

business opportunities Mongolia 2003

For centuries, Mongolia has never had it so good. Politically, nor economically. Geographically landlocked, seemingly forgotten by East and West and, suddenly left to fare on its own after the fall of the Soviet Union, a mere thirteen years ago, the challenges facing the country were colossal.

After seventy years of Soviet dependence, Mongolia's centrally planned economy virtually collapsed overnight, as the country had relied almost entirely on economic relations with the eastern bloc. At its height, Soviet aid accounted for one-third of Mongolia's GDP. Hence, the awakening was brutal. Few could have envisioned that this small nation would, one day, attract significant global investment and become a bright star in the cap of globalization. Strategically positioned between two major world markets, today, Mongolia seems to have found its political feet and is finding its neighborly niche.

Mongolia today, is by definition, fully integrated in the international community. A member of the World Trade Organization (since 1997), the World Bank (since 1991) the nation is a

full-fledged global citizen maintaining regular relations with international financial institutions, regulators and donors. Last September, the IMF (International Monetary Fund) completed its first and second reviews of Mongolia under the PGRF program (Poverty Reduction and Growth Facility) the IMF's concessional

facility for low-income countries. It approved a disbursement of US\$11 million bringing the total aid to US\$17 million. According to the IMF, "Mongolia has made great strides during the last decade in fostering a market economy and promoting macroeconomic stability." Admittedly, there is still a long way to go yet that is not stopping investors from taking notice of the country's drive to privatize key government-held companies and offer up investment opportunities literally worth their weight in gold.

One of Mongolia's major achievements this year has been Prime Minister N. Enkhbayar's recent agreement with Russia to wipe out a massive amount of the country's US\$11 billion debt to Russia. As a direct reaction to the debt erasure, China has extended a US\$

300 million credit to Mongolia for infrastructure development. In 2003, Mongolia's GDP is estimated to have risen 3.4%. Also at the forefront is the country's commitment to fighting terrorism, a move that has further tightened its positive relations with the US and the global community at large.

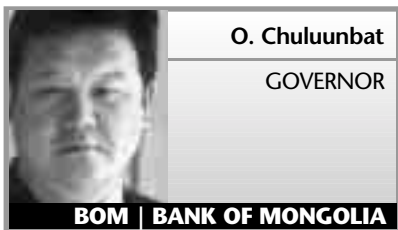


President N. Bagabandi and Prime Minister N. Enkhbayar.

financial overview

Are You ready for the new Mongolia

In the sharp changeover to a market economy, Mongolia's central bank, Bank of Mongolia (BOM), has played a pivotal role guaranteeing monetary stability as well as strengthening and regulating the banking sector. In 1991, a two-tier banking system separating the central bank from the commercial banks, replaced the mono-bank Soviet model. The biggest challenge was to shore up the reserves of the bank and increase consumer confidence in the banking sector. The Bank of Mongolia has been integral in creating a safe protected environment for foreign investment. It has implemented banking reforms to increase regulation and consumer confidence in the banking sector. As a result, commercial banking has blossomed under this leadership. The largest bank in the country, Trade and Development Bank has been successfully privatized – it was sold to a Swiss American Consortium last year, while Agriculture Bank was recently sold to a Japanese group. The privatization of the banks points to a strong investor confidence in Mongolia. According to Governor of BOM, Mr. Chuluunbat, the creation of an attractive, safe, well-regulated investor environment is one of the priorities of the government and the Central Bank.



The governor explains: "We have managed to create a solid legal environment, a good, friendly, protected, foreign investment environment in the country, especially in the banking sector." In support of these successful privatization moves, the Central Bank has eliminated all currency controls and restrictions. In 1998, the Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA) was created as the official agency for promoting and facilitating foreign direct investment and for-

eign trade. FIFTA is the first point of contact for foreign investors at all levels.

