



## **U.S. Department of State FY 2001 Country Commercial Guide: Mongolia**

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### **CHAPTER 1: EXECUTIVE SUMMARY.**

Mongolia is the only country in Asia undergoing simultaneous political and economic transformation. Ten years after changing to a democratic form of government and a market economy, Mongolia is still a country in transition. Despite the victory of the People's Revolutionary Party in July 2000 parliamentary elections, Mongolia remains committed to democratic reforms.

Because of its small (2.4 million) population, Mongolia must rely on its comparative advantages over other Asian countries to attract foreign investment. The country is strategically located between the much larger Siberian and northern China markets and provides a much easier business environment than either of its neighbors. In addition, Mongolia has a highly literate and motivated work force and many natural resources.

### **CHAPTER 2: ECONOMIC TRENDS AND OUTLOOK.**

#### **A. MAJOR TRENDS AND OUTLOOK**

Following sweeping political changes in 1990, Mongolia embarked on an ambitious program of economic reforms aimed at replacing the centrally planned economy. This goal was pursued against the background of a series of severe external shocks, notably the abrupt termination of the Soviet Union's trade support and foreign aid which comprised 37% of Mongolia's GDP.

In the years immediately after the reform program began, the economy declined. Output decreased, the balance of payments deteriorated, and inflation grew rapidly, reaching almost 400% in 1992. The Mongolian social safety net could not meet the demands placed upon it. Nonetheless, Mongolia remained committed to reform. It has closely followed the

recommendations of IMF advisors and has used the IMF's enhanced structural adjustment facility to slow the decline of the economy. In 1993-94, the economy hit bottom and began to rebound. In 1994 Mongolia achieved positive growth for the first time since the reform process began, with growth of 2.4%. Since 1995 the economy has grown by 3-6% a year. Unemployment is about 20% and underemployment is higher. After the June 1996 parliamentary elections the new government accelerated the pace of reform and announced the liberalization of energy prices and its intent to increase the speed of privatization. The Ministry of Finance and central bank were committed to providing a stable macroeconomic environment. Thanks to these efforts, inflation dropped to 17% in 1997, 6% in 1998 and 10% in 1999.

Mongolia's reform government, under the Democratic Coalition, has made important economic progress. Sound macro-economic policies, supported by the donor community, have allowed Mongolia to weather the worst of the Asian financial crisis, despite several drops in world prices of Mongolia's key exports: copper, cashmere, and gold. Gross Domestic Product (GDP) grew by 2.7 percent in 1999, continuing the positive growth trend begun in 1995. Inflation was 10 percent, marking the second year in a row with moderate price increases, compared to hyper-inflationary rates earlier in the decade. Most impressive has been the growth of the private sector. The private sector share is now 72 percent. Private sector value-added grew by 12.7 percent in 1997, 15.0 percent in 1998, and 6 percent in 1999.

The total external trade turnover for 1999 equaled USD \$761.4 million, of which USD \$335.6 million were in exports and USD \$425.8 million in imports. The total trade volume was down 10.3 percent from 1998, particularly imports, reflecting the imposition of a 5 percent import tariff in mid-1999 as required by IMF conditionality. Exports of textiles and textile articles increased by 58.7 percent or USD \$45.7 million. However, mineral product exports declined by 13.2 percent, showing the effects of the gold export tax imposed in late 1998 and the low world price for copper.

New firms are emerging in Mongolia. In 1998 textile and garment exports were larger than mineral exports for the first time in Mongolian history. Due to the relative stability of Mongolia, some American firms have established operations here, using Mongolia as a base for operations in Siberia. The modest trend is expected to continue as firms begin to realize the strategic location of Mongolia. In addition, the informal sector is emerging as a major engine of growth and employment and may account for 13 percent of the GDP.

During the past four years the Mongolian economy has been transformed from a state-owned to a private one. This has been the result of three complementary trends:

- Private enterprises have performed far better than state enterprises in sector after sector, and agriculture, which is an almost entirely private sector, has been the leading growth sector.
- New private companies have been contributing more and more to economic output
- A sustained broad privatization program has shifted significant number of enterprises from state to private ownership.

## B. PRINCIPAL GROWTH SECTORS

Mongolia's long-term growth depends principally on mineral and petroleum extraction, and value-added processing of livestock products (particularly cashmere and meat). While tourism offers some potential, it is limited by the short summer, the cost of travel to Mongolia, and lack of infrastructure (roads, hotels, etc.). For more information, see Chapter 5.

### C. GOVERNMENT ROLE IN THE ECONOMY

Since the beginning of reform in 1990, the role of the government in the economy has been strong. Adjustments in purchase prices for grain and other commodities, wage increases for state workers, difficulty in collecting national taxes, and the decline of world market prices for Mongolia's principal exports (gold, copper, cashmere) have contributed to a decline in official government revenues. The largest state-owned enterprises (such as Erdenet copper concern) have yet to be privatized. However, the private sector now makes up over 70% of GDP and privatizations continue through sealed bid auctions.

