

listing projects seeking investment and many other useful documents. In addition, it dispatched invitations to potential investors and others who might have an interest in this event. Among those invited was ERINA, which is considered to be one of the main organizations disseminating information in Japan and Northeast Asia.

2. Purpose of the Forum

The Investors' Forum 2002's main objective was outlined thus by Mr. Ch. Ganzorig, Minister of Industry and Trade, "The Government is aiming for economic development based on the private, export-oriented sector, with growth of 6%. One of the target activities is the Investors' Forum 2002, which will focus on learning about the obstacles encountered in investing and doing business in Mongolia, particularly in the priority sectors of tourism, mining and oil, the agro-food industry, the infrastructure sector and information and communications technology."

In his opening statement, President Bagabandi said that foreign direct investment is one means of ensuring sustainable economic growth for Mongolia and reassured investors that the fundamental principle of state policy is to guarantee the sustainability and predictability of the foreign investment environment.

According to the Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA), the third Investors' Forum was attended by more than 1,200 people - twice the number expected - who gathered on September 17-19 in Ulaanbaatar to discuss the potential for private sector investment, including obstacles to business and investment in Mongolia as well as measures needed to improve business. The participants included 530 investors from 45 countries, 467 local businesspeople and 300 foreign ambassadors, observers and government officers.

3. General Session

During the general session, Prime Minister Enkhbayar reported on Mongolia's Investment Policy. The following are expected to result from the promotion of foreign investment:

- Ensuring a higher economic growth rate;
- The introduction of advanced technology in all economic and social sectors, to increase production and operating efficiency, and to introduce new management and marketing techniques;
- The development of export-oriented industries, the expansion of value-added production, and increasing the international competitiveness of business entities.

Briefing those assembled about the current foreign investment situation, he stated that between 1990 and the first half of 2002, more than 2,300 businesses were established in Mongolia with capital investment worth over US\$ 740 million from 70 countries. A sector breakdown of foreign direct investment revealed that the mining and oil sector accounted for 27%, the textile industry 11%, agro-processing 6%, construction 6%, trade and catering 5% and banking and finance 4%, with other sectors accounting for 30% (including a 2% share for tourism). By volume of investment and number of registered entities, China accounted for 30%, Japan 10%, the Republic of Korea 7.8%, the USA 6.8%, the Russian Federation 6%, other

MONGOLIA INVESTMENT FORUM

(17-19 September 2002, Government House,
Ulaanbaatar, Mongolia)

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1. Preparation for the Forum

The Mongolian Government has designated 2002 as "Investment in Mongolia Year" and is holding the Mongolia Investors' Forum 2002. A Government Commission headed by the Minister for Trade and Industry was in charge of the preparations for this event of great importance for the development of Mongolia. In preparation for the Forum, a list of priority sectors for foreign investment was approved under a government resolution, while an amendment to the Foreign Investment Law of Mongolia passed through Parliament and was adopted. The main aim of this amendment was to increase the types and forms of foreign investment and to add a provision regarding stability contracts concluded between investors and the government. The commission translated into various languages laws relating to economic activities, sector profiles with related rules and regulations, books

western countries 9.7%, Eastern European countries 7.7% and other countries 22.3%. Businesses in receipt of foreign investment produced nearly 70% of total exports.

In addition to the Government's Investment Policy Statement (a reference document regarding foreign investment promotion policies, conditions, guarantees and protection granted to foreign investors and the operating environment, based on the current laws and regulations of Mongolia), which was distributed to all Forum participants, it was also planned to implement measures such as:

- Abiding by the principle of excluding from the taxable income of large businesses the amount of new investment carried out using net profits from the year in question, in order to expand core production capacity, generate new jobs, and implement technological innovation;
- Carrying forward for the next three years any loss incurred in the first year in connection with core production operations by businesses in receipt of foreign and domestic investment which are starting their operations anew and investing in the mining sector, and providing them with tax concessions;
- Reducing taxable income by the amount of depreciation of equipment used for research and development in order to develop and introduce new advanced technology in export-oriented production, as well as to encourage the application of achievements in science and technology to production and investment in this area;
- From 2003, in order to support processing industries, it is planned to provide a value-added tax credit from the value-added tax payable by processing industries which process primary agricultural raw materials to make products for the domestic market, worth 10% of the value of the purchase of primary agricultural raw materials.
- There are plans to establish a free trade zone in Altanbulag. Along with tax and import and export duty concessions, it is intended that simple and speedy customs services will be provided in free zones.

An open discussion of the Investment Policy Statement then took place, led by Mr. A. Proctor, Regional Manager, Foreign Investment Advisory Service of the World Bank Group and Mr. Ch. Ganzorig.

