

MONGOLIA

A new era for business

AS a vast country with just 3 million inhabitants, Mongolia is one of the most mineral-rich nations in the world, with underexploited reserves of copper, gold and coal among its precious resources. As well as a stable, modernizing economy, a strategic location between Russia and China and an open, pro-business government, Mongolia has a wealth of competitive advantages that are making investors the world over sit up and take notice.

When President Elbegdorj Tsakhia took office in June last year, he pledged to improve conditions toward a free-market economy by bringing in economic reforms in the shape of economic-liberalization policies, privatization and tax reforms, while orchestrating an administrative overhaul and combating corruption. Clearly the Eurasian country—which was the base of a major empire under Genghis Khan, and later a communist state until 1990—is entering an important new chapter of its history.

“Even though Mongolia is a young democracy, the private sector still contributes more than 80% of the total gross domestic product,” the head of the Democratic Party explains. “We have been affected by the economic downturn, but we are focusing on the positives, such as the fact we have a free-

“We welcome foreign partnerships to contribute to the growth of our country and work together under win-win conditions.” President Elbegdorj Tsakhia

market economy open to privatization, entrepreneurship and the overall development of infrastructure. We welcome foreign partnerships to contribute to the growth of our country and work together under win-win conditions.”

Although there is golden investor potential in every one of Mongolia’s sectors, including mining, agriculture, energy, tourism, education and I.T., the country needs to increase the



Elbegdorj Tsakhia
President



Sükhbaatar Battbold
Prime Minister



Garamjav Tsenden
General Director
Monpolymet

flow of investment. Celebrating its 50th anniversary this year, the Mongolian National Chamber of Commerce and Industry (MNCCI), under the guidance of Prime Minister Sükhbaatar Battbold, is flagging up the Business Environment Enabling Reform (BEER) initiative to make this possible.

“Our two vital functions are to promote and promote,” says Sambuu Demberel, chairman and CEO of the MNCCI. “We are an emerging economy so it is important for government entities like ourselves to announce every single achievement. We need the people of Mongolia and the business community to believe in our function and see that we are trying to build a better Mongolia for them to live in.”

With this in mind, green-aware companies that minimize their global footprint are incentivized, especially within mining. “Obviously, the mining industry has a negative impact in the sense of pollution, but that is the very reason why we are establishing sustainable mining development, and working transparently,” he says. “We want companies to find alternative solutions where better and greener products can be made with less emissions in the production phase.

“We are trying hard to promote the development of all sectors of the economy and nurture new ones, like organic products and renewable energies, but we have our priorities and at this stage, it is mining.”

Among the leading groups of companies and holdings that were established in Mongolia after 1990, Nomin Holding has

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been recording growth of more than 30% year-on-year in recent years. With offices in Russia, Singapore and China, the company has 13 subsidiaries in areas as diverse as real estate, financial and insurance services, electronics, supermarkets and even carpets through the Erdenet carpet brand.

"Nomin has repeatedly demonstrated its ability to recognize and seize upon developing trends in the Mongolian consumer market as an increasingly cosmopolitan population demands more sophisticated products," says Bayarsaikhan Shagdarsuren, president and chairman. "We are always looking for new associates to work with in order to expand our product range and bring ourselves into the international market."

A member of key global organizations, such as the World Trade Organization, the International Monetary Fund and the World Bank, Mongolia has close cooperation and ties with the West, especially the U.K., with which it has enjoyed a diplomatic relationship since 1963. The maintenance of bilateral relations with the U.K. continues to be a priority.

The Mongolian government recently signed an agreement with Rio Tinto and Ivanhoe Mines for the \$758 million Oyu Tolgoi copper and gold project. This, and a wealth of other mining activities slated for development, will open doors for the growth of railroads, rural airports, power stations and related industries of transport, energy, construction and finance.

One of Mongolia's top gold-mining companies, Monpolymet Co. Ltd., was started by geological engineer Garamjav Tsedem

and colleagues in 1992. A woman in a male-dominated field setting up a business during the country's transition to a democracy must have been a challenge, but Garamjav modestly describes how it was for all new start-ups.

"Despite the short history of Mongolia's businesses, it is impressive that many companies started from nothing and have become large enterprises today," she says. "Monpolymet's success depended largely on international collaborations, with the U.K., Russia, Germany, Denmark, the U.S. and Japan."

Today, the forward-thinking company has branched out into construction and mineral exploration, as well as gold-mining. Its latest project is to build the country's first dry-method-technology cement plant, using limestone from a deposit acquired a few years ago in South Gobi. The proven reserve of the mine is around 200 years.