### D. INFRASTRUCTURE INVESTMENT

Infrastructure development is the key to Mongolia's economic development. A north-south paved road running from the Russian border to the Chinese border through the capital city is complete from Ulaanbaatar north to the Russian border. The project was financed by the Asian Development Bank. A north-south rail corridor already exists. The country lacks an east-west paved road or rail line. Without transportation infrastructure it is difficult to attract investment in the mining or petroleum sectors. However, the government does not have the resources to undertake these projects.

If the government continues with privatization of major state-owned companies, the national petroleum distribution company, NIC, will be sold within a year. NIC imports petroleum products, mainly from Russia, and distributes and sells them countrywide. A Mongolian-Chinese joint venture company, the Mongolian Refinery Company, plans to construct a refinery 45 km east of Ulaanbaatar. Several gold and coal mines have been privatized through sealed-bid auction. The embassy makes every effort to inform US businesses of these opportunities through International Market Insight (IMI) reporting and the National Trade Data Base.

## CHAPTER 3: POLITICAL ENVIRONMENT

Mongolia is a parliamentary democracy. The 76-member national parliament, elected by a majoritarian system, in turn selects the Prime Minister and the Cabinet with the approval of the President. The President is the Commander in Chief; he also has strong influence on the judiciary through the power to appoint members to both the Supreme Court and Constitutional Court. Currently, some political groups are seeking to revise the 1992 constitution to strengthen the powers of Parliament vis-a-vis the President. Mongolia holds national elections every four years and just completed parliamentary elections on July 2, 2000. Local elections will follow in fall 2000, and the presidential election will be held in summer 2001. While local leaders depend on central authorities for funding, they hold significant power and influence in their constituency, especially in isolated areas.

In this year's parliamentary elections, the People's Revolutionary Party (MPRP), the former communists, won a sweeping victory of 72 out of 76 seats in the Parliament, rendering the Democratic Coalition that ruled 1996-2000 and other smaller parties incapable of affecting government for the next four years. The inability of the Democratic Coalition to overcome internal divisiveness, address pressing social needs, allay public concerns about corruption, or communicate their economic reform successes sent the voters back to the MPRP as the experienced party that had ruled Mongolia for over 70 years.

The MPRP claims to have renovated itself, fully supporting democracy and market economy reforms. They have promised to address social needs and improve the standard of living, but plans for financing such expenditures are unclear. Observers are concerned that the MPRP tendency to favor state control will limit and inhibit the private sector growth that has developed in the past 10 years since Mongolia's independence from the Soviet Union.

Mongolian-US relations are extremely good, having developed rapidly in the last 13 years to include humanitarian and technical assistance, military to military relations, business development, and a host of smaller programs. Mongolia looks to the US as one of its "third neighbors" to balance relations with its large neighbors to the north and south. The international donor community works with the Mongolian government to coordinate a strategy to meet the country's development needs, including support for civil society organizations. Mongolia's healthy population of non-governmental organizations, especially those dealing with women's issues, will be critical to support democracy in the next four years without an opposition in Parliament.

The political problems most affecting business development in Mongolia are: 1) the need to strengthen the rule of law; 2) corruption in the bureaucracy; and 3) relations with Russia and China. Reform within the legal and judicial sectors that is sorely needed as a foundation for business has been delayed and deferred. While corruption has not reached levels one might find in many other parts of the world, it is increasingly an obstacle to honest business and efficiency. Relations with Russia and China are critical because Mongolia is completely dependent on these two nations for power and petroleum supplies and transportation routes. To the extent that the Mongolian government can manage or address these issues politically, business opportunities will be enhanced.

## CHAPTER 4: MARKETING US PRODUCTS AND SERVICES.

### A. Distribution and Sales Channels

Many US companies are represented in Mongolia by distributors or agents who handle internal distribution and marketing. The US Embassy in Ulaanbaatar can help US exporters find appropriate sales agents in Mongolia. A distributor search is an excellent way to gauge interest in your product and begin the process of finding a suitable representative.

### B. Registering a Business

The registration process in Mongolia is transparent and less complicated than in other Asian countries. Many Mongolians speak English and have a growing sense of how to successfully handle business-related information requests.

The process begins at the Foreign Investment and Foreign Trade Agency (FIFTA). Prospective foreign and Mongolian companies should file an application (the company can be wholly foreign owned or a joint venture). FIFTA can independently approve ventures with a capital investment of less than \$50,000. If the capital investment is greater, FIFTA will pass the application to the Prime Minister's office for approval. A wholly foreign owned company should submit information on its activities along with the application letter.

FIFTA charges \$12 to issue a registration certificate. A joint venture is required to register the company name with the Registration Office of the Tax Authority to ensure no two companies have the same name.

