

Mongolia-Japan Business Consultative Meeting

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The Mongolia-Japan Business Consultative Meeting was held on July 25, 2006 in Ulaanbaatar, in the conference hall of the Ministry of Industry and Trade of Mongolia. The meeting was organized jointly by the Mongolian Ministry of Industry and Trade, the Northeast Asia Transportation Corridor Promotion Network (NEANET), ERINA and the Japan-China Northeast Development Association's North-East Asia Economic Cooperation Committee (JCNDA NEAECC). At the meeting, the participants exchanged information and views on cooperation opportunities in the fields of trade, investment, mining, energy and infrastructure and signed the Minutes of the Meeting, which stated that it is essential to organize such bilateral meetings on a continuous basis in order to promote and support business relations, intensify investment and increase trade between the two countries.

More than 70 delegates from Japan and Mongolia participated in the meeting. The Japanese delegation was headed by Mr. Marohito Hanada, former Ambassador of Japan to Mongolia, and included other high-profile representatives of Japanese political, public and business organizations, such as Ms. Chinami Nishimura, Member of the House of Representatives, Mr. Shigeru Nozaki, Senior Executive Director of the Japan Bank of International Cooperation (JBIC), Mr. Kazuhisa Marukawa, Vice-President of Toyo Engineering Corporation (TEC), and Mr. Susumu Yoshida, Chairman of the Board of Trustees and Director-General of ERINA, as well as representatives of Tokyo Keizai University, the Bank of Tokyo-Mitsubishi UFJ Ltd., Sojitz Corporation, Japan Carbon Finance (JCF), Lanai INC, and South Gobi Power Development Corporation. Local representatives of Mitsui, Sumitomo and Marubeni corporations in Ulaanbaatar also participated in the meeting.

From the Mongolian side, representatives of the government, public and private businesses, non-governmental organizations, and researchers participated in the meeting. Among the high-ranking government officials were Mr. B. Jargalsaikhan, Member of Parliament and Minister for Industry and Trade of Mongolia, and Mr. B. Nyamtseren, Secretary of State for Industry and Trade of Mongolia, as well as representatives of the Ministry of Roads, Transportation and Tourism, the Ministry of

Fuel and Energy, the Ministry of Finance, the Ministry of Construction and Urban Development, and the Mineral Resources and Petroleum Authority of Mongolia.

One of the milestones of this meeting was the signing ceremony of the first Emission Reductions Purchase Agreement between Mongolia and Japan within the framework of the Clean Development Mechanism of the Kyoto Protocol. This activity was a result of the joint workshop on awareness and capacity building for CDM projects organized by the Mongolian Ministry of Industry and Trade, ERINA and Mitsubishi Securities Co. Ltd. in Ulaanbaatar a year ago. The project focuses on CO₂ reduction through ESCO (Energy Service Company) activity implemented by Anu-Service at multiple locations in Mongolia, with the aim of replacing the old inefficient boilers used in local district heating, schools and hospitals with new, more efficient ones. This CDM project will result in a reduction of approximately 90,000t of CO₂ equivalent up to 2012, with this reduction being purchased by JCF, which manages the Japan GHG Reduction Fund (JGRF). Mitsubishi UFJ Securities, Co. Ltd. is providing CDM project consultancy services for this project. Mongolia was one of the early supporters of the Kyoto Protocol and approved it in 1999. This CDM project has attracted the attention of both public and private businesses in the two countries and this event was important in fueling further activities of this nature.¹

The discussions at this meeting were organized into three thematic sessions and a plenary session. The thematic sessions focused on (i) trade and investment; (ii) mining and energy; and (iii) transport and infrastructure, with presentations being made by both the Mongolian and Japanese sides. The first session examined foreign trade and foreign direct investment (FDI) in Mongolia in recent years and future development trends; Mongolian foreign trade with Northeast Asian (NEA) countries, including Russia, China and Japan; FDI in Mongolia from these countries, Mongolian government policy on foreign trade and FDI; and potential products to be exported from Mongolia. The current situation and future development trends in Mongolia's mining, oil and gas industries and energy sector were discussed in the second session. Information and views on the present situation and future developments in Mongolia's transport sector were exchanged in the third session, and issues concerning Mongolia's infrastructure were discussed. In addition, a representative of the Mongolian Ministry of Construction and Urban Development delivered brief remarks on the current status of Mongolia's construction sector and activities undertaken within the framework of government policy, as well as local raw materials and natural resource potential with regard to construction materials. At the plenary session, Ms. Nishimura, Mr. B. Jargalsaikhan, and Mr. Yoshida delivered speeches about their views on opportunities and potential for strengthening and broadening mutual cooperation between the two countries.

