

# The Defacto Gazette

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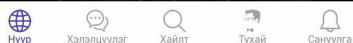
BILINGUAL WEEKLY ANALYTICAL NEWSPAPER No. 21 | TUESDAY, 2017.11.21 | VISIT [WWW.DEFACTO.MN](http://WWW.DEFACTO.MN)

## Sovereign Wealth Funds

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No405

D. Jargalsaikhan

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## Brass budget

In the new century, the Mongolian parliament has adopted an abnormal habit. The primary duty of our parliament is supposed to be passing laws and making sure that the executive branch ensures implementation. However, our parliament now constantly changes the very same laws they passed in the first place, which has allowed the government to self regulate and decide on their own what to do and when. Our government today prepares their own amendments to the law, and have their desired legislation approved by the parliament. This would be one of the 'advantages' that the 'double deal' (incumbent MPs holding ministerial positions) offers.

A clear example is the law on public budget. Under the name of budget amendments, the authorities have been repeatedly redistributing public funds. The term of our government averages six months, and expenditures have been on the rise given the public budget is amended two or three times a year.

### Parliament Speaker who turns the law into brass

The laws must be a set of golden rules that everyone has to adhere to. But our government has already passed a special law that would allow them to turn these golden rules into brass laws. Gold and brass look similar on the outside, but are completely different when it comes to quality. If you think of the initial law the parliament passed on public budget as a golden rule, the amended versions would have the quality of brass. This is the habit our parliament has taken up.

The law requires the public budget for next year to be finalized and approved within 15 November this year. Racing against this deadline, MPs have spent the recent days in frenzy, trying to pass the second amendment to the 2017 public budget, and approve the 2018 budget. The parliament already expects the 2018 budget to be amended, so MPs have been trying to pass a raw budget for next year and looking to increase public expenditures after the 15th passes, claiming that they are making amendments.

The key reason for the budget amendment this time appears to be that budget revenue 'exceeded' its previously set expectation by 500 billion MNT. This would come from

increased coal exports and revenue collected through taxes. The public budget is then amended to reflect it because the government did not establish a fund that would collect this type of additional revenue to make up for deficits later on. Chile, Norway, Botswana, and other countries whose budget revenues depend on commodity prices each have a Sovereign Wealth Fund for this purpose. Our authorities are not keen on setting up such a fund because spending additional revenue is more beneficial for them. If we had a similar fund, we would never face the need to make amendments to the public budget. All it would take would be a set of legal regulations on the fund.

### Government extravagancy with loans

If a person is strangled by debt and has entered a situation where they have to raise another loan to pay off previous debts, their top priority would be reducing the amount of debts, even if they made little profit, and saving interest payment costs. Governments do the same by buying back their bonds and reducing pressure on budget expenditure. However, there is not a single person in our government and parliament who is raising this issue. Instead of paying off debts and decreasing deficits, they keep increasing public spending. Our government debt has grown as big as 76.1 per cent of GDP, and our budget deficit has reached 2.7 trillion MNT (8.6 per cent of GDP). In these circumstances our MPs are deciding to use the additional revenue of 500 billion MNT to increase spending rather than reducing debts. This shows how disconnected the authorities are from our economic reality, and how weak their understanding is on how the public budget works.

The 2018 public budget was approved yesterday (14 November 2017) with revenue of 7.2 trillion MNT (23.8 per cent of GDP) and expenditure of 9.6 trillion MNT (31.8 per cent of GDP), which puts the deficit at 2.4 trillion MNT (8 per cent of GDP). However, every MP is well aware that this budget will be amended once or twice and it will result in increased spending. If they become short of cash, they will repeat the habit and borrow more.

When the government is issuing bonds with fancy names to settle previous debts, they are increasing the total debt by one or two hundred million USD each time. Our interest payment has increased, and the term has been extended. However, we haven't yet paid off a single dollar of our external debt. The authorities have not reported on where the previous loan money went, but are confusing the people by positioning additional loans as a magnificent feat.

More loans and bigger interest rates mean weakened tugrugs. We – the people – pay for these loans not only through taxes but also due to increased prices. It is time for us to see this clearly and demand that the public budget can no longer be amended time and time again.





