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WEEKLY

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THE CHEAPER THE COSTLIER

Mongolia has a de jure standard of right-hand traffic. In other words, whether there is a road or not, two vehicles will pass each other on the right-hand side of the driver. All traffic regulations and the entire infrastructure in Mongolia have been designed for vehicles with the driver's seat on the left side, a left-hand drive.

However, 54 percent of 440,000 vehicles had a de facto standard of having the steering wheel on the right-hand side in 2015. In the same year, a total of 37,000 vehicles were imported into Mongolia, and 34,000 of them were produced in Japan. If we look at the value, these exports were worth 210 million USD, meaning 180 million USD (86 percent) were spent on Japanese-made cars.

The Japan-Mongolia Economic Partnership Agreement (EPA) has waived the import taxes for

up-to-36-months-old cars as well as brand new cars, and reduced the taxes by five percent for cars older than 36 months. This is of course going to entail a further rise in the number of cars with right-hand drive. Japan bans using vehicles more than 10 years old; therefore, there is a strong interest in selling 7-8-year-old cars away. According to the information from the Mongolian Customs General Administration, total exports from Mongolia to Japan were worth 72 million USD in 2011-2015 while the sum reached 2 billion USD vice versa. Approximately 1.3 billion USD of the total exports from Japan to Mongolia accounted for vehicles, 66% of which were Priuses.

MORE ACCIDENTS AS ROADS IMPROVE

Traffic can be made safer, faster, and less congested with consistency, when it comes to position of the vehicles' driver seat, and coherence between the latter and the rules of the traffic flow.

According to the data from traffic police, 2014 had a total of 11,630 accidents, 59% of which had vehicles involved that were not aligned with the regulations because they had the steering wheel on the right. If we look at 2015, there was a total of 41,064 accidents, 64.4 percent of which had the steering wheel on the wrong (right) side. The data also shows that traffic accidents increased by almost 400 percent within a single year.

In order to overtake another car, the driver of a vehicle configured with a right-hand drive has to swerve fully to the left in order to check the road

ahead. Besides speeding, this very risky move is one of the major causes of traffic accidents. Furthermore, the multiple year data show us that, when roads improve – especially in Ulaanbaatar, traffic accidents increase dramatically.

Mongolia built 6,351 kilometers of paved roads in the period of 2012-2015 and is planning to construct another 5,700 kilometers from 2016 to 2021. The countryside roads are usually two-way, and entirely without lane marking which causes drivers to overtake each other at high speed while deprived of visual reference to distinguish between the lanes. Also, many of the accidents are triggered by drivers' sudden swerves to avoid potholes.

Furthermore, the overall traffic **»»**

▶ slows down because drivers become occupied trying to reach out of the front passenger's window as many locations have the tolling stations on the left side. In many cases, it requires the driver to step out and go around their vehicle simply to pay the tolls or receive a parking ticket. More importantly, the rule of the left lane reserved for passing or faster moving traffic is no longer applicable because most of the vehicles now have the driver's seat on the right side. In other words, we no longer have a functional passing lane. Regardless of the number of lanes, we do not have differences in vehicle speed anymore. Additionally, drivers react extremely

aggressive: if you demand changing to the right lane, you might end up verbally – and even physically – attacked.

On the countryside road many drivers do not switch between high and low beam headlights thereby blinding the oncoming driver who is forced to rely on other senses. Vehicles with the steering wheel on the right side have respectively adjusted high beams which are directed to the side of the road. So, when driven on a left-hand road, their high beam headlights are directed to the road making it harder for the counter driver to see the lane. Due to this difference in standard, special tapes, which are paid for, are put up on headlights of vehicles at the British-French border. The driver's failure to produce those special tapes is fined with a financial penalty.

SOLUTION IS READY

The difference in the right- and left-hand traffic rule originates in the the Middle Ages. As settlements developed, people started using the same roads.

Since most people were right-handed, they used to carry their swords on their left side, ready to grab the sword with their right hand. This is where the left-hand rule comes from. By the 1700s, farming developed intensively in America and France, which led to horse carriages transporting food between towns and cities. People mounted on the horse on the left to see their left side more clearly and to whip the horse on the right. It started the right-hand traffic standard.

History tells us that every country has opted for either the right- or left-hand side rule to ensure greater traffic safety. It led to regulations prohibiting the imports of vehicles that were not matching their standards. Almost 80 percent of Cambodia's vehicles had the steering wheel on the wrong side. However, since the beginning of the new century, they have imposed a ban to ensure the driving wheels are on the right side. Our northern

neighbor Russia also started switching the location of the steering wheel of Japanese-made cars to comply with their rules.

