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No397

D.Jargalsaikhan

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Pension insurance should retire

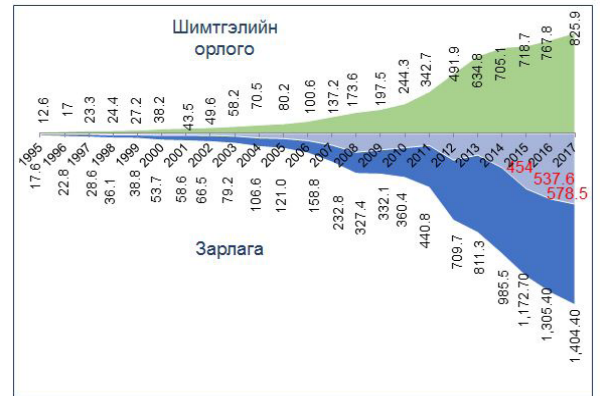
Seventy five years ago Mongolia started work to protect its people from poverty and inequality. Since then our population has grown by almost 500 per cent, and social care kept expanding to its current state – a large system incorporating insurance and care. However, this system is not delivering on its objective to safeguard society from poverty, and has been ineffective in reducing poverty levels.

Today social care comprises one fourth of the public budget, and has seen a consistent increase in spending every year. It is now stifling the expenditure dedicated to creating value and developing the economy. We see inefficient management of deposits in social care funds. Extremely populist policies have created a social care system that exceeds our economic capabilities, which hiked the budget deficit and put the government in debt. When the government increases the rates of many kinds of taxes, the private sector is being discouraged from creating jobs.

And poverty levels are not going down because Mongolians are unable to find employment.

Our government policy, which is intended to protect society from poverty, has now ended up shackling our economic development, instead of complementing it. Let's have a look at pension insurance as an example.

Тэтгэврийн даатгалын сангийн орлого, зарлага (тэрбум ₮, 1995-2017) (ХНХЯ-аас)



(Graph 1)

Revenue and expenditure are distant from each other

Mongolia's insurance scheme today consists of five types of mandatory and non-mandatory insurances: pension insurance, benefit insurance, health insurance, insurance against employment injury and occupational diseases, and unemployment insurance. The total revenue from these insurances, excluding deductibles and including budget subsidies, reached 1.8 trillion MNT (7.6 per cent of GDP), and the expenditures were 1.7 trillion MNT (7.2 per cent of GDP) in 2016.

Last year 80 per cent (1.4 trillion MNT) of total expenditure was comprised by the pension fund. The deductibles from pension insurance reached 825 billion MNT, and its 578 billion MNT gap (40 per cent of expendi-

ture) was made up by the government. There is no other source than the public budget to pay for the pensions of people who retired before 1995, military retirees, and additional pensions (Graph 1).

In 2016, Mongolia's population was 3.1 million, 2.1 million of which were of working age. Only half of them participate in pension insurance. Approximately 800,000 of those who participated in the scheme were on a mandatory basis, meaning that their salary is automatically deducted. These made up 93 per cent of total revenue from deductibles. The remaining 7 per cent was covered by those who paid for insurance on a voluntary basis.

A total of 372,000 people received pensions in 2016, and 70 per cent (~268,000 people) were elders. The rest were disability or loss of breadwinner pensions. Furthermore, the government viewed that it was impossible to determine how many years a person spent working and how much salary they had before the democratic revolution.

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ХУВААРЬТ ЗАСВАР
ҮЙЛЧИЛГЭЭ ҮНЭГҮЙ

ҮЙЛДЭВЭРИЙН БАТАЛГАА:
3 жил буюу 60,000 км / 5 жил 100,000 км

УРЬДЧИЛГАА:
0-50%

ХУГАЦАА:
60 сар

ҮНДСЭН ҮНЭ: 174,000,000₮

ХАСЛИЗИНГ

FORD EXPEDITION	20% ХУГАЦАА	30%	40%	50%
УРЬДЧИЛГАА %/	34,800,000₮	52,200,000₮	69,600,000₮	87,000,000₮
САРЫН ТӨЛӨЛТ	4,355,473₮	3,296,000₮	2,754,000₮	2,295,000₮



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On this basis, the government added 10 years to the working years of almost 20 thousand people. This is the reason for the sudden 500 per cent increase in persons receiving pensions compared to 2014.

