

Mongolia's changing fortune

A vast country with rich resources and a fascinating history, Mongolia is rising up to become one of the fastest-growing economies in the world, thanks to lucrative mining deals.

Nestled between Russia to the north and China to the south and west, Mongolia is a proud nation with a famous history that stretches back to 1206 and the reign of Genghis Khan.

After centuries of domination by the superpowers that surround it, Mongolia was officially recognized as independent in 1945 and modernization was complete by 1992 when it transitioned from communism to a market economy.

Since then, development has been steady, but slow — about 20 percent of the population still live on less than \$1.25 per day — but all that is changing very rapidly. Analysts now expect this resource-rich country of just 2.9 million people to be one of the fastest-growing economies of the decade, with the potential to outperform the world's top three fastest-growing economies.

Mongolia recorded a truly impressive economic performance in 2010, leading globally as the best equity market, the second-fastest growing economy and with the second-best performing currency.

This is largely due to its abundance of natural minerals — copper, coal, molybdenum, tin, tungsten and gold — which now makes Mongolia a key investment target for global mining corporations. In March 2011, six multinational mining companies tendered bids for the Tavan Tolgoi, the world's largest untapped coking coal deposit.



Sükhbaatar Batbold
Prime Minister

Since 2009, the man in charge of governing this rapid development is Prime Minister Sükhbaatar Batbold.

His government still maintains a strong hand in the development of the economy, partnering with the private sector on particular projects.

In the Oyu Tolgoi (OT) mining project, for example, the mine is shared between the government, Ivanhoe and Rio Tinto as will be the case with the Tavan Tolgoi (TT) area.

"The government will continue to coordinate and dictate policy as regards mining of new deposits," Prime Minister Batbold says. "However, over the past 10 years, we have opened up a lot and now the private sector are equally engaged in mining here. In particular, license issuance and mining operations have been made more open with less control. We have gained experience and learned lessons."

As well as opening up more to private investment, Mongolia has also reached out to governments across the globe. The country currently has 110 trading partners overseas, which has led to the establishment of an industrial park for foreign investment by the end of 2012/early 2013. The venture is projected to generate almost \$4 billion in trade.

Strategic partnerships

In particular, in 2010 Mongolia established a special Economic Partnership Agreement (EPA) with Japan in order to further strengthen the economic relationship between the two nations in the future.

Minister of Foreign Affairs and Trade Gombojav Zandanshatar is encouraged by the EPA with Japan.

"Both sides view that the establishment of a strategic partnership marks a new era in relations between Mongolia and Japan," says Zandanshatar. "It not only further enhances the mutually beneficial, complementary relations between our two nations, but will help us better cooperate in resolving pressing matters in the political, economic and environmental area that challenges the Asian region and international community."

The prime minister of Japan, Naoto Kan, has also expressed his endorsement of the EPA and is keen on exploiting areas that can be mutually beneficial to both countries, particularly

collaborating in rare mineral extraction and general strategic cooperation.

The EPA also includes plans to intensify humanitarian exchanges. The Mongolian government and people donated millions of dollars and resources to Japan in the wake of the tsunami that devastated the country.

Prime Minister Kan has also expressed his appreciation that Mongolia has allowed Japanese citizens to visit Mongolia without a visa since April 2010 — an important step in intensifying bilateral cooperation between the two nations.

Burgeoning financial sector

This economic and diplomatic expansion has led to the development of an increasingly strong financial sector in Mongolia.

Mongolia's Minister of Finance Sangajav Bayartsogt has overseen some major reforms to the banking sector in the wake of the financial crisis and is now looking to do the same with the Mongolian Stock Exchange. Bayartsogt was the chairman when the Oyu Tolgoi (OT) investment agreement was drawn up.

"When we signed the agreement with OT, our GDP growth was huge," explains Bayartsogt. "Before OT, there was only one company that was government-owned. Now there is plenty of potential, which is why our GDP growth is projected to be around 15 percent per year, perhaps higher."

"In a very short period of time we have gone from a low-income country to a very high-income one. There is huge potential



Chinggis Khaan Hotel, a member of Summit Hotels & Resorts, is the premier hotel choice in Ulan Bator.

www.chinggis-hotel.com

'In a very short period of time, we have gone from a low-income country to a high-income country. There is huge potential here.'

