

Growth, structural change and employment: Mongolia's experience

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UN conference, Tokyo, May 2012

Photo by J.Urango

Territory	18th largest country in the world 1,565,000km ²
Population and population density	135th in the world 2.832 000 citizen 1.8 people/km ² on average 180 people/km ² in Ulaanbaatar, the capital city
Political structure	Parliamentary democracy from 1991, with 2 large parties (MPP and Democratic Party), a number of smaller parties, with a 3 rd coalition government in 4 years and now MPP-majority led Government
Current Prime Minister	S. Batbold (MPP), whose party holds a majority of in 76 seats parliament after 2008 general elections
Government	MPP-led government since January 2012
Current President	Ts. Elbegdorj (nominated from Democratic Party), in office since 2009
Main Religions	Buddhist (90%), Muslim (5%), Shamanist and Christian (5%)
Life expectancy	62 years for men, 67 for women
Literacy rate	95%

Growth factors:

- Mining as a primary pillar of economic growth
- 30% of GDP, 80% of exports
- Multi-billion projects starting in 2009
- Just 2 projects (OT, TT) include investment of 10 billion dollars, large than size of GDP
- Many more private investment projects
- Largest world companies coming to cooperate: Rio Tinto, Goldman Sachs, Deutsche Bank, Peabody, Xstrata, Vale, Temasek, CI C, etc



- **Economic growth 6.4% in 2010**
- **Economic growth 17.3% in 2011, one of highest in world**
- **First quarter of 2012: 16.7%, highest in country's history**
- **Forecast: average growth rate of 14% for next decade**
- **GDP per capita reached 3000 USD from up from 1700 in less than 3 years**
- **Poverty rate is down from 39% to 29% in 2 years**
- **Unemployment is down to 8% from 11% in 2 years**
- **Doubling of exports in 2 years**
- **Growth aiming to reach 10000US\$ per capita by 2016**

From agricultural economy



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..To a booming commodity economy
and its just a beginning..



..Of a bigger challenge. How to manage it?

- Benefit the population, reduce poverty
- Use the commodity boom to develop and diversify the economy, create more jobs
- Accumulate mining revenue for future generations
- Prepare for cyclical boom and bust crises
- Invest in human development as much as humanly possible

Benefitting from growth

- Setting up human development fund to distribute dividends from mining in last 2 years to all citizen
- 1300US\$ in cash for each student, handicapped and pensioners is being distributed
- 500US\$ in cash for every citizen plus shares of large mineral investment projects convertible to cash
- Setting up stabilization fund for capital accumulation to reach 1 billion US\$ by 2015

Governance as key

- **Anti-cycle budget policy: budget increase limit is implemented**
- **National audit checks elections platforms of parties for financial feasibility, just returned for reediting election platform of the ruling party**
- **New planning law draft submitted to government to strengthen planning system and monitoring**
- **Public investment legislation is approved, all large public projects require pre-FS and FS: an attempt to control quality of public projects especially in infrastructure**
- **Ceasing cash transfers from July 2012, moving to target groups**
- **Anticorruption law and efforts. Draconian law on conflict of interests is enacted.**
- **Many officials are probed, jailed and some are sentenced for corruption**

Election reforms

- Mostly fair and objective elections since moving to democracy in 1990
- Current reforms: introducing smart ID cards for every voter
- Electronic registration is completed
- Attempting electronic voting recording, best equipment is brought

Diversification policies

- Flat taxes at 10% and business environment improvement
- A policy is drafted to further reduce taxes for SMEs and individual entrepreneurs
- investing low interest 300 million US\$ into creating thousands of new SMEs
- Community development funds created: low interest community managed funds for every village totaling 23 million US\$
- Development Bank of Mongolia was created to manage 1.5 billion US\$ in 2 years for infrastructure and industry
- Concessions or PPP framework was created which is bringing 3 billion US\$ in energy and infrastructure investment
- Full renovation of Stock exchange and linking it with LSE to bring foreign investments: Mongolia-targeting funds from Japan, Australia, US

Policies for diversification

- Create heavy and chemical industry:
 - industry for basic metal and non-ferrous metals,
 - Industry for coal, chemical and oil
- Competitive light industry:
 - Industry for meat, sea buckthorn, wheat
 - Industry for wool, cashmere, and leather products,
- Tourism, crop, small and medium sized enterprises etc.
- Infrastructure to support those industries

Coal handling plant already in operation, Ukhaa Khudag, Gobi



Зураг төсөл, барилга угсралтын ажил

2009-2011

2011-2013

5 сая тн/жилд баяжуулах хучин чадалтай

10 сая тн/жилд баяжуулах хучин чадалтай

Copper enrichment plant from 2012, Oyutolgoi, Gobi



Sainshand industrial project (heavy industry)



- Coke
- Iron pellets
- HBI/DRI
- Copper cathodes
- Synthetic gas
- Liquefied gas
- Industrial diesel and other oil products