## DEFACTO INTERVIEW

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Nathalie Von Rittersberg



Natacha Troubetzkoï

Natacha Troubetzkoï (NT) and Nathalie Von Rittersberg (NvR), Princesses Troubetzkoï

**Defacto:** Welcome to Mongolia. You came at the invitation of a group who is producing Rossini's "Cinderella" for its 200 anniversary. It will be the first time that the opera will be performed in its entirety in Mongolia. But before we discuss that, let's talk about your family a bit.

**NT:** I was born in Switzerland, as my mother is Swiss and my father descended from the Troubetzkon family. He was born in France, because at the time of the Russian Revolution, my family had to leave Russia. It was my grandfather who left Russia, and who lost his Russian citizenship as a result. But he obtained an Argentinian passport. There are many lines of the Troubetzkon Family, about which books have been published to keep track. But these days I work in a bank, but I am also a writer.

**NvR:** I was born in France, because, like Natacha's family, my grandfather left Russia during the Revolution. He moved to France, and obtained French citizenship. He and my grandmother had five children, of whom my father was the eldest. My family and Natacha's family represent two branches of the Troubetzkon family tree. Today I am an abstract Impressionist painter. I am here working with the set design

for "Cinderella" at the request of my friend Ayana Sambuu.

**Defacto:** At the time of the Revolution, there were a number of Russian aristocratic families who fled abroad, primarily to France. Can you tell us about your families at that time? What was the situation like?

**NvR:** My grandfather had, unfortunately, lost everything. He moved to Lorraine, France, where there was a lot of industry and therefore job opportunities. There he rebuilt his life and started a family.

My father made a point when we were growing up not to talk about the family. He wanted us to be strong, independent, and to be ourselves and find our own place in society. Only when we were older did we learn about the history of the family. But my father stressed independence: get an education, get a job, be a productive member of society.

**Defacto:** When you learned about your family's aristocratic history, did your life, or your thoughts about life, change in any way?

**NvR:** I felt...sadness. Great sadness. Because I understood what my family had endured and what they had

lost. When you decide to leave your country—that is, when it's a choice—it's one thing. But when you are suddenly kicked out of your country, and you lose your family, that is the real tragedy. Forget about the money; you can always make money. To know that they had to build a new life that they had not chosen made me feel extremely sad for them.

He wanted us to be strong, independent, and to be ourselves and find our own place in society

**NT:** My family had more of an international life at the time. My great-grandfather was a general for the tsar, and his duties sent him to Rome where he met my future great-grandmother and her family, who were from Argentina. My great-grandmother was a soprano who sang for Queen Margherita. After they got married, they would split their time between St. Petersburg and Rome. When they fled Russia, the Argentine family connections helped, and they were able to obtain Argentine passports. After the Revolution, as I said, the family settled in Paris, and my grandfather married a Frenchwoman. He had to adapt to French culture, as well as religion. For example, my father was raised both Catholic and Orthodox. But I was aware of my family's past from a young age. After all, I had to write my name in French at school. But my father always told us to be humble and work for a living. Nobility of title is not important. Nobility of heart is most important.

**Defacto:** Let's now turn to your current occupations.

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► **NT:** I am currently working on my second book. It's about a family in the south of France who lost their son due to medical errors. But I began wiring for a number of reasons.

For example, I volunteer for an organization in Switzerland that works with victims of sexual violence. I was approached to write a story about a particular family tragedy.

**NvR:** As I mentioned, I am an artist. I have been doing art since I was very little. My first piece was a portrait of myself, which I had painted on the wall of my family's living room. My mother was none too pleased. I was five years old, but I still remember having to clean it all up.

You came at the invitation of a group who is producing Rossini's "Cinderella" for its 200 anniversary. It will be the first time that the opera will be performed in its entirety in Mongolia,

**Defacto:** *Nathalie, you are working on the Cinderella production. What made you decide to work on that?*

**NvR:** Actually, it's a beautiful story. In 2014, Ayana stopped by an art exhibition that I had in Rome, and she saw my paintings. We did not know each other before then, and we didn't even meet during the exhibition. A year later, she called me and introduced herself. She said, "I've seen your paintings. You paint love and fairytales. I have this idea to produce and direct La Cenerentola by Rossini. Your paintings reflect Cinderella. Would you be interested to collaborate with me on this opera?" I said yes, absolutely, because of Ayana. She is someone with a pure heart. She is a real artist. She is honest and incredibly talented.

