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MONGOLIAN ECONOMY

MARCH, 2014, ISSUE №06 (064)

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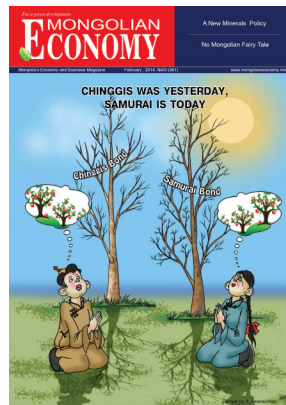
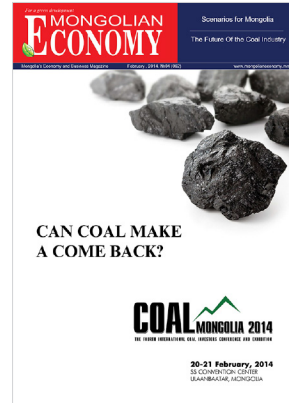
E-mail: info@mongolianeconomy.mn

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Printed at Ulaanbaatar Print Co., LTD

www.ubprint.mn

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



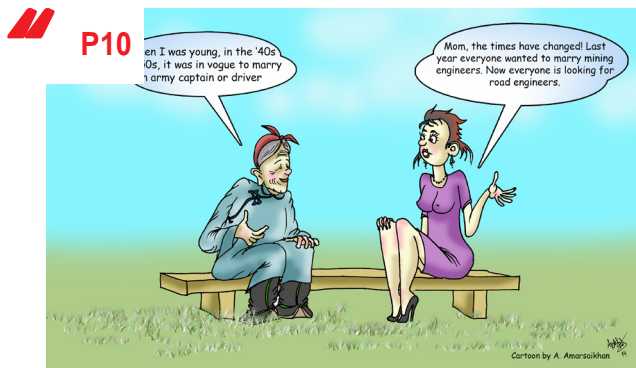
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CONTENTS

ECONOMY

- 8 Fall in a Hole or Climb up Again?
- 9 Mission: public Discussion of economic development
- 10 Wind-Led Labour Market
- 13 Samurai Bond – Risk and Opportunity
- 15 Tax reform
- 16 The Way Out of Economic Darkness
- 17 China's New Reformist
- 20 Bank of China grows up with Mongolia's Financial Market
- 23 Mongolian Economy partners with Dow Jones



BUSINESS

- 24 No More Intervention
- 25 Strengthening a Board of Directors
- 26 Mongolia's Young Global Leaders
- 27 Cutting the red tape
- 29 Intensive Cattle Farming
- 30 The Founder of Hunnu Coal
- 32 A Dream of Dressing the World
- 34 BCM's NewsWireHighlights



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MONGOLIA

MINERALS

State-owned uranium company Mon-Atom recently completed a feasibility study for extraction operations at the Gurvan Bulag uranium deposit. Gurvan Bulag has a 63,000-tonne uranium resource that is likely to grow with further exploration.

Mon-Atom is leading exploration at 12 uranium deposits in Dundgobi Aimag.

ULAANBAATAR

The Ulaanbaatar city administration has set city limits for redevelopment to the trenches and mountain. The city is prepared to relocate residents currently living in these prohibited areas to 52 new locations around the city. The Ulaanbaatar Citizens Khural plans to erect school and kindergarten as well as install basic infrastructure in the designated areas for relocation.

Land privatization will be considered after the city declares that development is complete.

INDUSTRIALISATION

Mongolia is moving forward with its partnership plans with China to build a coal-to-liquid fuel facility.

The Mining Ministry plans lead the MNT 30 billion project project project after Prime Minister Norovyn Altankhuyag signed an agreement with China's Sinopec for the development and construction of a coal gasification plant during a visit last December. Mongolia plans to build as many as four coal gasification plants and other facilities for the production of 16 billion cubic metres of gas a year. The ministry plans to launch construction in 2015 and completion is scheduled for 2018.

PUBLIC TRANSPORT

The Prime Minister's Information Technology Council is working to introduce innovations to public transport services. Timetables for buses will be made available online and an e-card system will be launched for payment upon entrance.

The state is prepared to spend MNT 53 billion a year so that the elderly, disabled and students will be permitted to travel free of charge on the bus. Details on spending will be published for the public.

ROADS

The Ministry of Construction and Urban Development has opted to use concession agreements for the construction of roads to Zavkhan and Gobi Altai.

No funds have been budgeted yet for the roads to Zavkhan and Gobi-Altai. The initiative is part of the government's plans to construct paved road to connect each province with Ulaanbaatar. Construction began last year, and MNT 570 billion budgeted for construction work to continue beginning April.

CHINGGIS BOND

The government plans to spend MNT 1 trillion for the expanded industrialisation of the country this year. The Ministry of Economic Development and Development Bank of Mongolia selected 888 possible project out of a total 1,151 submitted proposals for possible funding. The government reported that 131 of the chose proposals meet the aim of government to increase the volume of exports from the country and 757 will meet the aim to replace imported goods with goods produced in Mongolia.

The sum total of investment for the proposal is MNT 4.2

trillion, but the not all of the 888 projects will be funded.

RAILWAY

Mongolian railways officials are expecting between 22 million and 23 million tonnes of transported freight this year.

Mongolia will likely see the transport of 13 million tonnes of freight this year, of which 3.5 million tonnes freight would be imports – 1.7 million tonnes from Russia and 1.8 million tonnes from China. Total export would be 6.9 million tonnes – 6.1 million tonnes to China and 830,000 tonnes to Russia. The remaining expected transit was domestic.

YOUNG GLOBAL LEADERS

The World Economic Forum has selected two Mongolian businesspeople to join its Forum of Young Global Leaders association this year.

This year the World Economic Forums has selected 200 model leaders in business and government under the age of 40 from 66 countries. Bayanjargalyn Byambasaikhan, chief executive at NovaTerra, and B. Ganzorig, senior vice president at Shunkhlai Group, were selected from Mongolia.

WORLD

UNITED STATES

In annual terms prices in the United States increased 1.1 percent in February this year, falling from the 1.6 percent year-on-year in January, according to the Labour Department data. The latest figures show that the US inflation remains well below the targeted 2 percent, which means interest rates will most likely stay at record low levels.

EUROZONE

Inflation in the euro area fell to 0.7 percent in February this year, down from 0.8 percent in January, revised figures have shown. The Eurostat estimate puts the inflation rate well below the European Central Bank target of just below 2 percent. The lower rate may reinforce concerns that the 18-nation eurozone risks a damaging period of deflation. However, the European Central Bank (ECB) is confident that eurozone economies are recovering from recession.

CHINA

Shares in various Chinese property firms have fallen after media reports that Chinese developer Zhejiang Xingrun Real Estate cannot repay close to USD 400 million of outstanding loans. Shanghai-listed Poly Real Estate Group

saw its shares slump by 3 percent, while shares in Shenzhen-listed China Vanke fell nearly 2 percent. Zhenjiang Xingrun is based in Fenghua, a city in eastern China.

JAPAN

Japan's trade deficit narrowed in February this year to JPY 800 billion (USD 7.9 billion) - the lowest level in nine months. Exports increased by 9.8 percent and imports showed a sharp slowdown, with a 9 percent increase in February. In January the trade gap surged to a record high after imports increased 25 percent. Imports had been increasing ahead of a planned tax increase planned for April, as Japanese stocked up on foreign goods.

RUSSIA AND UKRAINE

There are about three million Ukrainians working in Russia, said President Vladimir Putin in his address to the Federal Assembly on the integration of Crimea into the Russian Federation on March 18. Those people made a total of USD 20 billion last year, which is 12 percent of Ukraine's GDP, Putin said. Putin's speech follows March 16 referendum in Crimea, where about 97 percent voted for joining Russia. In his address Putin stressed the strong ties between Russia and Ukraine, both historic and economic.



EDITOR'S NOTE

FALL IN A HOLE OR CLIMB UP AGAIN?



Deputy Editor I. Otgonjargal

BY I. OTGONJARGAL

The 2014 Mongolia Economic Forum, held in March every year, occurs this year at a time when Mongolia's economy is facing complicated but inevitable challenges. That includes a fluctuating exchange rate, increasing inflation, a worsening investment environment and the decision on how to deal with the proceeds from the Chinggis and Samurai bonds.

This year's slogan for the forum is "Let us create in Mongolia." The forum aims to engage the general public to the development issues affecting the country's future. This edition of Mongolian Economy looks at the issues surrounding the forum agenda for 2014.

In January this year, the World Economic Forum released its strategic scenarios for Mongolia's development future between 2014 and 2040 during its annual meeting in Davos, Switzerland. The three scenarios are: "Regional Renaissance," "China Greening," and "Resources Tension." Some representatives from the World Economic Forum will attend the Mongolian forum to present the scenarios in detail.

Persistent depreciations of the tugrug, a drop in the global price of coal, and extreme decline in foreign direct investment has triggered short-term risk. Some business people consider the aforementioned as risks while others are happily seeing it as an opportunity to prepare for future development.

Mongolia has faced challenges that require a tightening of the belt and policy improvements. It has set the goal to increase exports and replace imported goods with domestically

produced goods. Last year the government approved a programme to support the country's export industry.

Mongolia's foreign trade has increased every year while its trade deficit has steadily risen. In the past five years, the average growth of imports was 75 percent and exports were 23 percent. The export rate of minerals is 90 percent of total exports, as of December 2012.

In addition, the Bank of Mongolia and the government of Mongolia have implemented the Price Stabilisation Programme at the same time it funds projects financed using proceeds from Chinggis bond. This has brought in a huge sum of money into the economy. Yet the volume of imports has continued to grow. Expert observers say the lack of exports is a main contributor to the tugrug's depreciation. Today, Mongolia faces the challenge of whether to fall in a hole or climb its way back up and save the economy.

It is good that the government has decided to spend all the proceeds of the Samurai bond and the remaining balance of the proceeds of the Chinggis bond to establish domestic manufacturing. Projects to possibly be funded were selected quickly after the tender was announced.

It is important to diversify the economy. Every option possible to develop industries other than mining must be explored in a timely manner. Good ideas and initiatives are expected to come out of the 2014 Mongolia Economic Forum. Some of those suggestions may turn out to be solutions to some of the country's most pressing challenges. ■

MONGOLIA ECONOMIC FORUM 2014

MISSION: PUBLIC DISCUSSION OF ECONOMIC DEVELOPMENT

BY B. ALTAI

Mongolian Economy spoke with B. Lakshmi, chief executive at the Economic Policy and Competitiveness Centre.



B. Lakshmi, chief executive at Economic Policy and Competitiveness Research Centre

This year's slogan for the Mongolia Economic Forum is "Let Us Create in Mongolia." Why was this chosen?

I would like to highlight several things regarding the slogan. Mongolians are not able to produce everything domestically that is used in our everyday consumption. It does not necessarily mean that we should keep importing everything that we cannot produce domestically. More priority needs to be given to increasing the volume of exported goods and manufacturing goods to replace imported goods. This would have a positive impact on a mid- and long-term economic competitiveness and contribute to the economic development. As a result, the economy would have its own immunisation and be independent.

The slogan has been suggested for the benefit of all this. The slogan needs to be perceived from aspects of wealth creation, productive work and creating many things in Mongolia.

Last year the forum focused on branding Mongolia. How does this year's focus differ?

It is necessary to diversify the economy by developing sectors other than mining.

We need to manufacture everything possible, but it could not be achieved with everybody manufacturing the same type of product.

It is important to research the market thoroughly and consider consumers' demand in creating wealth consistently with the market. No product could exist any longer in the market if the product is supplied to the market without any standards or criterion. It could attract consumers with a lower price for domestic products than the price of imported goods with an improved standard of manufacturing and lower expenses.

The issue of standards is also to be raised during the forum. My hope is that the participants may reach a deal on what standards to follow and how they should be adopted.

Every year during the forum is discussion on developing human resources. How will this topic be covered this year?

Human resource development is the most important issue to any country, as it is the core of development. But in recent years human resource development is underdeveloped in Mongolia. The forum

this time will highlight this issue as it affects all other issues.