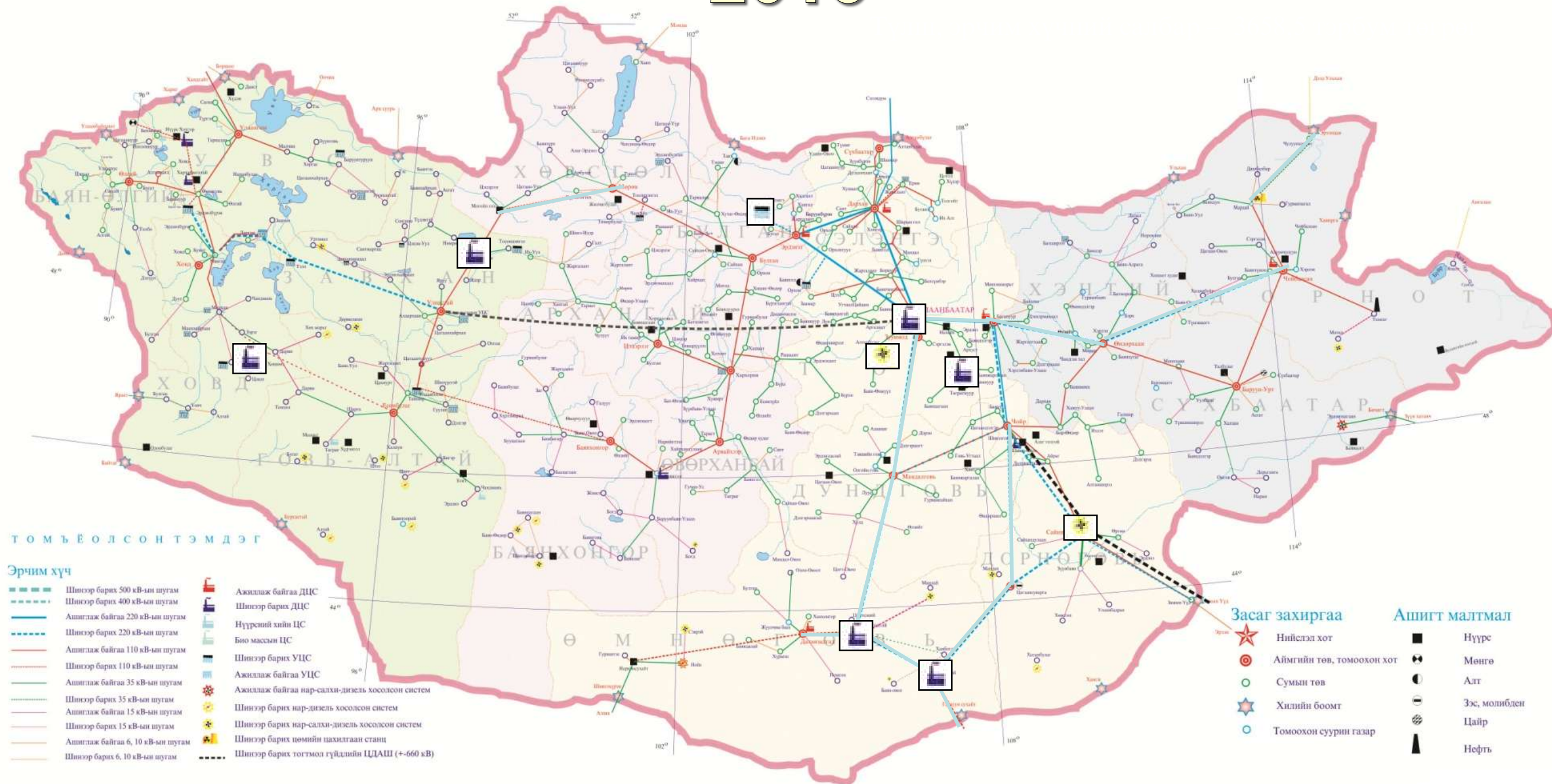


Infrastructure

- New international airport (Japan) by 2015
- 2 Gigawatt of additional annual electricity production is being planned for next 10 years
- 2000 km of new railways being planned for next years
- Highways to connect every province in the country – Millennium Road project
- Large water supply/transportation projects for Gobi area
- 5 customs checkpoints to be expanded in 2010 to accommodate large trade traffic – 4 fold increase in export shipments is planned
- 100 000 new apartments project



DEVELOPMENT OF ENERGY SECTOR BY 2016



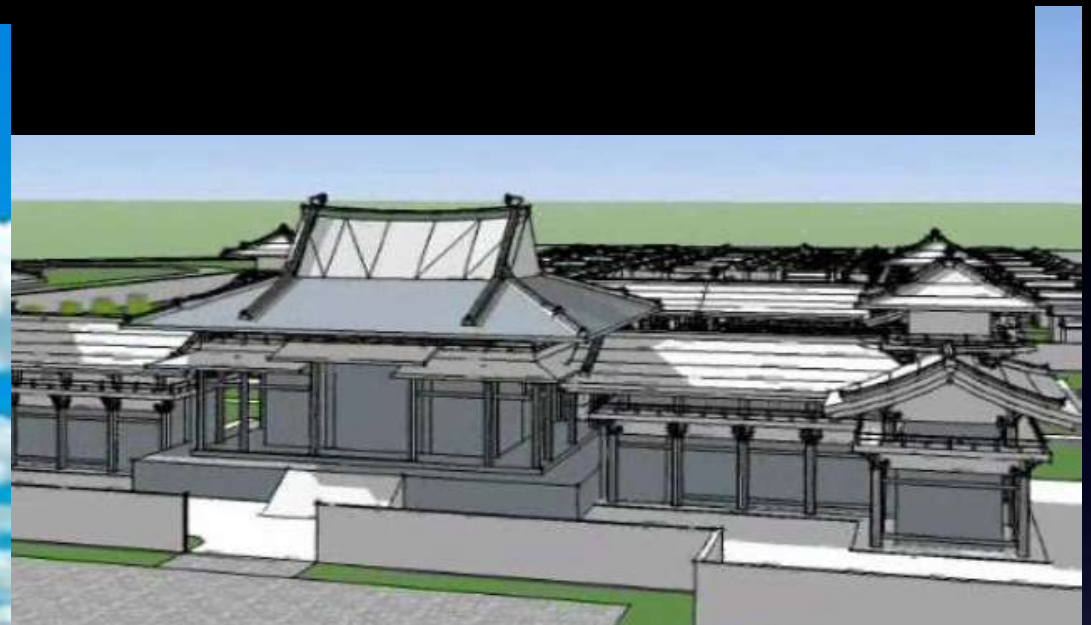
NEWLY INSTALLED CAPACITY:

5 stations 1900 MWT

317 kilometers of 110 V transmission lines

1227 kilometers of 220 V transmission lines

Growth of tourism: aiming to double number of visitors



Number of domestic carriers:
MIAT, Air Mongolia, Eznis, Mongolian Airlines

New tourist attractions:
Kharakhorum – XIII project

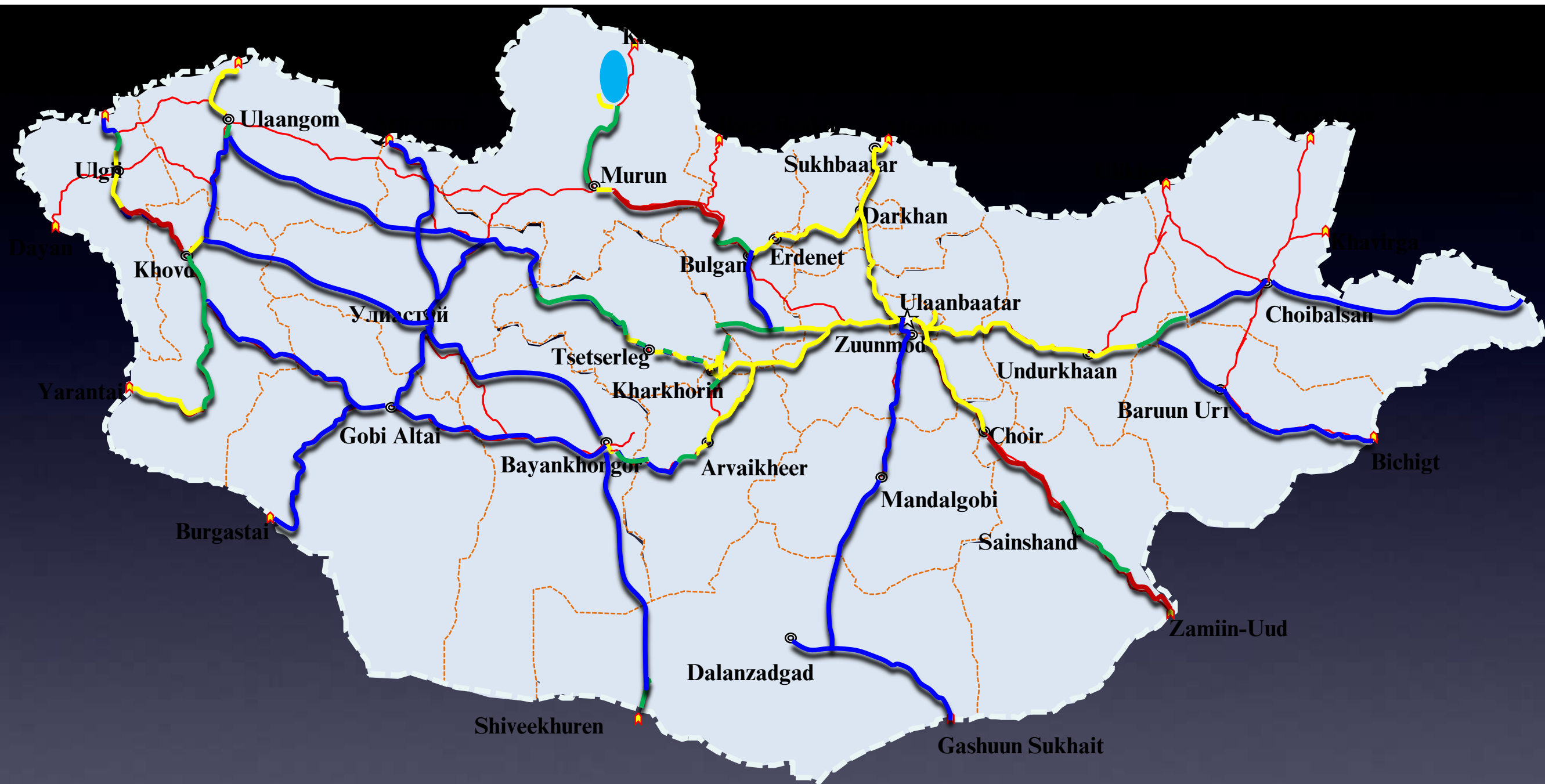
Infrastructure: Roads, hotels, access

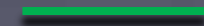
Ramada (opened) in 2011, Preferred Hotel (opened in
Tower, 2012), Hilton, Hyatt (2 hotels), Radisson, Shangri-La to open
in next year

Proposed new railways



Public asphalt road network in year of 2015



	<u>Current asphalt road: 2190.17 êì</u>
	<u>Under construction asphalt road: 1461.65 êì</u>
	<u>Road construction under preparation: 665.9 êì</u>
	<u>Newly planned asphalt road construction: 4500 êì</u>

“Affordable Housing Supply” project

The project cost is approx. 2,100.0 million US \$ and implementation period is 4 years. The project aim is to construct:

-41,200.0 households new apartment buildings in new towns and residential districts;

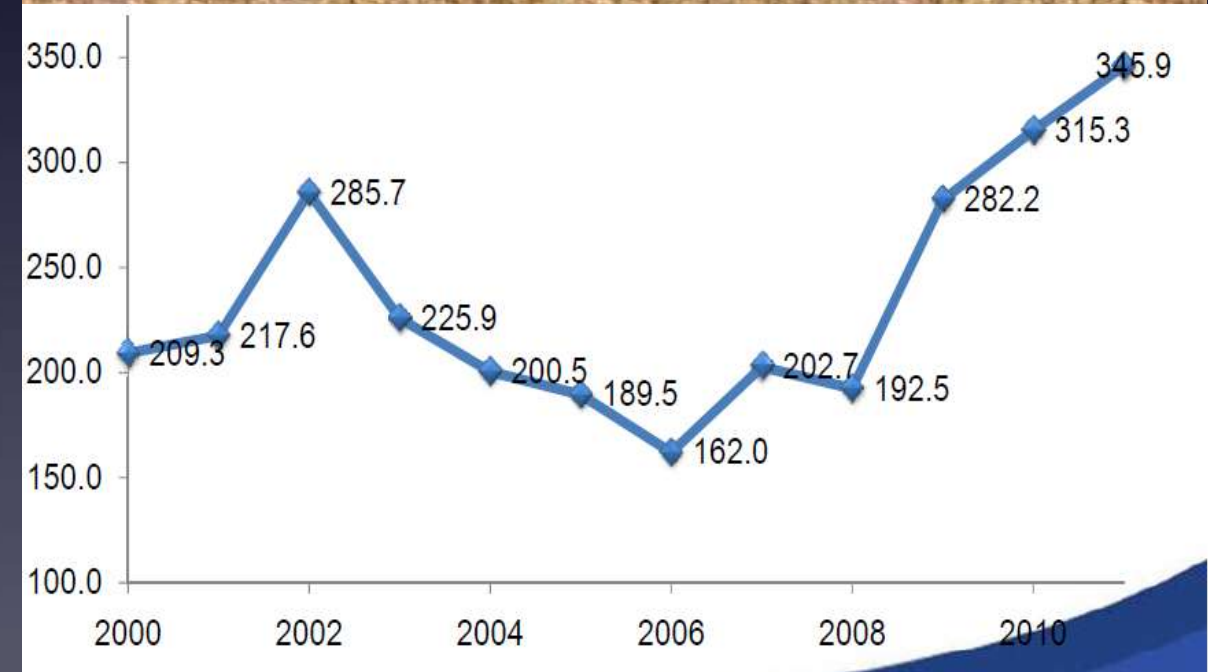
-24,800.0 household apartment buildings within the framework of re-development plan of ger area into housing districts;