I said yes, absolutely, because of Ayana. She is someone with a pure heart. She is a real artist. She is honest and incredibly talented

The project was so interesting because she said we would bring young opera singers from Mongolia to study opera

in Italy. Sponsoring youth in such an endeavor is important, because they are our future. This aspect was really interesting.

**Defacto:** *Of course we have all seen the movie Cinderella. But now you are even deeper. What motivated you?*

**NvR:** For me, the story of Cinderella is a reflection of a modern woman. She comes from a very difficult background. She lost everything: her mother, her father. She found herself with a stepmother who hates her, and stepsisters who don't like her either. There are similarities to our own lives. From nothing she is able to lift herself up and regain her dignity in society. This is a reflection that touches deeply.

I felt...sadness. Great sadness. Because I understood what my family had endured and what they had lost. When you decide to leave your country—that is, when it's a choice—it's one thing. But when you are suddenly kicked out of your country, and you lose your family, that is the real tragedy. Forget about the money; you can always make money. To know that they had to build a new life that they had not chosen made me feel extremely sad for them,

**Defacto:** *Mongolia has only three million people today, but even back in the 1950s we were performing opera and ballet. So the classics resonate with us. I wonder what your thoughts are being here in Mongolia.*

**NT:** It's our first time here. It's wonderful, but also different. We have to learn from Mongolia. The people here are so strong. There's a strong history. The landscapes are beautiful. It's very inspiring.

**NvR:** Yes, as artist, we are very very inspired. But we haven't had much time to travel around because of our work. We've even working since day one.

**Defacto:** *I hope you have a chance to see more. Ours is a steppe culture, and I think our temperament comes from that. When faced with problems, we have a saying, "Be as wide as the steppe". I hope you continue to find inspiration here. What are your plans for afterward.*

**NT:** Inspiration certainly. In my second novel, there is a character with Mongolian blood.

**NvR:** Because of Ayana Sambuu. Ayana made a very strong impact on us.

**Defacto:** *This young lady decided on her own to become an opera singer. She achieved it. It's not easy to go to Europe and become a successful singer.*

**NvR:** Yes, she travels to Italy, the cradle of opera, and becomes a wonderful singer. The level of Italian opera is the highest in the world. Can you imagine? It's just incredible. We are in awe of her achievements.

**Defacto:** *I hope your work together here can serve as an inspiration for young people—especially young girls—to be determined and work hard for their goals*

2017.11.08

**This interview has been edited for space and clarity**

Full interview available here:  
<http://jargaldefacto.com/article/nata-sha-trubetskoi-ba-natalya-saworski-won-rit-ersberg>





Christopher Melville  
Registered foreign lawyer (England)

## One Belt, One Road, No Rail

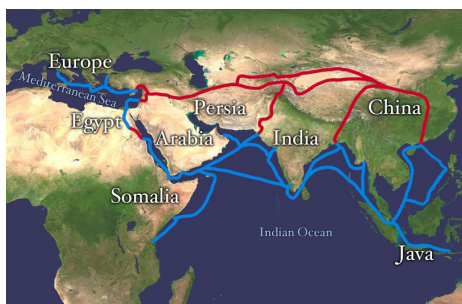
It is difficult to imagine the sheer scale of the Chinese government's "One Belt, One Road" policy, and it is equally difficult to imagine the huge problems and 'black economy' surrounding the reported 100km tailback of minerals through the border points with China. One presents a carrot and the other a stick. How can these issues be navigated by the Mongolian authorities?

### OBOR

OBOR, which dates back to an initiative proposed in autumn of 2013, is divided into two main elements: (1) the "Silk Road Economic Belt" and (2) the "21st Century Maritime Silk Road". Ostensibly, the aim is to promote economic connectivity and cooperation between China and Eurasia. However, the scope of the policy goes far beyond re-creation of the historic silk road trading route. China's ambitious plans extend right through Central Asia into the Persian Gulf and the Mediterranean. The policy also looks to extend economic influence to East Africa and includes the concept of a China-Pakistan economic corridor.

The anticipated cumulative investment from OBOR is between 4 and 8 trillion US dollars – a quite incredible amount.

Figure 1 below, gives some indication of the scope of the initiative.



