

**BUSINESS**  
**OPPORTUNITIES** '06



**Visionary Leadership**

1. Mr. **N. Enkhbayar**, President of Mongolia
2. Mr. **M. Enkhbold**, Prime Minister of Mongolia
3. Mr. **B. Jargalsaikhan**, Minister of trade and industry of Mongolia
4. Mr. **O. Chuluunbat**, Governor of The Bank of Mongolia
5. Mr. **B. Ganzorig**, Chairman of FIFTA.
6. Mr. **Fumiaki Shiga**, CEO of MobiCom Corp
7. Mr. **Ts. Boldbaatar**, Executive Chairman of Newcom Group

# mongolia

## Celebrating 800 years

Speaking earlier this year, President Nambaryn Enkhbayar summed up his hopes for 2006: "Mongolia's 800th anniversary is a good opportunity to promote the image of our country to the international community. We need to celebrate this event as a learning process; it is about becoming efficient in a system based on values of tolerance and communication."

And the president can take much of the credit for his country's progress since abandoning communism in 1991. As prime minister between 2000-2004 the economic reforms he implemented saw Mongolia reach its highest growth rate of 10.6%

As Prime Minister Miyeeegombyn Enkhbold points out, Mongolia has now

reached the final stage of a market economy system. "The weight of the private sector in our economy has been growing steadily, and now accounts for 77% of the country's GDP." In 2001 GDP growth was at 1% but by last year registered expansion of 6.2%. Projected growth for 2007 is estimated at 8.6%.

To achieve this, the government is undertaking specific tax measures aimed at attracting further foreign investment and improving the business climate, says the premiere.

"In the next year we are going to work in a new economic environment for our business sector. We have adopted a new package of taxation laws that could see tax levels on 180 businesses reduced by 20%," he explains.

Foreign trade has been increasing, improving the country's trade deficit. Last year the European Union granted important trade preferences to Mongolia opening the door to 7,200 items.

The government is committed to providing full support to foreign investors. "We will try to create a secure and attractive environment so that companies establishing themselves here consider Mongolia as the closest and most efficient gateway to large markets like China and Russia," says the prime minister, stressing that Mongolia is developing its railway and aviation infrastructures to take full advantage of its geo-strategic location providing immediate access to the rapidly increasing Chinese market. ■

## A year-long calendar of events to celebrate Mongolia's 800<sup>th</sup> birthday

It's been an action-packed year in Mongolia, with a wide array of events held throughout the country to celebrate the 800<sup>th</sup> anniversary of the founding of the Mongolian state by legendary warrior-leader Chinggis Khaan.

The centerpiece of the celebrations was the annual Naadam festival in mid-July. Developed over the centuries to show off military prowess, the modern version of Naadam features the country's favorite sports-horse racing, wrestling and archery. This year's event was boosted by a range of shows, exhibitions and concerts celebrating the 800th anniversary. The Great Mongol international exhibition and cultural festival followed on from Naadam in mid-July, showcasing the best of the nation's culture.

Reflecting the key role of oral and musical culture in Mongolian life, the arts have been central to the celebrations, with demonstrations of Khoomii, or throat singing, as well as traditional dance shows. A number of works of art have been specially commissioned for performance in 2006, including new operas and exhibitions of paintings. At the end of August, the 26th World Forum of Poets was held in Mongolia this year to mark the anniversary.

Events will continue until the end of the year, including a 'Miss of Mongol origin' contest, the IV theater festival of Mongol language nations in September and October respectively. The year will be climaxed by the opening of the Museum of the Mongol state. For further information.

[www.mongolia800.mn](http://www.mongolia800.mn) ■

## FIFTA: A level playing field for investors



Mongolia has made significant progress this year in raising the country's international profile. Taking advantage of the 800th anniversary celebrations of the nation's founding, the government has been pulling out the stops to increase awareness among overseas investors of the opportunities here—the highlights of which will be the Investors' Forum in September, and a Fortune CEO round table in October—while at the same time pushing ahead with continued legislative and economic reform.