To become a juridical entity in Mongolia, the company must receive final approval from the Tax Authority. The Tax Authority makes the registration public. It requires a \$75 filing fee and the following documents:

1. the agreement and charter signed by all parties involved in the venture
2. the FIFTA certificate
3. a notarized schedule showing the equity share held by each partner
4. the account numbers of togrog and hard currency accounts in a local bank
5. a copy of the foreign company representative's passport
6. a certificate showing the amount of capital held by the foreign company in its home country
7. a certificate indicating the approval of the local administration where the venture will be based in Mongolia

Representative offices must register with the Ministry of Agriculture and Industry. A representative office may not engage in activities that generate revenue in Mongolia.

### C. Selling Factors/Techniques

Personal relationships in business are critical. The Mongolians like to deal with "old friends" and it is important for exporters, importers and investors to establish and maintain close relationships with their Mongolian counterparts and relevant government agencies. It is equally important that American exporters encourage strong personal relationships between their Mongolian agents or distributors and the buyers and end-users. A web of strong personal relationships will help ensure smoother development of business in Mongolia. Family connections are still very strong in Mongolia and it is important to learn who is related to whom when establishing business connections there.

### D. Advertising and Trade Promotion

Advertising is an effective way to create product awareness among potential consumers in Mongolia. Channels for mass advertising include newspapers and magazines, radio, television

and billboard displays as well as sports sponsorship. There are many advertising companies in Mongolia. The Mongolian Chamber of Commerce and Industry holds annual spring and autumn trade shows with participants from around Mongolia, Russia, China and Korea.

Major newspapers include:

Business Times - a weekly business paper, in Mongolian, published by the Mongolian Chamber of Commerce and Industry

Mongol Messenger - weekly English language paper published by the Mongolian news agency MONTSAME (the Mongolian national news agency)

Mongolyn Medee - (News of Mongolia) daily newspaper of the Erel Company

Odriin Sonin - (Daily News) daily newspaper

UB Post - weekly English-language newspaper published by Mongol News Group

Unoodor - (Today) independent daily newspaper published by Mongol News Group

Zuuny Medee - (Century News) daily newspaper

Television stations include:

Channel 25, owned by the Mongol News Group

Eagle TV - independent station operated by a US-Mongolian joint venture

Mongol TV - state-owned broadcaster

RGB - independent television station in Darhan

UBS - (Ulaanbaatar Broadcasting System) citizens representative board

Advertising Association:

Mongolian Advertising Association

Room 1205

Sambu Str-11

Ulaanbaatar 38, Mongolia

tel: (976-1) 323-035

fax: (976-1) 323-035

buderdene@usa.net

#### E. Product Pricing and Licensing

Most Mongolian consumers are sensitive to price and many will choose the less expensive product unless they can be swayed by after-sales service or clear product superiority.

#### F. Sales to the Government

Donors have been working with Mongolia to bring procurement practices in line with open and competitive bidding. Mongolia adopted a new public procurement law in 1999 designed to make the process more transparent. Many tenders now are conducted according to World Bank procurement policies, and a new government procurement code, conforming to WTO standards,

was approved by Parliament in March 2000. However, remnants of the socialist system remain and, as noted above, personal relationships are important.

#### G. Local Professional Services

Licensing technology, opening a representative office and establishing a subsidiary in Mongolia involve tax and other laws as well as questions on business practices that may best be addressed by attorneys and accountants familiar with Mongolian requirements.

Accountants: The only western firm operating in Mongolia is Arthur Andersen.

Arthur Andersen  
International Trade Center  
Ulaanbaatar, Mongolia  
tel: (976-1) 312-773  
fax: (976-1) 311-874  
artand@magicnet.mn

Attorneys: There are several US firms or US-Mongolian firms operating in Mongolia, in addition to competent Mongolian firms. For a complete list, see the US Embassy website: [www.us-mongolia.com](http://www.us-mongolia.com), or contact the US Embassy in Ulaanbaatar.

### CHAPTER 5: LEADING SECTORS FOR US EXPORTS AND INVESTMENT.

#### A. INTRODUCTION

Mongolia offers a favorable climate for foreign investors. The country has extensive and largely untapped resources. Its strategic location between Russia and China provides access to large potential markets. The workforce is highly literate and motivated. Environmental conditions are favorable and Mongolia's labor laws are effective with no human rights concerns.

The following sectors have particular growth potential: financial resources, construction, and agriculture products and food processing. A severe winter this year has resulted in the deaths of 1.7 million animals so far, and will impact production and export of meat, hides, cashmere and other agricultural products in 2000.

Despite some of Mongolia's problems, business in Mongolia is able to build upon a number of strengths. These include: (1) a broad commitment to the development of democracy and a market economy among members of Mongolian society (2) a literate human resource base; (3) a high degree of internal social cohesion; and (4) a government committed to reform and economic development.

#### B. CONSTRUCTION SECTOR

Background:

At its peak in 1989, the construction sector made up ten percent of the gross national product of Mongolia. With the collapse of the Soviet Union at the end of the 1980's, many building projects

in Mongolia were brought to a halt as Soviet subsidies were withdrawn. Until the election of the Democratic Coalition in 1996, all construction activities were conducted under the state. The construction industry was largely privatized by 1998, with companies becoming limited or wholly owned entities. There now exists a mix of private and public companies in this sector, all in the early stages of learning how to work and prosper in the free market. With the privatization of apartments, the construction sector is experiencing a comeback. A high number of renovations and additions to buildings have played a large role in the current rise in the construction sector.