Since the 1995 reform in pension insurance, it has become impossible to implement the policy to use revenue to cover the expenditure of the fund. The pension insurance subsidy from the public budget has been increasing, and is expected to continue rising. The Ministry of Labor and Social Protection has projected that the pension fund deficit will reach 12 per cent of GDP in the long term if this trend is maintained.

As the average age of population rises, there are more and more pensioners in the population. In 2013, there were 4 pensioners per 10 people who are insured, and the ministry expects the number to rise to 7 in 2030, and even 9 later on.

Deductibles and livelihood

Although 12 per cent of Mongolia's population is receiving some kind of pension, 20 per cent are still living in poverty. If we say two people are dependent on one pensioner, 800,000 people, which is 25 per cent of our population, are living dependent on pension income. Nevertheless, the income people get from their pension can barely help them meet their basic needs, let alone assist others.

In 2016, Mongolia's minimum livelihood guarantee was 170,000 MNT, and the average pension stood at 300,000 MNT, whereas the International Labor Organization estimated the average salary at 415 USD. This shows that the average pension equals one third of average salary.

Pension insurance should retire

Legally, old age pensions become eligible for those who paid pension insurance deductibles for 20 or more years. When determining the amount, 20 years turn into 45 per cent with an additional 1.5 per cent for the number of years a person has paid the deductibles after working 20 years.

Mongolia's average life expectancy reached 69.1 years in 2014 – an increase of 5.9 years from 2000. The average life expectancy was 65.4 years for males, and 75 years for females. The Ministry of Labor and Social Protection estimates that a male who retired in 2013 would receive a pension for 15 years, while this would extend to 15.8 years and 16.2 years if they retired in 2020 and 2030 respectively. Females, who were 55 years old in 2013 and retired, would receive a pension for 23 years. If females retire in 2020 and 2030, they would receive a pension for 23.5 and 24.6 years respectively.

If you look at the time period of how long a person has been paying pension insurance, it comes to 25.6 years for males, and 26.1 years for females.

This means (according to the Ministry of Labor and Social Protection) males are receiving a pension for 15 years after paying deductibles for 25.6 years, and females are receiving a pension for 23 years after paying deductibles for 26 years. The active and inactive durations are getting closer for females, which is increasing the pressure on the amount of pension and expenditures of the insurance fund.

Insurance receivers who were born after 1960 have been opening artificial accounts starting from 2000, where paid deductibles are registered every month. As of 2014, 1.1 million insurance receivers opened accounts for pension insurance deductibles, and artificially registered total deductibles of 6.9 trillion MNT. But, in fact, 73 per cent of these people paid deductibles for less than five years.

Policy to reform

Unless the pension insurance policy and scheme are reformed, Mongolia's pension insurance will soon go bankrupt. It is time to retire the already dysfunctional pension insurance, and re-organize it completely.

While the age structure of our population is favourable, we need to reform the pension scheme, optimise the estimation of insurance deductibles, pension ages, and pension amounts, and transition into a multi-layered system.

Also, the scope of pension insurance needs to be expanded, so that herders and those who work in non-formal sectors are covered. Although the required legal environment is already there, the current system has only 9.1 per cent of 261,700 herders included in the pension insurance scheme. We need to make sure that our elders are at least receiving the same amount they paid for deductibles in the form of pensions, and ensure fair distribution in society. If we manage to do so, the future expenditure of care funds will be reduced. It is time to start reducing the pension fund deficit, turn the fund's revenue into financial investments, estimate its yields when estimating pension, and move the pension fund into a semi-accumulation system.

Also, when people in specific sectors are receiving significantly more salary than the national average, demand has risen to acquire additional pension insurance in order to ensure their future income. Some banks have established private pension funds as leverage to retain their employees. There is a need to guarantee the right of high income insurance receivers to participate in additional private pension insurances, regulate the private pension fund sector, and develop the legal environment to protect against risks.