"There are many people competing for gold, coal and copper, but we look into developing new areas of resources that are in high demand, such as good-quality cement," Garamjav says. "Mongolia lacks the advanced technology needed to build modern cement plants as we only have a few wet-method cement plants that emit high emissions. Our dry-method plant meets international standards and has minimal impact on the environment. It will create around 500 new jobs that will extend to 800 as the phases ramp up."

Monpolymet has expanded its search for partners for the project to Europe. "Given the limited experience, it is difficult for Mongolian businesses to develop quickly, and therefore it is important that FDI flows into the country with the required know-how, expertise and technology," Garamjav says.

Strongly committed to the economy's development, Monpolymet plans to expand in different sectors, create more jobs and develop communities, especially in South Gobi. "Our employees are well taken care of and are being constantly trained. In five years, I want them to progress enough to become managers and directors in their specific field. We also build computer labs in communities as a way of extending education around the country."

Value-Added Industries Continue to Thrive

In terms of value addition, Mongolia's has two prime contenders: the beverage and the cashmere industries. Officially the third-largest export after copper and gold, the woolly stuff provides income to over a third of the population, and the country is the world's second-largest producer of raw cashmere after China.

Established in 1982, Eermel Company is now one of the world's leading manufacturers of clothing and accessories in cashmere and camel products. Listed on the Mongolian stock exchange, it is the country's second-largest cashmere exporter and aims to increase its market share both in Mongolia and internationally.

It is certainly on the right track; as Munkhjargal Sembeejev, Eermel's executive director, explains: "Last year, total sales were more than \$8 million, compared to five years earlier when they were about \$200,000. Two years ago we partici-



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Monpolymet Group is one of Mongolia's leading mining companies that takes pride in adopting best international practices in technological and biological site restoration.

We are in the process of developing Mongolia's first dry method cement factory for which we invite interested partners and investors.



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pated in a fashion event in Vegas and are collaborating with experts from the U.K. to increase awareness. We are working with the Alfred Rowland brand.

"Our company currently has a low profit margin, as our main goal is to improve the processing of the materials and make sure our employees work under good conditions. We are also giving our herders a chance to survive on the breeding of their goats and camels."

The United Foods Corporation (UFC) is also growing exponentially, with turnover slated to reach \$24 million this year—triple the amount for 2009. The country's leading premium-vodka producer, UFC's Chinggis Vodka brand took gold for best taste at the United Vodka Festival in Cannes, France, last year, giving both the brand and Mongolia important visibility in European markets.

As Amartuvshin Otgondavaa, UFC's chairman, explains: "We had several clients approach us, including a large number of U.K. investors who are interested in working with us.

"Russia is our main export market: our vodka contains organic raw material and high-quality water which gives it a smooth taste that fits consumer preference there."

As well as vodka, the company is also the leading producer of sea buckthorn berries, with China as its main export market. Amartuvshin is convinced the berries—high in vitamins and used by the locals to stave off colds—would be an excellent-quality moneyspinner in the

form of juice, food and even cosmetics.

"It would require some technological advances for us to reach a production level that could be used for exports, and in that sense, we need more investment," he says. "We also plan to increase the growth of the berry.

"Our mid-term plan is to enter into all types of beverages. There is a source here providing access to a distinct mineral water. First we plan to bottle the water and offer it to the local market, but we are also looking to build a plant that will allow us to produce it in larger quantities for export. The government is supporting the development of local products and I predict that within 5-6 years, there will be more movement in this direction."

Lying at the heart of Asia, on the cusp of the east of China and the vast Siberian wilderness, Mongolia is home to horses and herdsman, rolling steppe, high glacial mountains, impenetrable

forests, and deep, crystal-blue lakes. An adventurous tourist's paradise, the pristine country attracts 7,000 British people every year.

Located in the capital's cultural and business center, the Chinggis Khaan Complex LLC offers unbeatable hospitality and business facilities. Under the expert guidance of managing director Sam Sallan, the establishment's well-trained staff are 100% client-focused and speak 11 different languages.

Meanwhile, nestled in the heart of a national park close to Genghis Khan's birthplace, Tereelj Hotel and Tereljmaa Spa set a new standard by offering elegance in exceptional natural surroundings. The resort boasts 51 luxury suites and guests can hike and visit Buddhist temples from this luxurious base. Managing director Nomin Chinbat says: "If travelers are looking for an incomparable experience, Mongolia is the answer."

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