Today Mongolia has 100 architectural and engineering design companies and over 500 construction companies. Of these, 40 are considered large operations with their own in-house design and engineering outfits or have a close relationship with one or more companies that either manufacture or import construction materials. The private sector has shown itself capable of initiating real estate development projects, most commonly, the building of private apartments, shopping complexes, and small hotels. Being a cold country, there is great awareness of the financial and environmental benefits of energy efficient techniques. However, construction techniques are weak and companies are still learning how to utilize these technologies efficiently. Mongolia is in need of expertise and technology, specifically in the areas of concrete and cold weather construction, and heating, ventilation and air conditioning installation.

Fifteen Mongolian construction companies participated in a two-part reverse Trade Mission to the United States in January 2000. US-Mongolia Construction 2000 was sponsored by the US Agency for International Development (USAID) and the US Embassy in Ulaanbaatar in cooperation with the International Executive Service Corps to encourage US investment in and exports to Mongolia. The companies that participated in the mission are involved in the production of construction materials, real estate development, sales and importing of construction materials and equipment, plumbing, heating, electric and ventilation installation, architecture design and general contracting. Several leads and business opportunities have resulted from this mission.

#### Benefits:

**Infrastructure Projects:** Construction in Mongolia offers good opportunities for US firms, especially those working in cold-weather conditions. Large-scale infrastructure projects that are funded by loans or grants from international donors require management and technical expertise that is often difficult to find locally. Imported construction materials dominate the marketplace and will continue to do so for the foreseeable future. American companies can attract customers with their obvious advantages in both quality and innovation.

**Natural Resources:** The country is a rich resource for raw materials for the construction industry, but this vast wealth remains under-utilized. According to geological surveys spanning the decades from 1930 to the 1990s, over 200 deposits were discovered that could be tapped for construction materials. Mongolia's large wealth of mineral resources could be tapped to produce construction materials locally for the domestic market, or more lucratively, for the booming Chinese market hungry for resources.

**Free Trade Zones:** The towns of Sukhbaatar near the Russian border and Zamyn-Uud near the Chinese border, both served by rail, are the focus of Mongolia attempts at increasing cross-border trade. In Zamyn-Uud the Japanese have upgraded the Mongolian customs house and transshipment facility. On the Chinese side, a major trading market has been constructed and a boom is taking place based on trade with Mongolia.

**Training:** The vast majority of engineers and managers in the Mongolian construction industry received their training under communism. Exposure to computer-assisted construction methods as well as training in foreign languages is urgently required. Mongolians need education and training, awareness of international standards, licensing, apprenticeships and guilds, and earthquake proof requirements.

#### Future Opportunities:

**The Tumen River Project:** The Tumen River Area Development Program is targeting foreign investment and infrastructure upgrades in eastern Mongolian, Northeast China, Korea, and eastern Russia. This region has cumulatively attracted USD \$961 million from 1991-1997. Mongolia's second biggest trading partner, China, has made significant development gains. A feasibility study is currently underway on a railway link from Arxan, China to Choibalsan, Mongolia and possibly to Ulaanbaatar. As donors begin to fund these projects it would be prudent for American businesses to start building a relationship in the region and to take advantage of such business potential.

**Commercial Street 2000:** The city of Ulaanbaatar, Mongolia's capital and commercial center, has drafted the blue prints for the construction of a modern commercial and business center for the new millennium. Commercial Street 2005 will offer infrastructure and services that match global standards. The project covers 20 hectares in a historically vibrant part of the city. The city will pay for the engineering and infrastructure works for the complex and local businesses will pay for the construction of secondary buildings. Commercial Street 2005 is looking for foreign investment to participate in the building of a food supermarket, trade and service complex, a twin-towered international trade and service complex, a banking center, a business center, and renovations to nearby apartment buildings. It is estimated the project will create 10,000 jobs and would cost USD \$100 million.

**Gas Pipeline:** Several proposals for oil and gas pipelines from Russia to China through Mongolian territory are under consideration. The route along the 3,364 km long Ulaan Ude-Ulaanbaatar-Beijing railway is considered to be the most feasible plan. According to this project, a gas pipeline will run from Beijing to the Jiqiao port to the Korean city of Samho through a pipeline beneath the Yellow Sea. Gas will then be shipped to Japan and Taiwan. There have been several proposals for the project with possible US company participation.

**Darkhan:** With a population of around 90,000, Darkhan is an untapped opportunity. Located north of Ulaanbaatar and close to the border with Russia, Darkhan is linked to road and rail networks. Along with the mining town of Erdenet, Darkhan has a solid infrastructure with coal mining and agriculture as a key part of the economy. The city is an excellent location for manufacturing (garments, shoes, high tech goods) because of the availability of plant space,

access to rail lines and good supply of local labor. In addition, Darkhan is a potential base for accessing the Russian market.