2017.09.20

Translated by Amar.B

DEFACTO INTERVIEW

I think political culture is a big challenge, particularly in that the parties don't define themselves around policy or ideology



*Julian Dierkes
Associate professor at the University of British Columbia*

Defacto: Let's start by hearing about your recent work here in Mongolia.

Julian Dierkes: I've been here almost three weeks. First I had a trip to Arkhangai and then to the Gobi. We had a workshop here sponsored by the Canadian International Resources and Development Institute (CIRDI) that focused on young professionals and the role of the state in mining and governance, which included Mongolians and also participants from Kyrgyzstan and Afghanistan. So I had been working on that--and then the presidential election happened.

Defacto: What was your impression of the election?

Julian Dierkes: Surprised, right? I don't think either of us expected the result. I think there's some happy news—or news that makes me happy. For example, I think Mongolians asserted themselves again like they did with last year's parliamentary elections. It's a good sign for democracy when people who are frustrated with the choices that they were offered can

make a different choice. Turnout was similar to past elections; people participated. And that's essential for democracy. So that part is good.

Defacto: Your observation is important because you have been following what's going on in Mongolia for quite some time. You have visited many times. Please tell us your connection to Mongolia. How did you become interested in Mongolia?

Julian Dierkes: I grew up in West Berlin. When we visited East Berlin it was mandatory to change our money into East Berlin currency, but there wasn't very much to buy in socialist times other than book, which we often bought. At some point I picked up the first book that Galsan Chinaa wrote in German. Of course he's Tuvan, which makes him Mongolian, but a little bit different. Anyway, he's a wonderful writer in German, and I very much liked his books and followed him. But I soon became very interested in Japan and learned Japanese, and spent some time in university in Japan.

I didn't really have a chance to act on my Mongolian interests until I took

the Trans-Siberian Railway from Beijing to Berlin in 1991. That was the first time I was in Ulaanbaatar—for 10 minutes. I moved to Canada in 2002, and in 2003 Ivanhoe made its discoveries at Oyu-Tolgoi, which showed up in the local newspaper in part because Canada is so involved in mining financing. Then in 2004, Mongolian President Bagabandi came to Canada on a state visit, and visited our university. That finally gave me a chance to visit Mongolia on behalf of our university to see whether there could be connections to universities here. I fell in love with Mongolia, and I've been coming a lot since then.

Defacto: You study the political developments in Mongolia very closely. You are one of the authorities in Canada—actually in the Western World—that really understands Mongolia. As you write regularly on Mongolian issues, what do you think about the current challenges it's now facing?

Julian Dierkes: I should say upfront that I really believe in Mongolia's potential. That's what keeps my interest going. Mongolians are open to the world; they are energetic. There's so many good things going on here. Some areas haven't worked out so well yet, but I always think that success is near. So my basic assumption is positive and optimistic about Mongolia.

That being said, I distinguish different risks: long-term, medium-term, short-term. I would always say the long-term outlook for Mongolia is positive. What happens along the way is a little less clear? For example, I think that the issue of corruption must be addressed. It's a terrible scourge on Mongolia. It prevents success in so many areas for so many people. So one of the really big questions is how will corruption be dealt with? This obviously contributes to the perception of

risk, to the timing of when events might occur. How much of an upheaval might be associated with addressing corruption?

Similarly, I think political culture is a big challenge, particularly in that the parties don't define themselves around policy or ideology. That really robs Mongolians of a chance to have very deep and fruitful discussions about the really important choices that have to be made. It's a difficult process to build a political culture where there's much more substance and clearer political choices. That, too, contributes to risk.

Defacto: During this past election, there was very little discussion about important issues. It was all very superficial. We still don't see substantial difference between the two largest political parties. They talk about the same things, and we see the same corruption. Do you think that is just what happens in developing countries? Is it an intrinsically Mongolian problem? What do you think?