Sometime there is stagnation because of unresolved human resource development. A long-term development roadmap should define the direction of this development. All of the human capital cannot be moved to the mining industry. However, the industry is booming in Mongolia. The mining industry is quite risky. Indeed, there are examples such as the decline in the price of raw materials, the massive layoffs at mining companies and employees' move to mining industry. This is something that we have recently realised.

The forum's agenda also includes discussion of the financial market. What improvements are needed here?

Manufacturers would have more opportunities if the financial market was competitive and other sectors were developed evenly.

The forum will consider the current development of the financial market, including [the involvement of] insurance agencies. In addition, Mongolia's advantages and setbacks would be defined. Other countries' practices shows us that long-term stable development is needed in the cashmere industry because Mongolia aims to brand the industry. It means that the future benefit relies on how committed a specific industry is. A value-added production network is needed to be created in Mongolia, at the very least.

A brand could be realised if the raw materials supplier was based in Mongolia, otherwise creating it within a mere two to three years would be impossible. ▶▶

► It is true that some initiatives are not being implemented due to a lack of stable contributions to those who are in need, and a clear direction for them. It is quite clear that the mining industry will soon be fully developed, but in order to diversify the economy other industries should not be missed out on. For example, France aimed at becoming a model country in the 1800s and reached its goal. It has been 200 years, but it is still the same model country. The reason behind this is that it was able to see its own advantage and strengths, and develop them very well.

What can be expect from the presentation on the scenarios developed by the World Economic Forum in Davos?

This forum is different from the previous ones as it has representatives from the World Economic Forum. They will introduce their development scenario report for Mongolia and hold an open discussion. The report was never discussed publicly before like this.

The World Economic Forum team is going to demonstrate what would be positive and negative impacts on Mongolia's economy if China's greening scenarios becomes true. They will also introduce what would be Mongolia's development benefit from East Asia's rapid development. Of course, the report includes the scenarios' risks.

Mongolians need to reach an integrated deal for a green economy. We also need to get rid of our old-fashioned perceptions regarding the state, the private sector and the green economy. The green economy is not only an issue for the Ministry of Environment and Green Development.

The president's "Smart Government" initiative is also included on the forum agenda. Is the forum officially endorsing President Tsakhia Elbegdorj's initiative?

Smarter government policy is a unique and broad concept. It is also becoming an issue for governance. Some issues from the president's initiative, such as economising the foreign policy, improving the connection between the government agencies and ministries, judiciary innovation, and so on are reflected in the forum's agenda. For example, there are some topics such as "Judiciary

Innovations and Business." Judges lack an understanding about business. Hence their business knowledge is poor and they face difficulties in resolving cases related to business. In

Mongolia does not have any judges who specialise in business. This could lead to human right violations and negatively impact business activities.

What do you expect from this year's forum?

Research is imperative to any country, but there is no detailed research for estimated risk and development. There is only projections for what could happen after a year. It means that we are not aware of the risks.

Due to a lack of estimated projections, today some companies are in a difficult situation and their activities are unstable. Thus, the forum is identifying some five economic risks and discussing their possible solutions. As Mongolia has a consumer economy and no reserve of money, its economic situation is very sensitive to any slight changes. It would be too early to describe the outcomes from the forum.

But we need to observe if there are any mid- and long-term policy changes from the forum rather than expecting direct outcomes from it. In the past we've seen slight change and progress. For example, the business environment has improved. There has been a reduction in the number of stages for getting licences and approvals, and paperwork has also been lessened.

There are some issues which have not resulted yet, as everything has two sides. The outcome from the forum is mostly dependent on the number of attendees and their active involvement in the discussions. The forum's goal is to come up with new ideas and reach a deal on the solutions, and to assess the current economic situation in different ways and get out of impasse.

People's participation in the Mongolia Economic Forum is very important. If the participation is active enough it could leverage economic development. Their [participants'] ideas and initiatives are valuable advices for policy-makers. The forum provides a platform for citizens and businesspeople to make their own voices heard and express their opinions on the development of Mongolia. ■

HUMAN DEVELOPMENT

WIND-LED LABOUR MARKET

BY E. ZORIGT

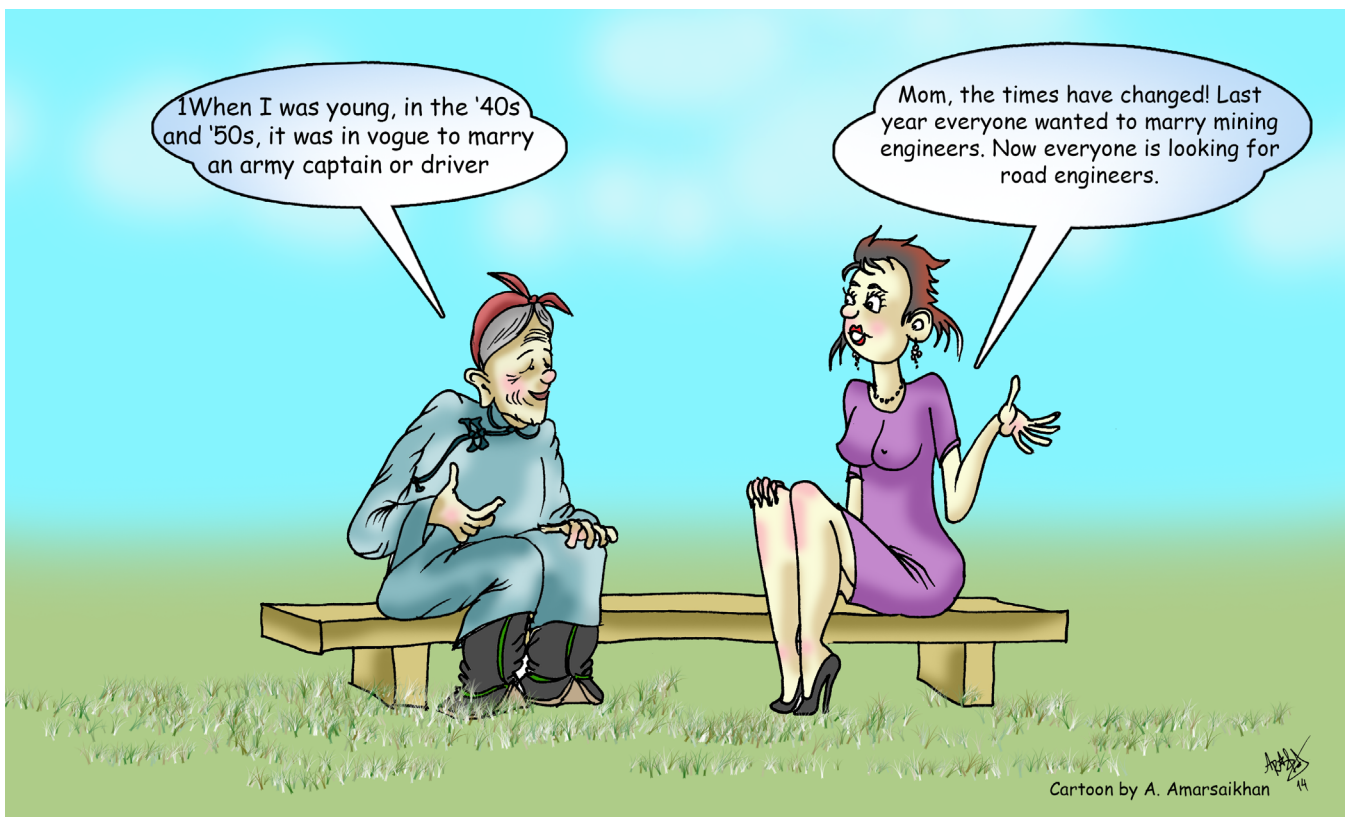
Human capital is traded like a commodity. The market is in demand for certain skill sets, and experience and know-how add value. This is what is commonly referred to as the labour market.

The labour market in Mongolia is growing. Each year Mongolia sees 37,000 students graduate from universities and another 20,000 complete vocational training.

The National Statistical Office last reported that the unemployment rate was 7.8 percent in Mongolia. And although there are plenty of job vacancies available, one-third of Mongolian citizens live below the poverty level.

Unemployed or Incapable?

Mongolia's labour market moves in all directions like the wind. Not long ago everyone was deciding to work for mining companies, but not any longer. ►



► “Students who received the highest points on their admission test choose mining classes,” said D. Enkhbat, head of the Science Technology and Innovation Department at the Mongolian University of Science and Technology.

For a long time every industry other than mining was struggling to fill vacancies. A clerk might quit his job to try his hand at operating a bulldozer for a mining company because of the higher wages promised. Meanwhile companies struggled to compete with miners offering high wages to retain staff.

Today construction is seeing a renaissance and last year the sector helped lift up the economy. Now it is construction jobs people want instead of mining.

“After the recent boom in the construction sector we saw an increasing number of young people interested in joining our company. The sector is highly productive and offers a high wage,” said A. Uuganbaatar, a human resources manager at Eco Construction.

However, the human resource pool is not well balanced. Labour is scarce

in some industries while others have a surplus. According to M. Chimeddorj, director at Labour Studies Institute, people are often making the wrong choices when choosing their professions.

“When there was the centrally planned economy, nobody could choose their preferred professions,” he said.

“But in these days of the market economy, we can choose our preferred professions and even where we work is our decision. In a much lesser populated country like Mongolia, an over-concentration of the labour force in a single sector is wrong.”

There’s no way to manage the talent pools of in the country without going back to the socialist system where people were assigned professions. That is the cost of free choice. That leaves the Ministry of Labour to seek out new ways of tackling the issue.

“Infrastructure is inadequate. IT infrastructure needs to be developed in order to balance the flow of information,” said D. Battogtokh, deputy director of the Labour Exchange Office.

“The ministry is addressing this. For example, we have successfully

implemented a project for establishing an integrated labour market database network,” he said. “Job seekers, educators and employer should exchange their information freely so that the labour market can be healthy and employment rate can grow.”

More than Miners

The mining industry comprises more than 90 percent of Mongolia’s total exports, but only a mere 4 percent of the employment pool, according to research by the Mining Ministry. Mining is expected to grow in the coming decade, but is only expected to total at mere 7 percent of the labour market because of automation at mines. In fact, the Mining Ministry recommended against specialising in the mining industry, despite the expected growth.

According to the Ministry of Mining, employment in agriculture – another economic pillar for the county – is expected to soon contract as well. Although productivity will likely increase labour demand is likely to fall as the industry begins taking advantage of advanced technologies. The current number of employees in agriculture is 370,000, but this is projected to drop to ►

► 320,000 after some 10 years.

Clearly, no sector – no matter what kind of growth is expected – is guaranteed to provide jobs.