### OBOR's objectives and implementation

OBOR aims to be the world's largest platform for economic cooperation, including policy, trade, financing and social and cultural cooperation. Ultimately, it therefore aims far beyond just the completion of key infrastructure projects in the Eurasian region. However, the initial phases of OBOR have a clear emphasis on energy and transportation projects.

Of course, China has already made significant inroads into the infrastructure space in former CIS countries over the past 10 years, at a time when Russian influence has been almost non-existent – this can be seen in Tajikistan and Kazakhstan, and it will be interesting to see how it develops in Uzbekistan following the recent

political changes there. It is difficult for Russia, vilified on a daily basis in the Western media, and sanctioned by the EU and US, to compete with Chinese influence in these former satellites. There are two main financing sources that have been created for implementation of OBOR. The first is the Asian Infrastructure Investment Bank, set up as alternative to prominent Western IFIs such as IFC, World Bank and EBRD. As of 2015, over US\$ 160 billion of projects were in planning or construction by AIIB, including gas infrastructure and distribution in Bangladesh, urban development in Indonesia, a gas pipeline in Azerbaijan, port and railway projects in Oman, transport and hydropower projects in Pakistan, and transport improvement projects in Tajikistan. It is perhaps noteworthy that a number of projects are aimed at improving infrastructure in neighbours of India.

The second source of finance is the Silk Road Fund, a US\$40 billion investment fund, intended to develop projects through equity participation rather than debt financing. Its first project was to support the Karot Hydropower Station in Pakistan, although some projects in Mongolia have been under discussion.

### Implications of OBOR

Clearly OBOR has the potential to be transformative across the Eurasian region and would have the effect of increasing Chinese economic and political influence beyond a level that is already significant. Most of the early infrastructure projects are based around Bangladesh and Pakistan, which clearly from a geopolitical perspective would increase Chinese influence over India on its very doorstep.

Mongolia's involvement in OBOR at this stage is not well defined, albeit that it is a member of the AIIB. For now, the only concrete aspect of the initiative that impacts Mongolia is the "China-Mongolia-Russia" economic corridor.

This is primarily a focus on logistics and transport. At a basic level, it is a high-speed rail link connecting Moscow and Beijing. However, the 'economic corridor' concept stands in stark contrast to the issues currently plaguing Mongolian coal and copper producers who are struggling to get their products across the border at a time when commodity prices are finally in their favour.

In addition, when negotiating the US\$40 billion gas pipeline projects in 2015 with Gazprom, the concept of a corridor through Mongolia was rejected by both neighbours, in favour of routes around the edges.

### China in the media

While not an immediate concern for Mongolia, it is hard to avoid the conclusion that China is the new darling of the Western media. From being a "green champion" to being hailed as the leader of the new world, media outlets around the world are praising the communist government and its policies. This may just be anti-Trump rhetoric in light of climate change scepticism, or genuine widespread admiration for the strategic vision of OBOR itself, but in an increasingly post-democratic world, China may be inducing jealousy from the West because it has no real accountability to its population. In any event, this attitude to China from mainstream media is a tendency that Mongolia should pay attention to.

### What is to be done?

While there are no specifically identified OBOR projects impacting Mongolia at present, the AIIB and the SRF of course represent highly attractive potential sources of project finance in future.

In immediate terms, regardless of the benefits (to some) of the black economy surrounding the logjam at the border, it is absolutely imperative that Mongolia pushes forward with the completion of the rail link to Gashuunsukhait. In addition, this 267km element of the network needs to be de-linked from mining rights over Tavan Tolgoi and the remainder of the 5,000km railway project in order to be successfully implemented, following the abortive Shenhua transaction in 2015.

As is customary, geopolitics is unavoidable. Mongolia needs to finish the short railway line to the border by any means possible, using available sources of finance, and only then focus on the viability of the remaining network. The infighting and corruption allegations that have troubled this short section of track need to be dispensed with in favour of implementation.

While it will not solve the border issues as such, the current competitive advantage to the nation as a whole demands its completion without domestic or international political interference. While border issues are seemingly at odds with the 'economic corridor' concept, it is important for Mongolia to complete this step and promote its exports on a more reasonable footing.

OBOR is very much an opportunity for the future and its emphasis is not on Mongolia, but rather aimed at developing a much broader regional influence. Mongolia needs to 'double down' on its third neighbour policy to get the immediate job done.