During the time of Prime Minister S. Batbold, Mongolia ratified the national strategy to ensure traffic safety in 2012. This strategy laid out that the percentage of vehicles configured with left-hand drive ought to be increased to 75 percent in 2015 from the baseline of 54 percent, and to 95 percent in 2020. Unfortunately, as the saying goes that Mongolian legislations only last for three days, no one provided oversight on the implementation of this strategy, and the vehicles with a right-hand drive are trending towards domination. It should fall under the responsibilities of the Ministry of Road and Transportation. However, given that Mongolian ministries always change their structures and names, many streams of work are simply forsaken without any responsible owners.

What would be the most effective approach? If we pass a law saying that all vehicles will have the driving wheel on the left by 2020 and banning the import of cars with unsuitable standards, how many lives will we save, and how much smoother will we make the traffic flow? If we follow the trend and legalize vehicles that have their steering wheel on the left, we would have completely opposite standards from our two neighboring countries. In that case, it would sabotage our efforts to make Mongolia a transit corridor, and lead to counter-productive outcomes. One has to wonder whether authorities are contemplating about this issue.

What roadblocks is the government facing before they can pass the law to follow the right-hand standard? How many lives have to be lost before it is done?

2016.09.28



DAI XINGJUN

THE CHIEF REPRESENTATIVE OF
BANK OF CHINA IN MONGOLIA

DeFacto INTERVIEW

For interviews in Mongolian, English and Russian, visit <http://jargaldefacto.com/category/8>

“ IT IS MY PERSONAL HOPE THAT OUR ENTRY INTO THE MARKET, EVEN IN A LIMITED BASIS WILL BE LARGELY BENEFICIAL TO LOCAL BANKS ”

He possesses a bachelor's in engineering degree as well as a Master's in National Economic Policy Planning and Management degree from Wuhan University. Dai Xingjun worked as the Vice-President of Bank of China in Inner Mongolia, the General Manager of the Bank's Rizhao branch in Shandong, Vice-President of the bank's Accounting division and has served in his current role as the Chief Representative of Bank of China in Mongolia since 2012.

Jargal Defacto: Mr. Dai, could you tell us a little bit about yourself?

Dai Xingjun: Ok, I am from Qingdao, on the east of China. It is a very beautiful city that is very famous for its beer. I have a bachelor's degree in Engineering as well as a master's degree in Economics and have been working in the Bank of China since 1996. Before I came to Mongolia, I worked for the Bank of China in Shandong, Beijing and Inner Mongolia in 2012.

JD: Please tell us about the Bank of China.

DX: The Bank of China was founded in 1912 and served as the central Bank of China until 1949. It was listed on the Hong Kong and Shanghai stock exchanges in 2006 and was 67% state-owned with other shareholders possessing 33% of shares at the end of 2018. The Bank of China has around 600 branches in many developed countries as well as emerging markets. For example, we have 26 branches in many countries and territories in the Asia and Pacific.

As a major international bank, we provide a complete set of financial services such as corporate banking, insurance, wealth management and airplane leasing. The bank's primary focus in emerging markets is in transportation, urban housing and renewable energy.

JD: Why did the Bank of China decide to come to Mongolia?

DX: In recent years, Mongolia has developed as an emerging market with exceptional economic growth, but we also believe that there is potential for significant further developments. Over the last 20 years, many business enterprises in China and Mongolia have built up close business links and we encourage this cooperation. The Bank of China has a lot of experience with Belt and Road projects and Mongolia's participation in the initiative creates significant opportunities for our bank. We are confident that we can operate successfully in Mongolia and contribute

to the Mongolian economy by working with the local and international financial institutions.

JD: Can you give us some insight into the operations of your office in Mongolia?

DX: As you know, we established our Representative's office in 2013 and began our application to become a subsidiary branch. We have also been working in cooperation with our sister branches and Mongolian banks to grant loans to select Mongolian companies. In late 2013, we co-founded the Sino-Mongolian Foundation with Mongolian and Chinese companies as a result of which we have contributed over 1 million USD in funding and have implemented 110 projects to support local communities.

A charitable project that we engage in is the Warm Winter project which helps families procure essential supplies during winter. Another program involves educational assistance which provides over 200 scholarships to Mongolian students on a yearly basis. To date, over 4,500 families and students have benefited from the work of our foundation.