This is not the fault of young graduates, but rather it is because of poor curricula planning by universities and schools. The Mining Ministry study revealed that the number of students who

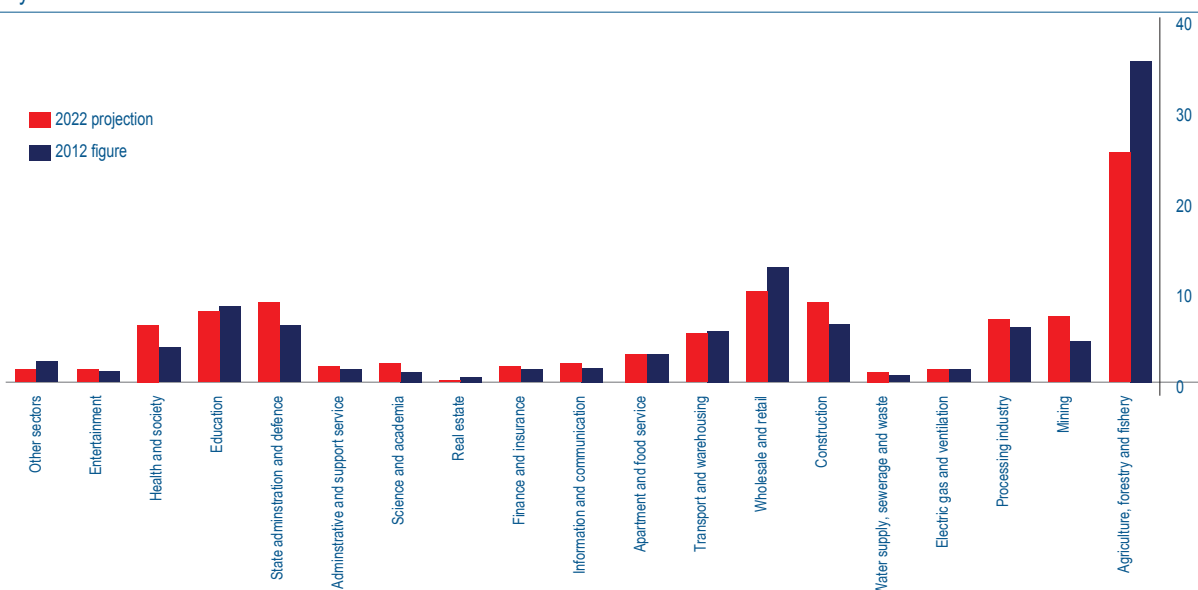
majorred in linguistics far exceeds actual demand. In the coming 10 years, some specialised professions such as processing plant workers are very likely to be in greater demand. ■

Employment projection (by sector)

Percent of employees. 2012-2022

Sector	2012	2017 projection	2022 projection	Margin			Growth (%)		
				2012-2017 projection	2017-2022 projection	2012-2022 projection	2012-2017 projection	2017-2022 projection	2012-2022 projection
Agriculture	369.960	330.890	318.254	-39.070	-12.636	-51.706	-2.2	-0.8	-1.5
Mining	46.696	71.848	91.480	25.152	19.632	44.784	9.0	4.9	7.0
Processing industry	64.897	81.600	88.754	16.703	7.154	23.857	4.7	1.7	3.2
Electricity	14.497	15.546	16.266	1.050	719	1.768	1.4	0.9	1.2
Water supply, sewerage and waste	6.681	9.891	12.856	3.210	2.965	6.175	8.2	5.4	6.8
Construction	59.204	79.230	109.481	20.025	30.251	50.276	6.0	6.7	6.3
Wholesale and retail	131.340	147.710	128.148	16.370	-19.562	-3.192	2.4	-2.8	-0.2
Transport	56.091	65.704	65.585	9.613	-119	9.494	3.2	0.0	1.6
Apartment	30.235	31.986	38.341	1.751	6.355	8.106	1.1	3.7	2.4
Information and communication	14.740	19.262	23.433	4.522	4.171	8.693	5.5	4.0	4.7
Finance and insurance	17.376	21.832	22.882	4.456	1.050	5.506	4.7	0.9	2.8
Real estate	1.208	1.301	1.659	93	358	451	1.5	5.0	3.2
Administrative and support service	13.334	14.483	11.772	1.150	-2.711	-1.562	1.7	-4.1	-1.2
State administration	62.919	89.184	108.962	26.265	19.779	46.043	7.2	4.1	5.6
Education	86.269	95.865	94.793	9.596	-1.072	8.524	2.1	-0.2	0.9
Health	37.529	59.184	73.829	21.655	14.645	36.300	9.5	4.5	7.0
Art	7.357	13.123	16.181	5.766	3.058	8.824	12.3	4.3	8.2
Service	19.783	18.507	14.477	-1.276	-4.030	-5.306	-1.3	-4.8	-3.1
All	1.051.457	1.184.181	1.261.886	127.740	77.705	205.446	2.3	1.3	1.8

Employment of sectors



BOND

SAMURAI BOND – RISK AND OPPORTUNITY

BY S. ZAYA

The releases of the Chinggis and Samurai bonds were unprecedented for Mongolia. But there are fears over the sharp increase in the national debt.

Following the issuance of the USD 1.5 billion Chinggis bond in 2012, the government issued a JPY 30 billion (USD 290 million) Samurai bond late last December. The Japan Bank for International Cooperation (JBIC) guaranteed repayment by 90 percent, which cost the Development Bank of Mongolia JPY 5.7 billion from the proceeds.

Any projects that are financed from the proceeds of the bonds should bear returns for repayment. The Bank of Mongolia estimates that total debt held by the country is USD 17 billion, or 170 percent of GDP last year. When foreign investment is subtracted from the equation, national private companies are left with debt totalling USD 10 billion.

The Fiscal Stability Law requires that Mongolia's total debt should be kept below 40 percent of the national GDP, but it is unclear how long Mongolia can remain below that threshold or if it has not already surpassed it. International agencies estimate that Mongolia's total debt ranges between 60 to 70 percent of its GDP. National internal debt should include debt totalling from every state organisations, as well as debt held by localities. But the Fiscal Stability Law only calculates Mongolia's external debt, not internal debt.

With the first string of repayments due in 2017 and 2018, Mongolian needs to move quickly – lest it fall behind on these payments. The government intends to use the proceeds from the Samurai bond to fund Mongolia's industrialisation and reorient the Mongolian economy from a net importer to exporter.

Mongolia has three large projects in

mind for its industrialisation, including the establishment of a steel mill, copper mill and oil refinery. Feasibility studies for each project are already complete.

Weighing the Risks

Mongolia was able to expand its budget using increased revenue from copper and coal exports in 2011 and 2012, when prices were higher than today's. Mongolia was also able to attract foreign investment to kickstart projects that would benefit the economy. That all changed in 2012 and 2013, when coal prices fell and Mongolian introduced laws that made it more difficult for investors to invest. Mongolia should not be bearing all the risk for the country's economic development, and it does not have the capital to finance every project alone.

The solution is foreign investment, but the economic climate has complicated things. The political risks stemming from the government factors in heavily, according to Ch. Khashchuluun, economist and lecturer at National University of Mongolia.

"It is said that the proceeds are to be spent for a number of small projects, but the basis, calculation and research methods are still unclear for those projects," said Khashchuluun.

Khashchuluun argued that JBIC must have weighed the risks before agreeing to guarantee Mongolia's Samurai bond, but still felt it necessary to take out a hefty fee for the guarantee because of the risks posed. One key risk for Mongolia, he said, is the continued weakening of the tugrug.

"This is very dangerous," he said of the depreciation. "To overcome this big challenge, the government has to take efficient actions by 2015."

Import Replacement and Export Contributions

The government has thus far selected 888 projects may receive funding from its debt

offering proceeds.

"The total investment for these projects would be MNT 7.3 trillion," said Nyamjavyn Batbayar, economic development minister. "The project costs range from MNT 5 million to MNT 285 billion."

He added that the government is providing eased terms for these loans: interest no higher than 9 percent, five-year repayment periods, and no less than 12 months before repayment begins. The projects cover mineral processing, heavy industry, agriculture and food production, and construction materials. The Ministry of Economic Development estimates that the initiative will create 40,000 new jobs, and the Development Bank has projected additional revenues of MNT 9 trillion.

A third of the financing will come from bond proceeds, according to the Prime Minister Norovyn Altankhuyag. A. Mukhbat, chief executive at the Development Bank of Mongolia, said MNT 400 billion will come from the Samurai bond and MNT 600 billion from the Chinggis bond.

"There is no need to talk about a number of projects when the issuance of bonds is unclear," Munkhbat said. "Mongolians now always talk about projects. When the project comes to implementation, there is always no funding. But when the funding issue is tackled, the projects are not ready. Now we should focus on sectors that can be more beneficial in terms of a short-term foreign currency flow."

The proceeds of Samurai bond are being temporarily allocated to Khan Bank and Trade and Development Bank. Those funds will be withdrawn as soon as the government knows what exactly it will be spent on. The same goes for the Chinggis bond.

But for Mongolia, there will not be any benefit unless there are guaranteed returns. ■



Best Bank in Mongolia
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TAX

TAX REFORM

BY I. OTGONJARGAL

There is a Mongolian proverb: "Taxes exist for the state." Everyone has heard this saying, but some have never taken it to heart. Perhaps it is because the tax system was not introduced until 1992, and the system here is immature compared to other countries. But some progress has been made since then.

It was very difficult to communicate with tax officers before 2000. Back then it was a challenge to file your taxes if you did not know anyone who worked at one of the local tax offices. The few large tax payers that existed then were state-owned companies such as Erdenet Mining Corporation, APU and Mongolia Telecom as well as some private companies.

Things have changed quite a bit since then. Much of the old red tape within tax departments has been cut and receiving tax services is now easier than ever now that online filing is available.

"This year, 70 percent of all entities in Mongolia are to be transferred to the e-reporting system. E-receipts are also expected to be launched for value-added tax," said Finance Minister Chultemiin Ulaan.

The mining sector makes up 90 percent of total exports, and copper and coal make up the largest portions of those minerals. The government plans to launch the second phase of its tax reform from 2014 to 2017. This second phase will be used to encourage investment to have the added benefit of supporting people in business, small businesses, and employment.

The first phase, which aimed to ease tax pressures and provide tax exemptions, was launched from 2006 to 2012. This included the principle of four 10s. The result was Mongolia had some of the lowest taxation in Asia, which helped attract foreign investment and increase

tax revenue.

For example, tax department statistics show that the number of corporate tax payers rose 13 to 18 percent on average every year after the new tax scheme was introduced by the end of 2012. The tax they pay comprised 12 to 20 percent of total tax revenue for Mongolia last year, largely due to the booming mining sector.

The second phase of tax reform will see more than 10 tax codes amended. The Ministry of Finance submitted to the State Great Khural last February amendments to the General Law of Taxation, the Personal Income Tax Law, the Corporate Income Tax Law and the Value-Added Tax Law. The State Great Khural is expected to vote on these amendments in the coming spring session.

The Khural also received amendments proposed for the Special Income Tax Law and the Minerals Law last month.

The Minerals Law currently has the provision that specific tax and licensing fees are to be paid in US dollars. The Finance Ministry has proposed that this be changed so that the exchange rate has less influence on the amount of tax collected.

Amendments proposed for the Corporate Income Tax Law and the Personal Income Tax Law also aim to benefit small business and employment. A 90 percent refund is available to any company earning less than MNT 1.5 billion a year, with exception to companies operating in mining, mobile telecom, tobacco and alcohol, or banking and finance.

The developers behind the amendment to Mongolia's regulations for value-added tax (VAT) realised the threshold for tax payment needed to be higher.

Companies have had to pay VAT if they earned more than MNT 10 million a year since 1998. Meanwhile inflation has grown by some 10 percent each year since then. If adjusted for inflation, that threshold should have increased to MNT 42 million.

Deputy Director of the fiscal affairs department at the International Monetary Fund Michael Keen and former professor at the University of Toronto Jack Mintz have proposed a new threshold of MNT 50 million for VAT. The amendment includes a provision that a company may voluntarily pay tax if earnings range between MNT 10 million and MNT 50



million as well.

The endless complaints about VAT have proven that submitting tax forms is difficult for small companies under the current scheme. Raising the minimum payment threshold would remove the need for them to pay at all.

Corporate income tax falls under two brackets: those who earn less than MNT 3 billion pay 10 percent on earnings and those that earn more pay 25 percent. The government is also to move forward so all these taxes can be paid online.

More of these kinds of reforms will likely boost tax payments and prevent accidental infringements against the tax code. ■

RISK

THE WAY OUT OF ECONOMIC DARKNESS

BY B. ENKHTSETSEG

Mongolia's economic performance in 2013 was not the show stopper that it was in previous years. FDI collapsed by 54.1 percent, the tugrug weakened by more than 25 percent against the US dollar – today swivining between MNT 1,750 and MNT 1,800 – GDP growth was 11.7 percent in 2013, down 5.8 points from 17.5 percent in 2011; coal shipments declined 41 percent in value, foreign currency reserves were down 40 percent and Mongolian gross domestic debt to GDP was 49.5 percent. Topping this off is the ongoing dispute between Rio Tinto and the Mongolian government.

This one-time frontier-market star has tried to regain the trust of investors by amending the foreign direct investment law and clearing up uncertainties. But going forward, there is a lot more to be done and risks to watch out for, say experts.

Moody's, which has a B1 rating on Mongolia with a stable outlook, sees the country's expansionary economy as a risk.

Asian Development Bank says that medium-term prospects of Mongolia are favourable. In the short-run, however, vulnerabilities remain. Balance of payment pressures, which are not rare in developing countries, remain a challenge for the Mongolian economy.

According to the latest economic update report from the World Bank, Mongolia's real GDP growth in 2014 is expected to continue to descend but remain at double-digit growth at just over 10 percent.