Julian Dierkes: Certainly not. I don't subscribe to any intrinsic-culture theories. So I'd rule that out. Rather, I think it's been a long time since the democratic revolution, but the roots of Democratic Party are in the revolution. That revolution was primarily intended to establish democracy. The DP succeeded, but it didn't develop topics after that it wanted to pursue. There was no political decision about what the future for Mongolia would look like. Likewise, the MPRP—and then later they transformed into the MPP—has for the most part not developed that political vision either. So I think it's partly rooted in that original struggle.

A lot of parties in the world, whether in Europe or elsewhere, define themselves around big differences in society, and for the Mongolian parties that root principle was to have democracy or not. Democracy was achieved 25 years ago, but the next topic hasn't come yet. Economic development can only happen on the basis of mineral resources and mining. So the fact that decisions about mining have not produced big political differences is still surprising to me. There's no anti-mining party. There's no pro-mining party. And that's

what everything in Mongolia is about in many ways. There hasn't been that one political cleavage that has gelled into political differences and party differences. But I don't think that's a Mongolian challenge. I think it's partly a historical-institutional challenge, i.e. the origins of the parties. It's partly a challenge of patronage that the parties continue to be organized around a view of political office as an earning opportunity. That's terribly corrosive for democracy because if people think they're going to make money in a position, legitimately or not, then they run their campaign very differently.

Defacto: The state is something that doesn't create value necessarily. Rather, it mostly distributes values. The Nobel Prize-winning economist James Buchanan said that government has two functions: to be protective and to be productive. Protective only to those which the private sector cannot protect, like defense, etc. And so the state keeps increasing its role in the public sector, but there is little production, and people in power keep making money for themselves...

Julian Dierkes: It's interesting you say that, Jargal, because I think actually in some areas in Mongolia the state has an important, productive role. When I travelled in the countryside during the campaign, I tried to visit campaign workers to find out what voters were asking about. One of the things that I was always told is that they're asking about employment. But what does that mean in a soum center, for example, where there's only two kinds of employment? One kind is small businesses, which are primarily service. We all see these when we drive to the countryside: small buuz shops, the small grocery shops, the auto mechanics. The other kind of employment is the state: public administration, teachers, health workers. There really isn't much of a possibility of anything else in the rural areas because the markets are so tiny. But we also see that with issues like overgrazing, recurring dzud, and access to winter fodder, maybe those are areas where actually the state needs to be involved. But then in other areas you're absolutely right; sometimes

there's no need for the state to be involved and take a productive role.

Defacto: Yet the state has kept increasing state-owned enterprises, particularly in the mining sector. Tavan Tolgoi is a great example. It seems that whenever the state is involved nothing goes well. The CEO goes to prison. The company goes into debt. Maybe we should privatize all these companies. Is it possible? What do you think?

Julian Dierkes: I have a little bit of a different view in that the holdings that Erdenes Mongol has now as the stating holding company have produced a whole variety of different governance structures. From the fully-owned—Baganuur is an example. It's almost entirely owned, and actually operated, as a state company—to models such as Oyu Tolgoi where the state has a minority stake. The holdings for Erdenes Mongol are actually a small laboratory for what governance structures will work well in Mongolia.

I think it's important to consider how benefits from mining reach ordinary Mongolians. In some areas, maybe the state does need to be involved, for example in vocational training. In other ways, maybe vocational training can come from the companies themselves. But withdrawal of the state and privatization may not necessarily produce the kinds of benefits that Mongolians deserve.

Defacto: What do you think about the state holding 34% of strategicaly important deposits. I don't see this sort of arrangement in Australia or Canada with the government possessing shares. And 34% is not even a controlling share. What is your opinion? Is this the right way?

Julian Dierkes: It's hard to say. It was politically necessary. In the end, that's the decision that was made. I also think that the "right way" probably doesn't exist. If you look globally to places where resources play a big economic role, there are many challenges to policy makers, to investors, and to the public. In Canada, there's a longer history of a mining industry, but that's

▶ a constantly evolving relationship between investors and the public. There's no easy formula, there's no perfect model.

And this brings us back to our earlier discussion of the political culture. Such a discussion regarding the state's role in resource management is necessary in the political realm.

