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INVESTMENT DEVELOPMENTS and OPPORTUNITIES in MONGOLIA



In This Issue:

Mongolia's Wolf Economy Comes in from the Cold

Governance Key in Unlocking Mongolia's Massive Wealth

What if the Wolf Snarls? Mongolia's Macro-Economic Risks

Putting the Wolf to Work. Reform in the Mongolian Economy

Investment Developments and Opportunities in Mongolia

Mongolia, a large country three times the size of France, but with a population of under three million, may not be on the investment radar for many. However, new found mineral wealth has the potential to transform this tiny, landlocked, Northeast Asian economy into a global commodities giant. From a GDP of just US\$6 billion in 2010, Mongolia has the potential to become a new Qatar, Norway or South Africa if it can unlock the treasures it possesses and turn them to productive use. The problems however in doing so are huge. The country lacks institutions and infrastructure, and the specter of despotic regimes, rampant inflation and massive corruption are all waiting in the wings to derail the potential. In this special report we demonstrate just how Mongolia is poised to become a global player in commodities and the first port of call for manufacturers, the potential problems, solutions and the risks and opportunities the new Mongolia provides.



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With best wishes,

cai

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Mongolia's Wolf Economy Comes in from the Cold

The investment opportunities are all about mining, minerals, and entrepreneurial adventures

The main focus of what is going to be a decade of massive change for the Mongolian economy is going to be mining. In fact, the massive reserves that the nation possesses are such that there is talk of a “mining mania” and serious concern about how this young nation can cope with the implications this natural bonanza will bring.

At this year's Mongolia Economic Forum, the focus was on governance and how to manage this transition. That the transition is going to come as a jolt is understating it. Even now, Mongolia's largest export sector is agriculture – mainly cashmere wool and animal by-products. Mainly sourced – still rather archaically from the nomadic herders – this industry supports hundreds of thousands of Mongolians scattered across all corners of a country the size of Western Europe. Yet a strengthening currency and Chinese competitiveness is squeezing even this most basic of industries. This comes as bad news for the Mongolian nomads who still make up 50 percent of this ancient, yet fiercely proud country.

Yet despite the mining industry being an apparent savior, the global mining multinationals and Mongolia have not always seen eye-to-eye. Mongolians revere their land, and polluting it runs against strong local Buddhist and shamanistic beliefs that can die hard here. The Ulaan Baatar government, for example, turned down a lucrative proposal to develop a premium Japanese-funded golf course just outside the city when they found out that chemical fertilizers were needed to cultivate the grass. It's hard to imagine that stoicism in China, where even pristine land can be treated as a convenient dumping ground for toxic waste. Plans for a casino too, to attract Chinese gamblers, were eventually



aborted after it was deemed to be contrary to Mongolian Buddhist principles.

Certain mining operators, meanwhile, have also taken advantage of the country in the past. In a notorious case that shut down foreign investment in mining here for close to a decade, one well-known operator negotiated a 100 percent profit tax breaks for five years in order to allow them to recoup the investment on the equipment needed for extraction. What was supposed to be a project with a 20-year life span and 15 years of tax revenues for the government was then cleaned out in 4 years and 10 months. The Mongolians, quite understandably, felt they had been raped.

However, Mongolia itself does not possess the technology, skills or manpower to mine its own resources. While a careful rapprochement of sorts has been made with some operators, Mongolia has been treading slowly, eager to learn from past mistakes and to take time of

their understanding of the implications of exploiting their natural resources. That hasn't stopped some impressive reserves being put into operation, and Mongolia has learned a lot from these initial ventures. But, in what may come as a shock to the international mining community, the Mongolian President, Tsakhiagiin Elbegdorj, has indicated that mining in the country would be under Mongolian standards, and that the entire mining industry would need to change much of its current operational practices in order to be in the country. Specifically, he stated that amendments to the Minerals Law in Mongolia will be changed to better regulate the industry and to define the principles of responsible mining. For an industry often used to getting its own way, it is somewhat ironic that it has taken the nomads of Mongolia to stand up, and with their massive reserves, dictate terms. The outcome will be interesting to observe, and you can bet there will be some squealing from the mining community as concerns the inevitable

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