Since 2011, GDP has been measured at 17.5 percent, 12.5 percent, 11.7 percent and this year growth is projected at 10 percent. Those are growth numbers that

most countries can only dream of.

With large a deficit and high debt, a rising volume of imported goods paid for with foreign currencies, sensitive investment, and unpredictable credit interest rates, Mongolia cannot get over macroeconomic negative impacts in the short term, says, Ch. Ankhbayr, risk manager at Mandal General Insurance.

"These downside risks will clearly remain in 2014," he said.



The Economic Policy and Competitiveness Research center of Mongolia has named some major challenge Mongolia will confront in 2014.

1. The Exchange rate will weaken further in 2014, driven by declining global capital inflows due to tapering of quantitative easing in advanced economies [the United States] and further weakness in the global minerals market. This is likely to add to inflationary pressures given the reliance of domestic consumption on imports and pose a downside risk to the stability of the banking sector.
2. Government debt and fiscal policy will be a challenge for the Mongolian Government in the current low-revenue environment. Debt

servicing and repayment of the USD 2.1 billion in borrowing from the Development Bank of Mongolia and the government will be an ongoing challenge for Mongolia.

3. Commodity demand is likely to remain weak in the near future amidst the abundant supplies and growing competition among exporters of major minerals. This is a risk for the Mongolian economy which has become increasingly reliant on the mining sector.
4. Urgent environmental problems are an increasing challenge, including severe air pollution, particularly in Ulaanbaatar, but also in small urban centers such as Erdenet. Climate change and overgrazing are resulting in land degradation and dzuds – the Mongolian term for extremely harsh winters and with large snowfall.
5. Labour market conditions are deteriorating, reflected by changes in the composition of employment and the quality of jobs, despite a declining unemployment rate. There has been an increasing number of self-employed workers, family-based businesses using unpaid help, and a growing informal sector.

The Way Out

Economic growth is likely to hover around 10 percent if the foreign trade deficit to GDP ratio does not fall below 20 percent, the FDI collapse continues and the number of non-performing loans is growing. Inflation is expected to remain at 17.5 percent as the tugrug appreciates and tight monetary policy. The MNT rate will likely soar to MNT 1,920 against the US dollar if the central »

▶ bank's foreign currency reserves deplete. Imports will likely increase by 30 percent, lifting the foreign trade deficit up to USD 2 billion.

Asian Development Bank advised that Mongolia should ensure that its macroeconomic policy is counter cyclical and that the economy build up reserves during the upside of the economic cycles to counteract vulnerabilities to swings in global commodity prices. Moderate inflation and macroeconomic and financial stability should be the focus of monetary policy, coupled with a flexible exchange rate regime that provides a buffer to external shocks, recommends the bank.

Debt pressure also has been increasing with the Mongolian government debt to GDP ratio at 49.5 percent and a gross foreign external debt to GDP ratio of 146 percent as the central bank burns through foreign currency reserves.

Mongolia's borrowing costs are over 35 percent higher from a year ago, mostly due to a depreciation of the Mongolian tugrug. Asian Development Bank said the depreciation eventually could lead to a hike in the dollarisation of the economy.

Ch. Ankhbayr, a risk manager at Mandal General Insurance, said that to get out of USD 1.25 billion in national debt by 2018, Mongolia would need to reach a surplus in its balance of accounts. To do that, the government should cut operational expenditures.

Furthermore, many of Mongolia's largest corporations have also borrowed in dollars, and the depreciation makes it difficult for them to repay that debt with revenues in the tugrug. For instance, APU owes USD 71 million versus a market capitalization of USD 180 million. The loss in the exchange rate for APU was USD 8.6 million last year for non-cash assets.

"Businesses need more business!" said says Jim Dwyer, executive director, Business council of Mongolia. "Foreign direct investment which is so needed for the economy to recover will not pick up for a considerable period. Foreign investors need considerable time to be convinced that stability has occurred and should be maintained,"

"Factors such as government instability, increased tax and royalty rates, frequent changes to laws and inefficient regulatory entity practices should be minimized," he added "We need to see a 'win-win' for Mongolia and all investors."

The government of Mongolia passed progressive legislation in late 2013 with the new Investment Law and lower gold royalties for miners who sell their gold to the central bank. And authorities are expecting miners to sell their gold with the flat royalty rate of 2.5 percent compared with the previous rate of a maximum 10 percent.

The government is hoping the added reserves of the precious metal will bolster the tugrug.

"If the central bank uses the gold to increase its reserves, the MNT [tugrug] would likely appreciate significantly over the medium and long term," said, Nick Cousyn, chief operating officer of BDSec.

Economists gathered at the government Palace early this month to debate several issues, including how to run big projects without any delays, lower economic growth to a real level, halt the mass outflow of foreign currencies, taper the Price Stabilization Program, promote exports, and to support iron ore competitiveness on the world market.

They will also look at the development policy to fine tune an approach that cuts out the negative effects from short-term political grandstanding by politicians. ■

NEIGHBOUR

CHINA'S NEW REFORMIST

BY B. BAYARTOGTOKH

This year China and Mongolia celebrate the 65th anniversary of diplomatic relations and the 20th anniversary of a cooperation agreement of renewed friendly relations.

The economic and trade relations between Mongolian and China have come a long way in the years since those ties were made. For example, the Mongolian government announced that this would be the "Year of China-Mongolia Culture, Art and Humanitarian Exchange," which will include events such as athletic competitions. This year there will also be conferences in Beijing and Ulaanbaatar.

China is by far Mongolia's largest trade partner. The amount of trade between

Mongolia and China totalled USD 33.6 million in 1990. That figure grew fourfold in 1995, ten times in 2000 (reaching USD 377.2 million), a hundred times in 2010 reaching (USD 3.3 billion), and grew to USD 6.4 billion in 2011. Trade will likely reach USD 10 billion soon.

China comprises 92 percent of total export and 54 percent of Mongolia's total foreign trade. Between 80 and 90 percent of total export to China consists of agricultural and natural raw materials and semi-processed goods. Most of the goods arriving in Mongolia from China are foods, consumer goods and building materials.

China is the largest exporter and importer in the world. China's export increased from USD 14 billion to USD 1.9 trillion between 1979 and 2011. The ▶



▶ annual average export growth between 1990 and 2011 was 19.5 percent and the annual average import growth was 18.4 percent according to a research from the Institute of Finance and Economics last year.

Prime Minister Norovyn Altankhuyag signed mid- and long-term programmes for the development of a strategic partnership in politics, the economy, defence, security, trade, finance, transport, communication, culture, science and humanitarianism. And recent reform in Mongolia can clearly be seen.

“China’s in-depth reform policy is being further deepened, which resulted in open right for the economy and creation of a good environment in business sector,” emphasised Zhao Qizheng, dean of the School of Journalism and Communication at Renmin University of China in a speech delivered during the Economic Cooperation Scientific Meeting in Mongolia last November.

China aims to double GDP and increase the income of its urban and rural citizens in 2020 from 2010 levels.

One challenge ahead of China is its reliance on investment and the export-oriented structure of the economy. There is also an extreme gap between urban and rural developments. Unequal wealth distribution among the citizens is

still a major concern for the country as well. Social issues concerning Chinese citizens are education, employment and social welfare. Pollution, too, needs addressing, as China now tops the world in terms of sulphuric gas and carbon dioxide emissions. As for business, reducing government interference in the business sector is a major objective.

Abolishing the Old System

Some state-owned enterprises still dominate markets in China, such as petroleum, mining, communications, energy and manufacturing. However, the number of these enterprises is dwindling. According to a study by the Institute for Strategic Studies of Mongolia last year, state-owned enterprises comprised 50 percent of the 500 manufacturers operating in China and 61 percent of the 500 service providers. The number of the state owned enterprises totalled 154,000 in 2008, or 30 percent of all total manufacturing and services.

Most banks are controlled by the government and operate to direct capital flows towards the manufacturing sector.

China’s state-owned enterprises receive soft loans at interest rates lower than their private competitors. In 2009, state-owned enterprises received USD 1.4 trillion in credit, or 85 percent of total loans issued by all of China’s banks. The Chinese government usually sets

the interest rate lower than inflation so financing can remain cheap.

Banks are also under great pressure to prevent any state-owned companies from going under as well.

Chinese President Xi Jinping aims to develop the economy with a mixed properties system by backing many types of properties.

The private sector currently represents more than 50 percent of taxes collected, more than 60 percent of GDP and 80 percent of employment. Private investment is over 50 percent of total investments in Chinese real estate.

The government says it accepts public private partnership and supports private investments in state projects. Employees are also being given company shares. The government has promised to raise the standards of living, with budget spending on the general public expected to reach 30 percent by 2020.

Open Policy

China says it will accept the establishment of new banking and finance institutes that meet the legal requirements. Meanwhile it is tightening controls over such financial groups. The country’s new approach is to provide an open economic system will abolish investment limitations – especially, the limitation on foreign investment towards China’s service sector. The government is backing foreign investment for manufacturers and individuals.

Currently, total foreign investment in China comprises a mere 3 percent of total global investments. However, China is rich in foreign currency reserves and its manufacturers are keen to invest abroad.

Compared to 2011, China’s foreign direct investment grew 17.6 in 2012, reaching CNY 87.8 billion (USD 14.214 billion), which was a record high. The growth made China the third largest investing country in the world. It is very likely that investment will rapidly increase, too.

China’s short-term goal is to establish a high-class free trade zone, which is already underway. The purpose of the free trade zone is to attract global attention. ■



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BANK

BANK OF CHINA GROWS UP WITH MONGOLIA'S FINANCIAL MARKET

As China's most internationalised and diversified multi-national banking group, Bank of China Limited provides a comprehensive range of financial services to customers, such as commercial banking, investment banking, insurance, fund management business and aircraft leasing via Bank of China's wholly owned subsidiaries including BOC International Holdings Limited, Bank of China Group Investment Limited, Bank of China Group Insurance Company Limited, Bank of China Investment Management Co., Ltd, BOC Aviation Pte. Ltd.

Bank of China was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006, respectively, becoming the first Chinese commercial bank to launch an A-share and H-share initial public offering and achieve a dual listing in both markets. Among all century-old commercial banks throughout the world, Bank of China ranks seventh in its tier-one Capital.



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Please tell us about the Bank of China's Ulaanbaatar Representative Office?

Bank of China officially started to prepare its Ulaanbaatar Office from May 2012, and was granted the license by Bank of Mongolia and Foreign Investment Regulation and Registration Department on December 18 2012 and December 20 2012, respectively, becoming the first Chinese financial institution to successfully enter the Mongolian market.

On January 31 2013, Bank of China Ulaanbaatar Representative Office was formally established. And it was also a great honour that former Chairman of the National People's Congress Standing Committee Wu Bangguo participated in the opening ceremony of the Bank of China Ulaanbaatar Representative Office.

What motivated the Bank of China to open an institution in Mongolia?

Bank of China is an international financial institution, which has more than 600 branches and subsidiaries

across more than 40 countries and regions. Consequently, cross-border operations are a fundamental strategy for the bank.

As everyone knows, Mongolia is one of the countries with the most abundant mineral resources in the world, ranking in the top 20 of world resource reserves. With such plentiful mineral resources, Mongolia's economic development has increased rapidly. In 2011 and 2012, the GDP increased 17.3 percent and 12.3 percent, respectively (at a constant price), which has elevated Mongolia to one of the fastest-growing global emerging markets. In 2013, its growth rate fell behind the projection. However, the country still yielded an annual growth rate of 11.7 percent, maintaining the trend of double-digit growth. Considering the affliction by financial crisis and persistent deterioration of the global economy, it is very unique to make such accomplishments.

Enjoying the geographical and political advantages between the two countries, China has become one of

Mongolia's most important trading and investment partners. So far, according to the updated statistics, over 90 percent of Mongolian resources have been exported to China. Meanwhile, approximately 30 percent of Mongolian imports are from China.

What is more, there are about 6,000 registered Chinese corporations which invest and operate in Mongolia, which almost accounts for 50 percent of all the foreign corporations. Undoubtedly, these groups of Chinese corporations have cultivated themselves to become indispensably crucial forces for Mongolian economic development and social advancement, making critical contributions for facilitating the economic development, increasing fiscal revenues, improving employment, and participating in charitable causes.

