

Japanese Foreign Direct Investment in Mongolia

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I. Introduction

The Government of Mongolia has been taking some measures to create a favorable foreign¹ and domestic environment for foreign investment. Domestic legal environment-related incentives and rights for foreign investment have been established in the Foreign Investment Law and other relevant Mongolian laws. In order to simplify the registration system and to deal with queries, the Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA) has established a “one-stop service” for foreign investors. FIFTA is the government agency responsible for the promotion and facilitation of foreign direct investment and the promotion of foreign trade in the country (<http://www.investnet.mn>).

The Mongolian Government is attaching great importance to attracting Western and Japanese investors.

II. Japanese FDI in Mongolia

As a result of creating a reasonable investment environment, Foreign Direct Investment (FDI) in Mongolia has been increasing. During the last 10 years, 1,600 joint ventures and wholly foreign owned companies from 62 countries were registered in Mongolia, with total investment reaching US\$350 million. Among them, investors from the People’s Republic of China, Japan, South Korea, USA and Russian Federation are in a leading position in terms of the amount of investment and number of companies registered (see Table 1). By sector, the mining, agro-processing, light industry, communication, construction, trade and service sectors are dominant.

The Japanese contribution to FDI in Mongolia is around \$50 million, with continuous investment growth during 1993-2000 (see Table 2). The presence in Mongolia of branches of Japanese companies, such as Itochu, Sumitomo, Marubeni, Nissho Iwai, Osaka Cashmere, Mitsubishi and others, may have influenced this growth. Japanese FDI covers the light industry, telecommunications, culture, education, science and media, trade and catering services, processing raw materials of animal origin, and transportation sectors. In comparison with other countries, Japanese FDI is significant in the telecommunications and light industry sectors (see Tables 3-5, FDI by countries in certain sectors).

The Japanese companies Sanshiro, Buyan Holdings, T&I, Mana, Tuya, and STM International are active in cashmere processing, Hasabe International, Sansar Bridge,

and Sararo are involved in the hotel and restaurant services sector, Jiguur and Daisogen are active in the tourism sector, Soyol Erdem and Nakhia have a presence in education, and Tavan Bogd is involved in the trade and service fields. Monnis-autoservice, JM Internet motors and other companies are engaged in the trading of Japanese cars. The two Japanese incorporated companies Mobicom and Buyan Holdings, are listed in the top 10 foreign investors in Mongolia.

Telecommunications: The Japanese share of FDI in the telecommunications sector is around 50%. In the telecommunications sector, the most successful foreign incorporated company is the Mongolian-Japanese company “Mobicom” JVC, which has introduced a cellular telephone service to Mongolia for the first time. The reasons for Mobicom JVC’s success are as follows:

- It has brought modern technology to Mongolia;
- There is an increasing demand for mobile phones in urban, as well as in remote areas;
- The existence of competitors in this field has required it to be dynamic, to improve its service quality, and to establish service chains throughout the country;
- It has made use of tax incentives provided for investment in this sector.

Light industry: Japanese FDI is significant in this sector, in the field of cashmere processing. It is known that Mongolian cashmere goods have been introduced on the international market for the first time with the assistance of Japan.

Over the last couple of years, Japanese investment in Mongolia has increased rapidly; 43 wholly Japanese-owned or joint-owned companies were newly registered, including in the mining sector. It is also worth mentioning that Bunka Orient Mongolia, and the Mongolian-Japanese JVC are active in software and computer system production and related training, a field to which our government is paying particular attention. Miraishohken Co., Ltd., a wholly Japanese-owned company, is participating in securities trading at the Ulaanbaatar Stock Exchange.

The share of Japanese tourists in the Mongolian tourism sector is significant. In 1999, Mongolia received about 158,000 foreign visitors, of which 34,000 were tourists. 9,200 Japanese tourists visited Mongolia last

¹ Mongolia has signed the “Investment Protection and Mutual Protection Agreement” with 30 countries, while the “Exemption on Double Taxation Agreements” has been signed with 19 countries around the world. Mongolia has joined the “Washington Convention on Settlement of Disputes” and has also been a full member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group since January 1999; investors will thus be eligible for risk insurance through MIGA. Mongolia became a member of the World Trade Organization (WTO) in 1997. (<http://www.pmis.gov.mn>) Mongolia has been given a B+ rating by Standard and Poor’s.

year, accounting for 27% of total tourists. Continued growth in the tourism sector requires the development of transport and hotel infrastructure, both of which need substantial capital investments. The future of the Mongolian national airline will have a significant impact on this sector.

