

Increasingly in the spotlight

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Thanks in part to its geographic remoteness, but largely due to its political stability and economic progress - widespread press coverage is all too often a reflection of instability and poverty - Mongolia has garnered little international attention over the last two decades. But now this Central Asian giant is increasingly the focus of intense interest. Following the 800th anniversary of the founding of the Great Mongolian State by Genghis Khan in 2006, the country can celebrate two decades of democracy precisely at the moment when its economy is poised to build on the benefits of its vast, and still mainly untapped, mineral resources.

The last 20 years have seen the growth of a real grassroots democracy in Mongolia, one of the few countries with a Soviet legacy that has seen opposition parties succeed each other in power through free elections several times. After adopting a new constitution in 1992 that embraces the 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 an open door for private initiatives.

The coalition administration led by the People's Revolutionary Party, which won a large majority in the June 2008 elections, has made the development of Mongolia's mineral resources a priority. One of the first things it did after taking office last year was to cut corporate taxes from 68 per cent to 30 per cent. The new administration's consensus-based approach has seen Parliament revoke four 2006 mining laws in August this year, paving the way for the signing in October of an agreement to develop the vast Oyu Tolgoi copper and gold mine. Analysts say that on the back of this, next year will see other large mining agreements with international players, most notably the Tavan Tolgoi coal mine deposit.

Mongolia's economic performance indicates the country's vast potential. Average GDP growth has been around 7 per cent over the last decade, while the economy grew by 9 per cent on average during the past three years and per capita GDP increased from US\$871 million in 2005 to US\$1,970 million in 2008. Over the last decade, Mongolia has made good progress in a number of structural reform areas, including price and trade liberalisation as well as privatisation. The banking system has grown in size and financial regulation has improved, says the European

Bank for Reconstruction (EBRD). Economic growth has primarily been driven by agriculture, services, and of course, increasingly by mining. Mongolia is experiencing a boom in its mining sector that brings new opportunities as well as major risks. While boosting the economy, market forces have increased the disparity between the living standards of rural and urban populations. There is a widening income gap between haves and have-nots. Up to a third of the population lives below the poverty line.

The new government has stated that it intends to use mining revenue to tackle poverty by diversifying the economy and extending infrastructure. President Elbegdorj has called on Parliament to press ahead with institutional reforms enhancing the investment climate, changing the tax system and administration, saying that a change in laws and regulations that can curb and eventually entirely eliminate corruption are essential to the increase of output and efficient implementation of finances. "Eradicating corruption lies in demolishing the source from which it breeds, which is the lack of transparency and accountability in transactions," said the President recently. Sitting squarely between Russia and China, Mongolia's economy remains tied to its two giant neighbours. Trade integration with neighbouring nations remains difficult due to transportation issues, although once they are resolved, it will be in a better position to benefit from membership of the World Trade Organisation, which it joined in 1997.

The global financial crisis did not affect Mongolia up through the middle of 2008, however the country is now facing an economic downturn. While the Mongolian banking sector is not exposed to external financing, conditions deteriorated during 2008 and the banking sector could face challenges in terms of its capitalisation and consolidation. The new Government has responded quickly to these difficulties, deciding to guarantee bank deposits and approving a US\$1.1 billion economic stimulus plan in March. Subsequently, the government agreed with the IMF a US\$229 million stand-by arrangement. The EBRD says that assuming the fiscal stimulus is effective and the major investment agreements materialise, the country may be back on the road towards robust and stable economic expansion.

Mongolia is a country of great strategic importance because of both its location and its successful transition toward democracy and prosperity. Twenty years of increasingly closer integration into the world economy is worthy of a real celebration. **F**