt on the shelves of stores. The State Department Store, which had only towels and children's potties during the mid-60s, now has thousands of products. It is just one indication of the fact that Mongolia's retail trade sector is developing.

The sight of Mongolians lining up to buy goods with ration vouchers was visual proof of the shortage of products back in the day. The state actively implemented a policy to

support small retail trade in order to ensure the stores were stocked and to get out of deficit during that period. Today, the sector accounts for more than 60 percent of GDP.

However, regulation of the sector was abandoned, and experts are calling for a new retail trade law to be approved as soon as possible. The retail trade sector itself supports the overall industrial sector. More people are looking to get into retail trade than industry.

"Retail gives the people a chance to

earn money for food by opening a small shop instead of engaging in arduous manufacturing. Our retailers are not so much interested in serving the customer as they are in trying to get as much money as they can from a buyer," stated D.Byambasuren, 17th Prime Minister of Mongolia.

Most of the city's tall glass buildings are trade centres. Ironically, there is no ethical awareness nor transparency in these glass buildings. Today, it is true that

Mongolian traders are selling their imported goods at a price several times higher than the market price. We have abandoned concepts such as efficient pricing, business ethics, food safety and quality standards. These facts confirm that Mongolia needs a policy to regulate trade and retail. The draught law on trade and other relevant

products,” said the former PM. “Under such conditions, regulation of retail trade is necessary. For example, Russia adopted a law on trade two years ago and prohibited retailers from hiking up prices by more than 30 percent of what they bought the goods for. In other words, they were able to do away with overly greedy profit-seeking.”

Mongolia has the same problem, and there have no laws to address this issue. Entrepreneurs of civilised economies operate according to the idea that businesses expand in accordance with how well they serve and provide for their customers. The cleanliness and aesthetics of European markets are things to be admired. D.Byambasuren criticised the fact Mongolian sellers place dirty vegetables on display, almost as if they purposefully dragged the vegetables through dirt. Our country’s retail trade sector lacks culture according to international standards.

Domestic manufacturers should see this new law as an opportunity, because this law includes provisions to protect the domestic market and support domestic manufacturers. The head of the “Trade” programme of the National University of Mongolia, N.Otgonsaikhan, stated that everyone thinks import goods are putting pressure on domestic manufacturing, yet there is still no law to regulate it. The Ministry of Industry and the government then focused on this issue and increased the customs duties of 10 kinds of imported goods. It is one way of protecting the domestic market. We fully have the capability to provide for domestic consumption without importing vegetables from China. In order to put a barrier on vegetable imports, there are non-tariff regulation methods, such as import quotas. Then in turn, products of domestic manufacturers such as vegetables can be sold in chain stores. This is the method

used by many countries; Germany is supporting their domestic production by such methods. It becomes a reliable network for manufacturers to sell their goods on the one hand, and on the other hand, it provides consumers with reliable products. The trade law also addresses this trade network issue.

All goods produced in Mongolia will have its own bar code after this law begins to be implemented. By introducing bar codes, Mongolian manufacturers will have the opportunity to export their products to Europe and Japan as a result of the economic partnership agreements made recently. “The EU lowered tariffs on more than 7,200 types of Mongolian export products, which will be labelled with the certificate of origin. We can enjoy this exemption by proving that these goods were produced in Mongolia,” stated M.Oyunchimeg, Chairwoman of the Mongolian National Chamber of Commerce and Industry.

On top regulating products sold in stores, the law on trade regulates a wide range of issues, such as how the copper and coal wealth of Mongolia is being traded on international markets and how it returns in the form of hard currency. Companies engaged in export will do the payments through Mongolian banks as reflected in the draught law. Thus, we have an opportunity to take care of issues such as undeclared business activities and tax evasion.

Many people doubt the Mongolian government’s ability to have an informed, knowledgeable discussion regarding mining products. These issues must be addressed legislatively and solved in accordance with the law. As such, the law on trade matters because it concerns the people’s health, the country’s economy and national security. ■



draughts are to be discussed during this fall session of parliament. If the law on trade gets approved, it would be the first time in the history of our country that such a law has gotten approved. The law on trade will regulate domestic trade, and protect domestic manufacturers and the domestic market. The Ministry of Industry is trying to support manufacturing through trade policy. Adoption of such a law will put controls on food safety, which has gone unregulated for a long time. The minerals trade will also become more transparent and accountable with greater oversight.