There are a number of benefits that can accrue from mining activities, and cash is the most flexible. It allows the greatest opportunity for democratic decisions about what to do with that cash. But that doesn't mean that taking an ownership stake is necessarily terrible. It can work. Different governance structures have different advantages and disadvantages. One of the disadvantages is what you mentioned about huge upfront investment in mining technology by the state, which means debt and a delay of revenue. But, at the same time, as we discussed with vocational education, having the state take an ownership stake can steer human resource development. Alternatively, Erdenes Mongol will in time develop vocational and environmental expertise, which will hopefully get passed along to the state and regulatory authorities who can then apply this knowledge to other projects. Maybe this can build capacity more effectively and efficiently than a purely financial model.

Defacto: Potentially, Mongolia could sell its 34% stake and deposit the money into a sovereign wealth fund. How do you see the role of a sovereign wealth fund?

Julian Dierkes: Another big challenge. I would also point to the Canadian experience. I'm from British Columbia, and our neighboring province Alberta produces oil. There has been a focus on oil sands for some years, but over the last several years the oil price declined. It turned out that very little of a sovereign wealth fund was built up. There were very little savings, as compared to the revenue the oil sands generated. So this is not a challenge that's unique to Mongolia at all.

The more that these discussions about mining, ownership stakes, and sovereign wealth funds would hap-

pen on a substantive basis, and the more that Mongolians understand the consequences of different decisions regarding those issues, the better the decisions would ultimately be. I think selling the 34% or reducing the stake are potential options, but only if there's a legitimate reason to do so, rather than just simply saying "Oh let's change this around". What happened with the Chinggis Bond is clearly not what you want to happen with money that's generated by selling a stake. It's produced more debt, sadly, than anything else.

Defacto: In your opinion, how can Mongolia improve economically despite now having so much foreign debt?

Julian Dierkes: That's what I would have liked to hear from the candidates during the presidential election. If there is more revenue, will the government pay back debt? Will the government invest it productively?

Defacto: With regard to this huge amount of foreign debt (including the multi-million dollar debt payments that will soon come due), we just don't have that kind of money right now or anytime soon. What are your thoughts on this debt burden and Mongolia's exit from it?

Julian Dierkes: It's likely going to be a series of bridge loans until revenues increase, though we don't really know whether they ever will.

Defacto: So, ideally, we should start saving now.

Julian Dierkes: Ideally, yes. Though I think a lot of the focus should be initially on paying off the debt, which is very unfortunate because it means no leeway for productive investment, or in other areas such as education, infrastructure, or diversification. But there are no funds for that because the debt is either going to demand all the money to pay it off, or demand all the money just to service it.

Defacto: Finally, a few questions about yourself. You are German, born in West Berlin. You studied abroad in the US. Now you are a professor in Canada. Tell us about

what you do now.

Julian Dierkes: Before I discovered Mongolia, I had been doing a lot of work on contemporary Japan, particularly Japanese education. I continue to be very interested in that. It's absolutely very different from the work I do here, but that's exciting to me. I like different topics. I teach in a public policy & global affairs program at the University of British Columbia.

Our university has the good fortune to have a strong and very interesting mining engineering program that attracts a lot of Mongolians. So I am fortunate to have a somewhat steady stream of Mongolian graduate students that allows me to do some of the things in Mongolia that I certainly couldn't do on my own. We have our Mongolia blog ("Mongolia Focus") that has been going for almost 6 years that is a lot of fun to work on and that I hope some people find interesting. The blog involves some of the graduate students, and a lot of Mongolians, as well. We are always looking for ways to raise interest in Mongolia in this context, and to see whether we can't expand that as a focus a bit more. At the same time, digital diplomacy is another interest that I pursue.

Defacto: Please expand a bit more on what you mean by "digital diplomacy".

Julian Dierkes: It deals with how to pursue the aims of diplomacy by digital means. For example, a social media presence for diplomatic activities is important for a country like Mongolia because your diplomatic service is relatively small. But you can use social media to leverage activities. And Mongolia was actually pretty good at this recently. Last year's Asia-Europe Meeting was a good example, where there was a strategy to promote knowledge about Mongolia. I think that was effective.