-9,000.0 household apartment buildings to improve population density;



Agriculture development

- Full self-supply in wheat 100%
- Full self-supply in potato – 100%
- Vegetables – 53%
- 80% of tractor equipment is renovated
- First export of grain agreement signed
- Cultivated crop area increased twice
- Modern Canadian technology for wheat



Mongolia is one of best locations in the world in renewable energy

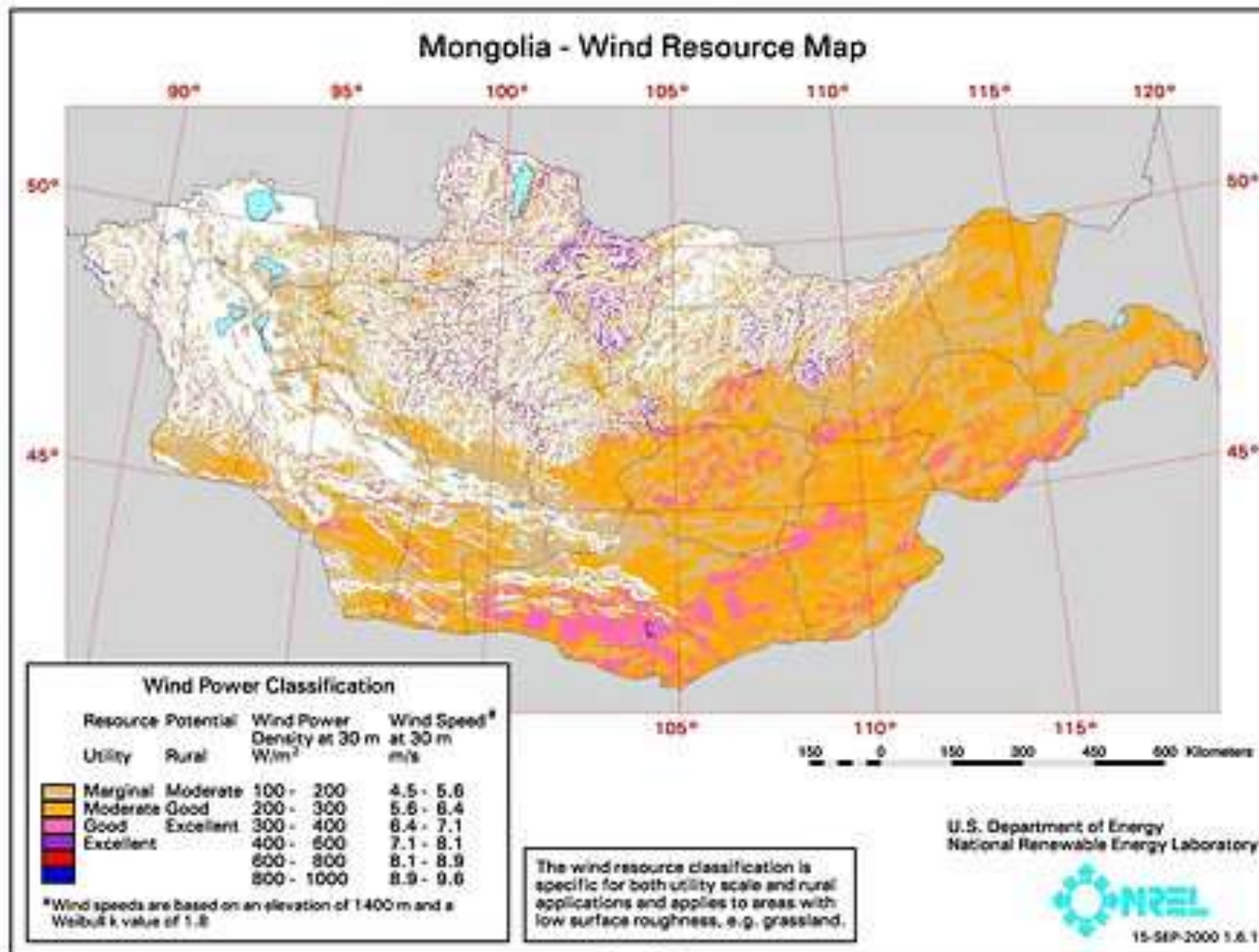


Figure 6.1

Mongolia could support 1,100GW of installed wind power capacity.

Potential to generate 2.6 terawatts of renewable energy per year

This quantity constitutes about one-quarter of global electricity demand.

