The Asian Wolf bites the hand of opportunity

In Focus investigates Mongolia's exciting transformation

Elbegdorj Tsakhia, President of Mongolia

Sukhbaatar Batbold, Prime Minister of Mongolia

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Celebrating its Pavilion Day today at the Shanghai World Expo 2010, Mongolia is a country with a very bright future ahead.

Nestled between China and Russia, Mongolia is a resource-rich country on the brink of an economic transformation. Thanks to recent developments in the mining industry and foreign interest increasing at a phenomenal rate, the wolf economy is getting ready to pounce, with real GDP growth prospects expected to hit 20.8 percent within three years.

For President Elbegdorj Tsakhia and Prime Minister Sukhbaatar Batbold, whose coalition government took the reins in June 2009, the key priorities have been to ensure a safe business environment for the international community, while tackling widespread poverty.

President Tsakhia's electoral campaign pledges, to fight corruption and ensure that mineral wealth is spread more evenly among the 2.7 million largely Buddhist population are taking shape, with the country now boasting one of the fastest-growing economies in the world.

While a third of Mongolians live in the capital of Ullan Baartar, 40 percent work as livestock herders in the country's extensive plains.

It is this nomadic, centuries-old lifestyle—now under threat by urbanization and climate change—that the President wishes to provide for with education initiatives that will "enrich the millennia-old cultural, historical and intellectual heritage the Mongolia people created."

Although Mongolia has expanded political and financial ties with the U.S., Japan and the European Union, its main trading partners are neighboring Russia and China.

China represents the largest market, reaping 70 percent of Mongolian exports, and is the largest source of foreign direct investment (FDI) at 50 percent.

As a mineral-hungry nation, China will play a hugely significant role in the years to come. Trade turnover between the two countries soared by 22.5 percent between 2009 and 2010.

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>
> ELBEGDORJ TSAKHIA
> PRESIDENT OF MONGOLIA

"Mongolia has concluded its "agreement on relations of good neighborliness and mutually trusted partnership" with China now, and reciprocal high level visits, talks and negotiations, have become regular between our two countries," said the President, who visited China earlier this year and attended the opening ceremony of the Shanghai World Expo.

"Relationships and cooperation are expanding in all areas including education, culture, humanitarian efforts and military, as well as people-to-people interactions. Trade flow between Mongolia and China has been growing steadily in the last few years and we want to increase that flow, by reducing import tariffs, opening up free border economic and trade zones, broaden transport crossings and invest in Mongolia's road and rail transportation system."

Competitive advantages

Sharing a land border of some 4,710 kilometers with Mongolia, China enjoys many advantages as a trading partner, not least the fact that its companies can operate at lower costs. Mongolia also has access to a huge market, abundant capital, and massive technical resources. As Sukhbaatar Batbold, Mongolia's Prime Minister said, both countries are keen to push bilateral cooperation to an even greater level now, and are even initiating feasibility studies for a free trade agreement (FTA):

"2009 was the 60th anniversary of diplomatic ties between Mongolia and the People's Republic of China. 2010 therefore represents the start of the next 60 years so we are in active talks to determine new ways of cooperating.

"There are opportunities to produce value-added products from Mongolian natural resources, build related infrastructure and produce end products from agricultural raw materials, one of the main industries in Mongolia.

During an official visit to the PRC in April, Prime Minister Batbold met with China's Prime Minister Wen Jiabao, who later reciprocated with a visit to Mongolia in June.

Both prime ministers agreed upon an increase in trade, with boosted cooperation in mining and agriculture. In the frame of the agreement, Mongolia will process mining and agricultural raw materials and export them to China and developing countries.

As Batbold said: "We have asked China to resolve some of our major issues: namely, to increase the number of Mongolian seaports and related transport issues, and China has expressed its support.

"Chinese firms also want to be involved in major mining projects in Mongolia, and the Chinese side will open doors on low interest loans for industrial factories, specifically agricultural product processing factories."

There are currently more than 700 Chinese enterprises operating in Mongolia, their combined investment accounting for about half of the total investment by foreign-owned firms in the country, and around 50,000 direct jobs. More recently, China's State-owned companies have become involved in oil and mining.

Mongolia's National Chamber of Commerce and Industry is actively cooperating with their Chinese counterparts to encourage the development of SMEs.

'BEER' reform

2010 also marks "the year of business enabling environment (BEER) reform" for the government, which abolished the windfall tax on copper and gold with effect from January 1st, 2011 and passed a concession law to stimulate the growth of Private Public Partnerships.

"To make the business environment more transparent, it is important to adhere to laws and regulations and support the government-defined leading sectors with financial policy and tax exemption. We will also work to increase the number of entities with corporate social responsibility, environmentally friendly technologies and support regional development" said the Prime Minister. "We attentively listen to business and try to note their criticism and comments in law and decision-making. A real example of this is the investment agreement we conclude on Oyu Tolgoi deposit." The financial sector has also been reformed, with external audits performed on all entities, including the central Bank of Mongolia.