JD: Why has the Bank of China not been granted a license to operate as a subsidiary bank?

DX: This is a good question and we have been waiting for quite a long time. The government of Mongolia has been cautious about our entry into this market and people have concerns about China's greater involvement in the Mongolian economy. Moreover, local banks have recently expressed their concern regarding the increase in competition from big international banks. Naturally, the government of Mongolia has to address these concerns and we understand that it is currently discussing legislation that would provide the necessary legal framework for foreign banks.

JD: Can you address the concerns that an institution as large as the Bank of

China can adversely impact Mongolian national security.

DX: There are many individuals and politicians that share these concerns, but I don't believe there is any possibility of this.

- Firstly, Mongolia is a fully independent country and the Bank of China would operate under the close supervision of the Bank of Mongolia.
- Secondly, the Bank of China would have to abide by legislation regarding tax, labor, immigration and other government departments.
- Thirdly, as a major bank with a good reputation in the world, we would operate in a fully transparent manner and provide regular operations reports to the regulatory authorities. Most importantly, it would abide by any decision made by the National Security Council and will never operate in a manner contrary to National Security Policy.

JD: What is your response to concerns from local banks regarding the establishment of operations by such a large bank in Mongolia?

DX: I have been working in the banking sector for a long time and can understand the concerns of the local banks and their stakeholders. Domestic banks would have good reason to fear the entry of the Bank of China into the market if were going to compete at every level and had the opportunity to compete on an equal basis. Over the recent years, we have developed a business strategy relevant to our strategy as a foreign bank within the Mongolian bank. In accordance with this strategy, our operations would mostly be restricted to funding megaprojects or major corporations involved in international trade.

JD: This is in essence the concern of Mongolian banks that you will take all the megaprojects.

DX: When we fund megaprojects, we

will invite local banks to participate in those projects or to provide our clients related financial services. It is worth noting that the Bank of China is not going to provide loans to SMEs and private individuals. Moreover, the bank will not be accepting deposits or providing loans in tugriks for the foreseeable future.

JD: Why will you not accept deposits?

DX: This is in order to avoid direct competition with local banks. The draft legislation on international banks will define the scope of our operations in order to alleviate the concerns of Mongolian banks. Once we are granted a license to open a subsidiary branch, we will operate in the market with a limited license. It is my personal hope that our entry into the market, even in a limited basis will be largely beneficial to local banks.

JD: There are also concerns that Mongolian strategic assets may be seized as collateral for companies that default on their loans.

DX: I can understand these concerns but in practice, we often accept assets as collateral when providing loans. If a borrower defaults on their loans, we may acquire the assets provided as collateral. In this case, the only option we have to dispose of those assets is to sell them. This is due to the fact that the Bank of China is only licensed to operate as a bank. It is not permitted to engage on any other form of venture. However, we would only sell those assets in accordance with Mongolian legislation and National Security Policy under the close supervision of the Bank of Mongolia. If the local legislation forbids the sale of those assets to Chinese companies, we will not do so.

JD: How will the Bank of China's entry into the market affect the Chinese yuan and Mongolian tugrik swap arrangements we have in place with the Chinese government?

DX: The yuan and tugrik swaps involve the consensual agreement between the central banks of China and Mongolia. These arrangements have been working very well in recent years and I think the Bank of China in Mongolia, as a commercial bank, will provide more incentive for those currency swaps unless we get explicit instructions from the Bank of Mongolia to facilitate to facilitate the related transactions.

JD: What is the name of the Chinese central bank?

DX: The People's Bank of China is the central bank and serves as a supervision authority.

JD: The economic relations between our countries is growing rapidly and China is our major partner. What are your thoughts on the nature of this relationships?

DX: China and Mongolia are already major trading and investment partners. China is a huge market and a growing

economy thereby offering Mongolia a great opportunity for mineral exports and to develop long-term economic cooperation. Mongolia's participation in the Belt and Road initiative will provide a further stimulus for the Mongolian economy.

JD: There is a lot of talk about the Belt and Road initiative, but no large-scale project has been implemented in Mongolia to date. Why is this the case?

DX: I believe it is due to the situation involving foreign banks as local banks don't have the capital to finance such projects.

JD: How will the Bank of China impact the high savings and credit interest rates in Mongolia?