PRIVATIZATION UPDATE

Creating an atmosphere of confidence for foreign investors is of utmost importance as most emerging markets strive to compete for their share of foreign direct investment (FDI). Two indicators, however, reveal more than mere intentions on the part of policy-makers: the privatization track record, and a secure legislative framework for FDI. Mongolia is succeeding on both fronts. According to the State Property Committee Chairman, Mr. L. Purevdorj, "Over 900 companies have been successfully privatized from 1996-2000." The privatized companies now contribute about 66% of the GDP. Other notable candidates for privatization include the largest Cashmere garment company Gobi and MIAT, the Mongolian Airline company which has exclusive rights to the domestic market and services the international market by way of Germany, Russia, China, Japan and South Korea. Essential to boosting visitors for both business and a growing niche market of adventure travelers, improving MIAT's performance and profitability are key priorities for the government. MIAT currently maintains offices in Berlin, Moscow, Tokyo, Beijing and Seoul. The airline also has a network of domestic operations servicing all the tourist destinations from the Altai Mountains in the north to the Gobi desert in the south. To better service the European market, MIAT has initiated non-stop services from Berlin to Ulaanbaatar. By the end of this year, the airline will also be providing on-line booking via its website.

NATURAL RESOURCES

The history of commercial mining in Mongolia dates back to the late 19th century when the first Russian, American, Swedish and Chinese companies arrived in search for gold. However, large-scale exploration of the soil's wealth didn't start until the end of the communist era. With a new market economy and the privatization of the mining sector came the interest of foreign investors. Copper mining became one of the first pillars of the new Mongolian economy. Erdenet, the largest copper mining operation started as a joint venture between Mongolian and Russian partners. In the last few years, gold has become the new star. Today,

Mongolia is a major producer and exporter of gold, ranking eighteen in terms of reserves.

According to the World Bank, a crucial element in the transition from a centrally-planned economy to a market economy is the government's promotion of a better understanding of the importance of sustainable development. The present government is firmly committed to this aim, accordingly adopting and enacting a number of laws to stimulate development of this sector. There is an understanding that the country needs to diversify its mining efforts and decrease its dependence on any single mineral. That said, Mongolia sits on a large area of untapped mineral and natural resources. The wealth of mineral deposits, such as gold, copper, coal and tungsten, account for about 86% of export revenues.

The biggest challenge to the expansion of the mining industry is the development of the transportation infrastructure. As General Director of Erdenet, Mr. K. Narankhuu puts it: "With some development in our infrastructure, mining presents an enormous opportunity for Mongolia." However, with China's US\$ 30 million loan to Mongolia for infrastructure development, it appears that the mining sector is about to blossom.

TOURISM

With around 1.5 inhabitants per square kilometer, the population density of Mongolia is the lowest in the world. With an incredible array of diverse landscape, an ancient culture and a dedication to preserving its natural beauty, Mongolia is positioning itself as one of the last truly un-touched destination for adventurers. Last year alone, tourism increased by 20%, translating into a total of 180,000 visitors. According to M. Enkhbayar, General Director of the Tourism Board of Mongolia: "Tourism now counts for about 10% of GDP."

Administrative procedures have been streamlined and entry visas are now easily available at the airport in Ulaanbaatar. Mongolia is also trying to lure investors to the sector and promote the country's winter spot potential. "We would like to see Mongolia as a top winter destination, especially for skiing. We have some wonderful mountains and we are very interested in investors who would like to bring some of these projects to Mongolia," states Mr. Enkhbayar.

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Q A

Prime Minister N. Enkhbayar



What makes Mongolia's unique as an investment destination?

"When foreign investors study a country, they usually look at the domestic potential, yet, this is a country that neighbors two very important markets: China and Russia. Investors which come to Mongolia have access to these two markets. China is now part of the WTO and Russia is slated to become a member. Mongolia is already a member of the WTO. We have very low tariffs on services and both imported and exported goods."

What are the key areas of the economy that investors should look at?

"Infrastructure development, mining, tourism, agriculture are all interesting. We are also in the process of privatizing a number of companies. We recently privatized Trade and Development bank - which is the largest bank in Mongolia- and also Agriculture Bank. We are now privatizing the largest cashmere garment company, the largest insurance company and the distribution part of the energy system."