2017.08.30

This interview has been edited for space and clarity

Full interview available here:
<http://jargaldefacto.com/article/julian-dierkes-julian-dierkes>



By Dr Uyanga Delger,
attorney-at-law

The President, the Prime Minister and the Speaker of the Parliament are referred as “the three peaks of the state” (turiin gurban undurlug) in the popular Mongolian media by implying the idea that the President is on the top of the judiciary. This reference is a simplification of how the country is governed today. This column covers a brief introduction to the power relations within the Mongolian judiciary and an opinion on the draft constitutional amendment.

Judicial General Council of Mongolia

The principle of independence of judges is proclaimed in Article 49 of the Constitution of 1992. According to the Constitution, the Judicial General Council (JGC) is entrusted with the protection of the independence of judges and courts.

JGC is responsible for selection, recruitment, promotion and education of judges. Disciplinary measures against judges are undertaken by the Disciplinary Committee at JGC. Judges are dismissed on the recommendation of JGC.

JGC is not only involved in the appointment and disciplinary proceedings against judges as an ‘independent’ body but has extensive administrative and budget powers. Firstly, JGC organises the resources necessary for the administration and management of the courts and appoints the officials who are responsible for the administration of the courts. Secondly, JGC is authorised by law to determine the policy for reform of the judiciary and to present bills to the incumbents who have right to initiate legislation. Thirdly, JGC introduces the annual budget of the courts to the Parliament. Once the budget has been approved by Parliament, JGC administers and controls the budget of the courts.

JGC consists of five members. Three members are nominated by judges’ councils from first instance and appellate courts and the Supreme Court. The two other members are selected by the Bar Association of Mongolia and the Ministry of Justice. All five members are appointed by the President of Mongolia. The Chairman of the Council is

The Mongolian Judiciary: from Tiger’s to Lion’s mouth?

also appointed by the President of Mongolia.

The President of Mongolia

Over time, the presidency has evolved as de facto the Head of the Judiciary. The President has power to appoint judges on the recommendation of JGC. The current Law on Legal Status of Judges makes it clear that the President may reject JGC recommendations.

In addition to his extensive powers to appoint judges, including the Head of the Supreme Court and five members of JGC, including the Head of the JGC, the President is involved in dismissal of judges by approving recommendations of JGC. In this regard, there is a precedent, in that the President dismissed judges and attempts to overturn the Presidential decision remained unsuccessful (the dismissal of 13 judges and compulsory replacement of 34 judges the Presidential Decrees No. 198 and 199 of 2013).

In addition to his powers over the Judiciary, the President has powers to initiate legislation and to veto a parliamentary enactment. The President does not lead the executive branch of the Government, but he is elected directly by the people. In combination with the presidential powers to initiate legislation and to veto a parliamentary enactment, the popular mandate from the people gives the President a very powerful negotiating position when it comes to dealing with the Parliament. As a result, JGC is forced to rely on the Presidency, especially with respect to parliamentary approval of the annual budget of the courts. In the past, Mongolians have witnessed parliamentary debates on salary of judges, where the public image of judges was severely damaged. These debates mirror, in effect, the vulnerability of the judiciary to the pressures of special interest groups.

Draft constitutional amendment

Public debates on the draft constitutional amendment (Resolution No. 39 of 2 June 2017 of the State Great Khural) are currently being organised across the country.

The draft intends to limit the presidential powers to appoint judges. According to the draft, the appointment of judges of the Supreme Court, nominated

by JGC, requires an approval from the Parliament and the President is obliged to acknowledge the approval within 72 hours.

The Head of the Supreme Court is elected by his or her peers, and the judges of courts other than Supreme Court are nominated by JGC. In both cases, the President is obliged to acknowledge the election or nomination within 72 hours.

With respect to the draft constitutional amendment, increasing the number of members of JGC from five to eleven is currently under discussion.

Outlook

The draft constitutional amendment does not intend to correct the developments that have made the judiciary dependent on politicians. The judges of the Supreme Court will be appointed with approval of the Parliament. The presidential powers to appoint the judges of the Supreme Court will be shifted to the Parliament according to the draft.

