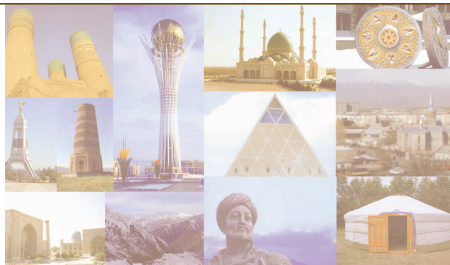


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MONGOLIA

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Highlights

The past few months were full of activities focusing on the accelerated development of Mongolia with the newly formed government, following the parliamentary elections held in Mongolia in June 2008.

After the general elections, Mongolia held local elections on October 12. These resulted in local election ballots having to be recast in some Ulaanbaatar districts, where the election results were invalidated owing to less than 50 percent voter turnout. More than 50 per cent of the electorate in Bayanzurkh, Songinokhairkhan and Chingeltei districts did not turn out to vote.

When and how the second election will take place is a matter that is still under discussion. In accordance with Mongolia's election law, a new date must be set 14 days before the second election. In the aimags or first level administrative subdivisions (provinces) and districts where voter turnout was high enough to validate election results, candidates for the governing Mongolian People's Revolutionary Party (MPRP) won a majority of seats. The main opposition Democratic Party only won four out of 21 aimags and districts, with only with the Dornogobi and Sukhbaatar jurisdictions electing large majorities for the party. In some districts, disputes continue.

Economy and business

The global financial crisis is also affecting the Mongolian economy. High inflation rates are pushing up the prices of consumer goods, petrol and the overall cost of living in Mongolia. The fall of copper prices on the world market has made a major impact on the economy of a country whose main export

products - copper and other mineral resources - generate most of the country's revenues.

Economic figures

According to statistics for the year to September, the general government budget showed an overall balance surplus of 3.1bn togrogs. Real economic growth reached 9.6 percent in 2008. Industrial output rose 1.6 percent, with a 7.7-fold increase in mining and quarrying, collection, purification and distribution of water, electricity, thermal energy, steam, manufacture of food products etc.

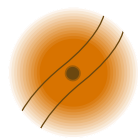
In September 2008, national consumer prices increased by 0.5 percent compared with the previous month, by 24.6 percent in comparison with the end of previous year and by 32.2 percent in comparison with the same period in 2007. The prices of housing, heating and electricity rose 8.4 percent compared with the previous month, these being the major contributors to the 0.5 percent increase in the overall index. Mongolia is therefore striving to curb its dependence on imported oil and oil products.

At the end of September 2008, the number of registered unemployed had fallen 1.6 percent compared with the same period in 2007. A number of 33,200 registered unemployed persons obtained jobs, of whom 13.5 percent in government or state-owned enterprises and the remaining 86.5 percent in companies, cooperatives and other types of outfit, such as small scale private businesses.

Foreign trade

The government of Mongolia has presented a market overview for 2008, which has been submitted to parliament for discussion. According to government forecasts, by the end of the year Mongolia's foreign trade will increase by 37.5 percent in comparison

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with last year, representing an increase of US\$1.54bn. Mongolia is trading with 108 countries worldwide and exports raw materials to 64. Total exports will increase 28.3 percent by the end of 2008. Mongolia's exports break down as follows: 64 percent to China, 7.2 percent to USA and 6.7 percent to Canada.

The establishment of an oil processing plant in Mongolia is under discussion. At the meeting of the prime ministers of the Shanghai Cooperation Organization (SCO) in Astana, Kazakhstan, Mongolian Prime Minister S. Bayar agreed to import 1.5 million tons of crude oil from Kazakhstan to reduce the country's dependence on oil imported from Russia. At the same time, China agreed to export 10,000 tons of oil to Mongolia over the next five years.

Economic development

The Mongolian government, in association with the World Bank, organized an Economic Policy Conference in Ulaanbaatar. The aim of the conference was to engage well-known policymakers from the rest of the world with those in Mongolia in finding ways to address Mongolia's development challenges. The two sessions revolved around managing a resource rich economy, and Mongolia's development in the context of its next stage of growth. Since Mongolia is rich in mining resources, improving government management of its mining industry is a major goal.

The Mongolian Parliament is presently discussing the State budget and the Mongolian Government guidelines for 2008-2012, which include plans to:

- accelerate the development of the mining sector, which involves renewing the legal environment and starting exploration of large strategically important mines;
- develop the industrialization program in rural areas using local raw materials to support the development of SME's;

- develop agriculture and fully supply and produce local food;
- develop vocational training education and the health sector; and
- promote good governance and develop the PPP mechanism.

