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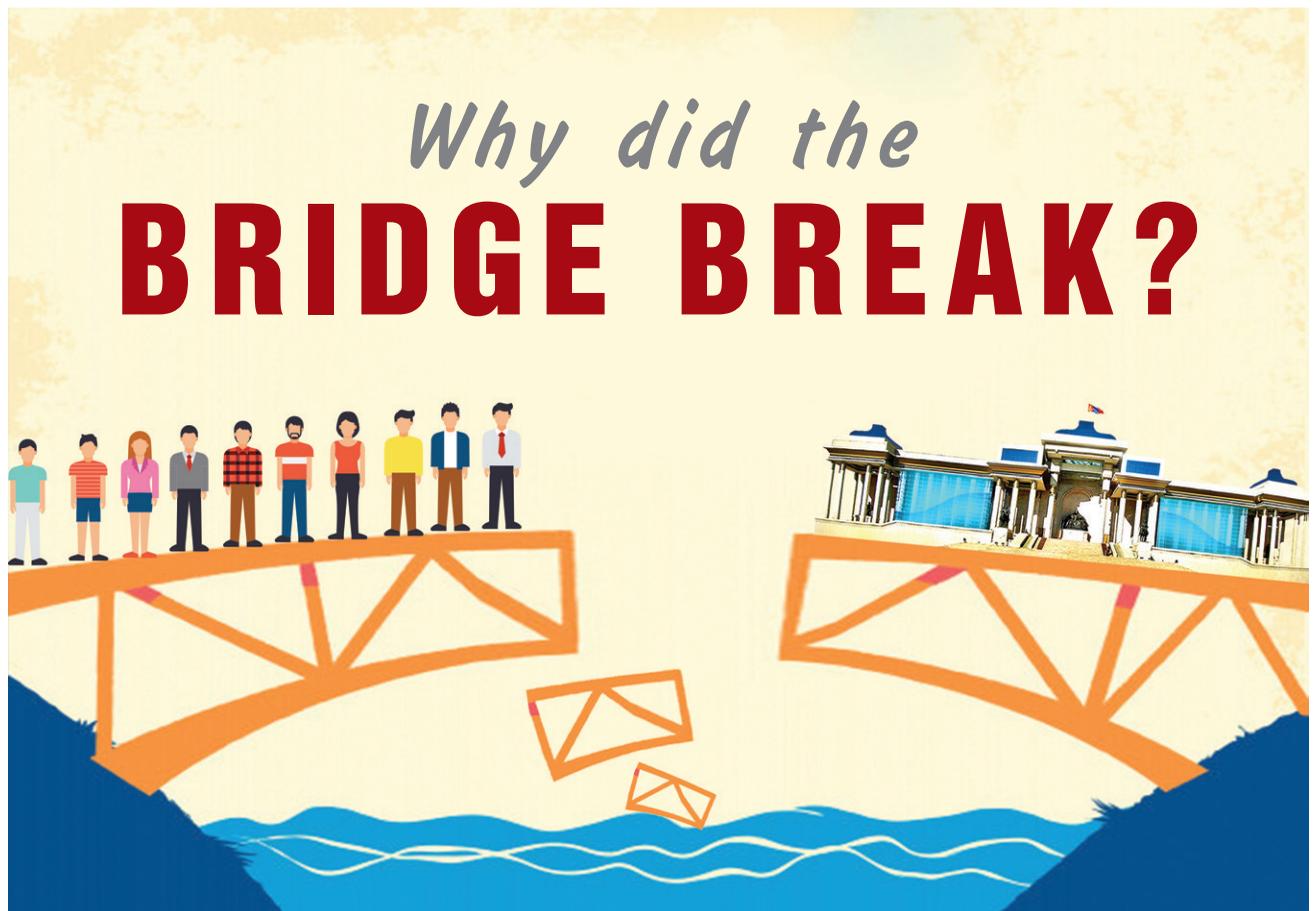
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JARGALSAIKHAN Dambadarjaa

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Why did the **BRIDGE BREAK?**

Mongolia is facing a parliamentary crisis, the origin of which traces back to the crisis in political parties. Today Mongolians are seeing the domino effect of how a crisis in political parties leads

to a decline in politics, economics, and society.

We have spent nearly thirty years talking about reforms and maturity of political parties, but there hasn't been a public debate or discussion to flesh out what it really means.