Sangajav Bayartsogt
Minister of Finance

here. We have a large amount of land with a small population, but much depends on how this economy is governed.

"We currently have a coalition government between the leading party and the opposition party so we are able to work together in order to solve the problems of the nation. This opportunity is available for a very short time and we must take advantage of it."

Bayartsogt sees further integration with Japan as one of the keys to grasping this opportunity. "We very much encourage investment in Mongolia and believe that it is very important to increase our trade relationship with Japan."

"Japan has been the biggest donor to Mongolia since the tran-

sition to capitalism in the 1990s. I would say that for businessmen and investors from Japan, now is the right time to invest in Mongolia.

"We can ensure two important things — we are a stable, democratic country and our investment environment is very favorable right now. The income tax is the lowest in the region, and our tax regime, in general, is better than most countries in Asia for business."

Mining promoters

In the meantime, the Mongolian National Mining Association (NMA) headed by D. Damba has helped promote the interests of the mining sector as a whole, including companies like the

Erdenet Mining Corp. LLC, which saw its workers donating one day's pay to Japanese people upon the loss of life and the damage caused by the recent earthquake.

The NMA works with the government to try to ensure that the laws and policies are favorable to the mining sector that plays such a crucial role in the Mongolian economy.

According to Damba, mining can be the driver that transforms the Mongolian economy in the future.

"Mining is one of the major sectors that is pushing the economy forward. The employment rate is increasing, and therefore, the quality of life for all Mongolians as well."

'Best Enterprise of 2010' continues to boost Mongolian economy and strategic Japanese business links

Erdenet's significance to the Mongolian economy and to the world's copper supply cannot be underestimated: the company supplies 3 percent of the world's copper concentrate exports and is responsible for 15 percent of Asia's total copper concentrate exports.

Out of the 170 companies producing copper worldwide, Erdenet is ranked eighth in terms of competitiveness. Global Insight explains the story of Erdenet Mining Corp. (EMC), its prospects for the future and the glowing production statistics, environmental work and corporate social responsibility initiatives that led to it being named Best Enterprise of 2010 by the European Business Assembly.

One of the largest ore mining processing factories in Asia, the Erdenet mine is situated 400 km northwest of Mongolia's capital Ulan Bator, 180 km west from Darkhan city (Mongolia's third largest city), 60 km north from the center of the beautiful northern province of Bulgan and 140 km from the Russian border.

Having successfully weathered the global financial crisis and its adverse effects on copper and molybdenum prices, Asia's most competitive mining company has delivered a strategic plan that will allow it to keep expanding through this decade and beyond.

Established in accordance with an agreement between the governments of Mongolia and the former Soviet Union in 1976, Erdenet began operations in 1978. The joint venture is divided 51 percent Mongolia, 49 percent Russia. Since it opened, EMC has produced 628 million tons of copper ore and 3.7 million tons of copper in concentrate.

General Director Ch. Ganzorig, a former minister of industry and commerce (2000-2004) and vice minister of finance (2004-2007) in Mongolia, emphasizes the mine's high performance, saying that its production quality reached 86.23 percent of copper recovery rate and 40.8 percent of molybdenum recovery rate, providing 30 to 40 percent of total export and 44 percent of the total industrial production in Mongolia.

"We have established a reputation in the world copper concentrate market and have been given a 'credible partner' tribute of international trade from the London metal stock exchange," he says.

"In recent years, we have been able to improve our technique and technology exten-



EMC mines more than 25 million tons of ore per year.

sively, including our technological progress, product outcome, quality, metal outcome, and as a result, we have been able to position ourselves on a level with similar mine sites in the world, and by some indicators, even surpass them, particularly with regards to exploration, transportation and processing costs."

Key contributor to economy

A key contributor to the Mongolian economy — operations make up 13.5 percent of gross domestic product and up to 20 percent of tax revenues — Erdenet enjoys the most up to date technology and facilities and highly trained human resources to ensure continuous production.

One of the biggest ore mining and processing factories in Asia, Erdenet mines 25 million tons of ore per year to produce more than 530,000 tons of copper concentrate and 3,000 tons of molybdenum concentrate annually. It has managed to achieve impressive growth during its lifetime.

In 1980, it had the capacity to explore and process around 8 million tons of ore a year. By 2003, that capacity was increased to 25 million tons per year, and in 2010, it reached record levels by processing 26 million tons of ore per year. "We have always managed to reach our goals and fulfill our turnover plans," Ganzorig said.