There is a Mongolian expression: “one escapes from Tiger’s mouth and ends in the Lion’s mouth.” This destiny might be the case of the Mongolian Judiciary if the draft constitutional amendment is passed by Parliament.

Overall, the Mongolian system can only be understood with the background of the communist regime, where each Ministry was organised similarly to that of an individual company. From a continental European perspective, JGC is, therefore, unique. It has the powers of an independent body, i.e. powers related to appointment and disciplinary proceedings of judges. At the same time, it fulfils administrative and policy formulation roles similar to that of a Justice Ministry, and it has budget formation and financial administration powers similar to that of a Finance Ministry.

The current system is clearly vulnerable to abuse. Many scandals surrounding the Judiciary and the removal of judges by the former President of Mongolia are a reflection of this vulnerability. A new system of thinking is therefore necessary, bearing in mind that public trust of the courts, judges and the independence of the judiciary are essential to peace and prosperity.

DEFACTO REVIEW

Every Sunday live at 8PM on VTV: 24th September, 2017



CONSTRUCTION ON CHINA-MONGOLIA ECONOMIC ZONE

We start with the China-Mongolia Economic Zone, where construction is set to begin with a \$125 million agreement. The China 22MCC Group signed an agreement on Thursday for infrastructure programs with the municipal government of Erenhot, China's largest hub of cross-border trade with Mongolia. Under the agreement, the Chinese group is responsible for the construction of underground pipelines, office buildings, roads, and plants within the Chinese section of the zone. The total investment of the project is around 824 million CNY, or about \$125 million. Infrastructure construction will take more than two years to complete, after which China 22MCC Group will be the operator of the facilities for another 13 years.

Actually, there was an agreement between the two governments in 2015 to make this happen. Although it was not clear from the Chinese side who would run this whole thing--i.e. who will operate, who will invest? And this 22MMC Group is part of a large metallurgical corporation in China, which was founded in 1958. They have many metallurgical plants, and this one will be their 22nd--hence the name.

China is reducing its number of metallurgical plants due to envi-

ronmental concerns. So I think this company is looking for some diversification, as they've set up operations in Inner Mongolia. This company has a long history of infrastructure construction. And the good thing is that they've signed an agreement, which I think will force Mongolia to move faster. China and Mongolia agreed to develop 900-hectare zones on both sides of the border. There will be certain entrances which will allow for the free movement between the two zones. It will be huge, not only in terms of manufacturing plants, but also trading volume.

As I said, this is a product of earlier agreements last year in Tashkent involving the leaders of China, Russia, and Mongolia to further develop trading corridors through Mongolia, one of which passes through this economic zone. I hope this will also encourage Russia to move faster on its side. In mid-October the Mongolian and Russian governments will hold an annual meeting in Irkutsk during which they will likely discuss similar border arrangements. But the northern Russia border is a bit different from the southern China border. For example, the railway crosses the border at one location, while cars and trucks pass through a checkpoint at another location several kilometers away. This might necessitate two economic zones.

At the end of the day, this represents positive integration by

Mongolia in the regional economy, as Mongolia is looking to establish trade corridors with access to the ocean. This new economic zone in Erenhot is a good start.

China is Mongolia's largest economic partner. Indeed, one cannot imagine a Mongolian economy without China. This zone will give Mongolian companies a chance to be closer to Chinese markets. Logistics will be cheaper for them because China will remove the 6.5% customs rate. Mongolian companies will have more opportunities to export to China, and Chinese companies will be able to produce things on the Mongolian side (with Mongolian labor) and ship it back to China. This will lead to a greater concentration of labor in Mongolia's southern region, rather than in just Ulaanbaatar, and which will benefit other sectors as well, including tourism and service sectors.

Plus, this week a China-Mongolia expo will take place in Hohhot, the capital of Inner Mongolia. The economic zone agreement will likely feature prominently there. Inner Mongolia is growing quiet fast, and people will want goods from the new economic zone because those goods will have been produced more cheaply and because it's the only such zone in Inner Mongolia.