Brief summaries of the presentations and speeches are provided below. Opening the meeting, Mr. B. Nyamtseren greeted the participants on the occasion of the 800th anniversary of the Great Mongolia State and thanked the Japanese co-organizers for their support and cooperation. In his remarks, he noted that Japan is one of Mongolia's best partners, which helped Mongolia to cope with its transitional difficulties, and stated that bilateral cooperation and friendly relationships between the two countries are becoming richer and richer. He also applauded Japan for designating 2006 as "the Year of Mongolia in Japan". However, he noted that despite such broad-ranging cooperation between the two countries, cooperative activities are mainly based on one-way flows, with Japan as the donor and Mongolia as the recipient. Therefore, it is necessary to move cooperation to the next level in order to expand it and gain more mutual benefits. In closing, he expressed his hope that this meeting will make a contribution to this end.

In the **first session**, Mr. V. Enkhbold, Director General, Trade and Economic Cooperation Department of the Ministry of Industry and Trade of Mongolia, gave a brief outline of the foreign trade and investment situation in the country. He expressed his firm belief that this meeting would provide significant impetus for establishing direct contacts between businesses in Japan and Mongolia, as well as strengthening trade and economic ties between the two countries. Underlining that one of Mongolia's major steps forward in fostering development during the transition was the liberalization of trade, he indicated that government activities are aimed at ensuring economic growth through maintaining socioeconomic stability, promoting export-oriented industrialization and developing small and medium-sized enterprises (SMEs), as well as establishing free trade, free economic zones and industrial parks, and improving the legal framework. Among developing countries, Mongolia has some of the lowest import tariff rates, which indicates an almost-fully liberalized trade regime. Mr. Enkhbold informed participants that Mongolia is interested in expanding its involvement in Asia-Pacific regional trade and economic cooperation, and actively taking part in the activities of the APEC trade promotion working group. The Asia-Pacific Trade Agreement (the Bangkok Agreement) is one of the regional agreements that Mongolia is seriously seeking to join. In addition, the Mongolian government is carefully studying other regional agreements and organizations, as well as the possibilities for establishing free trade agreements with some of Mongolia's major trading partners, such as the US, Japan, the EU and the ROK.

Furthermore, the foreign investment regime is relatively liberal in Mongolia and the initial Foreign Investment Law, which was passed in 1991, was subsequently revised and amended in 1993, 1998 and 2002, in order to improve the investment environment in the country. Moreover, in order to protect and promote FDI,

¹ The next Mongolian CDM project on hydro power generation is currently underway and the Mitsubishi UFJ Securities Co. Ltd. is providing CDM consultancy service as well.

the Mongolian government has concluded an Agreement on the Promotion and Mutual Protection of FDI with 39 countries and an Agreement on the Avoidance of Double Taxation with more than 34 countries to date. In addition, with the aim of increasing trade, attracting more investment and promoting export-oriented industries, the government is working towards establishing free trade and economic zones, as well as industrial and technological parks. The legal basis has been established by adopting the General Law on Free Zones, specific laws on the legal status of the free trade zone (FTZ) in Altanbulag (on the northern border) and the Tsagaannuur (on the western border) and Zamyun-Uud (on the southern border) free economic zones (FEZs) in 2002, 2003 and 2004 respectively. Moreover, the Concept for Developing Industrial and Technological Parks was approved in 2003. In addition, Mr. Enkhbold called for the participants' support in establishing and developing the planned zones and parks.

Moreover, the Government considers FDI as an important thrust in the economic development of the country, and infrastructure, information and communications technology, agriculture and tourism have been identified by the government as priority sectors for development and attracting FDI. The country's open economy, strategic and easy access to the markets of Russia and China, abundant natural resources, young and educated workforce, vast territory, and clean and undisturbed nature are a few of the advantages that will help Mongolia to attract FDI. Currently, China and Canada are the main sources of investment into the country, accounting for almost 47.4% and 12.2% of total FDI respectively. They are followed by the ROK (7.3%), Japan (5%), the USA (3.6%) and Russia (3.2%).