A growing town

With excellent rail links to the capital, China and Russia, Erdenet City is now a bustling town that has grown up as a result of the mine's many workers and their families. In 1979, EMC had 2,000 employees. Today, that number has tripled to 6,000.

As a result of the corporation's commitment to local training and development, only 300 of the employees are from abroad. The management increased the wages of Erdenet employees by 30 percent at the beginning of the year, with a view to regularly reviewing those figures in the coming years.

Improved indicators

In April 2010, EMC approved a strategic development plan for the next decade. "We want to bring the corporation's economic and environment indicators up to the best possible condition," Ganzorig said.

"In order to do that, we have implemented a policy to improve the technique and technology of non-ferrous metal processing, strengthen our technological and economic links, and network with the country's other industries. We also want to establish and build factories that will produce end products.

"We would like to expand our factory base for minerals and raw materials, improve on current technology and implement new technology

in the current process. We are also going to implement an In-Pit Crashing Conveying system at the ore open pit mining in order to reach our goal of 35 million tons of ore exploration every year."

Other highlights of the plan include the construction of a fourth stage crushing facility within the concentration factory's crushing transportation, construction of a new line, with capacity

for 10 million tons at the Semi-Autogenous Grinding Plant, renovation of the fourth section of the flotation, expansion of the thermal power plant, renovation and expansion of service and mechanical plant, renovation and expansion of the computing and automotive sections, and thermal and water distribution sections.

Positioning for Japan

Mongolia recorded a truly impressive economic performance in 2010, leading globally as the best equity market, the second fastest-growing economy and the second best-performing cur-



Ch. Ganzorig
General Director
Erdenet Mining Corp. LLC

rency. Driven by strong, resource-linked investments, specifically in mining, where exploration levels more than doubled between 2005 and 2006, in gold, copper, uranium, fluorite and coal, this exemplary performance is slated to continue through 2011.

The large increase in foreign investments, specifically in mining, has been the engine for economic growth. Taking a closer look at the development of ongoing projects, such as the Oyu Tolgoi and Tavan Tolgoi mines, undertaken by the pro-business government that came to power in 2009, it is easy to see the potential the country offers. Mongolia's economy continues to be heavily influenced by its neighbors and is gaining recognition in the global arena.

Following up on the visit of the president of Mongolia to Japan last year, the two countries signed the Japan-Mongolia Joint Statement for Building a Strategic Partnership, where Japan agreed to cooperate in projects to develop rare-earth minerals for high-tech products. Both countries emphasized the importance of further strengthening the economic relationship between the two nations in the future.

'We have implemented a policy to improve the technique and technology of non-ferrous metal processing, strengthen our technological and economic links and network with the country's other industries.'

Ch. Ganzorig, General Director, EMC

During the visit in November, President Tsakhia Elbegdorj said: "Japan is a true friend who has helped Mongolia in its difficult time. We will not forget that in challenging years following Mongolia's change to democracy and market economy Japanese people helped Mongolia with necessary items in energy, infrastructure, public transportation, education sectors in the most needed time."

"After 20 years we bring you our good news. The Mongolian economy has self-sufficient capacity now. We are not going to ask for help but Mongolia has become a mutually beneficial

partner of Japan."

The president of Mongolia asked Mongolians to devote whatever they learned in Japan for Mongolia and the people expressed their full inspiration and willingness to dedicate what they learned to develop their motherland.

As a show of solidarity and respect to its Japanese links, Erdenet employees donated one day's pay to Japanese people in response to the damage caused by the earthquake and ensuing tsunami.

EMC's mission is to conduct efficient business to benefit the stake-holding countries' economic development and society at large.

A cultural haven awaits

Relaxed visa rules have given the green light to Japanese visitors, as Mongolia's tourism officials undertake infrastructural changes and raise awareness of the magical country around the globe.

Tourism is one area that is vastly unexploited in Mongolia mainly due to the restrictions imposed upon it during the communist years.

Now, however, it is starting to gain momentum, although most visitors that come to Mongolia are adventure tourists seeking to enjoy the Mongolian landscape between May and September.

Luimed Gansukh, the minister of nature, environment and tourism, explains that although the financial crisis hit tourism hard in Mongolia, it has recovered quickly.