“Mongolian traders and retailers seem to be unsatisfied if they cannot make 100 to 200 percent profit from their imported





The Reason for Supporting Exports

By Ts.Saikhan

The main reason for developing the manufacturing industry is to displace imports and boost exports. Economists agree that focusing solely on import substitutive industries leaves many other aspects of development unconsidered. The biggest example of this is the experience of Latin American countries, which developed import substitutive industries as a top priority in the 1970s, but industry's share of GDP declined. During the 2000s, industrial output as a share of GDP had about four percent growth, but has entered negative territory recently. Many countries in the region have fallen into debt by administering an import substitutive policy as a top priority.

But on the other side of the globe, East Asian countries implemented export supportive policies and programmes. Today, South Korea, Japan, and Hong Kong have already stepped into the ranks of developed countries, and China is getting ever closer. The import substitutive policy's downside is that it undermines manufacturers' ability to compete on international markets, because manufacturers come to expect protection and become uninterested in innovation as they have no competition. In the end, the consumers are the ones who suffer by

buying more expensive products.

However to protect domestic markets, East Asian countries set a prerequisite that required manufacturers to export their products, which allowed them to maintain success for a considerable amount of time. For example, South Korea increased the import tariffs on vehicles from countries with which it had no trade agreement to 20.4 percent in order to protect its domestic automotive industry. In turn, the government told manufacturers to produce attractive, high quality vehicles that would appeal to western consumers. The country's automotive manufacturers that abided by this framework started to make frequent technological innovations and always looked for opportunities to sell their products on international markets.

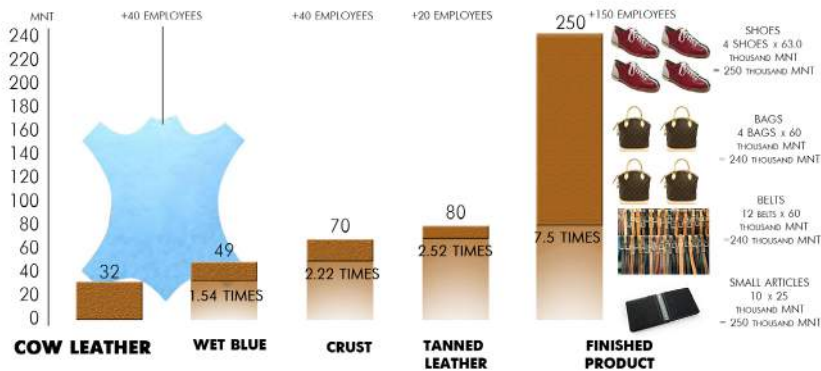
However, the production of import substitutive goods also has its advantages. This type of production can develop fast. Notable Mongolian economist B.Dulguun said it increases total factor productivity. Total factor productivity is the portion of output not attributable to the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are utilised in production. Technological developments

and productivity are the key factors that determine this variable.

The state industrial policy was approved and is to be implemented in three phases based on the above-mentioned experiences. The first phase will support import substitutive goods which can also be exported. The second phase will boost only export-orientated products, and the third phase will establish specific knowledge-based industrial elements. By cultivating knowledge-based industries, Mongolia aims to export domestically-produced technological products abroad instead of importing foreign technologies.

The foreign trade balance, which has been running deficits for many years, has turned positive from the same period of the previous year. However, we must pay attention to what we are purchasing and what we are exporting. If Mongolia were an industrialised country, it would buy cheap raw materials from abroad and produce value-added products to sell it at a price several times higher. But the situation is the other way around: we are still supplying cheap raw materials and buying expensive finished products. Originally, the "Export promotion programme" was approved in 1998 by government decree

TOTAL NUMBER OF EMPLOYEES-250



IN ORDER TO ENCOURAGE THE PRODUCTION OF FINISHED PRODUCTS, TARIFF AND NON TARIFF CHANGES WILL BE MADE CONCERNING THE EXPORT OF RAW MATERIALS AND SEMI-PROCESSED PRODUCTS

the programme's documents, 57.2 percent of the total products were raw materials. But today this figure is almost 90 percent.