**Other Opportunities:** The Government of Mongolia is currently working on energy reform. Once Parliament passes energy reform legislation, work will begin on energy transmission and distribution to rural areas. The modernization of domestic power transmission and distribution systems will create opportunities for interested companies. In addition, a high voltage power transmission line between Russia and China has been discussed.

## C. AGRICULTURE EQUIPMENT AND FOOD PROCESSING

### Background:

Agriculture is the mainstay of Mongolia's 2.4 million people and contributes about 37 percent of gross domestic product. Agricultural and agro-processed exports amount to about one-third of foreign exchange earnings. Agriculture is the source of employment for almost half of the population, and the dominant source of household income in rural areas. The transformation process, which began in 1990, had a dramatic impact on the Mongolian economy including the agriculture sector. The major agricultural reforms introduced by the Government in the first half of the 1990s included the privatization of state farms and livestock cooperatives, the deregulation of prices of major agricultural products, and the liberalization of agricultural trade. By 1998 most of the state farms were fully privatized with about 80 percent under single (individual or company) ownership and a further 10 percent under a group of two or three owners. Today the country has 333.9 thousand acres of land under cultivation. Currently, domestic processors and producers process 10-50 percent of livestock raw materials and 80 percent of crop products domestically.

The Government's mid-term objectives for agriculture focus on developing the markets, enhancing the capacity of agricultural support institutions, investing in key infrastructure, and increasing access to financial services through financial sector reform and support for the growth of non-bank financial institutions. The Government recognizes that sustainability in agriculture and rural areas depends largely on modernizing the livestock sector and improving land management. It intends to proceed with legislative and regulatory reforms, most notably in the area of land tenure (legislation is being proposed to provide long-term land leasing), strengthening sector institutions, privatizing service delivery wherever possible, and continuing with the privatization process.

### Agriculture Equipment:

Farm machinery is badly outdated and in poor repair. Almost all machinery was produced within the former Soviet Union and the average age of tractors and combines is 15-20 years old. Equipment that is in most need of replacement is field sprayers for applying herbicides, no-till planters, and modern grain harvesters. Market potential also exists for tractors. Since 1991, only 88 tractors have been acquired through the state budget. However 99 additional Japanese-built KUBOTA M1-100 tractors and 45 Russian SK-5 combines have been imported recently under a Japanese aid project. These were sold to Mongolian farmers at subsidized prices on favorable terms. Western machines are generally superior in capacity and efficiency to Soviet-designed

ones. However, they are far more expensive and are often too sophisticated and over-computerized for Mongolian conditions. While Soviet machines are prone to breakdown and their capacity and efficiency generally inferior to Western ones, Mongolian farmers are familiar with them, have an abundance of spare parts, and know how to repair them.

#### Future Opportunities:

Companies that take a long-term view of the potential in the Mongolian market place should find Mongolia an exciting place to do business. There is an opportunity for large international machinery companies to provide equipment such as no-till planters, field sprayers, and modern grain harvesters to crop farmers in Mongolia under leasing arrangements. However, to simplify the provision of both spare parts and servicing, it is imperative that a limited range of machinery models be supplied to Mongolian farmers. The rapid expansion of gold and coal mining in Mongolia is leading to the creation of a dedicated mining industry service sector. This includes specialist services such as surveying and also the supply and maintenance of machinery. It may be possible for the crop sector to piggy-back on this development, having mining industry machinery suppliers also handling and servicing agricultural machinery.

#### Food Processing:

Although most of Mongolia's provinces have established private food plants and shops, there is a tendency to import food products from abroad due to the lack of domestic enterprises operating at a world standard level. If food production technology is not renovated it will become a major factor for slowing the development of the industry. Currently there is a strong focus on improving the operation of current food processing plants, developing small and medium enterprises for processing and preserving vegetables and fruits, producing sugar, vegetable oil, and some grains domestically, and increasing production to meet the demand. The two sub-sectors that dominate Mongolian agriculture are extensive livestock production and crop production. Crop production (mostly wheat) is carried out on predominantly relatively large, mechanized farms in the north central region. There is also a horticulture sub-sector (potato and vegetables) based on small family plots and some commercial greenhouses.

#### Future Opportunities:

**Meat Processing:** Recent activities in the World Trade Organization have increased the incentives for Asian countries to open borders and increase trade. The Mongolian Government has taken concrete steps to assist in increasing Mongolian meat exports, especially those beyond Siberia. In 1999 Mongolia registered 33.5 million animals with unofficial estimates up to 40 million. Based on a recent Government Report, meat exports for the year 2000 are projected to increase 63 percent from 1999 levels. The report predicts exporting a total of 32,600 tons of meat, of which 16,300 tons are beef, 3,300 tons are of horse, 8,200 tons are of sheep, and 4,800 tons are of goat. Exports of meat increased by 94.4 percent over 1998 levels. According to the National Statistical Office and the General Customs Office, Mongolia exported 12,000 tons of meat in 1999. The increase in meat exports is attributed to new contracts with foreign partners and the increase in the number of livestock over the last five years. Existing meat processing plants require technological renovations to increase their capacity and upgrade the quality and sanitation of their plants in order to expand their markets. In addition, there is a need for food preservation technology, packaging and marketing techniques, as well as training in more modern butchering and processing techniques.