What does it mean for Mongolia to be integrated in the international community?

"The international community has started to realize the opportunities that are available in Mongolia. In this respect, we have set priorities: taking into consideration our neighbors - Russia and China. We are now trying to reach that goal. One good example would be our new loan agreement with China. As a direct result of our recent debt agreement with Russia, China has granted us US\$300 million credit for infrastructure development which will further assist such sectors as mining to grow. Russia is another showcase of close cooperation."

We recently negotiated a substantial reduction of our debt with Russia, and improved conditions in the areas of tax and property regulation and investment initiatives.

On a regional scale, South Korea and Japan are also important partners. On the world scene, we hold good relations with all major powers, as is the case with the US. Mongolia has supported the US in the war on Terrorism without any conditions and contributed troops."

As a nation, what makes Mongolia so different?

"As we are at the crossroads of two continents, we sometimes refer to ourselves as being 'half Asian and half European' — so we can work with everyone. Mongolia is also a very young country, it learns quickly. It wants to learn. You can see this with our young people. This country is largely influenced by a nomadic culture, which gives it a very flexible mentality. For centuries, we have been learning to adapt to ever changing environments. Our political situation has changed very rapidly, but we have adapted — that is why we have made such a peaceful transition to democracy."

What is the biggest challenge of your office as Prime Minister?

"I believe my challenge is also the same which faces the Mongolian people. It is important to make Mongolia 'matter' — not just for other countries — but also for the people of Mongolia. We have to be constantly focused. We are now very focused on attracting outside investment that will bring new technology, improve the management culture and boost tourism. Looking at Russia, China, Japan and the US, they move so quickly. We can't afford to be late. We have to learn to move faster so we can also take advantage of global opportunities."

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Lying between Russia and China in the north of Asia, Mongolia covers a total area of more than 1.5 million square kilometers and is home to close to 2.7 million people. The climate is continental with significant daily and seasonal temperature variations, and the national territory includes areas of semi-desert, steppe, mountains and the Gobi desert in the south.

Government

The Mongolian People's Revolutionary Party (MPRP) has been the leading political force since independence was secured from China in 1921, apart from a brief interlude in the nineties when the Democratic Union Coalition (DUC) won elections and introduced democratic and economic reforms.

The MPRP returned to power in 2000 with a landslide victory, and continued with the transition of Mongolian society, with a policy emphasis on social and public order issues.

The legal system is based on a parliamentary model with aspects of a presidential system, under a new constitution enshrined in 1992.

Economy

Traditionally, agriculture and livestock have formed the backbone of economic activity, but the nation also boasts rich mineral deposits of copper, coal, tin, and gold.

The collapse of the Soviet Union, once responsible for around a third of GDP, provoked a severe economic recession which saw GDP register negative growth from 1990-93. But reform programs initiated by the DUC and continued by the MPRP have turned the economy around and saw growth figures above 3% maintained in the late nineties.

Major privatization programs have been undertaken, and foreign investment encouraged, and Mongolia also joined the World Trade Organization (WTO) in 1997 as part of its commitment to embracing free-market reforms.

Mongolia on the web

<http://www.pmta.gov.mn>

<http://www.mongolbank.mn>

<http://www.investnet.mn>

<http://www.mongoliatourism.gov.mn>

<http://www.worldbank.org/mn>

<http://www.zpc.gov.mn>

<http://www.ku.edu/~hertan/mongolia.html>



Ethnic groups: Mongol (over 90%), DORJ (10%), Kazakh
Religion: Tibetan Buddhist Lamas (90%), Muslim, Christian
Language: Khalkha Mongol (90%), Tibetan, Russian

President: N. Enkhbayar
Prime Minister: N. Enkhbayar
Governor of Bank of Mongolia: T. Chimed

GDP: \$4.7 bn (2001)
GDP growth: 11% (2001)
CPI inflation: 10% (2001)
Exports: 3.4 bn (value 2001)
Imports: 2.7 bn (value 2001)
Currency: Tugrik
Exchange rate: 1 = 12 tugrik (2001)