SUSTAINABLE GROWTH

- 100 000 households are supplied solar panel generators
- 16 small villages are fully utilizing renewable energy
- Increasing usage of geothermal energy (school heating)
- New 50 mWt wind park will be completed this year in Salkhit,
- 110 million US dollar project, Newcom. Supplier: GE
- By 2013 10% of total energy output will be by renewable energy
- By 2020 the plan is to have 20% of all energy production by renewable sources



To become an exporter of green energy

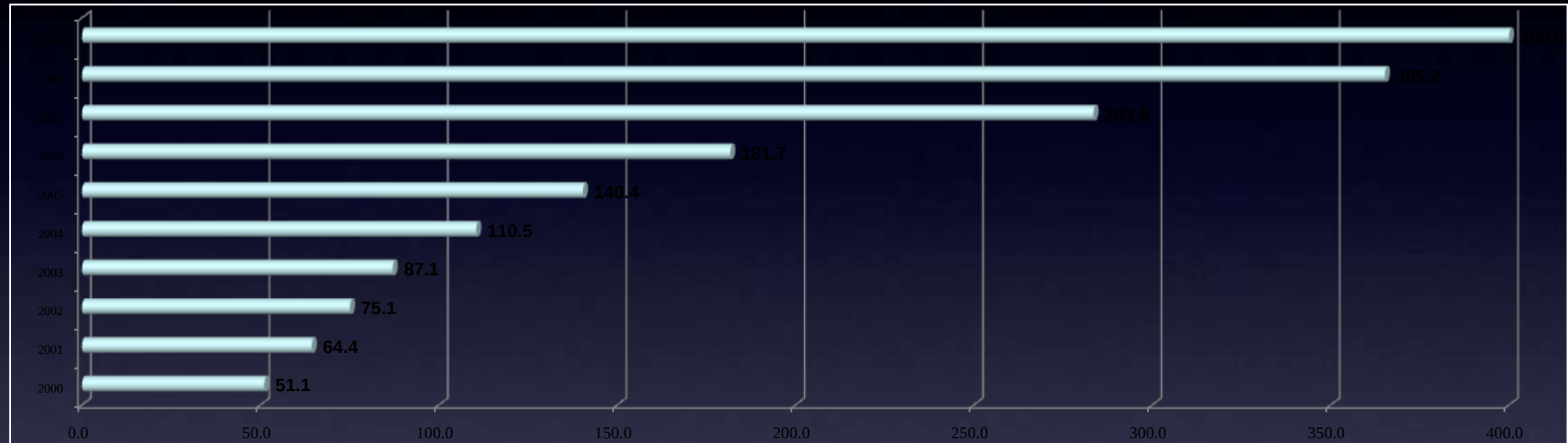
- Proposal: Asian “super-grid,” to transport wind and solar energy from Mongolia to Japan and Korea
- high-voltage transmission lines that could send solar and wind power, generated in Mongolia, to power-hungry cities in Japan, Korea and China.
- MoU with Mongolia’s National Renewable Energy Centre to collaborate on a study of the country’s renewable resources.
- Japan Softbank to cooperate with Newcom (Mongolia) on feasibility study for joint large investment in Mongolia in renewable energy

Diversification: IT

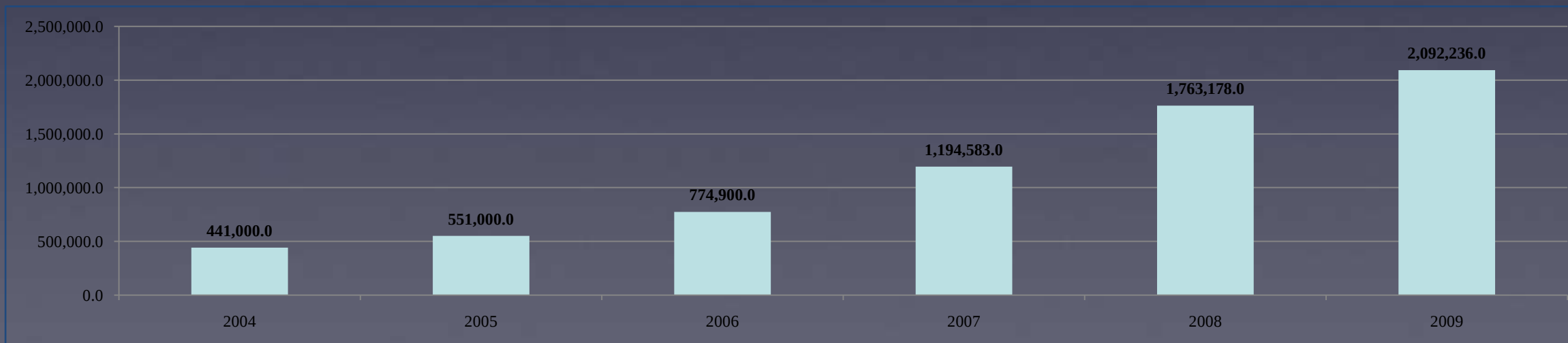
- There are more than 400 private firms in IT.
- As of 2008, ICT sector produces 9% of Mongolian GDP.
- “National Data Centre”, “Telecommunication Backbone Network of Mongolia” are completed. 13 thousand fiber optic cables connect more than 60% of all villages to high speed internet.
- National mobile coverage, 3G, planning of LTE deployment
- “National satellite for communications of Mongolia” project- the project costs around \$600.0 million, in the early stage of implementation.
- “Information technology development and training town” project- the project costs around \$100.0 million, in the early stage of implementation

Diversification

400 domestic IT companies earned more than 300 million US dollars in revenue (chart: revenue of IT companies)



2.1 million mobile users for 2.7 mln population, with 4 mobile communications companies, 3G coverage, including 2 GSM and 2 CDMA companies (Chart: number of mobile subscribers)



“Industrial training complex for information technology” project (Silicon Valley)

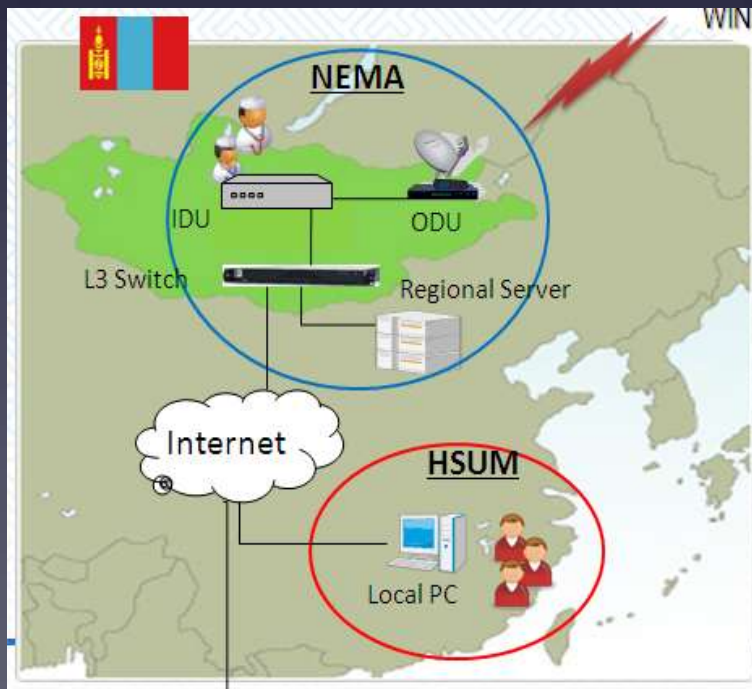
The project cost is \$100.0 million
Project goal, demand:

- To prepare skilled human resources in ICT sector
- To build infrastructure for ICT business development
- To develop and promote ICT business firms particularly firms doing businesses in outsourcing, digital content, and software
- To build outsourcing /ICT research center/ - learning from best in trade – joint project with India



“Launching National Satellite” project

The project cost is approx. 600.0 million US\$ and implementation period is 5 years. The project aim is to launch a small-scale satellite designed for information and communication systems in Mongolia. The project pre-feasibility study is made.

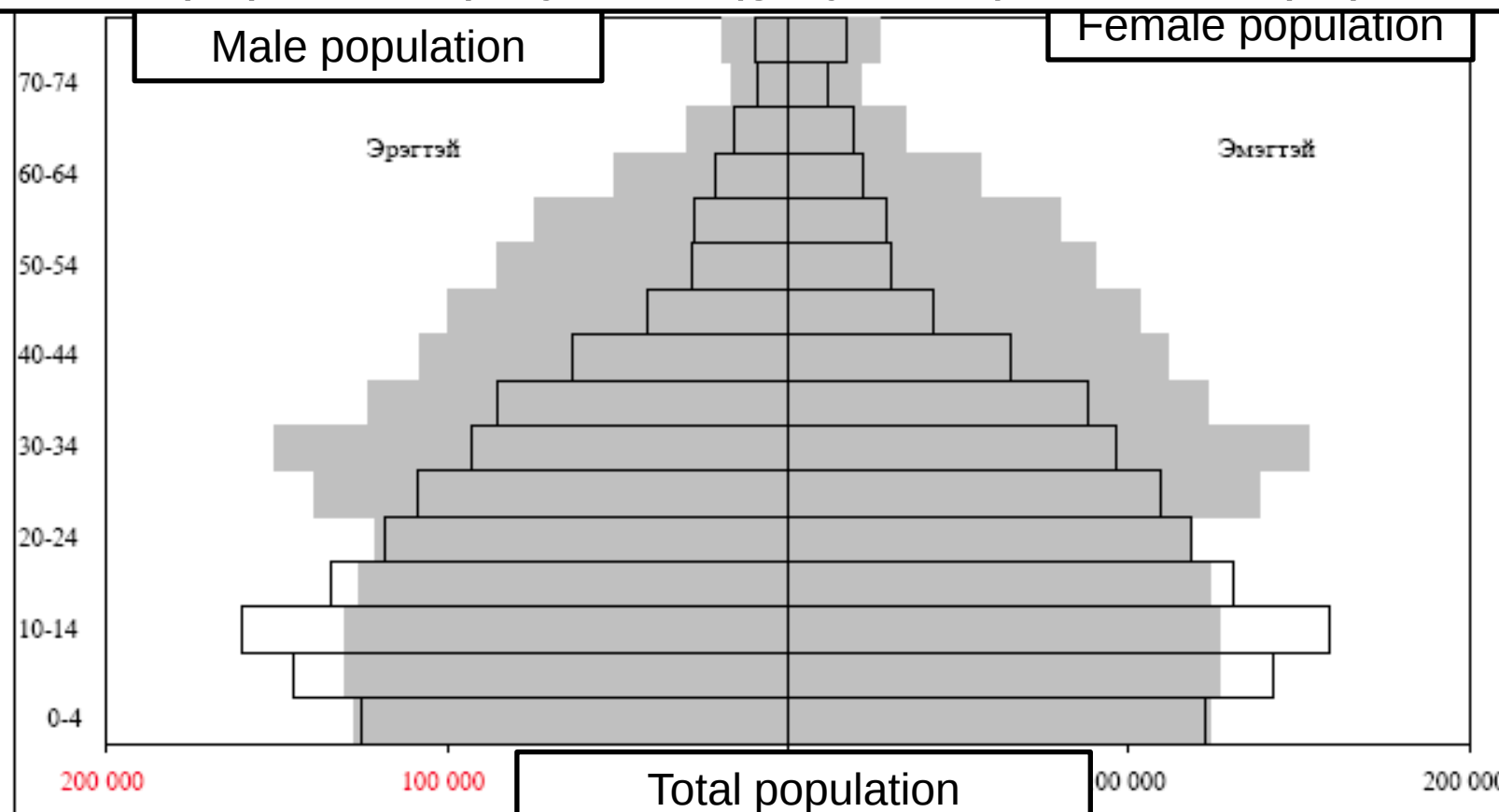


Detailed feasibility study and implementation plan will be done by ICTPA by 2012.