On one hand this number indicates how committed Mongolians are to their policies. In any case, the "State Industrial Policy" has been approved by parliament. The government has developed the strategy to implement the policy. However, will this programme remain just a piece of paper similar to what happened 18 years ago?

There is the fear that this policy will be forgotten in the archives when the next government takes over. Many experts of the Ministry of Industry who participated in the development of this policy have this fear. Minister of Industry D. Erdenebat said perhaps succession of the state policies should be legislated. If Mongolia indeed wants to become an industrialised country, legislating this issue might be one of the prudent first steps that needs to be taken, if history has taught us anything. ■

number 158. "The programme's purpose to promote export-orientated production and development, heavily process mineral and agricultural raw materials to increase export products," it stated. At the time,

mining and agricultural raw materials and semi-processed products dominated export goods. In 1997, 55.9 percent of net exports was mineral raw materials, and 22.5 percent was textile products. According to

By E.Zorigt

The air is stuffy. There is a lot of noise. Many people are busy going about their work, yet amazingly, you still catch a whiff of the pastures in here. This is the other Gobi of Mongolia, the world renowned cashmere factory of the Gobi Corporation.

A Cashmere Trip

The first part of the visit is the sorting factory that receives high-grade cashmere prepared from across the country. Here, the factory receives cashmere of four colors and separates them to be transferred to the scouring factory. The scoured cashmere will be sent to the de-hairing machines. The first stage of the process involves a lot of human participation, while huge machines scour, dry and dye the cashmere starting from the second stage. The goat cashmere that comes to this factory undergoes a complete transformation to become the elegant cashmere of Gobi. The transformed cashmere is sent to a spinning factory to become spun yarns and proceed onward to knitting and weaving factories. The cashmere coming straight from of the hands of herders go through about 10 stages of manufacturing at the Gobi factory in order to reach consumers' hands as a final product.

A Breathable Shirt: The Golden Ingredient

The Gobi Corporation has done away the concept that cashmere products are worn only when it is cold. They develop summer cashmere that is light, thin, soft and radiant. In order to produce this product

HOUSEHOLD BUDGETS

The Other Gobi



they utilise a “golden ingredient” that mixes cashmere with silk and cotton. The Director of Factory Management, G.Saruulzaya, said this product has the advantage of allowing for better air exchange as well as having cancer-protective effects, because silk protects against ultraviolet light, and cotton improves air circulation. The claim is the breathable shirt can prevent cancer. In order to confirm this, they have sent summer cashmere products to Japan for analysis.

The Secret Recipe

The Gobi Corporation has another secret recipe other than the golden ingredient. They came upon the recipe in cooperation with the Japanese women’s apparel company Lapine. Their cooperation that aimed to take the quality and technology of coat and suit materials to a new level has given its results, and the Gobi Corporation was able to increase their coat production by 58 percent from the previous year.

In addition, they sell globally competitive, 100 percent cashmere coats at prices 3-10 times cheaper than many countries, because their factory is closest to the raw materials.

Senior Manager of Foreign Trade B.Duunee noted that the main pride of Gobi is that they themselves monitor every stage of production from materials collection to the final product. There are only five such factories in the world, and this oversight is the key criteria of trustworthiness for consumers. That is why the Gobi Corporation is clothing the consumers of more than 30 countries with cashmere labelled “Made in Mongolia.” Gobi alone accounts for more than 50 percent of the domestic cashmere market. They produce an average of 800,000 kinds of knotted and woven products, 25,000 sewn products and 350,000 square metres of textile products annually to sell on domestic and foreign markets.

A Technologised Gobi

The cashmere factory is a testament to the miracles of technology. Unique technologies such as dyeing machines that produce colours appealing to every consumer, drying machines that dry using radio waves, knitting machines, 3D printers and de-hairing machines operate non-stop. These machines are the main vehicle for the fulfilment of Mongolians’ imaginations. The machines can print images you want on cashmere with more than 1,000 colours to choose from and can also produce cashmere scarves weighing only 20 grams. They can even produce clothes without a single stitch.