Mr. Enkhbold concluded by pointing out the various issues facing the two countries in their trade and investment relationships in the future, including the improvement of market access for agricultural products, such as mutton, salt, vegetables and other ecologically clean products, solutions to problems relating to sanitary and phytosanitary matters and non-tariff barriers, the transfer of technologies, know-how and FDI in establishing SMEs and producing high value-added goods, and the mutual promotion of trade and investment activities (e.g. continuing exchanges of information, the organization of trade fairs and exhibitions, etc.).

This was followed by my own presentation about recent trends in Mongolian foreign trade with NEA countries. The main points of this presentation were as follows.

Mongolia currently trades with more than 80 countries throughout the world. The NEA countries have a large presence in Mongolia's foreign trade activities. In 2005, Mongolia's trade turnover with NEA countries accounted for 65.9% of total foreign trade, while exports and imports respectively accounted for 57.3% and 73.8% of the total. Because Mongolia is a landlocked country and has limited domestic and international transportation networks, Mongolia's only two neighbors - China and Russia - have the largest presence in its foreign trade activities. In 2005, Mongolia's trade turnover with China accounted for 35.5% of total trade, whereas trade with Russia accounted for

19.2%.

Japan and the ROK have emerged as destinations for Mongolia's exports, but the volumes remain limited. In 2005, exports to these countries accounted for 0.6% and 6.2% of total exports respectively. Mongolian exports to Japan mainly consisted of semi-processed and finished cashmere goods, which accounted for 87% of total exports to Japan in 2004, while cars and other vehicles, and electrical and industrial machinery, equipment and their spare parts were the main items imported from Japan. Although Japan grants Mongolia preferential tariff treatment under its GSP scheme, Mongolian exports to Japan remained sluggish during the period 1990-2005.

Although the Mongolian government has consistently promoted an export-led growth policy for more than a decade of transition, the dominance of raw and low value-added products in its exports means that the country is unable to escape from the prolonged foreign trade deficit that is undermining the potential of foreign trade to be the country's growth engine. The overall structure of Mongolia's foreign trade did not change much over the period 1990-2005. Exports were dominated by mineral products and products of livestock origin, whereas imports comprised a wide range of consumer products and industrial goods. Apart from gold and sewn goods, no major new commodity was included in the list of exported goods during this period. Therefore, Mongolia needs to improve its export performance by diversifying its markets and seeking opportunities for exports of higher value-added products. Accordingly, effective policies and actions on the part of both the government and business need to be intensified.

In this regard, Japan could be one of the leading promoters of Mongolian exports by transferring technology, as well as facilitating production and exports of higher value-added products. It is a well-known fact that Japan was Mongolia's largest donor, with Japanese ODA in 1991-2002 totaling \$839.6 million, 71.8% of which was grant aid and 28.2% soft loans. At the same time, cumulative trade turnover between Mongolia and Japan totaled \$838.8 million, with Mongolia's exports to Japan accounting for \$254.1 million and imports from Japan accounting for \$584.7 million.

Therefore, economic cooperation between Mongolia and Japan needs to make a firm shift from aid towards trade. In general, it has already become evident that ODA facilitates but does not completely translate into economic development in a recipient country; rather, for the governments of both the recipient and donor countries, it has become a source of increasing concern with regard to corruption. However, trade directly translates into economic growth by the definition of GDP, while exports contribute positively and imports negatively. Accordingly, "Trade, not only Aid" should be the slogan inspiring the agenda of policymakers and businesses in both countries.

The second session began with a presentation by Mr. Ts. Davaadorj, Director-General, Geology, Mining and Heavy Industry Department of the Ministry of Industry and Trade, concerning the current situation and future trends in Mongolia's geology and mining sector. This sector is the leading sector of the national economy, accounting

for 18% of GDP, 65.5% of gross industrial product and 75.8% of exports in 2005. It is forecast that this sector will increase by 2.3 times in "simple" terms or by 4 times in the "optimistic" scenario, with its contribution to the state budget increasing by 2.5 times and 5 times respectively. A total of \$98.7 million, or 4%, of global exploration expenditure was spent in Mongolia in 2004, putting it in the top ten in terms of the attraction of investment in this field. This expenditure increased further to \$129 million in 2005, but Mongolia was ranked 12th, due to global increases in exploration expenditure. Many leading exploration and mining companies, such as Centerra Gold, CBRD, BHP Billiton, Rio Tinto, Mitsui and Mitsubishi, have representative offices in Mongolia. Exploration licenses have been issued for 33% of the country's total land area, with more than 6500 licenses issued. The top multiple license holders are the Canadian-based companies QGX Mongolia and Ivanhoe Mines Mongolia, which respectively hold 144 and 124 licenses covering an area of 2.9 billion ha and 8.6 billion ha areas, and the Mongolian-based Batu Mining company, which owns 128 licenses covering 4.8 billion ha.