And entering population bonus era: highest share of young people in population



2020 population projection (grey zone) and 2000 population



Microsoft



Mongolian Culture

High literacy rate

Table 5. Primary school enrolment, pupils in 1-5 grades, literacy rate

	Indicators	1990	2000	2006	2007	2008	2015
11	Net enrolment ratio in primary education	97.5 ^a (1995)	95.0 ^a	91.4 ^a	92.7 ^a	91.5 ^a	100.0 ^a
12	Proportion of pupils starting grade 1 who reach grade 5	91.0 ^a	83.6 ^a	86.8 ^a	89.9 ^a	92.8 ^a	100.0 ^a
13	Literacy rate of 15-24 year-olds	99.0 ^c (1989)	97.7 ^c	97.7 ^c (2000)	97.7 ^c (2000)	97.7 ^c (2000)	100.0 ^a

Source: a. SGH Resolution #13, Approval of Mongolia's MDGs, 2008
b. NSO, MoESC, 2008
c. Mongolian population and housing census, 1989, 2000



100 universities and colleges

60 technical vocational training colleges

Hundred thousands educated overseas

Europe: Germany and UK

North America: US

Asia: Japan

Eastern Europe: Russia, Czech Republic

Australia

Real gender equality

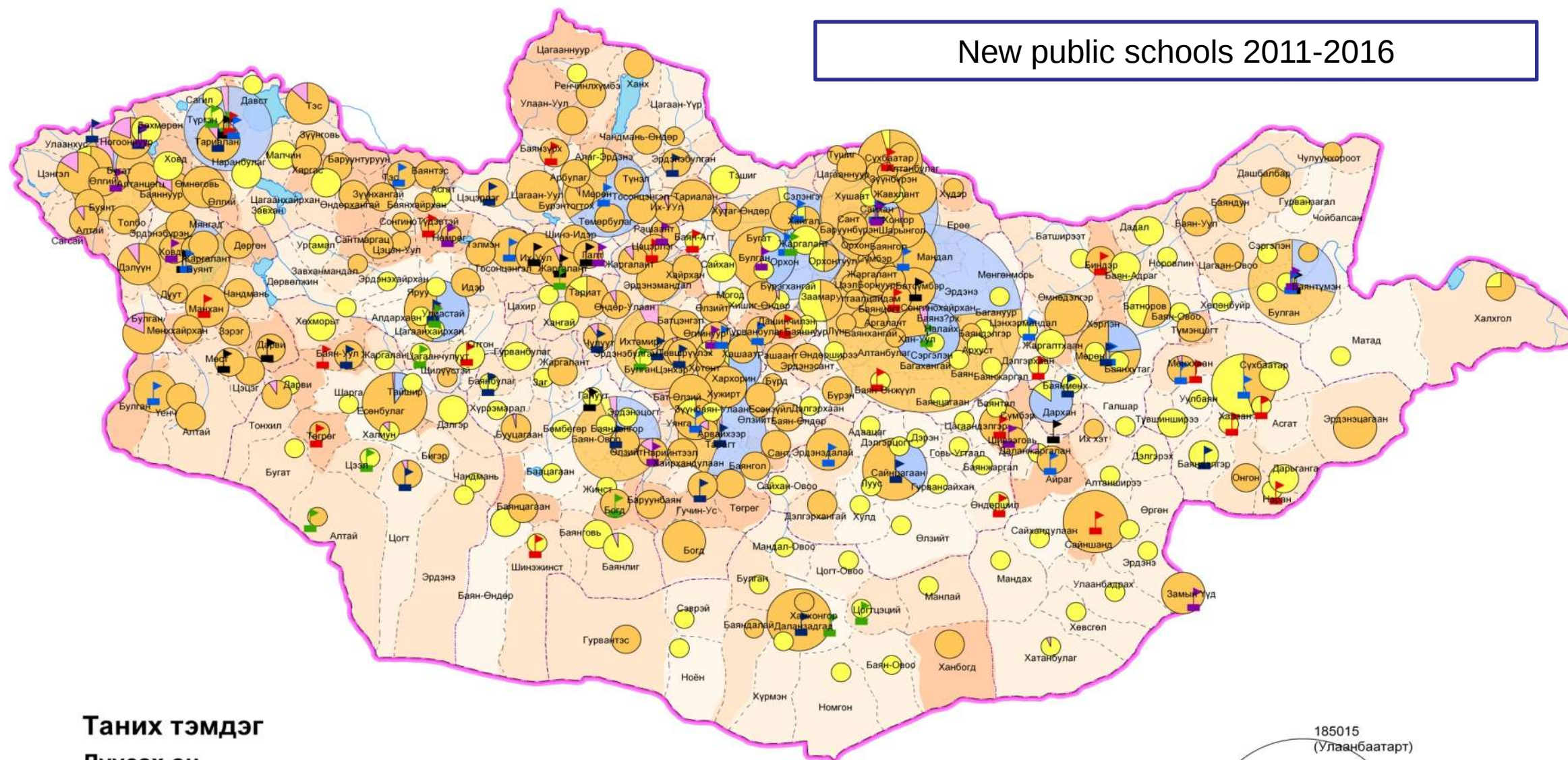
Table 6. Sex ratio in secondary and tertiary education

	Indicators	1990	2000	2006	2007	2008	2015
14	Ratio of girls to boys in primary education	1.03 ^a (1995)	1.01 ^a	0.98 ^a	0.97 ^a	0.97 ^a	1.0 ^a
15	Ratio of girls to boys in secondary education	1.33 ^a (1997)	1.2 ^a	1.03 ^a	1.09 ^a	1.08 ^a	1.0 ^a
16	Ratio of female to male students in tertiary education	1.56 ^a	1.72 ^a	1.53 ^a	1.57 ^a	1.54 ^a	1.0 ^a

Source: a. SGH Resolution #13, Approval of Mongolia MDGs, 2008
b. NSO, MECS, 2008



New public schools 2011-2016



Таних тэмдэг

Дуусах он

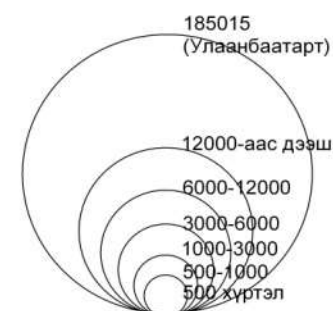
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015