NOT MATURITY, BUT INSTITUTIONALISATION

Samuel Huntington first coined the term 'institutionalisation' in his book 'Political Order in Changing Societies'. He defined institutionalisation as the process by which political parties acquire stability and obtain common organisational values. When not institutionalised, political parties tend to lean too much towards polarised views and have less stability. This makes competition weaker and doesn't allow for the emergence of a credible opposition.

English scholar Fernando Casal Bertoa studied institutionalisation in political parties in the 1960s and established that, once political parties are institutionalised to a certain degree, democracy becomes an irreversible process.

Since 1990, Mongolia has been governed by two major political parties either on their own

or in a coalition with each other. However, the government has been replaced 16 times, which brings the average age of our government to 1.5 years. It is a clear indicator that our political parties are not institutionalised. Although Mongolia has room for a third political force, we haven't seen the emergence of any credible political party.

Mongolian political parties have been marked as 'semi-institutionalised' in the 2018 Internal Democracy Index of Political Parties produced by the DeFacto Institute. For example, the Democratic Party (DP) has branches that operate as if they were a completely separate entity. These branches hide information from each other, let alone share it. Our political parties don't produce financial reports. In order to comply with the law, they publish ►►

▶ specific information on their website, but take them down after a few days. There is not even a common set of standards or a model that political parties must comply with when disclosing their reports.

The Mongolian People's Party (MPP) criticises how the DP keeps replacing their own government when they are in power. But what

happened in the recent months shows that the 80-year-old MPP does exactly the same. The MPP and the DP both lack the capability to be an effective opposition. Citizen D. Enkhbat sent out a very accurate tweet saying 'If MPP is not doing a good job, it also means DP is not doing a good job. And, vice versa.' As a system, our political parties haven't been institutionalised.

NOT A GOVERNMENT ORGANISATION, BUT A REPRESENTATIVE ORGANISATION

What exactly constitutes a political party? A political party can be defined as a group of people who seek to obtain governing power, sharing a common set of values and policy ideas. The main duty of a political party lies in connecting people with the state – being the bridge between the two. Mongolians have viewed the two major political parties as that bridge for some time, but their faith is getting weaker and weaker. Our people have been increasingly distancing themselves from political parties out of dislike and disapproval. There are several reasons behind this trend.

First of all, Mongolian political parties have increasingly been funded from the public budget with various excuses and reasons. It may help reduce corruption, but it is also contributing to political parties become non-civic organisations. In other words, political parties are becoming less dependent on membership fees and donations from ordinary citizens.

Secondly, political parties are seeing their membership base go down. Previously political parties had a lot of members, which made them representative organisations. Today our two major parties both claim to have over 150,000 members, but the number of actual members stood at around 15,000 when the party leadership was contested.

The third reason is that political parties are out of touch with the times we are living in, so they are unable to be supported by anyone. Our political parties have become obsolete in everything that matters, including their structure, organisation, policy, and ideology. Especially in terms of structure, Mongolian political parties can't let go of their socialist mentality of having a single, dominant party that has a huge structure built on forced administration.

HOW CAN WE FIX THE BRIDGE?

First, Mongolia needs to review its political system in order to institutionalise the political party system. Fernando Casal Bertoa has shown that the semi-presidential system

affects political party institutionalism negatively. Mongolia's presidents have always been a major factor in creating and/or fuelling factional politics. These factions have ▶▶

▶ consistently been the triggers that are leading to the systematic collapse of political parties. Mongolia is supposed to be a parliamentary system, and the role of the President is supposed to be largely symbolic.

Secondly, internal democracy needs to be developed within political parties. In the last few years, every parliamentary session had the 'Law on Political Parties' on its agenda, but it has never been discussed. The reason is very simple. Our political parties are so heavily controlled by oligarch groups that they cannot even discuss this law. The law needs to be urgently discussed and passed, so that it would require political parties to work more closely with people and adopt a more flexible, smaller structure. Also, this law needs to specifically incorporate key functions of democracy, such as members' involvement, competition, transparency, and reporting. Mongolia even has a political party whose leadership hasn't been changed for 20 years.

Thirdly, our civic society needs to form and mature. In his book 'From Totalitarianism to Defective Democracy', Czech scholar Michal Klima wrote about how a political system based on clientelism has formed in post-communist countries due to political parties becoming controlled by their financiers. He concluded that the underlying reason was that the civic society didn't form or mature. Given they are a subset of the political system that has interconnections with other systems such as civic society and free press, political parties can't do reforms on their own.