DX: The interest rates between tugrik and foreign currency is quite high when compared to other emerging markets. This high cost of capital in Mongolia is limiting business potential and constraining economic growth. The Bank of China's entry into the market will not influence the interest rate for the tugrik given that we will not be accepting deposits or providing loans in tugriks as mentioned earlier. The tugrik's benchmark interest rate can only be decided by the bank of Mongolia in accordance with the government's monetary policy. We will however have influence over foreign currencies as we have avenues for low-cost funds allowing us to provide competitive funding in foreign currencies.

JD: How will the Bank of China affect exchange rates in Mongolia?

DX: The entry of the Bank of China in Mongolia will definitely help stabilize the foreign exchange market and strengthen Mongolian currency.

- Firstly, in accordance with relevant legislations, an operating subsidiary of foreign banks are required to inject a certain amount of funds as a feeding capital. This will lead to Mongolia expanding its currency reserves.
- Secondly, once operations as a subsidiary begin and we are in a position to provide syndicate loans, we will be in a position to attract more funds into the market.
- Thirdly, if the government of Mongolia provides a license to the Bank of China, it will send a very positive indication to foreign investors and influence foreign direct investment. It may even be viewed as a cornerstone for the rejuvenation of the Mongolian economy and the stabilization of Mongolian currency.

JD: How would the Bank of China work with the Mongolian government?

DX: The Bank of China has a lot of experience working with governments all around the world. As many of the projects in Mongolia are government driven, working closely with the

government will be one of our priorities. We would like to participate in mining, transportation, energy and other infrastructure projects that are crucial to Mongolia's long-term development. Moreover, we would also seek to be involved in the Ger Renovation project that can help improve Mongolian people's wellbeing. The implementation of these projects, together with support for renewable energy initiative can greatly reduce air pollution. We would also like to support the 8% interest home loan program with funds injected by our bank and other partners into the program will stimulate the Mongolian property market and enable more residents to afford better housing.

JD: In the long run how much money will you bring to the market?

DX: In order to answer this question, we need to contemplate on the adequacy ratio. This ratio is utilized to control the total amount of loans a bank grants based on the available capital. In Mongolia, the adequacy ratio has been set at 14%. This means that a bank operating in Mongolia can only lend up to 7 times the value of its available capital. To date, our head-office has approved 50 million USD for our future subsidiary branch and can therefore provide loans of up to 350 million USD. This is not a significant amount but there is also the concentration ratio we need to consider. This is a ratio that controls the value of loans a bank can provide to a single borrower based on our net capital. In Mongolia, the concentration ratio is set at 20% so the maximum value of a loan the Bank of China can provide a single creditor is only 10 million.

Therefore, we would need to arrange syndicate loans in order to support megaprojects. Local and international banking institutions are welcome to join us in our venture. We can therefore conclude that despite the Bank of China being unable to fund projects in Mongolia alone, it can arrange for the necessary funds to be raised in conjunction with local and international institutions.

JD: When did you apply for a license?

DX: In 2014.

JD: Any additional comments?

DX: I would like to thank you for extending me this invitation to take part in this interview. My team and I are looking forward to participating in the development of Mongolia and to help the cooperation between the two countries. I would also like to wish all Mongolians a prosperous and bright future.

This interview originally aired in June 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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IS A REFERENDUM THE RIGHT CHOICE?

Following the second reading on a new constitution during the extra plenary session of parliament, the Mongolian People's Party proposed that the issue be put to a referendum. This will be the first referendum to take place in Mongolia since 1992 and therefore bears great significance. With the current constitution failing to serve its purpose, it is time that the country puts 27 years' worth of expertise and experiences to practice and incorporates them into a new constitution. However, President Battulga noted that a partial acceptance of the constitution during the referendum will defeat its purpose.

There is however a general lack of knowledge and information on the new constitution within the general public. The need for a referendum is evident but parliament needs to take efforts to educate the public on the constitution so the public can make a more informed decision. Moreover, it is the responsibility of the civic society to ensure that there is no meddling in the referendum from any party. There is however a challenge in that the referendum is expected to take place in October or November.

Following 27 years of semi-presidential and semi-parliamentary system, it is obvious that a new constitution needs to be adopted. Therefore, there is little possibility of the referendum being voted down and the referendum itself is designed to unite rather than divide Mongolians. In the unlikely event that the referendum does not pass, the constitution would most likely be postponed rather than dropped given the dire need for it. Fundamental issues such as whether Mongolia needs to follow a parliamentary or presidential system need to be addressed in one way or another. In *"Stalemate in "Mongolianized" governance"*, an article by Mr. Jargalsaikhan, he claims that our constitution has been adapted and amended to such an extent that it is currently serves the interests of the corrupt politicians.