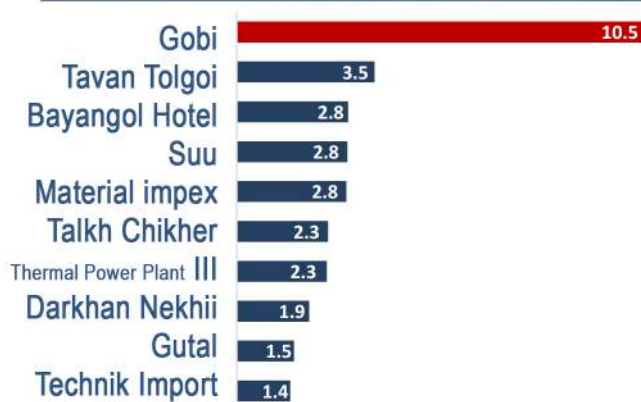
The Economic Perspective

Making up two-thirds of the Mongolian cashmere industry and 57 percent of the foreign market, Gobi is a huge company. Since 2007, after privatisation, the Gobi Corporation has spent MNT 27.1 billion in investment on technology and equipment, which in turn helped them to set themselves apart from their competitors and become an internationally renowned brand. In that sense, they deservedly rank as one of the top five cashmere producers in the world. Even during such economic troughs, they have not decreased their investment expenditures and made MNT 3.4 billion in investment last year.

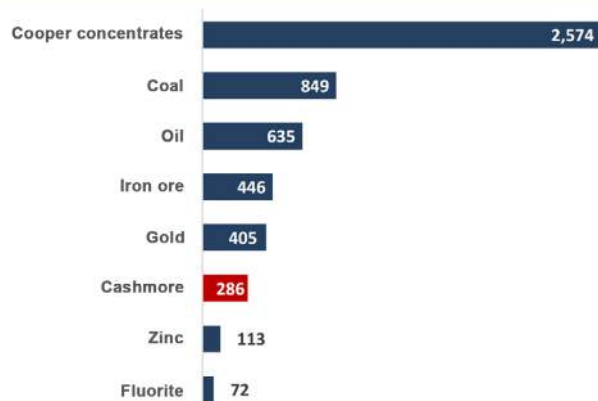
The cashmere industry is a strategically important sector that is second only to mining in terms of Mongolian exports. Although Mongolia produces about 6,700 tonnes of raw cashmere per year and supplies 40 percent of the global market, we are still not realising the full capacity and potential to export. However,

Gobi Corporation became the highest earning corporation listed on the Mongolian Stock Exchange last year by increasing their sales revenue by 35 percent to reach MNT 65.9 billion, and net profit by 48 percent to reach MNT 10.5 billion. In recent years, the Gobi Corporation is rapidly penetrating its biggest rival’s market, China. Gobi opened two stores in cities in Inner Mongolia last year and one store this year. Mongolia ranks second in the world by cashmere production after only China. However, only ten percent of the 6,700 tonnes is processed into finished products, the rest is exported as semi-processed products. Mongolia produces just 1.2 million units of finished cashmere products per year, and 40 percent of that gets exported. Meanwhile, the world’s largest

Top 10 corporations by profit (MNT billion)



Staple export products (USD million)



cashmere factory, owned by the Inner Mongolian Erdos Group, has the capacity to produce 10 million units of finished products per year. As for Gobi, its annual production capacity is 700,000 units. Last year, 470,000 units were produced, accounting for 40 percent of Mongolia’s market. The number of consumers is increasing year by year as a wide selection of design, quality, colour and price has been introduced. Given that export revenues make up more than 40 percent of the company’s net revenue, appreciation of foreign currencies benefits the company. That is the reason why they were not perturbed by the crisis. Their main export markets are France, Germany and Japan. Tourists make a huge contribution to the company’s domestic sales as they make up 60 percent of total domestic sales. ■

Cluster Development: The Future of Manufacturing

By G.Orkhon

A Japanese professor laid a rug with a picture of Genghis Khan for his dog. L.Oyuntsetseg, a professor at the Mongolian University of Science and Technology, told this odd-to-Mongolians news during the Ulaanbaatar Forum 2015 held in April. This is an example of how Mongolia produces goods without considering for whom and for what purpose goods are being produced. Essentially, we lack knowledge-based industries. Small-and medium-sized manufacturers (SMMs) face many such obstacles during their development. They need to study market demand and the global market, instead of producing things with which they are familiar. It is inefficient to limit this sector with solely domestic market demand. If we are talking about development, we need to look beyond the border and strive to enter bigger markets.