Due to the various factors such as the restrictions of capital scale of the local banking sector, demands in project financing, trade financing, and exchange rate risk management of these Chinese corporations could not be efficiently and substantially »

► satisfied, which greatly hinders their business development, and prevents them from more devotion to Mongolian economic development. Many of these corporations are also the clients of Bank of China in China. Therefore, they have expressed their concern about Bank of China's establishing an institution in Mongolia.

For better serving those clients, the Bank of China head office formed a working group to work in Mongolia in September 2011, and then establish an institution in Mongolia.

What kind of projects has the representative office participated in since its establishment?

Since the establishment, even though the Bank could not directly deal with business, it still actively carried out some projects and indeed made some breakthroughs. And in this process, the Bank received great support, guidance and assistance from the Government of Mongolia, the Bank of Mongolia and other institutions, which we highly appreciated.

1. Communication and cooperation with the Bank of Mongolia: First, coordination for the Bank of Mongolia's opening of special accounts in the Bank of China Shanghai Branch, under the framework of MNT/CNY currency swap for the purpose of better implementing the currency swap; secondly, coordination with Bank of China Hong Kong for the provision of RMB cash conveying services to the Bank of Mongolia; thirdly, positive discussions with the Bank of Mongolia about development of RMB clearing system, the establishment of local cash conveying center, and etcetera.
2. Continual enhancement of the communication and collaborations with local financial peers. Keep a close cooperative relationship with Mongolian commercial banks, especially launching some instructive development in the field of establishing a correspondent bank relationship, opening RMB nostro account, concluding agreement under the trading financing, executing CNH/

USD dual currency swap and etcetera. Moreover, the bank had communicated with the top five Mongolian insurance companies and emphasized the discussions about the re-insurance business.

3. Providing financing facilities to Mongolian companies: Since the set-up of the Bank of China Ulaanbaatar Representative Office, the bank has received a great number of Mongolian companies which have indicated strong financing demands. Even though the bank cannot satisfy their requirements at this stage, it is still confirmed that the bank would positively coordinate with our onshore and overseas branches and subsidiaries or resort to other capital markets to endeavor to help them. So far, with the efficient and positive coordination, Bank of China Limited Tokyo Branch will grant a USD 25 million loan to Tuushin Hotel LLC, and the funds will be disbursed by the end of the first quarter of 2014.
4. As a century-old large international banking group, Bank of China has always dedicated itself to charity causes. In Mongolia, the bank has compiled the quarterly journal "Mongolian Economy and Finance" to introduce the updated information about Mongolia's economy, trading and finance to Chinese investors in order to attract them to enter the market.

The co-founded "China-Mongolia Social Development Foundation" and "China-Mongolia Culture and Education Foundation" aim to provide tuition support for poor Mongolian primary-, and middle-school students, providing infrastructure for development funds for those under-developed regions in Mongolia. The bank sponsored the activities held by the Confucius Institute to help more Mongolian students learn Chinese language and culture and the Research Center for China and ASEAN. In the future, Bank of China will continue to undertake more projects for social public services.

If the Bank of China successfully establishes a Mongolian subsidiary, will it have a marked impact on Mongolia's commercial banks?

As I know, such worries do occur among the local peers. Pursuant to the regulations proposed by the Bank of Mongolia, the representative office of a foreign bank can apply for the establishment of operational institution after one year of operation. Up to now, we have started carrying out this task. Regarding that Bank of China is an internationalized banking powerhouse, it is quite acceptable and understandable for Mongolian commercial banks to arouse such worries and misgivings. But in my perspective, it is unnecessary to overreact or exaggerate.

In every opened-up economic entity, unless the host government and regulatory body takes the initiative to construct international or regional financial centers within its territory with respect to the country's strategies, the mainstream bank in the market is local financial institutions beyond doubt. For foreign banks, they will act complementary to domestic banks all the time.

This situation concerns three factors:

The first factor is customers' spontaneous selection. With the consideration of the unprecedented advantages over foreign banks in terms of branch number, staff number, language, culture identification, psychological experience, etcetera, it is very common for domestic customers to have prior selections on local banks for conducting banking businesses.

The second factor is foreign banks' initiatives on selections. Having been aware of these insurmountable barriers and competition with local counterparties, no foreign banks will decide to take the initiative to launch all-round competition with domestic banks when entering into a new market. On the contrary, foreign banks are inclined to some differentiated operations through self-positioning, including service scope, client targeting, criteria for risk control case implementations and so on, which will result in the enhancement of local commercial banks' competitive advantages and the positions of main stream banks.

The third factor is the effective ►►

► supervision of the Central Bank. Such supervisions consist of service scope, operating procedure, liquidity management, capital adequacy ratio and other aspects. Thus, the Central Bank has the full capability and methodology to launch complete and effective supervisions on foreign banks' operations in order to ensure such operations will tally with the requirements of the country's economic and financial market development and be in no hindrance to the country's financial security and expansion of local banks.

To be specific, Bank of China, it is exactly the same situation: First of all, in terms of the operating strategy, like all other foreign banks, Bank of China will implement a differentiated and diversified operation strategy, compared to domestic commercial banks. To be specific, Bank of China will mainly focus on corporate banking business, and retail banking business only available for the staff of the Bank's company clients. For loans, whereas some Chinese corporations and some large infrastructure, resource, and energy exploration projects cannot be financed by local banks, Bank of China will provide financial support for such clients. For domestic SMEs (small-medium enterprises) and individual loans, we will not directly get involved in such types of business. For deposit service, there is no need to worry about that.

Bank of China will not compete with local banks over deposits because Mongolia is a country lacking funds, and the scale of the deposit market is relatively small with high interest rates. And the bank is able to be accessible to international capital markets to acquire more cheap money to cater for operation needs.

Secondly, in the perspective of capital strength, the planned registered capital for Bank of China's founding operational institution in Mongolia is about USD 56 million. Regarding that the core capital adequacy ratio is no less than 12 percent, theoretically the maximum amount of loan scale is around USD 460 million, which is quite a small portion for the Mongolian market. Of course, with the

consideration of future development, it is also possible for the bank to increase capital. But even so, the increased amount will not be that much.

The reason is that Bank of China's capitals have to be globally allocated, which usually prioritize the investment on those high-return markets with bigger business scales and more opportunities. It is deemed that the bank's capital will merely reach USD 200 million at the most, which means that business volume still has to be restricted to certain low levels.

Finally, I'd like to propose a real example based on the actual development process of Chinese banking sector in recent years. In 2001, after China joined WTO [World Trade Organisation], it was also the situation that China had to be confronted with many foreign banks' influx into the Chinese market and worried that foreign banks would thoroughly crush out the Chinese banks which were in small sizes at that time. However, so far, after around 10 years, the worries did not come true.

Reversely, the communication and cooperation between Chinese and foreign banks have led to the current positive interactions with both parties making mutual development and complementary relationships. Even though those renowned large banks have all established their branches or subsidiaries in China and showed positive development trend, Chinese banks' dominance in the market has never wavered, whether by asset scale, total number of clients, market shares, profitability and so on.

Apart from that, I also would like to take Bank of China as an example. Bank of China has been dedicated to cross-border operations for a long time and has established branches and subsidiaries in many developed and developing countries. In some of the countries, Bank of China has even been in operation for decades. However, the asset scale, total number of clients, market shares and other main performance indices are still incomparable with local main stream banks, which accordingly cannot be reckoned as a great impact on the development of local banks.

What kind of positive influences can Bank of China bring to the Mongolian market after the establishment of operational institution?

As I've mentioned, the direct drive for the Bank of China's entry to the Mongolian market is to serve the Chinese corporations. But, in fact, Chinese corporations are not the only beneficiaries of that newly established institution. The establishment of the Bank of China's Mongolian subsidiary will be significant to Mongolian economic development and social advancement.

First of all, Bank of China will provide more low-cost money for Mongolian economic development. To reiterate it, only small quantities of such money will be provided by Bank of China directly, due to the restrictions of Bank of China's capital scale. A majority of the funds will be acquired in the way that Bank of China will take full advantage of its own reputation and international influences to form syndication, by which banks from other countries and regions, as syndication members will grant loans to support Mongolian massive infrastructure and resource exploration projects.

Secondly, the refinancing support to Mongolian SMEs. Although local small- and middle-sized enterprises are not our target clients for loans, we still resort to an alternative through the cooperation with Mongolian commercial banks. Bank of China will provide special financing facilities to local banks and achieve the indirect supports to Mongolian SMEs by the means of refinancing from local banks.

Thirdly, there is providing RMB clearing and cash management services for Bank of Mongolia and Mongolian commercial banks. Bank of China has founded two RMB clearing centers in Shanghai and Hong Kong respectively with the authorisation of People's Bank of China. To boast such policy advantages, we will provide RMB clearing and cash management services for Bank of Mongolia and local financial peers, which will greatly optimize RMB clearing and actualise the direct assistances to local banks' RMB cash demands instead of the previous cross-border conveying mode ►►

▶ from Erenhot, thereby dramatically decreasing the risks and operating costs.

Fourthly, there is enrichment and perfection of the product systems of the Mongolian financial market. Besides the traditional commercial banking business, Bank of China can also provide other financial services including international syndication, Sinosure-covered export credits, bulk commodity financing, investment banking, insurance, aircraft leasing, fund management and etcetera, among which most of the products are services in urgent need here. When Bank of

China enters into Mongolian market, the above-mentioned financial services will be brought to the Mongolian market. And through the cooperation with Mongolian financial institutions, local clients will benefit from such services. Thus, the development and sustainable upgrade of Mongolia's financial market will be also achieved.

Fifthly, is the regain of the confidences from foreign investors' investing in Mongolia. As we all know, in 2013, the drastic downturn of FDI in Mongolia brought about intensively negative impacts on Mongolian economic development. Consequently,

the government of Mongolia has adopted a series of measures to curb the outflows of foreign capital, such as the enactment of the new Investment Law in October 2013. Under such circumstances, if Bank of China can successfully establish the operational institution, it will be considered as delivering a positive and vigorous signal of supporting foreign investment, which will greatly encourage foreign investors, especially Chinese investors and accordingly enhance their confidence for investment and development in Mongolia. ■

NEWS

MONGOLIAN ECONOMY PARTNERS WITH DOW JONES



DOW JONES

Dow Jones & Company, a 130-year-old American publishing and financial information firm, has offered to partner with *Mongolian Economy*. From this point on, stories published in English by Mongolian Economy and MongolianEconomy.mn will be provided to Dow Jones Factiva readers.

Mongolian Economy has signed an agreement of partnership with Dow Jones Factiva where Mongolian Economy agrees to provide them with content on Mongolia to be brought to readers of Dow Jones Factiva around the world.

Dow Jones sought out a professional media partner to provide economic updates on the country because of the attention Mongolia and its economy have received from the rest of the world. Their choice was *Mongolian*

Economy because of our comprehensive research and reporting on Mongolia's economy, business and society.

Factiva is a business intelligence tool with a vast array of global news, business information and analysis from newspapers, magazines, newswires, trade publications, websites, blogs, and curated social media.

In 2007, Dow Jones acquired Factiva to extend the company's suite of powerful business-to-business products. Factiva products provide access to more than 36,000 sources (such as newspapers, journals, magazines, television and radio transcripts, and photos) from almost 200 countries in 28 languages, including more than 600 continuously updated newswires. ■



Cartoon by A. Amarsaikahn

POLICY

NO MORE INTERVENTION

BY S. AZ

Policy makers need to carefully consider licenses that heavily intervene with business activities. In the past 20 years, business people have said state intervention has impeded the development of their business. With several licenses facing revocation, the path for the private sector may be one without the threat of red tape.

Prime Minister Norovyn Altankhuyag and the Minister of the Cabinet Secretariat Chimediiin Saikhanbileg have set out to reduce the number of licences required by business. The first working group the government established carried out research on every licences and certificate required

by government. The second group, headed by Saikhanbileg, is now looking more closely at how necessary they are to regulate business and for concerns regarding health and the environment.