Winston Churchill said 'Democracy is the worst form of Government except for all those other forms that have been tried from time to time.' Similarly, political parties may be the worst, but there is no democracy without political parties. Therefore, our challenge, perhaps a historic one, is how we can institutionalise our political parties and how we can create a stable, more compact system.

We cannot develop our country without overcoming this challenge.

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GARY HO
DIRECTOR OF SQW
CHINA LIMITED

WHILE THE ORIGINAL PURPOSE OF HALAL FOOD WAS RELIGIOUS, THERE IS A TREND IN RECENT YEARS FOR HALAL FOOD TO BE UTILIZED FOR ITS ORGANIC NATURE

Gary Ho is the CEO of SQW Limited China and holds an MA in Economics from the University of Oxford. He contributed to the master plan for the logistics and transportation of Tianjin and Beijing as well as for the science park at Guangzhou. Among the projects that he carried out to facilitate the development of industry and science in 15 South-East Asian countries was his contributions to the master plan on developing the transportation infrastructure at the Brunei-Malaysia border. He also participated in projects towards free trade and smart cities in Latin America. Gary Ho spearheaded the project establishing the Brunei-Guangzhou economic corridor as part of the One Belt, One Road initiative and worked as a privatization consultant to Margaret Thatcher's government.

Jargal Defacto: I understand you have been frequently travelling to Mongolia recently. Why is this the case?

Gary Ho: Because Mongolia as a country, has a lot of special advantages for investment and regional strategy positioning purposes. When I came to Mongolia, I went to Western Mongolia where there was a huge amount of agricultural, aquaculture and lateral resources which are in very high demand in the outside world.

JD: What do you mean by regional strategy positioning purposes as it pertains to agricultural resources in Western Mongolia?

GH: The agricultural products, including animal products are seen as of the highest quality, disease-free and organic and nature. There is a high demand for high quality food products globally and even if you look at plants such as medicinal plants or another highly valued plant, the climate in Western Mongolia and its extreme temperatures turn them into higher quality plants than those elsewhere in the world. The organic nature of the foods also makes them consistent with certain specific quality standards such as halal food.

JD: Please tell us a little bit about your company.

GH: SQW China is the serves as the headquarter for the Asia and Pacific operations of the SQW Group. It is a management consultancy and provides advice to governments and private companies. In the Asia and Pacific, we are a lot more active in foreign direct investment. We put together the investment plan and the investment required at the national level and the private sector level. We work heavily in the ASEAN region, particularly Brunei, an oil rich country. For the last 8 years, we have been helping the country diversify their single commodity economy into other sectors such as biotech and agriculture.

JD: What are the agricultural products of the Western provinces?

GH: The beef, lamb, and goat are of the highest quality. When I am working in the ASEAN region, in Brunei for example, we are working with the halal food standard. While the original purpose of halal food was religious, there is a trend in recent years for halal food to be utilized for its organic nature.

JD: As I understand, the only difference is in the manner in which the animal was slaughtered. Can you elaborate?

GH: You have to slaughter in a different way, following the Halal certification process which you have to audit regularly, and you also have to

feed the animal the right product. This makes the product organic in nature with a very high standard for human consumption. When your product is Halal certified, we consider it as high-quality food. As I look at Western Mongolia with this standard in mind, my eyes open up because it is a new area which has not really been exploited. If you go to the high mountain, you have the lake with good fish similar to trout in the rest of the world. The meat and milk of the goat in Western Mongolia is also of the highest quality. Certainly, the cattle, camel, yak and horse are also of high quality.

JD: How do you see an economy of scale being created in an extremely rural area with minimal infrastructure?

GH: When you look at the size of Western Mongolia, it is bigger than many European countries in geographical area. We look at our marketing research and investment program to allocate different industries to different provinces. Some areas will focus on the plant side and some on cattle but there is also the need for a number of regional processing facilities in each province. Therefore, each province will produce value added products and not export a meat carcass. We are looking at processing the product in order to create more economic value.

JD: In terms of meat, what would this entail?

GH: Possibly packed meat, smoked meat or canned food. If you think of Western Mongolia geographically, it is in the center of Central Asia and has a railroad link to Russia at Yarant and this is a very important linkup because it then connects to Xinjiang. Also, if we were to carry out a little more capital infrastructure investment, the location can link up to Chinese provinces like Gansu so the product can benefit from a high-speed rail down to the Southern part of China from where it can be exported to other parts of the world. This means that it will open up more choices for export in terms of logistics so you will not be solely relying on Eastern Mongolia.