**Wheat:** There are opportunities to upgrade the processing of consumer products for domestic consumption and export in wheat products manufacturing (noodles, bakery), small scale flour milling. In addition a growing market exists for herbicides, fertilizers, and high quality wheat seed.

**Vegetables:** Canning, and preservation have increased with the implementation of the Green Revolution program. The aim of Green Revolution is to secure an adequate food supply for the population of Mongolia and to improve the national diet through small scale family vegetable growing.

**Livestock:** The opportunity exists for small input provision for genetic improvement of livestock. There may be a limited but expanding market for dairy cattle semen and fine cashmere goat semen. Livestock identification and measurement tools will be increasingly demanded as herders learn to breed their livestock for quality. A ready market exists for veterinary supplies and medications as well as a developing market for winter fodder supplements.

#### D. FINANCIAL SERVICES

##### Background:

Over the past decade, successive Governments have made important efforts to restructure and develop the financial system to advance Mongolia's transition to a market-based economy. With donor support, Mongolia put in place the legal infrastructure for a commercial banking system. Reforms began with the split-up of the state mono-bank into a central bank, the Bank of Mongolia, and five commercial banks. In 1991, the Bank of Mongolia began licensing private banks and interest rates were liberalized. Eventually a series of additional measures were adopted to improve banking sector performance. In September 1998, the Banking Law was amended, significantly strengthening the regulatory framework for banks. The minimal capital requirement has been raised from MNT 400 million to MNT 2 billion. The amended banking law also empowers the Bank of Mongolia to ensure improved bank governance. It establishes a legal basis for bank audit standards, financial reporting by banks is made explicit, and publication of misleading information is prohibited.

Despite these serious initial efforts and subsequent initiatives to strengthen and liberalize the financial system, during Mongolia's evolution to a market-based economy, the banking sector has experienced several setbacks. Currently the banking system is fragile and in serious need of training in banking skills and improvements in the legal and institutional framework. Real lending interest rates are at high levels that jeopardize economic development. The banking sector, with total assets of less than USD \$200 million, is small relative to the size of the economy. Currently, 12 commercial banks are licensed. The Trade and Development Bank (TDB), Golomt, and Investment and Technological Investment Bank (ITI) account for 77 percent of banking system assets. TDB and Golomt Bank are the largest and second largest banks, respectively. The government has direct and indirect participation with eight banks. Non-bank financial institutions are at an early stage of development. The stock market is small and illiquid, and insurance and leasing businesses are in the early development stages. However they should

evolve into viable, alternative sources of finance under an appropriate institutional and policy framework. Currently access to term credit is largely limited to the largest companies that have links with foreign banks and markets.

Recently the Government, with support of the World Bank, has created a Financial Sector Development Performance Group (FSDPG). The objectives of the FSDPG are to forge a broad consensus on the long-term vision and medium-term strategy for the financial sector; to forge a broad consensus on the specific measures needed to achieve that vision and on the benchmarks to measure progress toward achieving that vision; and to track financial sector development performance over the medium-term. The FSDPG includes high-level members of Government policy-making bodies, members of Parliament, NGO, private sector, and donor representatives, including the World Bank, IMF, ADB, USAID, GTZ, and JICA. In addition, the World Bank has proposed a Financial Sector Adjustment Credit (FSAC) that would support the Government's medium-term strategy for financial sector reform and development needed to achieve macroeconomic stability, accelerate private sector-led growth, and reduce poverty. The strategy calls for the establishment of basic financial infrastructure needed for a sound financial system, the consolidation of the banking system to achieve stronger and more efficient banks, privatization of the Trade and Development Bank to a strategic investor of international standards, timely servicing of government bonds, and the replacement of existing Government bonds held by banks with marketable securities.

#### Future Opportunities:

**Privatization of Trade and Development Bank:** The Trade and Development Bank, Mongolia's largest bank, was established by a government resolution in 1990 and began commercial banking operations in 1991. The bank is currently 70 percent owned by the Government of Mongolia, with the remaining 30 percent owned by employees. TDB is considered the bank of choice for Mongolian authorities, international institutions, foreign and domestic business entities and individuals. TDB is the dominant bank in the Mongolian market for international banking transactions and assets denominated in foreign currencies, chiefly USD. TDB provides services to more than 8,000 clients through 11,000 accounts. Furthermore, TDB has correspondent relations with 93 banks in 32 countries.

TDB represents an attractive investment opportunity for a major international or regional player in the banking sector. The Government of Mongolia is taking steps to restructure and enhance TDB operations. Acquiring a controlling stake in TDB offers potential advantages such as owning a dominant market share (TDB has 83 percent of current foreign currency deposits in Mongolia) and the ability to play a significant role in the development of Mongolia's banking sector. The Barents Privatization Project (see USAID Projects) is playing a large role in the privatization of TDB.