## DEFACTO REVIEW

Every Sunday live at 8PM on VTV: 19th November, 2017

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### MORE GROWTH, LESS DEBT

**Presenter:** Parliament approved the 2018 State Budget this week, predicting higher growth and less debt with more tax revenue coming to the government's coffers.

The budget predicts 4.2% growth for next year, compared with last year's 1 percent, according to GoGo News. It also predicts a 9.5% cut in the deficit in 2018 from this year. The minister of finance said he expected more activity on the stock exchange, lower interest rates from banks, more fiscal stability, and an additional 607 billion MNT in tax revenue.

The government agreed to some tax hikes as part of the International Monetary Fund's \$5.5 billion economic bailout to protect the tugrug's foreign-exchange value and relief debt pressures. Past budgets have been overly optimistic in revenue and debt predictions. Is this more of the same?

**Defacto:** The budget for 2018 had to be approved by 15 November, so government was in a bit of a hurry because they know that they can just send it sometime down the road if necessary. The important issue is not that they have approved the budget. Rather, why did they have to amend the budget again for 2017? The answer is that they received 500 billion MNT more than planned. So this additional revenue had to be redistributed. My concern is that the Mongolian government have another reason to redistribute because it is a new government and they want to quickly make good on promises.

Ideally, we would immediately put this 500 billion MNT toward paying off foreign

debt. It would ease our interest payment rate. But no one is talking about buying back any bond debt. Mongolia is not reversing its debt. Quite the opposite. We keep paying off old debt with new debt. Moreover, if the tugrug continues to weaken, it likewise weakens our ability to pay off foreign debt in hard currency. The 2018 budget is optimistic because the government has recently raised another bond, the Gerege Bond.

Regarding coal exports, Mongolia exports less than was planned. Next year's prospects are similarly measured. This means less money is coming to the government, so the government must rely more on taxation to supplement revenue. We will see what happens. But one thing is certain, the government will approve the 2017 amendments, as well as the 2018 budget. Whether the 2018 budget will get amended depends on how long this government will last.

Tomorrow (Monday) the MPP will hold its congress for two days. If they elect the current prime minister as the head of the party, I think this government will survive. If it doesn't, the budget will get amended again.

**Presenter:** What are the government's top fiscal priorities right now?

**Defacto:** Well, likely how to distribute 500 billion MNT to their constituents. If Mongolia had a proper sovereign wealth fund, then there would be no need to amend the budget. If you received more money than planned, then it would automatically go into the fund. Later, if the government received less revenue than expected, the fund would serve as a sup-

plement.

**Presenter:** What challenges must Mongolia still overcome?

**Defacto:** The problem remains the diversification of the economy—or lack thereof. We could achieve this through competition. But unfortunately this is not the case. We continue to have more and more state-owned companies, particularly in mining, getting into more and more debt. And when those companies cannot pay their debts, the money comes from the state budget. When the government borrows heavily and at high interest rates, banks don't give any money to the economy. Instead, they buy government bonds.

The Mongolian economy should focus on diversifying into other sectors like, for example, the IT sector, which does not rely on China. As we well know trade with China can be volatile, as evidenced by the closing of border crossings and the backup of trucks at the border.

### BORDER JAM

**Presenter:** This week Thomson Reuters spotlighted the thousands of heavy-duty trucks laden with coal that are inching along a cluttered highway in the Gobi desert toward the Chinese border. The journey can take more than a week, with truckers cooking, eating, and sleeping in their vehicles. The long delays at the Gashuun Sukhait-Gants Mod crossing, the main transit point between China and Mongolia, is undercutting gains made in the coal market as fleets of trucks carrying coal from Gobi desert mines to China pile up at the border. What is the cause of all of this?

**Defacto:** The initial explanation by China was that smugglers we illegally transporting goods across the border. And so they redirected traffic into one long line. Then China closed two of the four border gates which further restricted traffic flow. Mongolia will have to make a principled choice. Does Mongolia pursue a line of non-antagonism toward China in order to ensure smooth operations at the border? We have seen here and elsewhere



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the consequences of doing things China doesn't approve of. China has the power to affect Mongolia's economy, for better or worse.

We need to think of supporting new start-ups that don't rely on location. We need to take advantage of the telecommunications revolution. We need to start more IT training for our young people in schools, as well as training our teachers.