JD: What are potential ports once the product reaches Southern China?

GH: There are different options, for example in Guangxi, there is a place called Qinzhou from where you can export to the ASEAN region and other parts of the world.

JD: So you are going to process the foods in a Halal manner?

GH: We can cater to both the Halal and non-Halal sides but I think the Halal procedure will provide more added value. We already recommended this to the Mongolian government, both regional and central to look into this and I think we received a very good response.

JD: What kind of requirements do you have for the regional government?

GH: The government needs to really support us and in collaborating with the local farmer because the geographical size is so big. We have to put together a system to help to the individual farmer raise their technological standards. This is in relation to how to collect the milk and meat and how to salvage the skin to turn into wool. The important think is to realize that there are thousands of if not tens of thousands of farmers in Western Mongolia. So, we are working with the regional government on how to get those farmers working with us. One concept I bring up is a co-op model which is very common in the Western world. It involves individual farmers coming together to form an organization. SQW can take the lead and we are providing a centralized Halal certification standard.

JD: How do you convince people to join this co-op model?

GH: Firstly, they can be a part of a bigger organization with centralized facilities to which they have access. Their product will be Halal certified together with the umbrella organization. The audits for all the farms shall be carried out at the same time and we have a centralized area for them to get the export, import information. It is even plausible that the co-op gets a large purchase order from an ASEAN country which it delegates to the individual farms which will have their products exported. I have to emphasize that our plan in Western Mongolia is for export, to earn hard currency and to maintain a good quality, continuous operation.

JD: This will not be easy in the sense that the nomadic lifestyle hinders the productivity of the farmer or herdsman.

GH: Thank you for raising this important point. The farmer can not improve their operation

without some form of capital. However, a minimal influx of capital can make a significant improvement to their operation. Our plan is that once we have the co-op there shall be a capital injunction through fundraising or through arrangements to create a microfinance scheme. This scheme will include both halal and non-halal activities because if you look at Islamic finance, that is another approach. Through the mechanism, the individual farmer gets help in improving their system. The other thing is developing a system for farmers to cultivate and get products in the winter.

JD: These plans will require a big investment.

GH: One thing which is good in Western Mongolia, land is not an issue as in other parts of the world. This will reduce some of the costs and if we strategically position in some area, we will create some central facilities to make this happen. We are still making the calculations on investment, but it would be viable

JD: How much initial investment do you think is required?

GH: I think it will be about 100 million USD and involves the processing facilities, centralized arbiter facilities and some certification standard procedure and so on.

JD: The process of making the feed suitable for animal consumption would also require infrastructure.

GH: You also have to avoid creating waste and rubbish that contaminate the environment, so the investment has to include a waste disposal system as well as a system of regenerating and using the waste. At a later stage, we are also looking at power supply like hydropower because Western Mongolia is full of water. When we look at this hydroelectric energy stage, we need the support of the government in terms of policy. Once the stage is complete, we create an aquaculture potential, increase the amount of irrigated land and produce the power requirement of perhaps, the entirety of Western Mongolia.

JD: This is a very comprehensive project indeed. Moving on, can you give an idea of free-economic zones given your wealth of experience with them?

GH: We are working on the bio-innovation

corridor in Brunei that is 500 hectares and has over 1 billion USD has been earmarked for its site development. Our UK office operates 25 science and technology parks and we also created the first science and technology park in Hong Kong over 20 years ago. Moreover, we are working in Southern China, in Guangzhou on their software park with its output now reaching 30 billion USD. This is the scale that we are talking about and if we develop something like that in Mongolia, it can create a very substantial economic activity. What is important is that the government works with suitable local and international investors do develop a clever strategic plan to make it happen.

JD: The government should not be a majority stakeholder.

GH: They should only give policy direction. One concern that I have is that the government should rely on a proven international example before they introduce a policy, but they should tailor those experiences to Mongolia because strategically, you are in a wonderful position in terms of natural resources and links to the rest of Asia.

JD: Can you talk about your involvement with Margaret Thatcher's privatization plan?

GH: We started working on this in the late 80s and we carried out a lot of activities such as the Channel 3 TV franchise. The Thatcher government was trying to introduce competition to the system, and we helped more than 10 companies in their new franchise bids, designing their policy. We also worked on the telecommunication policy and these are things that we keep working on. These experiences are also helping us help certain Chinese companies on their road to privatization and I hope that this experience can also be introduced into Mongolia.

JD: How many staff members do you employ?