**Privatization of Mongol Daatgal Insurance:** The Mongol Daatgal National Insurance & Reinsurance Company was founded in 1934 and has operated continuously for sixty-five years. As of now, it is wholly owned by the Mongolian Government. It writes over thirty classes of general insurance, but concentrates in commercial property and liability lines. Its clients include such large companies as Mongolian Airlines, Mongol Bank, Gobi Cashmere, NIC Petroleum,

Mobicom Corporation, and foreign and joint venture companies operating within Mongolia. The privatization of Mongol Daatgal is important to the Mongolian economy poised for growth and needs an interested company that can fulfill the important role that reliable insurance plays in a strong and growing economy.

## CHAPTER 6: TRADE REGULATIONS, CUSTOMS AND STANDARDS.

### A. Import Tariffs and Customs Regulations

The US Embassy website: [www.us-mongolia.com](http://www.us-mongolia.com), has detailed information on customs procedures for clearing different kinds of shipments, VAT regulations, etc.

Tariff Rates: The Customs General Administration assesses and collects tariffs. In addition, it collects a value-added tax (VAT) of 13% on imported items. There is an across-the-board import tariff of 5%.

### B. Trade Barriers

Mongolia has a free trade regime. There are no quotas or onerous licensing requirements. It is illegal to offer or receive bribes in Mongolia (see Chapter 7). Incoming or outgoing shipments are occasionally delayed because of unexpected changes in paperwork requirements. The American Mongolian Business Group has identified lack of consistency in the way regulations are applied as an obstacle to doing business in Mongolia.

### C. Import Documentation

Normally, documentation requirements are handled by the freight forwarder or Mongolian agent. Necessary documents include the contract for import, license for import, cargo manifest, bill of lading, transportation invoice, merchandise customs declaration, declaration of merchandise value, proof of insurance, commercial invoice, payment receipt, packing list, certificate of origin, receipt of payment for related duties and taxes, and inspection certificate from the responsible agency (for specific goods). Customs information on the US Embassy website specifies what items require special certificates from various government agencies.

### D. Mongolian Trade Restrictions

Mongolia maintains restrictions on the import and export of certain items. These include: uranium and uranium concentrates; poisonous chemicals; human blood, organs and blood products; firearms and ammunition; artifacts and cultural property; historical, cultural, paleontological, archeological and similar items; breeding animals; rare species of animals; animal offspring; precious metals, precious and semi-precious stones; alcohol; ore, minerals and rare elements. Please consult Customs regulations in detail before importing or exporting these items.

### E. Inspection Standards

Mongolian law provides that all goods included on a published list or subject to inspection pursuant to other laws and regulations must be inspected prior to importation, sale or use in Mongolia. Customs grants permission for the importation of these goods after the importer submits a Standard and Quality Certificate from one or more of the following agencies:

Border Patrol  
 Plant inspection Laboratory  
 Human Health and Veterinary Service  
 Health and Infection Study Laboratory  
 Standards and Quality Agency

#### F. Special Provisions

Pre-Clearance Procedures: Goods can be cleared before the arrival of the shipment. The clearance will be done based on paperwork accompanying the shipment. Therefore it is called goods paper pre-clearance. An entity or individual interested in getting goods document pre-clearance should apply with their request to a customs clearing agency. Document pre-clearance is done when the goods have left the exporting country. The head of local customs reviews the request and shall issue an order to the chief inspector to carry out document pre-clearance. Pre-clearance is allowed in the following cases: medical and veterinary supplies; different types of items in one shipment; goods of seasonal quality (wheat and vegetable seeds needed for planting); and fragile goods and/or perishable food that require special storage conditions.

## CHAPTER 7: INVESTMENT CLIMATE STATEMENT.

### A. INTRODUCTION

1. Following sweeping political changes in 1990, Mongolia embarked on an ambitious economic reform program to replace the centrally planned economy. This goal was pursued against the background of severe external shocks: abrupt termination of trade support and foreign aid from the USSR, which comprised over 30 percent of Mongolia's GDP. Since 1994 the economy has experienced real growth; GDP grew 3.5 percent in 1998 and 2.7 percent in 1999. Thanks to fiscal reforms, inflation dropped to 6 percent in 1998 and 10 percent in 1999. Good progress has been made in creating a legal and regulatory framework for investment, and the foreign investment law protects foreign investors from unlawful expropriation.

2. Mongolia offers a favorable climate for foreign investors. The country has extensive and largely untapped natural resources. Its location between Russia and China provides access to large markets. Mongolia has a high literacy rate; environmental conditions are also favorable. Mongolia's labor laws are effective and there are no human rights concerns.