"Because of the world economic depression in 2008 and 2009, tourism numbers were down by 9.7 percent. But in 2010, this situation changed and compared with 2009, the number of tourists in Mongolia increased by 10.8 percent. Our policy has been to try and boost tourism from 2007 until 2021. By 2015, we expect to reach 1 million foreign tourists."

The lack of sufficient infrastructure and a general global awareness about Mongolia are challenges that currently hold the industry back.

The country has around 3 percent of its roads paved, the rest are either dirt or gravel. One organization trying to overcome these problems is the Mongolian Tourism Association (MTA), which is the main private-sector umbrella for the industry and represents about 80 of the larger Mongolian tour operators.

Established in 1992 as a non-governmental organization, the MTA's vice president, Erdenebat Namsraijav, outlines some of the progress made so far:

"Since the change in the visa restrictions last April, there has been an increase in



Luimed Gansukh, Minister of Nature, Environment and Tourism



Orkhon Tseyen-Oidov, President & CEO, MIAT Mongolian Airlines

Japanese tourists by 25 percent. Another important factor to this increase has been that we have been raising a lot of awareness about Mongolia in Japan at the moment.

"The Japanese are really surpassing everyone and are becoming our most frequent visitors. Specifically, in 2009 there were 11,359 tourists, and in 2010 there were 14,420. This year, we would like to see the number reach 20,000."

As highlighted by Namsraijav, much of this increase in Japanese visitors is because of the lifting of visa restrictions.

"The increase in tourism has seen an increase of \$14 million in visa revenues," Namsraijav says.

JATA Tourism Forum

In order to increase this number further, the MTA plans to participate in the biennial JATA Tourism Forum and Travel Showcase in Tokyo from Sept. 29 to Oct. 2 this year, after having invited the president of the Japanese Association of Travel Agents (JATA) and 20 other Japanese companies in the tourism sector to Mongolia as part of an awareness-raising exercise.

"We are paying a lot of attention to JATA right now," Namsraijav says. "The prime minister of Mongolia paid a visit to Japan in July and during the official meeting, he made a point of discussing direct investment. His ambitious slogan was, 'Let's become the yokozuna of investment in Mongolia.'"

Business tourism is another area that is being nurtured and, as Namsraijav says, is a work in progress. "We are working on several projects to target business travelers as well."

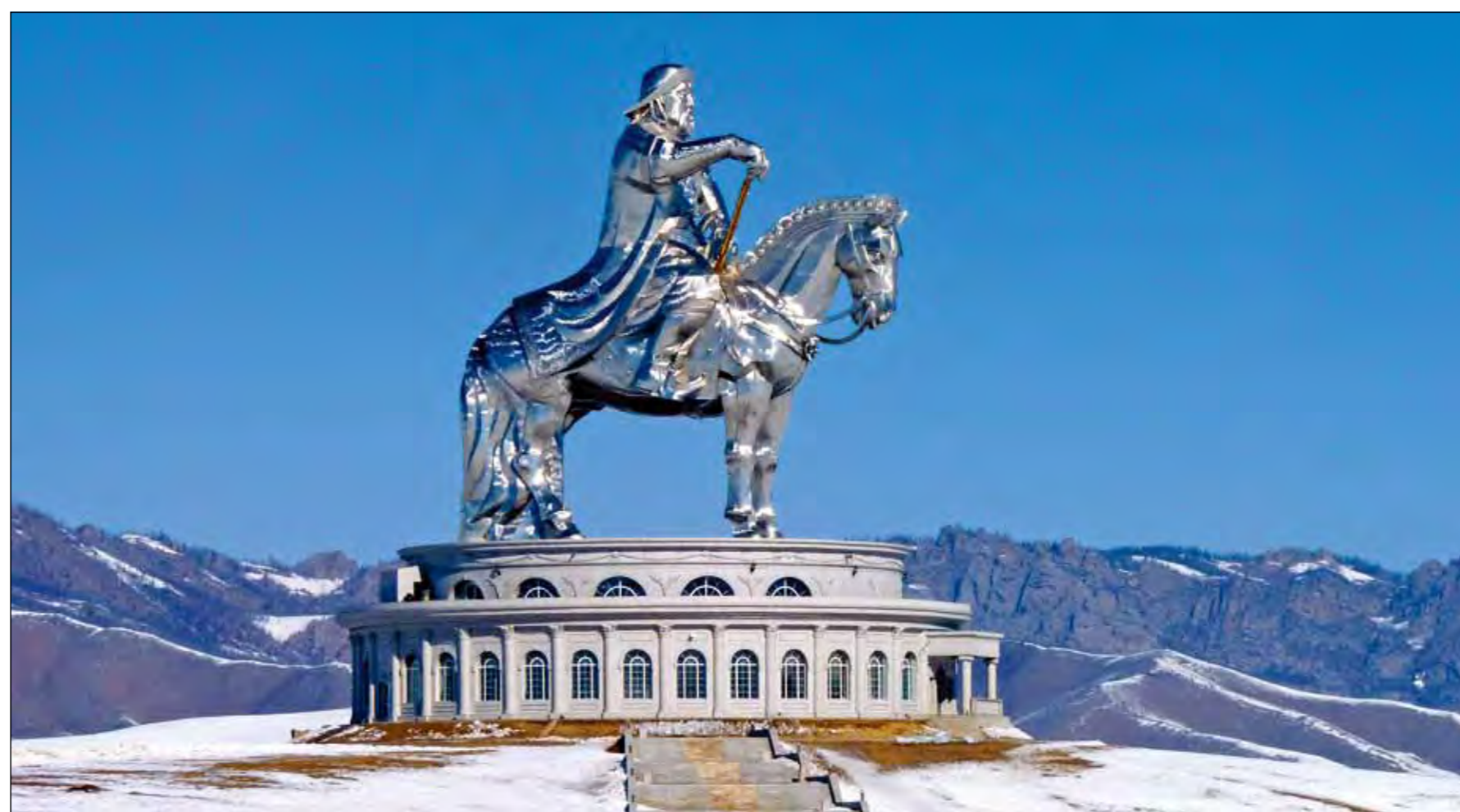
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Flying high