GH: We employ 300 employees across the world and 15 shareholders.

*This interview originally aired in early January, 2019.
It has been edited here for space and clarity.
You can watch the full 30-minute interview at
www.jargaldefacto.com*

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TWO BUSINESSMEN ARRESTED IN CONNECTION TO CORRUPTION OF FORMER PRIME MINISTER



CH.DAVAANYAM



S.BAYAR



D.DORLIGJAV



T.GANBOLD



D.BAYASGALAN



On Friday, the anti-corruption agency temporarily detained two businessmen, one of which was the founder and shareholder of Petrovis LLC, the biggest petroleum importer in Mongolia.

Before I go into this case, I would like to point out that it is very hard to conduct business in Mongolia now, particularly in the mining, real estate and the banking sectors. When high ranking officials are pressuring businesses to an extent that it can be considered racketeering it creates an environment inconsistent with the conduct of business. While some of these infractions come to media attention, it gradually fades away for a variety of reasons. In Mongolia, businessmen and politicians are so intertwined that it is difficult to separate them leading to bad governance which in turn breeds corruption.

The arrests that we are discussing is connected to this, but we can't forget that, in 2017, the courts rendered a decision on only 46 of the 106 cases that the anti-corruption agency recommended for a judicial review. In 2018, only 84 of the 224 analogous cases were looked into by the courts. While it is the General Prosecutor's job to inform the public of why so many of the cases get ignored by the judiciary, he is silent on the issue. This leads me to suspect that business and politics in Mongolia are becoming increasingly connected especially considering occasional farcical arrest of politicians rarely lasting more than a month.

For example, former Prosecutor-General Mr. D.Dorligjav was arrested last week for allegedly extorting 10 million USD from Mr. T.Ganbold in order to disregard his criminal ventures. The alleged indiscretions involved the purchase of the Altan Dornod Mongol LLC gold mine from the Russians and Mr. T.Ganbold stated on live TV that he transferred 9 million USD to three different accounts. Mr. T.Ganbold further alleged that Mr. D.Bayasgalan, the CEO of Golomt Bank at the time was complicit in the affair raising the question of how the CEO of a commercial bank can facilitate the corruption efforts of politicians.

The case of Mr. Ch.Davaanyam relates to Petrovis LLC and its ownership of shares of the Mongolian Mining Corporation listed in the Hong Kong stock exchange. In 2010, Petrovis LLC owned 11.4% of its shares and when a dispute among the three main shareholders led to the division of Petrovis LLC assets between them, 2.4% of the shares were sold for approximately 70 million USD. The funds were allegedly brought to Mongolia and became tied to Mr. S.Bayar's ownership of real estate in America. I am not aware of Mr. S.Bayar's involvement with the contract of Oyu Tolgoi but the country received an exuberant amount of funds following its signature and some claim that the politicians received significant parts of it. However, Mr. S.Bayar's real estate activities take place after the signature of the agreement in 2012. The real estate holdings were in Mr. Ch.Davaanyam's name and went to Mr. S.Bayar's children.

These cases, one involving the former Prosecutor-General, and the other involving the former Prime Minister give us reason to believe that there is widespread corruption permeating Mongolia. It

is possible that the recent spike in the activity of the anti-corruption agency is connected to the President's intention to replace its director. With the legislature passing a law that allows for the dismissal of the Speaker with a majority vote, the Speaker is expected to be replaced by Tuesday. The new speaker will bring up issues of change in the leadership of the anti-corruption agency and perhaps the General-Prosecutor's office.

There are two certainties in Mongolia right now.

One is that the need to combat the widespread corruption and the second is that the people in place to combat it are creating the it in the first place. So many large corruption cases have just disappeared from the public eye such as the SME fund. It seems like Mongolia is yet to learn how to fight against corruption as they are largely silent on the widespread misuse of funds by our politicians with the exception of two public demonstrations.

DEPRECIATION OF MNT BY 8.9% LAST YEAR



I believe that we spend more than we earn at the company and individual levels as well as the country level. One of the biggest indications of this is the growth of our import by almost 40% last year. This can be seen as a result of an expanding economy if not for consumer loans also increasing by a similar level. The Mongol Bank is concerned about this culture to the extent that it implemented restrictions where an individual would not be able to devote more than 70% of their salary towards loan repayments. The entire debt of the country, both private and national has reached 27.9 billion USD. Not only are we in debt, the payments made towards their interest exceed the funds coming into the country leading to such an extreme depreciation of the MNT.