Furthermore, Mr. Davaadorj informed participants about the newly passed amendment to Mongolia's Law on Minerals, which was adopted in 1997. The major revisions were the introduction of government control over heavy element isotope deposits, state participation in strategic deposits explored using investment funded by the state budget, and the conclusion of investment agreements with investors who have invested over \$50 million. In addition, the license fee was increased in order to impose stricter obligations on license holders, particularly with regard to environmental restoration. Exploration and exploitation licenses will be granted to entities registered in Mongolia. In addition, the government has sought to increase local government revenues from license fees, in order to support regional development. Moreover, exploitation licenses for deposits that were explored using state budget funding should be granted via an auction. Mongolian government policy on further development of the mining sector will be designed in such a way as to provide equal opportunities for all investors, promoting the production of more value-added products, and creating a more competitive legal environment, while also improving the quality of geological exploration work. In addition, foreign and domestic investors will be invited to develop infrastructure for the exploitation of major large deposits.

The next presenter in this session was Mr. Ch. Batto'mor, Head, Petroleum Product Sharing Contracts and New Ventures Department, Mineral Resources and Petroleum Authority of Mongolia. The presentation focused on Mongolia's petroleum potential and government policy concerning petroleum exploration, development and production, emphasizing its brief history, the legal environment, current operations, the prospects for Mongolian petroleum upstream, and key issues and outstanding problems.

Petroleum exploration in Mongolia began with the classification of Mesozoic and Tertiary sediments and the discovery of an outcrop of oil-shale related to petroleum genesis during geological research by the American

geologists H. Berkley and C. Morris in 1922-1923 in the Gobi region of the country. The existence of oil in Mongolia was postulated by American geologist D. Tenner in 1931, and the Zuunbayan oilfield in East Gobi was discovered by Mongolian geologist J. Dugersuren and Soviet geologist Yu. S. Jelubovsky in 1940. Between 1947 and 1963, two small oilfields and 80 buried structures with possible oil potential were discovered by former Soviet Union geologists in the southern, southeastern and eastern parts of the country. An oil refinery with a processing capacity of about 0.4 million barrels per year was built in Zuunbayan in 1950 and produced over 4 million barrels of oil between 1950-1969, supplying more than 20% of the country's fuel and lubricant demand during that period. However, it ceased operating in 1969.

In 1991, the Petroleum Law of Mongolia was ratified by Parliament and the Regulations for Implementing the Petroleum Law were adopted, establishing the legal foundations for new petroleum exploration activity in Mongolia. The Petroleum Law of Mongolia ranks among the ten most favorable petroleum laws in the world, according to the 1995 Van Meurs rating. Government policy aims to promote the exploration of Mongolia's petroleum potential, increase production, and supply the whole of domestic demand for oil products from the domestic oil refining industry, through the utilization of domestic resources in the course of mutually beneficial cooperation with international oil companies. The Mongolian government has approved 2 programs, "Guidelines for the Petroleum Sector until 2010" and "Liquefied Gas", focused on the intensification of petroleum, natural gas and coalbed methane gas exploration, development and production in Mongolia.

Mr. Batto'mor informed participants that 24 fields with potential oil deposits had been identified so far, with oil being extracted from 4 fields in eastern Mongolia; in addition, discussions are underway concerning exploration work at another 3 fields. The other fields are open to investors and Mongolian government is willing to invite Japanese investors to these fields and supply them with any necessary information.

Next, Mr. Ts. Tumentsogt, Chief, International Cooperation Department, Ministry of Fuel and Energy of Mongolia gave a presentation about the current situation with regard to energy supply and demand, recent government action in Mongolia's energy sector, energy security issues, financing and environmental issues, and possible ways of facilitating energy cooperation in the region. Due to its landlocked geographical location and small, scattered population, the development of infrastructure, such as roads, energy access and telecommunications, is vital for the country to achieve economic growth, reduce poverty and promote overall development. Mongolia's current total installed electricity capacity is 878.4 MW and its heat capacity is 1700 GCal/hour; the electricity network covers most of the country and power is supplied to 19 *aimag* and 187 *soum* centers. Mongolia covers its deficit in peak hours using electricity imported from Russia. In addition, the government is encouraging the use of Liquefied Petroleum Gas (LPG) as a new and relatively "clean" fuel mix, as well as

the development of renewable energy, such as small-scale hydropower, solar and wind energy. Mongolia has significant coal resources and the production and export of coal is increasing. The government is implementing programs to create a unified grid, in order to develop the energy sector in a comprehensive and sustainable manner.