PRESIDENT SKIPS UN GENERAL ASSEMBLY

Mongolian President Battulga skipped the United Nations General Assembly meeting last week, saying he was needed at home while the country remains without a government. Acting-Foreign Affairs Minister Munkh-Orgil attended the meeting in the president's place, despite the fact that he is soon to be out of a job due to parliament voting out the government earlier this month. President Battulga said that there was no need for representatives to attend every session, and that he has given domestic matters a higher priority. The decision comes after President Battulga recently faced

criticism for his trip to Hungary where some accused him attending merely to watch a judo competition.

Well, I liked his argument when he said that he was staying in Mongolia because the nation was experiencing both political and economic crises. In comparison, Mr. Battulga's predecessor was known for his regular attendance at UN and Davos meetings. And whenever he traveled, at least 10 additional people traveled with him, and they all needed accommodations (usually at high-end hotels, lest the president project an image of poverty).

I don't think every president from every country needs to attend every UN session. However, for a relatively small country like Mongolia, it's important to go to places where each country's leaders come together, so we have the opportunity to meet many leaders in one location.

It's a matter of being selective, of prioritizing. For example, President Battulga recently met with the head of the UNDP in Mongolia, Ms. Beate Trankmann, who is coordinating all UN work here. Together, they have agreed to focus on five issues, including unemployment, poverty, the environment, children, and air pollution. So, in fact, the president is working with the United Nations, but in a more direct, local manner.

Russian President Vladimir Putin said that he would not attend the UN meeting either. Given that President Battulga's decision came shortly after President Putin's, can we say that President Battulga is attempting to align himself more closely with Russia?

I don't think so. Not every UN session discusses issues that require every country's leader to attend. Nor should we compare our president

with the presidents of global powers. It makes no sense. Mongolia is the most independent country precisely because no one is depending on Mongolia.

That being said, Mongolia should aspire to develop alongside our two neighbors, Russia and China, as well as our "third neighbors". But there will be other chances for Mongolia's president to meet with other leaders.

MONGOLIAN STOCK EXCHANGE TOPS 2 TRILLION TUGRUGS

According to Reuters new agency, a boom in the coal trade has elevated the Mongolian Stock Exchange's benchmark stock index, and sent market capitalization to over 2 trillion MNT (\$812 million), which is a 5-year high. Coal miners in Mongolia are set to increase production based on improved market conditions. Coal exports, however, may face challenges in the coming months, as bottlenecks at Chinese border crossings slow trade.

North Korea sanctions, for one. China was importing a lot of coal--particularly "brown" coal--from North Korea, but stopped due to sanctions imposed after North Korea's recent nuclear tests. Now China has switched to Mongolia's brown coal, which is transported by train through the Sainshand border crossing. The Tavan Tolgoi coal deposit, on the other hand, is still linked to China by road, and transported by trucks. And two or three months ago, the line of trucks waiting at the border there was 30-40 kilometers long; now it's 160 kilometers long. Drivers are spending almost 2 weeks in their trucks, waiting to cross. This is, of course,

unacceptable.

In the past, there were four gates open on the Chinese side, which were allowing as many as 1500 vehicles to cross per day. Now two of those gates have closed, and the number of vehicles permitted to cross has dropped to only 600. So hopefully we can connect this crossing with rail, thus bypassing the bottlenecks. But we just don't have the money right now.

As for Tavan Tolgoi, the company's share price has increased five times in the past year. And shares in APU, the liquor producer, increased 50% in the last few months.

And those two, combined, account for almost half of the increased market capitalization.

That's why we cannot say the market capitalization will continue to increase, because the general conditions of the economy have not improved as much. APU's increase is related to its recent merger with Heineken's Mongolia operations.

Furthermore, what does a capitalization of 2 trillion tugrugs actually mean? The whole Mongolian economy is 28 trillion tugrugs, or about \$11.4 billion. That's a small economy, and 2 trillion MNT is only 7% of GDP. Compare the 7% capital market with the money market, which is 95% of GDP. Obviously, we need to develop our capital markets more.

For example, can we have more Mongolian companies make an IPO? Right now, there are only 227 companies listed on the Mongolian Stock Exchange (MSE).

This review has been edited for space and clarity

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