This combined with an inflation of 9% is counteracting the 6.6% growth in our GDP last year. In a normal economy a 2% inflation rate is seen as acceptable. In order to start making inroads in the right direction, we first need to decrease the interest for loans which now stands at 18% for individuals and 15.5% for companies. Secondly, we should lower the foreign debt of the government which now stands at 60% of our GDP.

This is paradoxical because we cannot increase taxes in order to decrease our debt. Last year, the tax revenue exceeded the expected revenue by 25% which contributed to the first debt-deficit free budget but the economy is not in a good state as increased taxes on businesses fail to deliver their intended purpose.

The combined tax obligations of companies amount to 46% and the interest rates of 15.5% make it difficult to operate business in Mongolia for any sustained amount of time. This is one of the reasons for the economy not becoming vibrant and being so dependent in the mining sector. In order for there to be a normal economy, there also needs to be competition. In order to foster competition, the state should not be as big as it currently is, and ministers should not be allowed to own companies as this is the literal definition of conflict of interests. There is a substantial amount of state-owned enterprises in Mongolia and they are marred with horrendous management. This marriage of business and politics is rooted in the secrecy behind party financing. This secrecy creates corruption in society and fosters an environment inconsistent with economic competition. The SME fund scandal is a clear example of how the government is misusing our money.

Our total credit in the banking system is only 47% of the bank assets, down from 60% 9 years ago. This has to do with the high interest rates and increasing bad loans with 10% of total loans considered bad ones, half of them being made to construction companies. The 8% government loans give hope to construction companies that they may sell their apartments but those that can afford an apartment already have one while the price of real estate continues to increase. This is one of the reasons the ger district population is not decreasing. The

government should not interfere into business or initiate unsustainable programs such as the price stabilization programs. The fact that billions of MNT were used for this without any results or a list of recipients of the program suggests that

our government misuses our funds even when it purports to be saving the people. Less government, more transparency, more competition and the absence of price stabilization programs will see the economy improve.

INVESTIGATIONS AGAINST THE STATE BANK OPENED



The President of the State Bank, Mr. D. Bayarsaikhan is being investigated for issuing 20 billion MNT worth of low interest loans to various companies with some suspecting that this was an indication of a money laundering operation. Regarding the State Bank, it was created on the back of three or so bankrupt commercial banks. Because it is a State Bank, technically, no one owns the bank, one of the reasons that there are 25 presidents.

A restructuring of the bank has led to a 20 billion MNT loan being given to the Chinese company called Xinjiang Xinfu ("Шинжиан шинфа" Registration number: 5238242) without proper collateral. Secondly, it turned out, they were facilitating the purchase of real estate in the countryside at a very low price. Having secured the asset, the owner then sought a line of credit with the asset used at collateral but valuing it at 10 times the initial cost. The bank approved the line of credit knowing full well that the owner paid far less than his valuation for the property. With the owner securing a line of credit at 70% of the inflated cost of the property, they abscond, leaving the bank with an asset worth 7 times less than the line of credit they issued. The banks shareholder's i.e. the people are taking all the risks in this scenario.

This is a very clear example of how the Mongolian state runs businesses and while the people may

abscond, new people will come during the next elections. According to the governor of the Central Bank, Mongol Bank is now under a very close scrutiny of anti-money laundering institutions and shall remain under it until at least October. With their personal wealth increasing, the perpetrators are oblivious to any harm their actions may cause.

The good thing is that we are discussing this now, that Mongolians want good governance and that this be reflected in the ballot box. A democratic system provides the ballot box as well as the opportunity to monitor the operations of the government during their terms. Mongolians, however, don't currently take advantage of the latter opportunity. We grieve in silence about the wrongdoing that is destroying our future and business opportunities. As a result, people go to Korea but we need to discuss these issues more openly so there is no need to leave the country. I however hope that this dialogue is helping solve the issue.

This review has been edited here for space and clarity. You can watch the full 30-minute review on the Defacto website [\[HERE\]](#).

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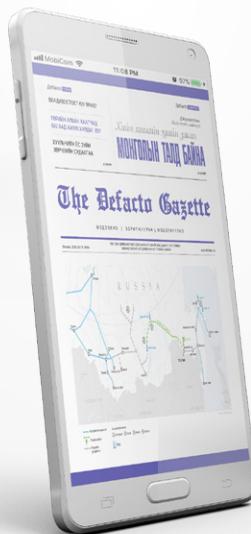
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