In total, 914 licences were checked by the working groups from September last year to January this year with 404 licences facing cancellation. The groups are now in the process of making a final decision on 63 licences that are more difficult to deal with. The Cabinet Secretariat of the government of Mongolia thinks there needs to be a reduction in red tape to create a business-friendly environment.

The General Agency for Specialised Inspection (GASI) and the Mongolian

Customs General Administration (MCGA) issue the licences required by businesses and think caution should be exercised when cancelling licences. GASI issues 44 licences in total, of which 25 licences might be discontinued or transferred to a "one-point service" that would, for example, require export companies to attain only a single certificate of origin once a year.

Other expected revocations include the control and approval of a mining plan, issuance of control forms for the use of explosive materials, tobacco production, the slaughtering of animals, meat processing, working condition, and hygiene at working premises.

"Some 18 certificates issued by our ▶

▶ authority are not licences,” said GASI Deputy Director B. Erdenebileg. “As importers are more privileged than exporters, according to bi-lateral agreement with foreign countries, we prefer their suggestions.” He added that GASI monitors standards and procedures to ensure they are in line with those of the World Trade Organisation, Food and Agriculture Organisation, and World Health Organisation.

MCGA issues 10 types of licences, of which two may be discontinued. When exporting goods, companies are required to bring all application documents to the customs office. Some companies asked if it was possible to reduce the number of documents required. At a meeting with the working group led by Saikhanbileg, the Cabinet Secretariat minister responded to complaints that the online service was necessary to reduce the number of documents needed and expedite the process.

“We understand that there is not enough investment for creating a customs one-point online service network,” said Saikhanbileg. “We will submit our proposal to the State Great Khural, but issues of loan will have to be re-negotiated, depending on the amount of Mongolia’s external debt.”

The Customs Brokers Agencies Council at the Mongolian National Chamber for Commerce and Industry (MNCCI) said that the licence issuance rights should be given to professional associations. Some licences have simply been turned into registrations by the working groups.

For example, if a company wanted to become a customs broker agency it would have to pay MNT 850,000 to register at with MCGA. Exporters and importers could then choose the customs broker agency with which they want to work, without any government interference.

The Energy Regulatory Commission issues 11 licences related to the heating and electricity supply network, of which seven licences – electricity distribution, heat production and distribution, and electricity export and import, and the construction of power stations – will continue to be required. The rest will no

longer be required by the government. The move to the new one-point system is expected to happen by the second quarter of this year.

Some order and consistency is starting to take hold of state organisations. After a final decision is reached by the working groups, a new regulatory law concerning licences is expected. The

new law prohibits state organisations from issuing licences.

The government’s main point of reform for the business environment is to remove inefficiencies that create hurdles for businesses. Removing these barriers will allow businesses to focus on their growth without the hassle of dealing with laborious red tape. ■

CORPORATE GOVERNANCE

STRENGTHENING A BOARD OF DIRECTORS

BY B. BAYARTOGTOKH

There are some public companies in Mongolia that avoid distributing dividends for their stockholders. The most likely excuse is they cannot afford it. Unfortunately, it is this kind of attitude that is dragging down the development Mongolia’s capital market.

“Shareholding companies have the opportunity to raise fund by re-issuing stocks on the stock markets rather than asking commercial banks for short-term loans with high interest. They could expand their businesses in this way,” said Davaagiin Ganbayar, chairman at National Council on Corporate Governance.

The heads of public companies in Mongolia are not taking advantage of this opportunity because most are unwilling to sell more than 20 to 30 percent of their company’s equity and lose control of their companies.

A company’s board of directors is the body that is responsible for leading a company in the interest of shareholders. It is, therefore, extremely important that board members are independent, productive and professional so that they can enforce proper corporate governance. Company boards in Mongolia are not usually held up to this standard, however. They are usually only a symbolic body, and only exist because it is required for a public company.

Since government approved its national programme for the development of corporate governance in March 2011, it has sponsored several trainings and workshops that aim to instil corporate governance in domestic companies. Unfortunately, organisers say that board members rarely attend.

The 2013 Corporate Governance Assessment Report by the International ▶▶



► Financial Corporation, Financial Regulatory Commission of Mongolia and Mongolian Corporate Governance Development Centre said that Mongolia is in its early stages in the development of its corporate governance. The larger a company expands, the more responsibility is left in the hands of the board.

A board should have three major committees operating under it: the audit committee, a compensation committee, and a nominating committee. According to the report, 94 percent of Asian companies have the audit committee, 75 percent have the compensation committee and 56 percent have the nominating committee, in 2013. Although Mongolia's revised Company Law requires that public companies have such committees, most do not, and, according to the report, most board members lack the experience to lead such activities.

A board is responsible for monitoring and preventing any possible conflicts of interests between the chairman and board members, as well as the misuse of shareholder funds. They also must appoint internal audits and closely monitor their results.

"The BOD [board of directors] is a major reason that corporate governance is not assessed in Mongolia. Issues related to their activities, functions and responsibilities are hampering the development of corporate governance," he said.

Transparency within a board builds trust between the company and its shareholders. The State Property Committee has dedicated 2014 to corporate governance, which is why government-run companies are having open bids for positions on the boards of state-owned companies.

"Our aim is to implement good corporate governance in state-owned companies," said O. Sainbuyan, chief executive at Erdenes MGL. "Decisive action is already being taken towards the improvement of corporate governance for state-owned enterprises incorporated with Erdenes MGL. Because [state-owned] companies intend to issue stocks on international stock markets to raise funds, their governance should be transparent." ■

GLOBAL LEADER

MONGOLIA'S YOUNG GLOBAL LEADERS

BY CH. LUTAA

The World Economic Forum's association of young role models in business and civil society, the Forum of Young Global Leaders, has established a comprehensive



selection process for identifying and selecting the most exceptional leaders at 40 years old or younger. Every year, thousands of candidates from around the world are proposed and assessed according to rigorous selection criteria.

Only the very best candidates are selected and all efforts are extended to create a truly representative body. Reflecting the diversity of stakeholders, the Young Global Leaders includes leaders of politics, business, civil society, academia, and arts and culture across the globe. Together, they form a unique community that can dramatically affect the lives of future generations and craft innovative responses to address global and regional challenges.

The World Economic Forum at

the start of 2014 selected 200 new members from 60 countries to join the Young Global Leaders. From Mongolia are Bayanjargalyn Byambasaikhan, managing partner of NoveTerra, and B. Ganzorig, senior vice president at Shukhlai.

Byambasaikhan, who is also chairman of the *Mongolian Economy's* steering committee and chairman of the Business Council of Mongolia, said he received his invitation to join the Young Global Leaders last January in a letter from the World Economic Forum signed by its founder and chairperson, Klaus Schwab.

"A special team is appointed to select successful young business people, politicians, as well as young leaders from civil society, academia, and arts and culture from all around the world for selection into the Young Global Leaders," he said. "Now I am responsible for holding this honoured title for six years."

Members of the Forum of Young Global Leaders are obliged to develop themselves and attend international conferences and summits, including the World Economic Forum annual meeting in Davos.

"Having this honoured award, I am a part of the go-to Young Global Leaders network where we can get information about the state-of-the-art approaches, technological innovations, development models and economic trends that are currently being discussed globally. This is a unique chance that should not be missed out by any individuals." ■

INTERVIEW

CUTTING THE RED TAPE

BY S. BATZAYA

Mongolian Economy spoke with Osoryn Ganbat, head of the Mongolian Customs General Administration (MCGA) about the major reforms taking place in customs this year. MCGA is often criticised for corruption and red tape, and many believe these issues have only grown worse in the last 20 years.

Mongolia's customs officers hope to generate MNT 2 trillion this year, or 30 percent of the state budget. Last year customs generated MNT 1.6 trillion, but fell USD 400 million short of 2012.



What are some of the reforms taking place in customs this year?

The reform encompasses a number of issues, including whether or not reform is needed for the dismissal and recruitment of employees, and what to do with the customs law. Since I took office I have set the goal of changing the mindset of customs officers. We plan everything as a team works, following the concepts put forward by international customs and trade organisations and international conventions.

Implementation has been delayed and greatly influenced by social, political, personnel and human resource criteria. Mongolia has 1,112 customs in total. It has been some time since the general public started thinking about the fact that customs officers are quickly growing rich because of corruption and bureaucracy. We should break away from this understanding.

We need to start from how to change

the way that our officers think. For this aim we conducted a number of trainings and workshops last year, some of which have already borne results. We also thought that our management team's approach needed change. Now, we've started working like a team. It means that we can make decisions and take responsibility together. This approach has been successful.

In addition to that, there has been the need to amend the current customs law to facilitate foreign trade so citizens aren't seen as a means to budget revenue. Trade now covers a much wider area between regions. Previously, it fell to only two neighbouring countries, and the region.

Has bureaucracy been cut within customs?

It's been talked about within the public that employment, promotions and incentives were controlled by corruption within our organisation. But today I can

guarantee that there is no longer any such thing in our organisation.

When recruiting new personnel, we ensure openness and transparency. We also have a one-year rotation for customs officers who work at border points under difficult conditions. This is prevention against conflicts of interest and the engagement of corruption rings. For example, 384 total officers were assigned to posts at the border points last year. This year we've already sent 314 different officers to the border points.

When our officers are on an assignment at such places for a long period of time, their children have to go to local schools. Officers cannot choose where they're to be assigned. When they go to new places, there are big changes psychologically and physically as they need to accustom themselves to a new environment. There is no way for this because the assignment is made by the authority.

We have made a number of changes at MGCA, including the creation of financial transparency. Our directors are now open to meeting one another. We are working 12 to 14 hours a day. What we are doing has to be seen by our clients first. After that, we can talk about what we have done. Now we have an integrated surveillance camera control system that observes all border points through the cameras. The system has also been installed with smart devices, such as connections with the iPads of the prime minister and other Ministers.

Some experts have noted that the Gashuun Sukhait and Shivee Khuren border points do not operate 24 hours a day nor do they have international border status, and that Mongolia's coal industries suffers as a result. »

► **How are these issues being addressed?**

The timetable for introducing international standards at border points is to be decided by the governments of Mongolia and its neighbouring countries. Those border points could operate 24 hours after negotiations with China's customs authority. There is nothing we can do about this process. If the government decided to operate the border points for 24 hours so that it could increase the volume of exported coal, we could strengthen our capacity.

The government recently announced that the Altanbulag border point located at the Russia-Mongolian border is to operate for 24 hours. It could happen if the government could reach a deal with the government of Russia.

Some years ago Mongolia leased space at the Tianjin's international trade zone. Is there any news regarding this?

MGCA is not responsible for handling foreign trade issues, but we are responsible for releasing the foreign trade statistics, such as the number of registered goods imported from and exported to Mongolia. When doing the registration, tax is imposed on goods, as per the customs law. We also check if anybody is carrying prohibited goods, including explosives, toxics, and weapon, in order to keep maintain security.

I am up to date on information about Mongolia's space at the Tianjin free trade zone. There is a minerals exchange there where imported minerals such as coal are unloaded, stored and exported abroad. Mongolia established a representative office for mineral export to southeast China and other Asian nearby countries. I think this space is not currently in active use because there has not been any export of minerals there yet, but the leasing fee was thought to be paid on time. However, it was quite beneficial at the time, when Mongolia was the main coal exporter to China.

The previous management at MGCA did a good job managing risk? At what stage is your leadership on this issue?

Risk management in a customs control system is something being brought up at customs and trade organisations around the world. For MGCA, the previous motto was "not to disturb legal trade," but our current motto is "to facilitate legal trade."

One approach to put this into practice was risk management. This issue has been a matter of discussion at the theoretical level for five to six years, but has only just recently been implemented. It means that we will avoid physical checks at border points, putting trust into importers and citizens. Unfortunately, Mongolian citizens' and importers' compliance with the law is still poor.

Last year, criminal cases increased 2.4 percent compared with 2012. Starting from this year onwards, we are focusing on creating mutual trust. In doing so, the law needs to be amended.

I think we have to stop seeing those who imported goods

at border points as a source for budget revenue. There will be some limits on goods imported for household use, but they will be checked for to whether they are carrying hazardous or prohibited goods with them. Foreign trade will be handled by companies. It means that there is no need to stand at the border to check on importers' goods. Instead, just let them pass by. But they will be checked for security reasons. Afterwards, we will follow up and check whether they paid the customs tax properly. If any violation is found, a penalty several times higher than the customs tax at the border will be applied.