The new Energy Law of 2001 made possible the establishment of an independent regulatory authority, which enables efficient operators to enter the energy market; in addition, the energy sector has been restructured in line with the new law. The Mongolian government has also initiated the privatization of state-owned assets in the energy sector. Moreover, the Mongolian government places exceptional importance on energy cooperation with its neighbors and regional energy cooperation between the countries of Northeast Asia. Mr. Ts. Tumentsog pointed out that, because of differences in scale, capacity and political and institutional structures, an intergovernmental collaborative framework might serve as a feasible cooperation framework that could mitigate structural differences.

Mr. Hiroshi Watanabe, General Manager, Consulting Department, TEC, commented on the issues discussed at this session. He noted that many mining projects, including the mining resource institute project, have been supported by the Japanese government. Mongolia is richly endowed with coal resources, which are mainly used in electric power plants. A vast colliery development project has started in Tavan Tolgoi, which is estimated to have coal reserves totaling 5 billion tons. Oil development projects are now focused on Mongolia, as 400,000 tons of oil were produced annually by Mongolnefttrust in the East Gobi Zuunbayan area during the socialist era. Since Mongolia is importing petroleum products from Russia, the rapid development of domestic oil production capacity is required. Technical assistance and/or financial support from the Japanese government are desired. In collaboration with J-power, Toyo Engineering implemented the JBIC Power Plant Project Feasibility Study last year. The purpose of the power plant is to supply electricity generated by coal from the Tavan Tolgoi colliery to the Oyu Tolgoi copper mines as well as to the South Gobi area. Two plans for the supply of power during the construction of the power plant are currently being studied: one focuses on supply from Ulaanbaatar, and the other on supply from China. Since the development of mines and petroleum requires a huge amount of investment as well as infrastructure construction, technical assistance and financial support from the Japanese government are desired.

At the end of this session, Mr. Haruhisa Kawashita, Senior Executive Director, JCF, gave a brief overview of JCF's activities in Mongolia. As mentioned earlier, JCF has signed an Emission Reduction Purchase Agreement with a Mongolian CDM project developer, Anu Service LLC. Mr. Kawashita stated that there is great potential for fostering cooperation between Japan and Mongolia, focusing on environmental consciousness. Other candidate projects for CDM projects in Mongolia include the further development of ESCO activity, the development of hydropower and wind power generation, and energy efficiency improvements at manufacturing facilities.

At the **third session**, Mr. Yo. Jargalsaikhan, Senior

Officer, Ministry of Roads, Transport and Tourism of Mongolia, informed participants about the present situation and future development issues in Mongolia's transport sector. In the 1990s, the economy suffered a major decline in the domestic production and supply of industrial, agricultural and raw materials, resulting in a decrease in the volume of goods transported by road and rail. However, the situation has been improving since 1998. The government of Mongolia is paying great attention to the development of international road transport. Mongolia has international road transport agreements with Russia, China, Ukraine, Kazakhstan, Belarus, Turkey and the Kyrgyz Republic. Furthermore, Mongolia has joined the "Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention 1975), along with four other related conventions. However, international road transport does not move much beyond the border areas of neighboring countries, due mainly to the limited road network, the political and economic situation, and the domestic laws and regulations of neighboring countries.

The population of Ulaanbaatar City has almost doubled within the last decade and the number of vehicles has increased by 2.5 times. Moreover, due to the limited urban road network, the increase in minibuses and taxis, and the decrease in large buses, traffic congestion, accidents and air pollution in the capital city are a growing problem.

Mongolia's railway system was established in 1949, since when it has been run by a joint venture involving Mongolian and Russian shareholders. The volume of freight transportation by rail has been increasing lately, accounting for 15.6 million tons in 2005, up from 9.18 million tons in 2000 and 7.33 million tons in 1997. The majority of the freight is accounted for by local commodities, and profit margins are low due to low rail tariffs for carrying locally mined coal. The difficulty is that there is only one main railway line, which complicates schedules and limits passing capacity to a considerable extent. Hence, a policy has been adopted of constructing new stations, constantly increasing the number of locomotives and wagons, and refurbishing old ones, as well as laying a second set of tracks alongside the existing set, and making use of electricity resources.