After the sector workshops, the Forum continued on the second day with a general session on the investment environment and opportunities. Mr. B. Ganzorig, Chairman of FIFTA gave a presentation on investment facilitation, and this was followed by presentations on legal and judicial reforms by Mr. Ts. Munkh-Orgil, Deputy Minister for Justice and Internal Affairs, and tax reforms by Mr. L. Zorig, Chairman of the General Department of National Taxation. There were also speeches by existing investors, such as Mr. P. Morrow, CEO of the Agricultural Bank and a representative of Ivanhoe Mines Co., about their business experiences in Mongolia. The presentations were followed by open discussions between the Government, investors and private sector representatives in the form of question-and-answer sessions on each topic.

At the end of the forum, Mr. Ch. Ganzorig said on behalf of the Government, "We will pursue all your

comments and recommendations on improving the investment environment in Mongolia."

Summing up the Forum, Mr. S. D. Meyanathan, Resident Representative of the World Bank in Mongolia and co-host of the Forum, said, "During the Forum, investors have exchanged information and expressed their opinions on hurdles faced in the various sectors. This will be a major lever in fully utilizing capacity in specific sectors."

4. Sector Workshops

Sector workshops were held in the afternoon of the first day of the Forum. Workshops on infrastructure, information and communications technology, food and agro-industry were held at Government House, while the tourism workshop took place in the Chingis Khaan Hotel, the mining workshop in the Great Hall of the Palace of Culture and the oil workshop in the offices of the Petroleum Authority of Mongolia (afternoon of the second day). Since all workshops were held at the same time, it was difficult to attend all of them in full, but partial attendance allowed the relevant information to be obtained.

All workshops profiled the relevant sector, as well as providing an overview of development policy and projects, and the legal environment for investment and business. Existing investors gave presentations introducing their business activities, providing a real picture of the investment environment and challenges, which will be helpful for the further improvement of investment conditions in Mongolia.

Sector exhibitions, especially those held for the food and agro-processing sectors, yielded information about some companies' products and projects that could be developed further.

At the Forum, I told people at the exhibition booths I visited about the activities of ERINA, in particular those relating to transportation corridors and the exchange of information.

The achievements of foreign junior oil companies in Mongolia should be advertised in order to attract more investors in this sector, because the field areas currently being exploited have similar geological features as those in China, with huge reserves.

5. Observations

- 1) During the Forum, existing foreign investors stressed that Mongolia is a good place to do business, and the Government is making considerable progress in attracting new foreign investment, but could be more pro-active in making sure that existing investors are satisfied with the conditions under which they operate. Participants expressed their concerns about the inconsistent and unstable legal framework, repetitive tax inspections, and unreliable and slow legal processes. The Government responded by pledging to improve the legal framework and other impediments to doing business in Mongolia.
- 2) The forum persuaded all participants, and especially Mongolians, that a country with a young workforce and rich mineral resources should independently manage to achieve economic growth. The gold and

copper mining industry in particular would play an important role. It is essential to pay attention to copper processing, as well as small oil refineries. Since Mongolia is coming to be recognized as a country rich in such mineral deposits as gold and copper, it is important to pay more attention to mineral processing technology, especially that for copper.

- 3) There still exist possibilities for extending Mongolian exports by diversifying traditional exports and specific products.
- 4) Attendance at exhibitions during the forum led to the discovery of several projects seeking investment, as well as companies in whose products/services of Small and Medium Entrepreneurs from Japan or other Northeast Asian countries might be interested.

The following documents on investment in Mongolia are available at ERINA:

- 1) Mongolian Investment Directory and Business Pages CD-ROM, FIFTA, Ulaanbaatar, Mongolia, 2002
- 2) Profile of the Mining and Petroleum Sector, International Finance Corporation, Ulaanbaatar, Mongolia, 2002
- 3) Discovering New Mineral Opportunities in the Country of Chinghis Khan, Mineral Resources Authority of Mongolia, Ulaanbaatar, Mongolia, 2002
- 4) Mining and Oil Project Information CD-ROM, Ministry of Trade and Industry, Ulaanbaatar, Mongolia, 2002
- 5) Petroleum Industry of Mongolia CD-ROM, Petroleum Authority of Mongolia, Ulaanbaatar, Mongolia, 2002
- 6) Profile of the Food and Agro-Industry Sector, World Bank, Ulaanbaatar, Mongolia, 2002
- 7) Profile of the Tourism Sector, World Bank, Ulaanbaatar, Mongolia, 2002
- 8) Brief Profile of Investment Projects, Ulaanbaatar, Mongolia, 2002
- 9) Various company brochures