1000 хүнд ноогдох ерөнхий боловсролын сургуульд суралцагчдын тоо

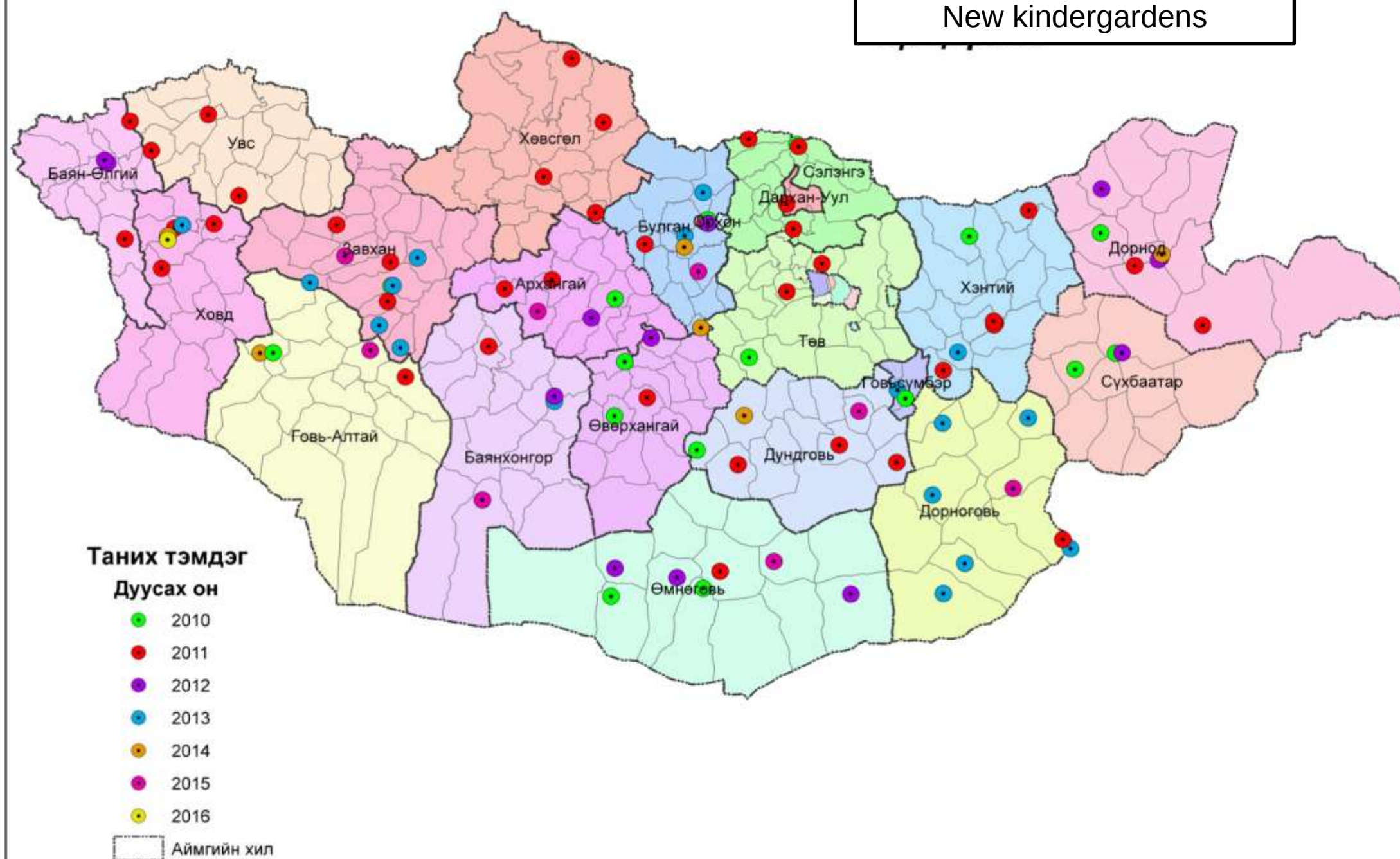
- 0.000000 - 13.036730
- 13.036731 - 18.176572
- 18.176573 - 22.672446
- 22.672447 - 34.129213

Сургуулийн ангилал, Суралцагчдийн эзлэх хувь

- Бүрэн дунд сургууль
- Цогцолбор сургууль
- Дунд сургууль
- Бага сургууль



New kindergardens



Cambridge education standards



- Pilot for 30 schools until 2014
- If successful, all high school education will move to Cambridge standards

Higher education

- ADB loan 25 million dollars
- Further internalization of education: programs from Canada, UK, Singapore, Korea, US
- Joint university with Germany
- Linking higher education with business (Innovation Law, now in final discussion stages at Parliament)
- Science Parks studies are ongoing (biotechnology; water management)

“Universities campus” project

Campus for 20 000 students,

- Baganuur area
- Linked with train and highway
- (study for passenger railway trains will commence this year)
- Innovation Law draft to allow establishment of corporations at universities and set up special Innovation Fund



Labor: well educated not skilled

- Created or modernized more than 60 vocational training colleges in last 2 years
- Created specialized government agency to manage the process
- Instituted monthly allowances for every student in the vocational colleges
- Linked the vocational colleges with private investors
- 2011 Year of job creation
- Better technology to register unemployed through employment offices

Funding

- These programs require more than 40 billion US dollars in 2012-2016
- 10 billion USD will be provided by Government through budget and Development Bank of Mongolia, very feasible under current conditions. Mostly in infrastructure, healthcare and education. Currently public investment exceeds 2 billions dollars annually
- Approximately 10 billion in PPP projects (don't cost a single dollar for taxpayers). Mostly in energy and railways. Negotiations are mostly concluded, permissions granted to private sector
- Approximately 12 billion dollars in FDI: mostly in mining, heavy industry.

This is our scenario

- Studying Chile and Nordic models, Botswana
- Obviously has Mongolian specifics
- Governance as a key
- Can't be sure of any success
- Post MDG suggestions

- True structural change, job creation and growth will not happen without real global management - Think of Keynesian policies on global scale
- Use financial resources and technology of north to develop south. Pumping more money into ailing north will fail create more markets (US financial meltdown 2007);
- only enriching and development south will create more global growth
- Most important regional and global projects to generate trade, enable local SME development and support private sector- linked with world financial markets or IFI
- Coordination must be based around those large regional and global projects to combine labor/resources from developing countries with capital and technology from developed countries and benefit both in the process
- Could be green, environmentally friendly or advanced technology projects
- This process could involve skill upgrading, technology transfer, improvement of competitiveness of developing countries, generate more trade and investment across regions and on global scale and create more jobs in developed countries as well
- This would be real global management of growth

Thank you for
attention!

Mongolia