We are drafting an amendment to be made into law. This is how we're implementing risk management at the level of international standards.

How do you propose to amend the Customs Law?

There are many amendments to be made to the customs law. The government has set a specific goal about tax tariff regulation. MCGA usually does not apply the current tariff because the customs tax is 5 percent, excluding special tax. Mongolia is one of the lowest-taxed countries. It was useful when the country needed to attract foreign direct investment to develop the economy.

Now we need to have flexible tax tariffs. The government's goal is to set a 20 percent tax on imported goods.

Beforehand, Mongolia had 197 types of imported goods, but now that figure has reached 1,700 types. The customs law needs to be amended in regard to this. Also there will be some general changes to MCGA, including its direction and the transition from an administrative role to a service organisation.

In other countries, the customs authority acts as an organisation that serves people. Their customs officers are required to work in an open and transparent manner. To implement this in Mongolia, customs officers should have their social benefits raised. This approach would reduce corruption. Our amendment proposal is focused on how we could get rid of the clauses found in the current law that are causing problems for doing business.

Can you name some examples?

Companies that aim to contribute to the development of infrastructure in Mongolia will typically import equipment and machines to Mongolia, but sometimes there are delays because of the law. The period of time for infrastructure work in Mongolia is much less than in other countries. Sometimes, imported equipment and machines are delivered to a consignee after a year has passed. This is one of the major reasons that confidence is lacking among foreign investors. Our proposed amendment would resolve this issue.

Online trade is on the rise in Mongolia. Some people shop online to purchase just two books. When the parcel comes to customs, the customs officer always asks a consignee to pay a high tax for nearly every single parcel. This really annoys people. We will make changes to this as well. ■

AGRICULTURE

INTENSIVE CATTLE FARMING

BY S. ZAYA

At a short distance from Arkhust Soum, Tuv Aimag is a big farmhouse surrounded by a long metal fence. Outside the fence is a small, modest house. This is a cattle farm, owned by Khishigten Nuudelchin. It owns 4,186 hectares of land at this spot for crops and livestock. The company last year invested MNT 1.7 billion in the farm with the import of 150 cattle and five bulls from the Montbeliarde region of France.

Since the transition from a centrally planned economy to a market economy in 1990, Mongolia has only achieved a few milestones in the way of intensive livestock farming. Yet there was plenty of talk on the matter during those years. Although Mongolia has cattle farmers, they lack capital to expand their operations or support from the government.

Khishigten Nuudelchin intends to establish a modern cattle farm based on natural breeding rather than engineered. Five bulls for 150 cattle put one bull per every 30 cattle. Nearly a year has passed since Khishigten imported the cattle, and during that time most of the cattle have reared calves. One cattle weighs around 480 kilogrammes while a calf is 40 to 51 kilogrammes.

Montbeliarde cattle fatten quickly and their milk production far surpasses than that of Mongolia's cattle. Khishigten has ongoing research on what other kinds of cattle would adapt well to Mongolia to expand production and how it can best cooperate with other ranchers.

"We are not attempting to dominate the market. We will help those who want to have their own cattle farms, which could be used as models," said J. Battugs, chief executive at Khishigten.

The cost of a Khishigten's farm house will be MNT 6.8 billion, of which MNT 1.8 billion will receive financing from the 2012 USD 1.5 billion Chinggis bond proceeds. The company estimates that it will recuperate its costs by 2019.

The rancher plans to import another 150 cattle this year. The equipment and technology used by Khishigten is the same as what many Western farmers use. That includes a machine that loads and distributes fodder for the cattle and modern milking equipment. Montbeliarde cattle can produce milk for eight years. Afterwards, cattle are typically slaughtered for their meat.

A cow can produce 14 to 15 litres of milk a day after the first time its gives birth to a calf. After the second time milk production can reach 25 litres a day. Milk production from 150 cattle would total around two tonnes of milk a day for sale to TESO Corp.

According to a study by the Ministry of Industry and Agriculture, milk demand in Ulaanbaatar ranges between 150 million and 160 million tonnes of milk a year. Milk powder is used to meet most of this demand, however. Khishigten supplies just 2 to 3 percent of the market. More farms would be needed to meet domestic demand and phase out the use of milk produced from powder, said Battugs.

US scientists are studying irrigation systems for cattle, while German scientists focus on the development of equipment for hay feed, Chinese scientist study milk production, and French and Dutch researchers explore the

supply side of cattle ranching. Mongolia is making contributions as well.

Battugs said his company was working with French and Dutch partners to determine the best kind of fodder for Mongolia's ranchers and herders.

"There are a number of mistakes in our work," said Battugs. "One of the types of fodder not produced or sold in Mongolia is corn, which is prohibited from import from China. Importing such a fodder from Russia would have high a cost high."

He also said that research was under way to investigate options for American-style irrigation systems and automated equipment. Khishigten is also researching possibilities for crossbreeding Montbeliarde and Mongolian cattle. ■



MONGOLIA'S PRIDE

THE FOUNDER OF HUNNU COAL

BY D. BEKHEE

T. Lkhagvadorj is the founder of Hunnu Coal. He named his company Hunnu because his plan was to mirror the reputation of the Hunnu Empire, the ancient nomadic steppe warriors that preceded Chinggis Khaan.

Today there are many products and services using the name Hunnu. The company has launched over 10 mining projects in its five years of operation. In the meantime, it has become a leading company for exploration and corporate responsibility.

Lkhagvadorj received the Next Stop award in 2013, which is held to honour Mongolia's best politicians and businesspeople.

"I will do everything that depends on me for the contribution to the development of Mongolia, without compromising this honoured award," said Lkhagvadorj while accepting his award.

Erdenet

Lkhagvadorj was born and raised in Ulaanbaatar. He quickly chose his future professional as a secondary-school student upon learning about the Mongolian-Russian joint venture for copper Erdenet Mining Corporation. Many young people his age were interested in working for the mining company at that time, and he became determined to enter a mining school in Ukraine.

After graduation, Lkhagvadorj came back to Mongolia to work for Erdenet Mining, providing maintenance to the concentrator. He started as an intern but eventually received a staff position, all the while learning about every inch of that machine. He still remembers his face being covered in grime after a day's work doing maintenance or repairs.

But then came the volatility in Mongolia between 1990 and 1996, when the country was making its transition to a market economy and a full democracy. Grocery store shelves carried only salt, and there were often power, heat and water outages.

Lkhagvadorj was still working for Erdenet Mining at the time, as a dispatcher, learning from his »



Photo by E. Zorigt

T. Lkhagvadorj, founder of Hunnu Coal and chairman of Board of Directors at World Petroleum

- ▶ mistakes and taking on more responsibilities.

To the USA

Lkhagvadorj visited the United States when Erdenet Mining was sending its employees abroad from training. It was then a very rare opportunity.

He studied at the University of Colorado where there was more than 3,000 students studying in Denver. While a student there, Erdenet Mining introduced structural changes in its management. As a result, Lkhagvadorj lost his scholarship. It was a hard time for him, but he managed to complete his Master's degree in mining with the support of his Turkish professor. It took Lkhagvadorj seven years to earn his degree, but the endeavour proved worth it because after graduation Lkhagvadorj received numerous job offers.

Yet Lkhagvadorj was not interested in abandoning Erdenet Mining. He sent an application for a new position at the company where he first got his start in the industry and the company that sent him abroad. His application was rejected, however.

Undeterred, he decided to work for a different mining company. One American firm proposed to him a job with an annual wage of USD 60,000. He received a competing offer from another Mongolia-Russia joint venture for mineral extraction, Mongolrostsvetmet. The job offered to him by the chief executive was much more modest, but offered the opportunity to live and work in his homeland again. Lkhagvadorj accepted the latter proposal and came back to Mongolia for the measly salary of USD 2,000 a year.

"I could have lived in the US with a much higher wage, but I would not have been satisfied with my work there," Lkhagvadorj said. "What would have been the highest point to reach in the US for a Mongolian mining engineer? My study in the US for several years should have been for Mongolia."

When he came back to Mongolia in 2004, he was appointed as a senior officer of development and perspectives at Mongolrostsvetmet. He was quickly promoted to deputy head of that department, working on a large plan for the Asgat silver deposit and Bargilt iron deposit. Unfortunately, he was laid off after two years.

Today, however, Lkhagvadorj sees that layoff as an opportunity.

Energy Resources

At a friend's suggestion, Lkhagvadorj took a job as chief executive with the Japanese-Mongolian joint venture Unigaz for a year. Afterwards, he was hired by MCS, the largest holding company in Mongolia at the time. Its chief executive J. Odjargal was in the early stages of establishing Energy Resource when Lkhagvadorj received the job offer.

Lkhagvadorj was appointed as chief executive of Energy Resources, tasked with creating a master plan for the development of the Tavan Tolgoi deposit and a feasibility study. Shortly afterwards the government divided up the Tavan Tolgoi deposit, leaving Energy Resources with the Ukhaa Khudag

site and taking the remaining areas of the deposit under state control.

News that Lkhagvadorj was leaving Energy Resources after just three years in the job was a surprise to the industry. Many saw Energy Resources as on the brink of success and Lkhagvadorj in an enviable position with what was to be Mongolia's largest private mining company.

When he started with Energy Resource, Lkhagvadorj oversaw a staff of five people. Upon his exit he was overseeing a team of 1,000.

Day and night Lkhagvadorj worried if he was making the right decision. There was still much to be done at Energy Resources, and expectations were high. But he had received an offer from an Australian investor who was looking to open a new company. In the end, Lkhagvadorj accepted the offer from Matthew Wood, and together they partnered to open their own mining company that could serve as a model operation for the rest of the industry.

Lkhagvadorj and Matthew Wood

Lkhagvadorj met Wood when investor interest in Mongolia was rising high. Wood first came to Mongolia as a geologist in 2009. He went to Umnugobi looking for investment opportunities where he made his proposal to Lkhagvadorj. He recognised Lkhagvadorj's talents and convinced him that he should own and run his own company rather than work for another.

Hunnu has run two exploration projects in Umnugobi and at Khuren Gol in Gobi-Altai, where the Minerals Council Mongolia has a 250 million-tonne proven coal resources registered. Rio Tinto had explored the site before Hunnu but chose to hold onto the asset.

There was also the Unst Khudag deposit in Dundgobi, which has a proven resource of 700 million tonnes.

Hunnu Coal listed a public offering on the Australian Stock Exchange in February 2010, raising USD 20 million on the first day. The public offering was selected as the best of the year in Australia. Then, in 2012, one of Asia's leading coal miners Thailand's Banpu bought the company.

Today Lkhagvadorj is working as an advisor to Hunnu Coal and establishing an oil venture with Wolf Petroleum, which was established some three years ago. Wolf Petroleum is exploring at three different sites. The first has about 27 targets in Sukhbaatar, Sukhbaatar for a joint venture with the government. It identified possible oil resources 100 kilometres in length and 40 kilometres in width. The remaining two other sites are also being explored in cooperation with the government.

"This is a business that requires huge investment," Lkhagvadorj said. "If we cannot find oil, then our money will be wasted and we will take our own risk. If we can find it, it would be needed for both our business and the country's development."

Lkhagvadorj puts great trust in his team. Using his knowledge of the mining industry and a network of foreign and national partners, Lkhagvadorj serves as an exemplary business man that made his own success from humble beginnings. ■

TOP 20

A DREAM OF DRESSING THE WORLD

BY E. ZORIGT

Which comes to mind first when you hear the word Gobi? The desert or one of Mongolia's most successful public companies?

Gobi represents 63 percent of Mongolia's cashmere industry and around 47 percent of cashmere exported abroad. Since it was privatised in 2007, Gobi has invested MNT 23.7 billion on renovating and maintaining its facilities. Gobi claimed in its last annual report that it now ranks among the world's top five cashmere producers in the world. Gobi is included in the Mongolian Stock Exchange's Top-20 index used to gauge the exchange's performance. It values at MNT 51.6 billion, with 7.8 million shares on the market (see Figure 1), and each year Gobi increases its dividend payments. (See Figure 2)

Yet just 10 percent of Gobi's total equity is traded on the market.