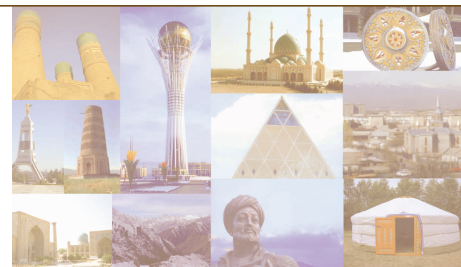
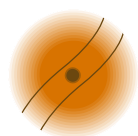
The successful implementation of governmental policy therefore hinges on creating a favourable or enabling business environment, which is vital for the growth of the economy since the private sector is producing more than 70 percent of GDP.

In its capacity as the main representative body of the Mongolian business community, the Mongolian National Chamber of Commerce and Industry (MNCCI) drafted an "industrialization map" of Mongolia, backed by the government, the main political parties and the local administrations in rural areas. Meanwhile, the MNCCI and the government have jointly implemented a number of reforms, such as the tax and social insurance reform, which has been a resounding success.

Cooperation with the European Union

Cooperation between Mongolia and the European Community is developing in different fields. Last September the Mongolia-EC Joint Committee Meeting took place in Ulaanbaatar, with representatives from both sides expressing interests and sharing opinions concerning current cooperation targeting the development of the Mongolian economy. In accordance with its foreign policy concept, Mongolia considers the European Union as one of its third neighbours, with whom it aims to develop mutually beneficial friendly relations. The political dialogue between Mongolia and European countries is on a sound footing, and the two parties have agreed to enrich economic, trade, cultural, educational and investment cooperation.

The EC is in the process of implementing several



projects focusing on the development of different sectors of the economy. The implementation of these projects is being channelled through the MNCCI, representing the private sector, and whose activity is attracting all businesses, including those in rural areas. Mongolia has been eligible to the European Union's GSP+ new market access incentive scheme since 2005, translating into preferential duty-free entry for 7,200 products originating in Mongolia. It is therefore crucial that Mongolian businesses produce high quality products that meet European requirements and high-level standards. In addition to mineral resources, Mongolia boasts numerous organic products that could be exported to European countries. It is to this end that the EC is financing different projects in the context of the "ASIA INVEST" program:

1. *Alliance - Support to Mongolia's agriculture associations in the sustainable development of geographical indications.* This project is designed to strengthen the capacity of Mongolia Business intermediary associations to develop successful Geographical Indications (GIs), and to improve the quality of Mongolian agricultural products through the introduction of European Best Practices along the agro-food chain to the agriculture associations and chambers.

2. *Capacity Building of Mongolian and Inner Mongolian (Chinese) Energy Service Companies (ESCO).* This project is geared to reinforcing the private sector for new ESCO business development opportunities, contributing to the gradual improvement of Mongolian and Inner Mongolian SMEs' production efficiency and environmental performance, contributing and promoting the Asia Invest program in Mongolia and Inner Mongolia, China, facilitating the Asia-wide principle of the Asia Invest program, and enhancing foreign direct investment prospects,

3. *TECHFOOD.* This project concerns food safety and food packaging and food processing technologies. It is designed to strengthen mutual trade and investment flows between the regions and foster the development of the target sector in project partner countries, to identify strengths and weaknesses of the relevant economic sector, to improve the competitiveness of SME's, to establish networking and cooperation links among sectoral associations and public institutions in EU and Asian project partner countries, in order to exchange best practices, develop common strategies and promote joint initiatives.

4. *ECOPROFIT for sustainable Mongolian entrepreneurship.* The aim of this project is to train and upgrade technical and commercial skills within the industry of Ulaanbaatar. A number of representative enterprises from the tanning, food processing, textile and tourism sector will be coached in respect of sustainability orientated management practices and the ECOPROFIT approach. This will lead to environmental improvements and enhance the economic performance of the targeted enterprises, as well as engendering a common understanding of the European model of environmental and economic management standards. Important fundamentals for technology transfer and matchmaking activities between European and Mongolian companies.

5. *Asian Tours.* This project is designed to support Mongolian tour operators in developing new products for European tourists and helping them out with human resource development, organizing study tours and sharing country-branding experiences.

Mongolia is a country with huge potential that will undoubtedly achieve excellent results on the basis of good governance and management.

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