The Civil Aviation Authority, a government agency, is involved in assuring the security of civil aviation services by air companies, as well as making policy concerning the coordination of functions, air navigation and airport services. As a result of policy measures taken in order to improve air navigation services in line with international standards, expand international cooperation, upgrade the qualifications of engineering and technical staff, and conduct technical and technological renovation, the number of international air routes via Mongolia has reached 8. Although some passenger and freight air transportation is conducted by private air companies, the main role is still played by the state-owned MIAT company. Furthermore, policy within the civil aviation sector is focused on increasing the number of aircraft, ensuring the quality of services and satisfying local demand by constructing new airports, improving existing local airports, paving runways, and encouraging domestic and foreign investment.

With the aim of securing access to marine wealth

and undertaking sea transportation by using discounts available to landlocked countries, Mongolia has joined 11 international contracts, as well as various negotiations and a convention. This means that ships can now travel under the national flag of Mongolia. A joint venture named "Mongolian Ship Registration" in Singapore has registered more than 500 ships and controls and coordinates their activities. The charges for such functions are making a considerable contribution to the state budget.

Next, Mr. Hanada presented his views on the economic infrastructure in Mongolia and pointed out a few perspectives that have been lacking in the country's policy for developing economic infrastructure. He noted that the country's economic infrastructure is still inadequate, although the Mongolian government has undertaken considerable investment using foreign assistance. The Mongolian government has formulated a plan to resolve the problem of the extreme concentration of the population in Ulaanbaatar, and to develop a more evenly distributed provincial economy in the future. To be more specific, the plan divides the whole country into 5 big economic zones, with each zone having a center; it also incorporates the fish-bone-patterned millennium road plan, which consists of a horizontal main road and five roads that traverse it. The development of economic infrastructure should be considered along these lines. The construction of the eastern trunk road from Ulaanbaatar to eastern Choibalsan will be vital to Mongolian development in the future.

The railroad that traverses the country from north to south transports the majority of Mongolian imports and exports at present, and thus is of incomparable importance to the Mongolian economy. The Japanese government has carried out the rehabilitation of the whole northern line from Ulaanbaatar, the reinforcement of the rail beds, and the renewal and replacement of bridges, and that work is being extended to the whole southern line. In addition, the Japanese government has implemented considerable investment, such as the renewal of railway transshipment facilities near the border with China, the renewal of railway vehicles by means of Japanese loans, and a locomotive tire rehabilitation factory. However, the importance of constructing an east-west line was pointed out: in the future, when transport freight increases as a result of the promotion of the development of Mongolia's underground resources, a single north-south line will be insufficient. The electrification of the railway could be possible in the future, and this would lead to the reduction of transport costs, with the generation of electricity depending on the country's rich coal resources, as well as any oil or natural gas that may be developed in the future. An eastern railroad would be useful for the transport of bulky underground resources and the utilization of tourist resources, such as the birthplace of Chinggis Khaan. The level of contribution of any railroad line to the Mongolian economy would be very low, unless it was connected with Ulaanbaatar; however, the construction of a line from the Khalka River border to northern Russia via Choibalsan is going according to schedule at present. The NPO "Northeast Asia Transportation Corridor Promotion Network", of which Mr. Hanada is the Chairman, has been making a significant contribution to promoting the establishment of a new cross-Japan Sea route

from Zarubino to Niigata. If this route could be opened, it would be useful for the Mongolian economy.

With regard to communications, Japan has constructed an antenna that is fundamental to international communications in the capital; in particular, the local radio communications network installed in all *soums* and *bugs* has made a great contribution to the Mongolian economy and the life of the local inhabitants. Moreover, commercial cellular phones have recently been making huge inroads into provincial areas. Mr. Hanada stated that he did not think it appropriate to use cables in the expansion of local communications networks in Mongolia, as copper wire is a target for theft. GPS communications facilities to confirm locations are indispensable if cattle breeding in pastures is to thrive in the 21st century, given the problems caused by dzud (severe winters) and issues relating to the daily life of cattle breeders. Japan laid a million optical communication lines as a part of its support for improvements to Mongolia's northern railroad line. Improvements in the use of these lines are required.