"We have drafted new laws to help create a level playing field for foreign investors," explains Trade and Industry Minister Bazarsadiin Jargalsaikhan. The government is currently working on strategic development plan that aims to diversify the country's economic base from dependence on mining, further opening industry and manufacturing, agriculture, and tourism, while seeking investment in roads and railways.

The aim is to use the country's huge mineral resource base to increase production of added value goods. "We want to focus on processing of textiles and production of finished garments for export," notes Mr. Jargalsaikhan.

### FIFTA is the agency tasked with promoting investment opportunities in Mongolia.

The highlights of FIFTA's calendar this year are the Investor's Forum in the capital of Ulaanbaator between September 14-16. "Compared to previous conferences we are trying to be even more specific in our organization and invitations, says FIFTA chairman Baasankhuu Ganzorig. "All the projects we want to highlight will be at the Forum, and all the materials related to these projects will be published beforehand. In addition to the Investor's Forum we are organizing a meeting of potential investors in Beijing and would like to invite serious investors from this area to this meeting," he adds. FIFTA also plans to organize more of these events in Russia, Egypt, Australia, Korea and Taiwan.

Mr. Ganzorig emphasizes the extent of the government's involvement in changing taxation policies to give foreign companies the same rights and conditions as domestic businesses. "Foreign investors have enjoyed special tax incentives in the past and now that they are here we want to continue to encourage their development along with our domestic industry. There are about 4,800 foreign companies operating here, and none have complained about the current legal framework and the changes that have been made. Income tax has been reduced in many sectors to 10% so most of these companies are enjoying more favorable conditions and appreciate what we are trying to do."

This year, FIFTA has decided to be much more selective, and has halved the number of invitees from last year's 1,400. "We are now focused on specific areas of serious investment," says Mr. Ganzorig. "Out of the 700 invitees there will be around 300 banking and financial corporations. The Forum will be broken down into sectorial meetings giving specific attention to areas that the invitees are interested in." ■

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# Financial sector consolidates

Consolidation is the buzzword in Mongolia's financial services sector this year, led by a group of commercial banks that are gradually replacing the many smaller organizations that emerged when the sector was first liberalized in the late 1990s.

Tougher regulatory framework put in place by the central bank has helped to remove less-viable players from the sector. This has seen the implementation of capital reserve requirements of \$8 million, and a less forgiving attitude toward nonperforming loans.

Central Bank governor Ochirbat Chuluunbat says imposing a minimum capitalization was the first step in improving the sector. "Through the consolidation we wanted to strengthen the banking sector, to improve competition, and improve the financial environment for strategic foreign investors."

Meanwhile the development of financial products with more attractive interest rates has helped in the move away from a cash economy. At the same time, growing foreign investment is laying the foundations for further growth in an international-standard, transparent financial services sector.

"We have brought confidence back to the banking sector," says Mr. Chuluunbat, highlighting that this has been achieved

without upsetting a relatively stable macro-economic situation. While money supply has increased rapidly over the last five years, inflation has been averaging only around 5-6%: reasonable for a transitional

**"We have brought confidence back to the banking sector," says Mr. Chuluunbat**



Central bank of Mongolia

country such as Mongolia.

Commercial interest rates of up to 28% are doing little to stimulate economic growth, and the business environment

would benefit from access to finance sources and additional credit finances. The government is considering various ways of fund raising, by either attracting long-term concessional loans or offering government bonds to international financial centers.

Mr. Chuluunbat says that foreign direct investment in the banking sector has helped with the introduction of new practices, management skills, and the strengthening of competitiveness in the banking sector, make financing national projects possible. Further FDI is now needed to assist in creating a more favorable environment for developing the mortgage market.

The financial services sector is particularly interested in attracting US investment and expertise to develop Mongolia's insurance industry, which still only performs at around 5% of GDP. Foreign capital will bring a value-added service and increased competition. Many in the sector also point to a lack of risk management by developing a strong financial services sector, the government hopes to create what it calls a continental offshore financial hub, a goal that will be aided by the lack of any restrictions on capital flows. As Mr. Chuluunbat points out, "banks deposits are growing faster than in any of our neighbors." ■

## Newcom-Mobicom: the answer is in the air

The first cellular telephony provider to enter the Mongolian market, Mongolian-Japanese joint venture MobiCom this year celebrates 10 years of solid growth that has seen it establish a highly cost-effective nationwide network that provides mobile communication to 500,000 people across this vast land.