MIAT Mongolian Airlines is the country's national flag carrier and while they are small in comparison to other international airlines, they are growing and expanding their operations at a pace.

One of the things that will help them with this expansion is a new airport that is being built with the help of the Japanese government.

Orkhon Tseyen-Oidov, president and CEO of MIAT, says that this is a time of immense challenges for the airline. "By 2015 we are expecting a new airport to be completed and this will obvi-



A 40-meter-tall statue of Genghis Khan and his horse stands about one hour away from Ulan Bator.

ously require more flights and investment on our part.

"By that time, however, we are expecting very strong competition, so we must prepare for that. We have drafted a fleet expansion plan until after 2020 and will be concentrating on two types—the narrow-body Boeing 737 and the wide-body Boeing 767.

"At the moment we have two leased aircraft but as we are expecting to double our passenger numbers by 2015, we would like to have at least five or six leased aircraft on our fleet."

The growing economy has already had a positive effect on the airline. "We have seen a growth of 35 percent in traffic for the first quarter this year," Tseyen-Oidov notes, adding that while flights to China are the most popular, Japan is now close behind. "Japan is very impor-

'Since the change in the visa restrictions last April, there has been an increase in Japanese tourists by 25 percent.'

Erdenebat Namsraijav
vice president
Mongolian Tourism Association

tant for us, especially with the new relaxed visa requirements. Even with the delicate situation in Japan right now, we are still expecting to see growth this year.

"We have daily flights to Japan, with five to Tokyo and two to Osaka. We are also willing to increase our flights to Mongolia during the winter if there is a demand for it. But we have to improve the infrastructure in Mongolia to make this expansion possible."

The biggest challenge for both MIAT and the Mongolian government will be keeping up with the huge expansion of the economy over the next five years, says Tseyen-Oidov.

"From 2013, we are expecting to see double-digit growth so we need to be expanding to meet the demand. This is why we came

to the agreements I mentioned with Boeing.

"As our country continues to grow economically, the government must dedicate funds to the infrastructure and in turn we will be able to expect more tourists. We are working very hard to meet the demands of a fast-growing economy."

Tseyen-Oidov concludes with an optimistic note about Mongolian-Japanese relations. "The Mongolians and the Japanese have a very good understanding of each other and we hope to foster a closer relationship by increasing our daily flights to Japan."

Although Mongolia's tourist industry is developing, it already has some outstanding hotels, including the Chinggis Khaan Hotel. A member of Summit Hotels & Resorts, the Chinggis

Khaan Hotel has been the preferred choice for royalty, heads of state, government delegations, dignitaries, leaders and decision makers in Mongolia as well as tourists and businesspeople.