Support for the expansion of factories and other export-orientated changes are being made to state policies. The Head of Small and Medium Sized Industries Policy Coordination Department of the Ministry of Industry, G.Bilguun, said that his department is working on categorising manufacturers more precisely into "small", "medium" and "micro" categories in order to implement a policy tailored for each industry. One of the possibilities for industries to grow and expand their market is through cluster development. A business cluster is a geographic concentration of interconnected business, and it is at the core of the policy to support SMMs. Mongolia's manufacturers have to go through each stage of factory development on their own. This is the main problem they are facing. However,



they will have an opportunity to improve productivity, expand their market and boost competitiveness by developing in clusters. One entity spins the yarn, while others are responsible for the knitting, packaging and sales. The result is a greater potential to expand into foreign markets. The head of the Strategy and Policy Planning Department of the Ministry of Industry, D.Battogtokh, believes Mongolia has the potential to develop clusters orientated towards products such as meat, sea buckthorn, leather and clothing. We need to raise awareness about cluster development and its advantages to SMMs.

Domestic manufacturers, especially SMMs, are often criticised for not aiming for foreign markets and not producing competitive products. However, several medium-sized manufacturers, such as "Best Shoes" and "Khanbogd" cashmere, have already crossed the border. Constituting approximately 20 percent of the GDP, SMMs are indeed looking to foreign markets, because state policy will now support exports and import substitutive production. Currently, SMMs make up only 0.7 percent of net exports. In this regard, the Ministry of Industry stated they will replace the previous system where enterprises receive funding by proposing their projects and introduce a new system that supports manufacturing, introduction of new technologies and exported-orientated production.

"Mongolia is a country with a weak industrial base," stated S.Demberel MP. "Nowadays, there's the new industrial concept of sustainable and accessible industrial development. That is what must

strive towards."

He warned that although protecting domestic manufacturers is good, there is a risk of causing artificial conflict between the import and manufacturing sectors. The Ministry of Industry is continuously taking legal measures to support SMMs and protect them. However, there are those who say manufacturers have to be able stand on their own two feet. Many people note that although people engaged in manufacturing went through difficult times over the past 20 years, they have developed resilience and have learned to compete with imports. S.Demberel noted that we need to avoid creating incubator conditions for domestic producers and that the boundary between policy and competition must be clear. Thus, we need to study and evaluate several things before protecting industries blindly.

As of last year, 59,800 economic entities registered in the registration database are actively operating, and 84.6 percent, or 50,600, of them are SMMs. Of these SMMs, light manufacturing accounted for six percent, construction for 8.5 percent and agriculture for 6.2 percent. The trade services sector accounted for 44.6 percent of SMMs, the highest among the sub-sectors.

The ministry also intends to support manufacturing through its foreign trade policy. In order to develop SMMs, learning from the experiences of other countries with more developed manufacturing sectors is important. For example, the development of Asian tiger countries was rooted in SMMs, a shining example of which would be Taiwan. There are many countries that experienced economic recovery by

supporting manufacturing.

There is a need to develop the 378 SMMs engaged 145 different types of business. About 205 products were identified as national brand products, and 70 percent are food, tourism and textile products. The Deputy Director of the Mongolian National Chamber of Commerce and Industry, M.Sarandavaa, noted that Mongolia has the capacity to develop 205 brand products in 17 sectors, products such as clothing, shoes, meat and meat products, milk and dairy products, wool

and cashmere just to name a few.

Officials say that Mongolians have the resources and potential to develop SMMs. On the other hand, wealth creators have a big desire to enter international markets. "SMMs account for 85 percent of all manufacturers. Although they make up about 20 percent of GDP, their contribution to exports is very low. This is a reflection of manufacturers not being able to expand their operations and production," stated G.Bilguun.

This has everything to do with out-dated

state policies that were not reformed until very recently. However, this sector now has its own specific ministry, and the ministry is actively supporting boosting production and penetration of international markets. Officials noted that public-private partnerships are an ideal way to resolve issues faced by SMMs. SMMs can only develop by resolving these current issues, which also means the state must share the burdens of SMMs. ■



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