At the end of third session, Mr. Baatarsuren, Senior Officer, Ministry of Construction and Urban Development of Mongolia, pointed out that the Mongolian construction industry is currently celebrating 80 years of development, but virtually all the urban settlements marked on the current map of the country were constructed and developed within a 30-year period between the early 1960s and late 1980s. Although the country's construction industry was badly affected by transitional hurdles in the 15 years after 1990, this sector has begun to witness an inexorable recovery recently. More than 800 economic entities with construction licenses are currently operating; more than 100 private companies are engaged in construction projects and drafting; and more than 250 companies are producing construction materials, half of which were established within the past 4 years. However, this sector needs substantial improvements to and renovation of its heavy machinery and equipment. Consequently, the government has waived import duty and VAT for 36 types of such machinery and equipment, as well as abolishing these taxes on technological machinery and equipment for plants that produce import-substituting products (e.g. those involved in the production of plastics, plastic pipes, etc.) Furthermore, Mr. Baatarsuren informed participants that more than 190 construction mineral deposits have been identified, and plans are underway to modernize the Kho'tol Cement Plant. He noted that the potential for fostering cooperation in the construction sectors of the two countries is inadequate at present and stated that the Mongolian side is interesting in learning, training and exchanging experiences with Japanese colleagues, who have substantial knowledge and practical experience concerning the construction of highly earthquake-resistant buildings.

At the beginning of **plenary session**, Ms. Nishimura gave an opening address in which she stated that, as a member of the Japanese House of Representatives and a citizen of Niigata Prefecture, she is aiming to promote the development of the Japan Sea Rim region and achieve mutual harmony and co-prosperity. Taking "think globally, act locally" as her motto for her political activities, she believes that it is absolutely imperative to create plans

for the sustainable development of the immediate local community, while carefully observing the international community. This was her second visit to Mongolia, following her first visit last year, and she stated that for a number of years, she has had a great interest in Mongolia as one of the countries of the Japan Sea Rim economic region. In addition, she expressed her wish to contribute to the strengthening of friendly relations between Japan and Mongolia in the future.

Until now, the Japan Sea Rim region, in which both Japan and Mongolia are located, has occupied a rather peripheral position. However, in this increasingly internationalized, information-oriented age, in which values are becoming ever more diversified, there are great expectations concerning the interaction and exchange of people, goods and information using various resources. It would be of immense significance if Japan and Mongolia were to utilize their own resources to create a new development model in which people can coexist harmoniously with both other people and nature.

Mr. B. Jargalsaikhan gave his views on the country's economic development and informed participants about government policy and undertakings in this regard, along with proposals for further fostering economic cooperation between Mongolia and Japan. At the beginning of his speech, on behalf of the Mongolian government, he expressed the country's sincere thanks to Japan for the generous support that it provided to Mongolia in coping with and overcoming the transitional difficulties that it faced.

The government of Mongolia and the Ministry for Industry and Trade are working to develop and transform the country's vast mineral resources into national wealth and are aiming to implement a number of relevant projects, particularly in the field of promoting heavy industry development. For example, a project focused on producing copper from copper concentrate has been completed by Erdenet copper mine, the biggest copper mining company in the country at present, and it is in the process of selecting investors. The area surrounding the city of Darkhan has potential iron ore deposits totaling up to 1.0 billion tons, which have already been identified. A steel plant has been established in Darkhan, using Japanese loans and technology. However, further expansion of its operations is required, along with an increase in product varieties, with the nearby iron ore deposits being used. This is one of the projects in which Japanese investment would be welcome.

In addition, there is an area in the southern part of the country called the "Golden Triangle". Two large-scale copper and gold deposits and one coking coal deposit are located here (in the Oyu Tolgoi and Tavan Tolgoi areas). The government will own certain shares in the exploitation of these deposits, as it invested in research and exploration work there. However, the Mongolian government will not be involved in their management, taking only a supervisory role. A number of companies from various countries, such as Mitsui, Itochu and Marubeni of Japan, have already expressed their interest in participating in these projects, and the government is considering developing these projects by establishing a consortium of international investors.

Moreover, the government aims substantially to

improve heating and basic infrastructure in ger districts in Ulaanbaatar. There are about 50,000 households living in these areas and the government wishes to secure electricity at a reasonable cost, by such means as imports from Russia and renewable sources, and to supply modern electric heating devices to replace the coal-fired stoves currently used, as the latter are increasingly becoming a source of concern with regard to air pollution in Ulaanbaatar. Japanese producers could potentially be suppliers of electric heating devices suitable for local conditions.

Generally, the pressure on the infrastructure of Ulaanbaatar is growing year by year as inward migration from remote areas is increasing. Accordingly, the government is considering directing ODA to improving the infrastructure of the capital city. Moreover, talks between the two governments will be initiated, with the aim of increasing government-guaranteed, bilateral, long-term soft loans from Japan. The construction of industrial parks is of the utmost importance for employment creation, and the legal framework for promoting such initiatives is being put in place. Japanese investors would be most welcome in this area as well.