Sam Sallam, managing director of the hotel, describes its many benefits. "We are conveniently located in the business and cultural center of Ulan Bator, just 20 minutes from the international airport.

There are special facilities for business travelers, such as the main conference hall of 300 sq. meters, and there's a fully equipped board room with facilities suitable for 20 to 30 people, as well as a banquet room that holds up to 350 people.

"The top two floors have been recently renovated to provide a very high level of quality and comfort."

Japanese investors can join now for a remarkable future

It's official. Mongolia's fast-growing economy will yield high returns for savvy investors and a host of experts are at their disposal.

To keep up with the expansion in both tourism and the economy over the coming decade, the country needs to develop its finance sector.

Financial initiatives dedicated to this area include the Mongolian National Chamber of Commerce and Industry (MNCCI) and the Business Council of Mongolia (BCM).

The former, headed by Chairman and CEO Sambuu Demberel, aims to promote and develop the competitive private sector of Mongolia as an engine of sustainable growth and main source of economic activity.

The Business Council of Mongolia is playing a vital role in bringing together international and local companies and is dedicated to promoting trade in Mongolia. Executive Director Jim Dwyer sees a very impressive

future ahead for the Mongolian economy.

"Statistics from the International Monetary Fund show that the economy will have 25 percent growth from 2013 on," Dwyer says. "Of course, the numbers look good when you have a small gross domestic product to start with, but in five years there will be a huge increase and the average income will go up quite a bit as well. As long as the government is mindful of inflation, it will be an exciting time."

A market leader

Both the MNCCI and the BCM organizations help support and encourage investment in firms such as BDsec Joint Stock Company, the largest brokerage company in Mongolia with 64 percent of the market share. BDsec provides executions,

quick settlements, and high-quality brokerage services and is the leading company in Mongolia in terms of research. It aims to help foreign companies looking to invest in Mongolia.

It is the only company to hold underwriting, brokerage, dealer and investment advisory licenses. Dayanbilguun Danzan, executive director of BDsec JSC, explains the company's importance in facilitating foreign investment.

"BDsec is a bridge to connect foreign investors to the domestic market because of our presence here. This year, we're working on very profitable and long-term initial public offering (IPO) projects and have already underwritten eight successful IPOs from a total 13 IPOs in the Mongolian stock market."

Danzan notes a huge expansion

in the number of Japanese clients doing business in Mongolia.

"The interesting thing is that Japanese clients used to be quite cautious when dealing with the Mongolian stock market. Since 2008, however, Japan's large institutional investors have started to trade in the Mongolian Stock Exchange.

"There is a huge projection of investment flowing into Mongolia over the next few years because of this. We are expecting many large institutional investors and the market will greatly expand within the next few years, with investors such as Dr. Mark Mobius of Templeton who recently contacted us with an interest in the Mongolian Capital Market."

Two decades of experience

Danzan also explains why he thinks his company has such a large share of Mongolia's brokerage market. "We have been in this market for the last 20 years so we

have 20 years of experience.

"We have a good relationship with our clients and we have been able to retain their loyalty because of it. On the other hand, we are constantly learning about the stock market. As a joint stock company, we have been focusing on transparency and we have a very experienced international board of directors, which puts BDsec in an ideal position to expand into the future.

"There's a big difference today in the investment world

compared to 20 years ago. The investment demands of most companies are about \$10 million on average, but in five years, they will need about \$100 million to satisfy their financial needs. Therefore, we are expecting our GDP to reach \$40 billion compared to the current \$5 billion."

Danzan feels this huge expansion means a very bright future for both his business and country. "Mongolia has such a great history and we are set for a remarkable future. Every nation

and every country can benefit from this tremendous future by investing in Mongolia. We are eager to contribute in this future and foreign investors can find through us the safest way to enter the Mongolian Capital Market."

Investors can also rest assured that the labor pool will withstand the demands of international business. Mongolia outperforms

most other countries at a comparable stage of development, and has a young, dynamic and well-educated population with 70 percent younger than 35 years old.

Many Mongolians speak and understand English. In addition to English, some Mongolians also speak Japanese, Russian, German, Chinese and Korean.

This report was produced by Global Insight and can also be read online at: www.japantimes.co.jp/international-reports

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