Management's short-term goals are to capture 70 percent of the domestic market and increase the volume of processed cashmere exports. But there are some hurdles to clear.

Giant Competitor

The largest competitor for Mongolia's cashmere industry is China, which provides the majority of the world's cashmere products. The price of a cashmere sweater made in China is on average USD 38 wholesale and USD 42.5 on the market, with some 15 million sweaters produced by China each year. Those are difficult prices for Mongolia to rival.

Mongolia produces around 700 tonnes of processed cashmere goods a year. And although Mongolia produces between 6,000 and 7,000 tonnes a year of

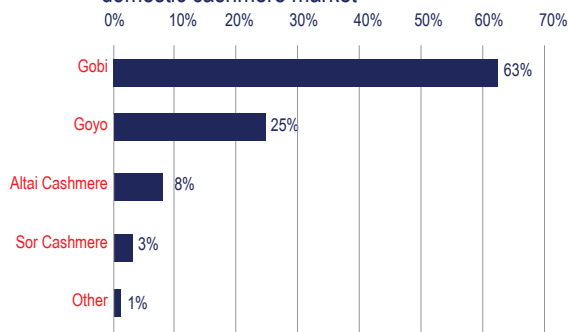


Gobi Cashmere's products Feb 20, 2014



Factory workers at Gobi Cashmere Feb 20, 2014

Gobi Cashmere's ranking in Mongolia's domestic cashmere market



Source: Mongolian Stock Exchange

► cashmere goods, it earns just USD 300 million. That is because China is manufacturing much greater volumes of completed clothing items, which earn the largest profits. Mongolia sells mainly the raw product, known as greasy cashmere.

Inner Mongolia processes 2,000 tonnes of raw cashmere a year – triple that of Mongolian production. Chinese annual earnings of USD 1.3 billion a year are also four times that of Mongolia. Gobi, Mongolia's largest cashmere producer consumes much less cashmere to produce just 500,000 pieces of processed cashmere goods a year.

Gobi has a maximum capacity of producing 700,000 pieces of cashmere products a year.

China has advanced the advantage of more technology over Mongolia and direct support from the Chinese government through tax incentives. A similar scheme for Mongolia would have provided Gobi USD 2.6 million in subsidies for the USD 13 million in goods it sold last year.

Chinese exporters also have access to low-interest loans, or even zero-interest. Start-ups can also receive tax exemptions.

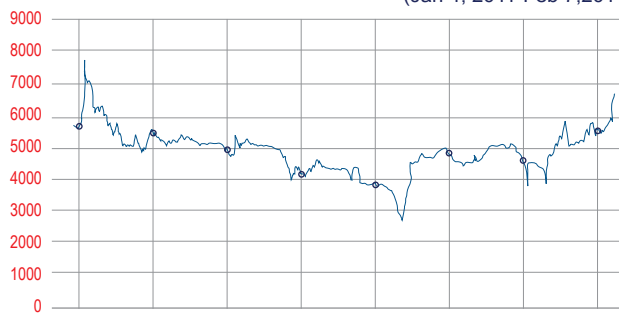
For example, the Chinese cashmere goods manufacturer Jongshin grew to become one of China's largest conglomerates by taking advantage of government incentives. Today Jongshin produces 2.5 million pieces of cashmere goods a year.

Similar programmes in Mongolia could bring tremendous leverage to Mongolia's cashmere industry, which is why Mongolia needs to implement a long-term, sustainable policy for the development of its cashmere industry.

A tonne of finished cashmere goods values at about USD 251,000 per tonne compared with USD 50 to USD 90 per tonne of coal or USD 7,200 per tonne of copper. Maybe Mongolia's priorities are in the wrong areas. ■

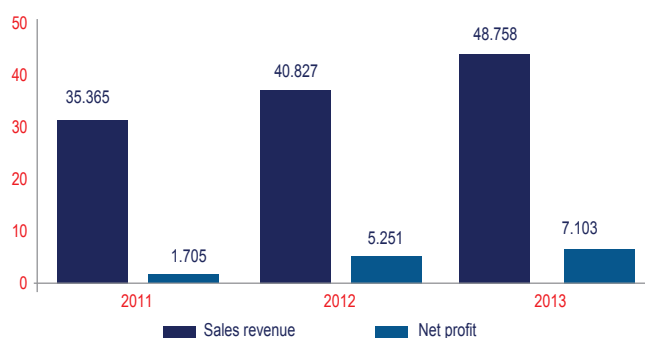
Top 20 index

(Jan 4, 2011-Feb 7, 2014)



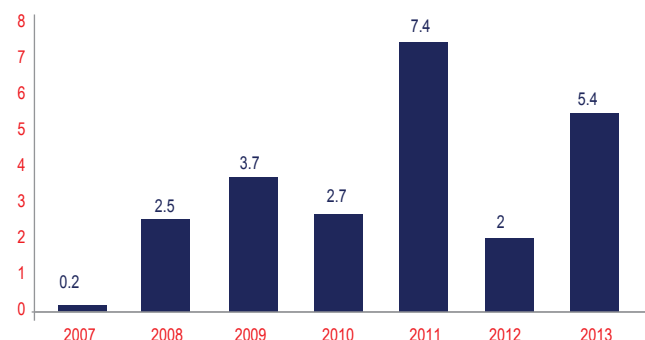
Source: Mongolian Stock Exchange

Revenue and profit (billion/s of MNT)



Source: Gobi Cashmere

Investment (billion/s of MNT)



Source: Gobi Cashmere

BCM'S NEWSWIRE HIGHLIGHTS



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

BUSINESS

MMC SEES WEAKNESS AHEAD FOR COKING COAL PRICES

Oversupply will keep prices low, says Mongolian Mining Corp. (MMC), as the firm posts a USD 58.1 million annual loss.

MMC, the nation's largest miner of coking coal sold primarily to China, expects the steel smelting ingredient's price to remain weak this year due to oversupply, although it has gained market share from rivals by expanding processing and logistics operations.

"I don't expect prices to fall below current levels, but I don't see meaningful price gain either, until demand and supply equilibrium is restored," Chief Executive Battengel Gotov told a press conference. He said prices of seaborne coking coal—mainly from Australia and Brazil—have been trading around the USD 85 per tonne mark since the start of the year. MMC's average selling price of its mainstay product, hard coking coal, fell 15 percent last year to USD 92.10 a tonne from USD 108.40 in 2012, owing to an estimated excess supply of over 30 million tonnes. The excess is expected to fall to between 10 million and 15 million tons this year, helped partly

by higher steel output in Europe and the United States, Gotov said.

The mainland's steel production growth is expected to slow to 4 percent from 7.5 percent last year as Beijing seeks to shift the economic growth driver from fixed-asset investment to consumption and services, according to the China Iron and Steel Association. Mongolian Mining yesterday posted a net loss of USD 58.1 million for last year, from USD 2.5 million in 2012 as finance costs almost doubled to USD 95.1 million. Revenue fell 7.8 percent to USD 437.3 million as the 15 percent fall in the average selling price offset a 26 percent jump in hard coking coal sales volume to 4.3 million tonnes. The firm aims to sell 6 million tonnes this year.

Land-locked Mongolia's competitiveness is expected to be constrained until a government-built railway is completed next year or later, while Australian miners ramp up output to lower per-tonne fixed costs.

Source: South China Morning Press

MINING MINISTER EMPHASIZES COOPERATION AT PDAC CONVENTION

Mining Minister Davaajav Gankhuyag warmly welcomed foreign

investment at Mongolia@PDAC conference in Toronto on 4 March, promising that Mongolia would "never repeat" its mistakes.

The minister noted that "discrepancies" in laws would be addressed by Parliament and that Mongolia's goal was to offer investors "firm sustainability of politics, economics and legal environment." The Minister candidly admitted Mongolia had made mistakes that impacted foreign investment in the past but that it would "never repeat" them.

Gankhuyag also said that the moratorium on new mining exploration licenses, first imposed in June 2010, might end as a result of the Minerals Law amendments and other legislation to be taken up during the spring session of Parliament. He also mentioned the so-called "Long Name Law" that bans mining at areas near rivers and forests, saying resolution may be forthcoming, but did not directly address the issue of the 106 exploration licenses annulled last year as part of an investigation into corruption at the Mineral Resources Authority of Mongolia (MRAM).

When asked about Oyu Tolgoi LLC, the Minister several times said that all matters regarding the copper-gold mine would ▶

► be resolved by its board of directors, which includes three Mongolian directors, without involvement by the Cabinet or Parliament.

Source: NAMBC

ECONOMY

INFLATION AT 12.2 % NATIONWIDE YEAR-OVER- YEAR FOR FEBRUARY

The National Statistical Office reported inflation year-over-year at the end of February of 12.2% nationwide and 12.0% in Ulaanbaatar.

Inflation rose 0.9 percent in February from January and was driven by price growth in food products and beverages. Inflation in Ulaanbaatar fell from 1.2 percent to 1 percent the year before, partly due to growth in meat prices of 45 percent this year compared with 73.2 percent the year before, said E. Erdenesan, deputy head of the macroeconomic statistics department.

The average monthly family income increased 14 percent to MNT 893,500 in February year-on-year.

Source: Zuunii Medee

FOREIGN TRADE BALANCE DEFICIT NARROWS

Mongolia traded with 92 countries for total external trade turnover of USD 1,208.5 million in the

first two months of 2014, reported the Bank of Mongolia.

Exports made up USD 594.6 million while imports were USD 613.9 million, with a foreign trade balance deficit of USD 305.1 million. The balance of payments was in deficit of USD 19.3 million in the year up to March.

Compared to same period of the previous year, the deficit fell 93.7 percent by USD 285.8 million. Total external trade turnover fell 8.3 percent by USD 108.8 million, and imports were down 24.3 percent by USD 197.3 million, while exports grew by USD 88.5 million or 17.5 percent, compared to the same period of the previous year.

Source: Montsame

GOVERNMENT SPENDING ON THE RISE

Government revenue totaled 709.4 billion for the first two months of 2014.

Total expenditure and net lending was MNT 799.7 billion, representing a deficit of MNT 90.4 billion. Tax revenue grew 1.6 percent by MNT 10.1 billion from the same period in 2013, which has been attributed to a 32.4 percent increase by MNT 16.1 billion in additional tax revenue from social security and tax on foreign trade. Income tax collected fell 11.8 percent by 21.8 billion.

Total expenditure and net lending by the government grew 30 percent by MNT 184.4 billion to MNT 799.7 billion in the year to March, compared with the same period from the year before. Capital expenditure grew 4.7 times by MNT 83.1 billion from the year before, subsidies and account transfers grew 22.6 percent by MNT 63.9 billion, spending on goods and services grew 8 percent by 24.7 billion, and interest payments grew 3.2 times by MNT 21.7 billion. Lending minus repayments, however, fell by MNT 9 billion.

Source: Montsame

POLITICS

MAYOR INTRODUCES THREE-STRIKE POLICY FOR CITY OFFICIALS

Ulaanbaatar Mayor Erdene Bat-Uul introduced a new three-strike plan to encouraged better performance from city officials.

In light of cases brought to his attention where there were long delays before action was taken by the city, the mayor said any government authorities performing poorly in their positions would receive yellow slips to serve as warnings for their misconduct. Any official to receive three warnings, he

said, would be dismissed from their position.

Source: Undesnii Shuudan

PRIME MINISTER DELIVERS SPEECH AT FAO CONFERENCE

Prime Minister Norov Altankhuyag spoke of the contributions Mongolia could make toward the global food supply in a speech 10 March on the third day of the 32nd session of the FAO Regional Conference for Asia and the Pacific in Ulaanbaatar.

“[Countries] see us as a country based on mining, with high economic growth, but Mongolia has the great opportunity to reach high development with its agriculture, including through animal husbandry,” he said to an audience of representatives of agriculture, forestry and fisheries from 40 countries in the Pacific region.

Altankhuyag said Mongolia could help provide food around the world “through its 43 million heads of livestock.” He added, “A combination of our thousand-year-old traditional methods of raising livestock and modern technologies can make Mongolia a model exporter for the world reserve of organic foods.”

Source: Montsame ■