Some legal commentators state that including a question on Mongolia's form of governance in the referendum is against the law. However, if we look at the current constitution, Mongolia is currently a semi-presidential and semi-parliamentary system and this needs to be addressed. If we look at the region, Mongolia is the only country with a parliamentary system.

CORRUPTION CASE OF CUSTOMS INSPECTOR

The Independent Authority Against Corruption (IAAC) presented a video of a raid on the customs agency that revealed signs of corruption during their monthly press conference. Given that this follows analogical videos of corruption being released, one may wonder what purpose they serve as those involved have not to date received significant sentences. However, they do serve a purpose of shaming corrupt officials and has an impact on corruption. The fact that those videos are from 2-3 years ago is another issue but as long as there are no ulterior motives, the leaking of these videos serve a good purpose.

What people need to understand is that the anti-corruption agency is responsible for investigating potential incidents of corruption after which the case is transferred to the General-Prosecutor's office who makes a determination as to whether to pursue the matter in court. Moreover, another key function of the anti-corruption agency is to educate the public on corruption and how it affects the economy. It is however not their responsibility to punish those incriminated in corruption. Therefore, we can not place the sole blame for corruption cases not being adjudicated on the anti-corruption agency.



If we look at China, they have recently revamped efforts to fight corruption with impressive results. If Mongolia is to implement their and other best practices to combat corruption, it needs to be communicated to the public through the press office. This provides a psychological aspect as individuals may not want their involvement in corruption to become public knowledge. There are currently

34 anti-corruption cases under investigation with about half of them transferred to the prosecutor's office.

Private companies bribe government officials in order to expedite certain decisions and it is difficult to ascertain whether its prevalence is increasing or decreasing. It is definitely something the anti-corruption agency should provide more statistics on and in my opinion, it has gotten more sophisticated rather than decreased. The leaking of videos will not affect corruption and it would

require the participation of governmental and judicial agencies and civic society to combat.

The fact that defense attorneys have the ability to delay cases until the statute of limitations expires is another clear indicator of the need for a new constitution. Moreover, if the anti-corruption legislation is amended to clearly specify the roles and responsibilities of the different institutions involved, we shall see significant improvements in the fight against corruption.

JOINT INVESTMENT FUND

Among the agreements signed during the President of Russia Vladimir Putin's visit to Mongolia was that on a Joint Investment Fund between Russia and Mongolia. The agreement will be made by DBM Asset Management LLC, a subsidiary of the Development Bank established in 2017. The Russian Direct Investment Fund was established in 2011 and reports directly back to President Putin and the Prime Minister. Since its establishment, the fund has committed over 1.5 trillion rubles, invested over 100 billion rubles and attracted 40 billion USD in foreign capital, making it a pretty significant venture.

On the other side, over the last 25 years, large infrastructure projects were funded through long-term government to government loans through bonds paid by taxpayers. The issue with large infrastructure projects is that they are capital intensive and the return on investment is 10-15 years down the line. The investment fund agreement opens up a financial aggregate of funding those projects in the form of equity. This means that the Russian Direct Investment Fund and DBM Asset Management will serve as institutional investors to ease off the government credit cash flow. This is a milestone event for companies and individuals involved in infrastructure as well as those with good partnerships with Russian companies.

With the Russian Direct Investment Fund expressing willingness to serve as an institutional investor to fund infrastructure, agriculture, start-up and other projects, it is up to Mongolians to pursue this in a proactive manner. For example, if an individual or group is interested in establishing a railway between Moscow and Beijing that travels through Mongolia, they would need to prove the sustainability of their project and eliminate country risks in order to procure investment from the Direct Investment Fund.

The agreement will come into effect in a couple of months and requirements for investments will most



likely be revealed once the logistical and procedural issues are finalized. DBM Asset Management was chosen to be in charge of the agreement from the Mongolian side as it is a subsidiary of the Development Bank which is in charge of short-term infrastructure projects. It would not be feasible for the bank to fund projects that would be covered by the agreement as returns for the projects would begin in 15 or so years. There is therefore a need for companies such as DBM Asset Management or commercial banks willing to serve as an institutional investor to fund such projects.

The Mongolian government didn't sign the agreement, and this is a good sign as less government involvement and restrictions is better. For example, there is almost no instance of a state-owned company operating successfully. While some are under the misconception that the Development Bank is funded by the government which would create issues, it is funded by foreign investors and acts as their intermediary in Mongolia.

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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