As the Bank's Governor Lkhanaasuren Purevdorj said: "Mongolia has one of the most open economies in the region. Its liberalized financial system, favorable investment legislation and absence of capital controls would provide excellent and competitive investment opportunities."

According to the Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA) Chinese FDI flows are growing in the following sectors: geology and mining, ($100.1 million); trade and catering services ($511.34 million); engineering construction, construction materials ($397.11 million); and light industry ($55.64 million).

Mining giant displays competitive advantage to China

Ch. Ganzorig, General Director of Erdenet Mining Corporation LLC

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

The main contributor to the development of the Mongolian economy Erdenet Mining Corp (EMC) began operations in Mongolia in 1978. A joint venture between Mongolia, 51 percent, and Russia, 49 percent, the company processes a staggering 25 million tons of ore per year, including more than 530,000 tons of copper concentrate and around 3,000 tons of molybdenum concentrate annually.

With the most up-to-date technology and facilities and a highly trained workforce, EMC has been able to secure consistent and continuous production during its 32-year history, in which time it has produced around 620 million tons of copper ore and 12.6 million tons of copper concentrate.

During the crisis period, the first 8 months of 2008, EMC posted net profits of 115 billion MNT and provided 512 billion MNT to the state and local budget.

The first non-ferrous metal mine, Erdenet expands its production capacity year by year. General Director Ch. Ganzorig emphasized how the mine provides 43 percent of total exports and 40 percent of total industrial production of Mongolia.

Situated 400 km northwest of the Mongolian capital, Ulaanbaatar, and with excellent rail links to China and Russia, Erdenet is now a bustling city that has grown up as a result of the mine's success. In 1979, the company had 2,500 employees, today that figure is almost 6,000 with only 300 of those expatriates.

Its significance to Mongolia's economy, and to the world's copper supply, cannot be underestimated: the company supplies 3 percent of the world's copper concentrate, and is responsible for 15 percent of Asia's total copper export. Out of the 170 companies producing copper worldwide, Erdenet is ranked eighth in terms of competiveness.

> **In recent years we have been able to improve our techniques and technology extensively to position ourselves on a level with similar mining sites in the world. We are ranked 8th in the world in terms of competitiveness."**
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> CH. GANZORIG
> GENERAL DIRECTOR OF ERDENET MINING CORPORATION LLC

As Ganzorig observes: "We have established a reputation in world copper concentrate and have been given a 'creditable partner' tribute of international trade from the London metal stock exchange.

"In recent years, we have been able to improve our technique and technology extensively, 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."

Through careful planning and dynamic leaderships, EMC has managed to achieve impressive growth during its lifetime. In 1980, for example, it had the capacity to explore and process around 8 million tons of ore a year. By 2003, that capacity had increased to 25 million tons per year, and in 2009, the company had 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.

Development trends

In April, the company approved a strategic development plan to take it through 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 will implement 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.

"In short, we want to:

* expand our factory base for minerals and raw materials

* improve on current technology and implement new technologies in the current process

* establish a factory that will produce copper lines, copperplate, pure cathode copper and molybdenum products by using a hydrometallurgical approach to process copper concentrate.

Erdenet processes a staggering 25 million tons of ore a year.

"We plan to implement an auto transportation conveyor 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 Level 4 crushing facility within the concentration factory's crushing transportation, construction of a new line, with capacity for 10 million tons at the auto-grinding department, renovation of the third and fourth sections of the concentration, expansion of the thermal power plant, renovation and expansion of service and mechanical plant, renovation and expansion of the computing and automotive section, and thermal and water distribution sections.

Positioning for China

As a global power with a great demand for natural resources, neighboring China is Erdenet's most important international trading partner, responsible for around half of total sales. According to Ganzorig, US analysts IHS Global Insight — recognized as the most consistently accurate forecasting company in the world—have predicted that China's production of industrial goods will overtake that of the US by next year, when it will become the world's leading economic power.

"Copper is a raw material that has a direct influence on the production of industrial goods and economic development," Ganzorig said. "With regards to 2009, China alone consumed just under a third of the world's copper supplies, 6.9 million tons of the world's copper, and produced 21 percent of the world's industrial goods. Copper prices on the Shanghai Metal Exchange are usually higher than that of the London Metal Exchange, which shows demand for copper on the Chinese local market is much higher than elsewhere in the world," Ganzorig said.

"China's metal and copper smelting factories are located in the north of the country. Because of that, transportation costs and cost for other services are lower if they buy the raw material from us. From the increased copper consumption in China coupled with our competitive advantages, it is clear that EMC and China's mutually beneficial cooperation will increase further."

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