With a population of 2.5 million, and in a low-income country, that's a reasonable market share. But MobiCom's CEO, Fumiaki Shiga says that a third mobile player is about to begin operations in Mongolia. "We welcome competition, but in this tiny market, too many service providers will make it difficult to provide cost-effective service.

In response to the growing competition, Mobicom has been investing in improved service quality, while expanding into rural areas. "This is the way to contribute to this market and country."

The company is considering an IPO in a foreign market in the near future. "This is to show international investors that Mongolian stock is secure," says Mr. Shiga. "To qualify for an IPO in a major foreign stock market is not easy. However, we think we have to try, because MobiCom has the best chance. This is not only for Mobicom, but for other Mongolian companies to open access window to the foreign financial sources."

Mobicom's parent company, Newcom, has bigger plans to improve communication within Mongolia, and is about to launch a domestic airline. Ts. Boldbat, Newcom's executive chairman, says that EZNis (Easy Fly) will fill the gap created after the withdrawal of state-owned Mongolian Airlines from domestic routes.

With growing international interest in mining and other areas of the economy, as well as a burgeoning tourism industry, EZNis is making long term investments to turn the air sector into one of the key motors of the economy. ■

## Economy

The Mongolian economy has traditionally been based on herding and agriculture. Mongolia has extensive mineral resources. Copper, coal, molybdenum, tin, tungsten and gold account for a large part of industrial production. Following the collapse of the Soviet Union, Mongolia embraced free-market economics and extensive privatization of the formerly state-run economy. Growth was 10.6% in 2004 and 5.5% in 2005, largely because of high copper prices and new gold production. Mongolia purchases 80% of its petroleum products and a substantial amount of electric power from Russia. China is Mongolia's chief export market. Mongolia, which joined the World Trade Organization in 1997, seeks to expand its participation and integration into Asian regional economic and trade regimes.



## History

The Mongols gained fame in the 13th century when under Chinggis Khan who created a vast Eurasian empire. After his death the empire was divided into several powerful Mongol states, but these broke apart in the 14th century. The Mongols eventually came under Chinese rule. Mongolia won its independence in 1921 with Soviet backing. A Communist regime was installed in 1924. The ex-Communist Mongolian People's Revolutionary Party (MPRP) won elections in 1990 and 1992, but was defeated by the Democratic Union Coalition (DUC) in the 1996 parliamentary election. Since then, parliamentary elections returned the MPRP overwhelmingly to power in 2000 and produced a coalition government in 2004.

## Today

At 1,564,116 square km, Mongolia is the 18th largest country in the world. However, the country contains very little arable land. With a population of over 2.8 million, a little over 30 percent of the population are nomadic or semi-nomadic Tibetan Buddhists of the Mongol ethnicity. About one-third of the population lives in the capital city Ulaanbaatar.

The country adopted a new constitution in 1992 that embraces principles of democracy and private ownership. The country has become one of the most open economies in the region, setting free government-administered prices, exchange rates, and interest rates, as well as establishing a two-tier banking system and opening doors for private initiatives.



## Facts & Figures (at the end of 2005)

**GDP growth - 6.2%**

**GDP, current price, billions of togrog - 2266.5**

**Inflation - 9.5%**

**Unemployment - 3.5%**

**Balance of payment (millions of U.S. dollar)**

**Exports f.o.b - 1055.8**

**Imports f.o.b - 1065.0**

**International reserves - 333.2 (millions of U.S. dollar)**

**Togrog rate against U.S. dollar - 1226.7**

**General government budget (billions of togrog)**

**Total revenue and grants - 833.3**

**Current revenue - 829.2**

**Total expenditure and net lending - 750.3**

**Current expenditure - 589.0**