**Presenter:** Do you think the government's efforts are going to resolve this issue?

**Defacto:** I understand that China expects our president to visit sometime. But I don't see that happening soon. After his first trip to Russia, he would ideally go to China next to meet its leadership, if only as a courtesy. It's important for the relationship of both countries, especially when we have a new president who will be in that office for the next four years. At present, there are perceptions that President Battulga is overly focused on Russia, which could have negative ef-



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fects on our China relations. Once he does visit China, relations will hopefully improve.

## B.KHURTS UNDER SPOTLIGHT

**Presenter:** The head of the General Intelligence Agency (GIA), B. Khurts, has made strong accusations about public officials regarding a secret arms deal with North Korea as he stands for parliamentary review for his appointment of ambassador to South Korea.

Khurts had been head of Mongolia's intelligence agency since 2013. His name made headlines in 2011 when he was extradited from London and sent to German prison to face murder charges from a Mongolian family living there who say Khurts is responsible for the death of their father. The former spy is now being closely examined as he's up for the ambassador's post. News.mn reported that during his questioning by parliament's Standing Committee for Security and Foreign Policy, Khurts fought back by accusing former Economic Minister B. Bold of selling arms to North Korea for \$300,000. The session was adjourned with no decision yet on his appointment.

**Defacto:** Mr. Bold was defense minister, and, upon accusation, immediately denied any wrongdoing. He instead insisted that it was an attempt by previous officials. The question is as always, who is telling the truth.

Before he is to be appointed ambassador, a parliamentary hearing on this case is to take place openly and publically, which is good for democracy. But this also represents the moral degradation of our politicians. If Mr. Khurts is correct, then these people are criminals. If the counter argument is correct, then Mr. Khurts is a liar. The open hearing will give Mr. Khurts an opportunity to speak publically about whatever he knows, free from the restrictions of his previous job at the GIA. When it's all over, he will either be going to Korea or to prison.

And once again, this kind of openness benefits democracy because it will allow voters to be more informed in order to make better decisions at the next election. But another important issue is whether our justice system can handle this. There are doubts about this. Recently all police department chiefs were replaced at the request of the new president. When the justice system completely changes when the presidency changes, it's difficult to believe that justice will prevail. Remember a few months ago

the spying allegations regarding the deputy prime minister? Even now we have no further information. So I am concerned that the same thing will happen after Mr. Khurts' case. The justice system should tell us who was right and who was wrong. An interesting side note: His successor at the GIA was himself previously the ambassador to Korea. So they could end up just switching jobs.

## SUMO SCANDAL

**Presenter:** Mongolian sumo grand champion Harumafuji on Tuesday apologized for injuring a fellow wrestler who media said suffered a fractured skull after being hit with a beer bottle in the latest scandal to engulf the closed, hierarchical sumo society, Reuters reported. Harumafuji, 33, hit Takanoiwa on the head last month at a party of sumo wrestlers from Mongolia, public broadcaster NHK quoted unnamed sources affiliated with the Japan Sumo Association as saying. The stable master has already reported the incident to police, Kyodo news agency said. It was not immediately clear if Harumafuji would be charged. What do you think about this story?

**Defacto:** Mongolian sumo wrestlers have been dominating that sport for almost 20 years now. This serves as a bad example to young Mongolian sumo fans. And we will have lost respect among the Japanese.

It's a sad story, but typical. We Mongolians are a proud people, perhaps more quick to anger than the Japanese. In Japan, whatever the altercation, both sides are penalized by up to three months prison time. Whomever is shown to be at fault will receive additional penalties. In that way, by law, Japanese seldom fight. In Mongolia, not so much.

As former nomads, Mongolians now need to address problems through civility and discussion, not through fighting. This applies to society generally, as well as to politicians specifically. I always encourage informed debate among people. We need to learn to be more compassionate.

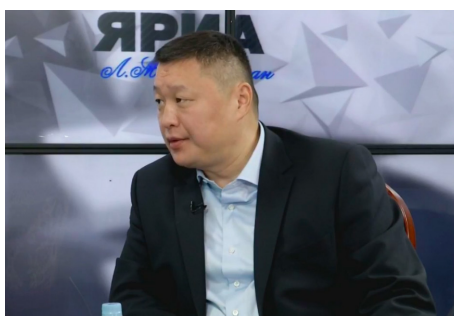


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