

Opportunities for global investors

INTERVIEW WITH HE DASHDORJ ZORIGT

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How will Mongolia develop its natural resources over the next 5-10 years?

Mining is the backbone of the Mongolian economy, it accounts for close to 30 per cent of its GDP and 70 per cent of its exports. The mining industry is important, but we have to diversify, so there will be different mines in different locations, so they can boost regional development and give an impetus to infrastructure development. Private investment has to be encouraged, both foreign and domestic, which is why we have a competitive regime.

Mongolia is focused on attracting investors, both domestic and foreign, into the sectors that are of primary importance to us. The new Prime Minister has said that the government's goal is full employment. To achieve that we need to make sure that projects in mining and its related infrastructure become operational as soon as possible.

To achieve these goals we'll be making sure that Mongolia's competitiveness is on a par with other countries in the region. This competitiveness will involve developing the infrastructure required for large projects. We see competitiveness in terms of stable laws and regulations. We see it also in terms of a competitive tax environment. We have one of the most attractive tax regimes in this part of the world, and from 1st January 2011 it will be even more attractive.

Which countries do you think provide the best development model for Mongolia?

We can learn a lot from countries like Canada. Canada is very similar to Mongolia in terms of its terrain, its extensive mineral resources, its sparse population, and its geopolitics.

Whatever wealth is created by the mining sector needs to be spent for the benefit of Mongolia, for example by creating employment opportunities, and then we must use these employment opportunities to create more wealth. We need to increase spending on education, and to re-model our educational system after those of countries like Canada.

Would it be fair to say that the major challenge for the government in the coming years will be managing the Mongolian people's expectations regarding the benefits of the mining sector?

I think our first task is to make sure that we get projects

up and running, and then to ensure that those projects are well managed and properly developed.

The wealth that is generated by the mining sector really needs to be spread as widely as possible throughout society. This government's intention is to make sure that the wealth generated reaches every citizen. In this we can learn from the experiences of other countries in spreading wealth equitably, on areas like education and health; this will depend on our political parties, who I believe will work very hard to make good their commitments in this regard.

The election promises that were made must be kept. Parties should work to earn the trust of the people. There are social requirements and promises that have been made. We certainly need to uphold these values. The trust that has been placed upon the parties and on the electoral system is very important. This is a democratic country and the core value of a democratic society is the trust between the citizens and the government. The whole notion of democratic government is that the government is elected by the people. And the election promises that were made cannot be easily thrown out. It should not easily be thrown out. Parties should work to earn the trust of the people. This is the backbone of a democratic society.

Will you be setting up a sovereign wealth fund?

We have already done so. It is called the Human Development Fund. The Fund is planned as an institution to work for decades and has several objectives. The first of these is to make good the two parties' election promises to the people. But the idea is to go beyond that. Mongolia stands to earn a lot in the coming years from mining and the Fund is meant to save the money, and use it productively to build wealth for future generations instead of just spending it on welfare programmes.

There are 500,000 people who are not enrolled in any social and health insurance scheme. They are the most vulnerable group in the country and have no provision for the future. This number includes students, people working in non-official sectors, and herders. The draft seeks to incorporate them in insurance schemes.

The draft is also meant to protect Mongolia from what is known as the Dutch disease, an economic condition that, in its broadest sense, refers to the negative consequences arising from large, sudden increases in a country's income. The Government's share of profits

from strategic mines will be put into this fund, which will have a special status under the law.

All citizens of Mongolia, present and future, will have an equal share in the fund during their lifetime. There will be no discrimination and even Mongolians living abroad will get a share. But nobody will be allowed to sell, mortgage, transfer or will away the share. Once the fund is set up it will be an important part of the State budget. There can then be discussions on how to spend the money, and whether some of it will be paid out in cash, for example. The fund will also receive royalty payments from mines, and the dividends to the Government from its share in them. Mining and infrastructure are important but more important is the development of health, education, social insurance, and a place to live. The money in the fund will be invested in these. If Parliament, the Government and political parties show unity of purpose, and allow the fund to realize its potential, Mongolia will prosper in a way undreamt of. A part of the money in the fund would be invested abroad but the returns will be placed in the fund itself and not diverted anywhere else.

What specifically would you like from the UK?

The UK is one of the leading global financial centres. And money is always at the forefront of business. We are involved with some of the UK's major companies and financial institutions, among them PriceWaterhouseCoopers, Rio Tinto, and the EBRD – which is one of the largest, possibly the largest, investor in Mongolia. The EBRD has invested in mining, in services, in financial services, and even in Coca Cola bottling. Our message to the United Kingdom is that some of the biggest institutions are already in Mongolia and the country is now a very attractive and accepted market.

Are you looking to establish closer ties with UK educational institutions?

The Minister of Education has recently been looking at how schools in Mongolia can work with overseas institutions. We already work with Singapore to certify our educational institutions. More and more schools are being certified in this way. The government's policy is to make sure that the calibre is raised as high as possible: the education sector is one of the areas that the Government is focusing on.

How would you assess the impact of the global crisis on Mongolia?

You have to look at it realistically: for a couple of years at least we'll have to suffer the worst of the recession. That said; Mongolia has been one of the countries where economic stabilisation has been rapid and efficient. We have adjusted our budget sharply; we have been able to ensure that the policy measures that


needed to be put in place to face the global recession have been put in place. Of course much remains to be done. Still, 2010 and 2011 will be crucial, particularly in terms of how we try to manage the larger opportunities provided by mining projects.

The Mongolian economy is stable: first of all, we are on the right track in terms of our policies. Secondly, we have a vision of what we need to do not only in terms of ensuring the stability of the current environment, but also where we need to go as a country in terms of human development. And thirdly, in general, we have a very wide spectrum of support. Mongolia is an open, democratic country and we have proven over the last 20 years to be one of the most stable democracies in this part of the world. We consider ourselves a successful democratic country. For the past twenty years we have been holding free and fair elections, multi-party elections. And we certainly need to uphold these values. The trust that has been put into the parties and into the electoral system is very important. We're thinking in terms of business, and making sure that Mongolia is even more attractive to investors.

How would you assess Mongolia's geopolitical risk profile?

Well I think we have shown over the last two decades that Mongolia has a very straightforward and friendly relationship with everyone, including our neighbours to the north and south. This continuing stability and continuity of our policies has been one of the clearest features of Mongolia.

Have you any further thoughts for our readers?

I'm very much encouraged by the way Rio Tinto is looking at Mongolia. It is one of the largest investors in Mongolia and we certainly hope that their example will attract more investors to come here. 

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Shaft #1 building at the Oyu Tolgoi copper project of Ivanhoe Mines Mongolia Inc