Furthermore, Mr. B. Jargalsaikhan reiterated his view that cooperation between Mongolia and Japan needs to shift to a new level of mutually beneficial bases, moving away from the situation in which Mongolia is the recipient and Japan the donor. Mongolia has vast resources and a young, well-educated population, but it needs Japanese management, finance and technology. In conclusion, he stated that the two countries should grow together.

Following this, Mr. Yoshida presented his views on the development of Japan-Mongolia cooperation. For the last few years, the formation of an East Asian community within the ASEAN+3 framework has been advocated, but Mongolia and Russia are not included in this. Resources, including energy, form one pillar of an economic community. Another pillar is geographical proximity. Based on these, ERINA and other bodies have advocated the formation of the Northeast Asian Economic Subregion. Mongolia is unique in that there are just 2.5 million people living in a country that covers an area of 1.6 million sq. km (four times the size of Japan) and has an average elevation of 1,580m above sea level. Mineral resource development, stockbreeding and foodstuff processing, the cashmere textile industry, and tourism development are likely to become the four main directions of development.

Mr. Yoshida also made the following proposals for the future direction of Mongolia.

1. *Develop tourism.* Apparently, Japanese people who have visited both Mongolia and Switzerland say that Mongolia is the Switzerland of the East. However, the number of tourists visiting Mongolia each year is just 300,000 annually. Of these, about 200,000 are from Asia, with the majority coming from the ROK. Mongolia should create a tourism network and develop routes such as Japan - Mongolia - Russia (Lake Baikal) - Japan. In this situation, the biggest issue would be how the tourism companies and airlines of Mongolia and Russia could cooperate to offer cheap fares.

2. *Work together to realize the Tumen River Transport Corridor.* In developing this route, Mongolia must take

charge of the section between Choibalsan and Yirshi. It should also request international aid. This would contribute to the development of international transport via Eurasia, stimulate flows of people, and promote the development of mineral resources in the region, as well as encouraging the development of intra-regional trade.

3. In the *development of mines*, attention will focus on such minerals as copper, gold, oil, zinc and rock salt. Grants-in-aid could be used for such surveys.

4. Develop new projects undertaken by small and medium-sized enterprises. The recently signed Japanese two-step loan to Mongolia, which amounts to 2.98 billion yen, should be adequately used.

5. With regard to the relationship with Japan, investment in Mongolia by private sector companies is not flourishing, compared with government assistance. Moreover, there is a huge imbalance in trade. The inflow of capital to Mongolia from Japanese companies should be promoted, exports of Mongolia's main export-oriented products should be cultivated and increased, and a better balance of trade should be achieved.

During the Q&A session, Dr. T. Namjim, former Vice-Chairman of the State Planning Committee, expressed his opinion on economic cooperation between Mongolia and Japan. Noting that Japan was the main country that supported and assisted Mongolia during the country's transition to a market economy, Dr. Namjim pointed out that Japanese ODA accounts for 40% of total foreign aid, while bilateral aid accounts for 70% of the total. These figures indicate that bilateral cooperation at the government level is well developed. However, cooperation at the non-governmental and private levels, especially trade relations, is still quite low and is even declining compared with the beginning of the 1990s. There are no large joint enterprises or subsidiaries of Japanese production companies or parts of production chains. It is a well-known fact that it is very hard to find a suit made in Japan, as almost all of them are made in China. It would be quite nice if one could find some such items in Japan labeled "Made in Mongolia".

There is considerable potential to build joint ventures with Japanese investment in Mongolia. Currently, there are more than 300,000 unemployed young persons in Mongolia, who could be a source of cheap labor comparable with China. The unemployment rate in Mongolia ranges between 20% and 30%, although official data reports it to be 4-5%. In addition to the potential for utilizing natural resources, almost all of the valuable raw materials of Mongolia's livestock, which totals more than 30.0 million head, are exported without being processed domestically. It should be noted that domestic production of finished products from domestic hides, skin, wool, and cashmere was worth twice as much as the country's mining industry before 1990. The finished products were exported to western European countries. Finally, Dr. Namjim pointed out that it is necessary to develop a detailed concept and action plan, which will identify the country's development strategy for the near future.

At the end of this meeting, the heads of the two delegations, Mr. Hanada and Mr. D. Badarch, signed the Minutes of the Meeting.