The effects of Japanese investment, which covers many areas of economic and social activity in the country, are becoming more tangible. In order to implement “the activation of promotion activities to attract Japanese direct investment” set out under section 838 of the Mongolian Government’s action plan, many events have been planned for 2001, such as the Mongolian Trade Fair in Tokyo next summer, investment promotion seminars, etc., following the Mongolian Prime Minister’s visit to Japan last February. Besides such promotional activities, several measures are being taken to improve the economic and legal systems, and soft infrastructure, such as the restructuring of the banking system, reinforcing the rule of law, etc.

Feedback from foreign investors is important for improving the local environment for investment and business activities. With this in mind², FIFTA has established an e-mail account at the following address: hotline@investnet.mn; the hotline phone service remains available on (976)-11-320706.

III. Conclusion

Decisive factors in the choice of Mongolia as an investment location include access to particular raw materials such as cashmere and minerals, extensive

incentive packages for investors, and good local partners and contacts.

Disadvantages cited by investors include frequent changes in government personnel and lack of transparency in procedures by government officials. Other disadvantages are the under-developed banking system and the high costs of transportation because of its distance from major markets. For the tourism sector, the short duration of the tourist season was rated as a particular disadvantage. Particular concerns were noted by investors in the cashmere sector, relating to the deteriorating quality of Mongolian cashmere due to the virtual collapse of the government’s long-term breeding program.

Japanese investors may find it useful to consider the following points:

1. Recognition of Mongolia’s nuclear free status may have long-term economic consequences;
2. Using the experiences of Mongolian businessmen may reduce risks in the Russian or Chinese markets;
3. The Mongolian Government is paying attention to the development of export oriented industries, including the mining, tourism and IT sectors, which may be sources of economic growth;
4. The introduction by Japanese investors of advanced technologies in these industries, as well as in the education and health sectors, will convey various benefits;
5. Investors should learn more about investment and business-related laws and regulations (they should first contact FIFTA).

**Table 1: FDI in Mongolia by country:
leading countries’ shares 1990-2000
(Unit: thousand US\$)**

China	Japan	S. Korea	USA	Russia	Other countries
104.5	47.8	38.9	27.3	16.7	115.4

**Table 2: Japanese FDI in Mongolia by year
(Unit: thousand US\$)**

1993	1994	1995	1996	1997	1998	1999	2000
655.5	986.8	8,349.4	12,555.1	797.6	3,763.7	3,566.6	17,144.8

**Table 3: Japanese FDI in Mongolia contribution
in some sectors 1993-2000
(Unit: thousand US\$)**

	Tele-communications	Light industry	Culture, Education, Science & Media	Processing raw materials of animal origin	Trade & catering services	Tourism	Food industry
Japan FDI	8	28.1	2.9	1.9	2.5	0.296	0.8
Total FDI in sector	16.2	73.3	11.3	40.2	36.5	9.6	9.9
% of sector’s FDI	49	39	26	5	7	3	8

² Suggested by Mr.Kensaku Kumabe, Research Institute for Development and Finance, Japan Bank for International Cooperation, at the Northeast Asia Economic Conference 2001 in Niigata, Japan, 8-9 February, 2001.

**Table 4: FDI contribution in telecommunications
by country 1993-2000
(Unit: thousand US\$)**

Country	FDI in 1993-2000 (Unit: thousand US\$)
Japan	8,003
S. Korea	5,230
China	1,399
Others	1,629

**Table 5: FDI contribution in light industry
by country 1992-2000
(Unit: thousand US\$)**

Country	FDI in 1994-2000 (Unit: thousand US\$)
Japan	28,140
China	17,087
Hong Kong	7,222
Taiwan	6,753
S. Korea	6,336
USA	3,807
Others	3,987