### B. OPENNESS TO FOREIGN INVESTMENT

3. Among the more renowned companies operating in Mongolia are Sumitomo Corporation and Komatsu of Japan; Korean Telecom; and SOCO Oil and Caterpillar from the United States. The

central legislation affecting foreign investment in Mongolia is the Foreign Investment Law of 1993. Unofficial English translations are available from the Ministry of Justice or at the US Embassy website: [www.us-mongolia.com](http://www.us-mongolia.com). In addition, a Bilateral Trade and Investment Agreement of 1994 (BTIA) and OPIC Investment Guarantee Agreement of 1991 are in force between the US and Mongolia. Permanent NTR for Mongolia was signed into law on June 25, 1999, and Mongolia has been declared eligible for GSP.

4. Current Mongolian law allows for foreign investment through the establishment of a completely foreign-owned business entity or local subsidiary of a foreign enterprise; the establishment of a business entity with the participation of a Mongolian investor; direct investment by acquiring shares or other securities of an existing Mongolian enterprise; and through the acquisition of rights by law or contract to natural resources. Foreign investors are also permitted to participate in the ongoing privatization of state-owned property and enterprises. Both the Foreign Investment Law and the BTIA contain provisions to ensure that foreign investors receive no less favorable treatment than Mongolian investors. An entity with 20 percent or more of its registered capital coming from foreign investment is considered to be a business entity with foreign investment under Mongolian law.

5. There is no screening of foreign investment and no sectors that are closed or screened. The embassy is not aware of any sectors or matters in which foreign investors are denied national treatment. Foreign residents in Mongolia are still subject to dual pricing of plane and theater tickets and hotel rooms. Foreign investors are allowed to participate in sealed bid privatizations, and are actively encouraged to participate in international tenders of the so-called most valuable companies. However, the privatization process has become a political football that has delayed privatization of the so-called most valuable companies.

### C. CONVERSION AND TRANSFER POLICIES

6. Under the Foreign Investment Law, investors have the right to transfer abroad: (1) shares of profits and dividends; (2) proceeds from the sales of their assets and securities; and (3) proceeds from the transfer of their property rights to other persons as well as from their withdrawal from or the dissolution of the business entity. The US-Mongolian BTIA stipulates that transfers must be made in a freely usable currency at the prevailing rate of exchange on the date of the transfer with respect to spot transactions in the currency to be transferred.

7. There have not been any recent changes or plans to change remittance policies to tighten or relax availability to foreign exchange for investment remittances. There is no difficulty in obtaining foreign exchange except for liquidity problems in several state-run banks which means that foreign exchange may not always be available on the requested day. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains or returns on intellectual property or imported inputs. Most investor remittances are in dollars. There do not seem to be delays in processing remittances or transfers, except when dollar shortages occur.

### D. EXPROPRIATION AND COMPENSATION

8. The Foreign Investment Law and BTIA explicitly state that foreign investment will not be nationalized or subject to unlawful expropriation. Investments may be subjected to expropriation exclusively for public purposes or interests and only in accordance with due process of law on a non-discriminatory basis with full compensation. The US embassy in Ulaanbaatar has no reason to believe that foreign investments will be subject to expropriation. Mongolia ratified the World Bank Multilateral Investment Guarantee Agreement (MIGA) in 1998. There are no laws that force local ownership.

9. Foreign-owned companies are obvious targets from the tax authorities, who are under increasing pressure to increase revenue collection. The fall in prices of Mongolia's major exports - gold, cashmere and copper - severely impacted the government's budget position. Donors have encouraged the GOM to improve tax collections. Unfortunately, foreign-owned entities cannot hide from the tax inspectors. Medium-sized Mongolian companies also complain that they bear an unfair tax burden. While small companies can operate on the margins and large companies have the connections to avoid tax liabilities, the mid-sized companies must pay up. To date there have not been any cases amounting to expropriation.

#### E. DISPUTE SETTLEMENT

10. Foreign investment disputes are handled by the Mongolian judicial system, including an arbitration tribunal. Most disputes have risen out of a lack of understanding or respect for contract law. It is important to note that there is a countrywide lack of expertise in modern business practices that certainly extends to judges. In addition, many of the laws governing business activity and foreign investment have not been thoroughly tested. The Foreign Investment Law states that disputes will be settled in the courts of Mongolia unless provided otherwise by a treaty to which Mongolia is a signatory. The BTIA provides that disputes may be submitted for binding arbitration to the International Centre for the Settlement of Investment Disputes or to any other arbitration institution that is mutually agreed by the parties involved. Mongolia became a member of the international center for the settlement of investment disputes in 1995.

11. There is a consensus in the expatriate community that the tax authority "targets" foreign entities, after the fact. In other words, transactions may be approved by the city tax inspector, later reversed by the general tax authority. Also, the interpretation of the tax laws is done by the inspector and may not be within the spirit of the law or may not make sense. There is a general lack of comprehension by most of the tax authorities as to how business is conducted in an international forum. Inter-company charges, common in multinationals, are not understood and create difficulties for affiliates of international companies in remitting payments for reimbursement of expenditures, etc. Because of the lack of expertise of Mongolian courts and arbitration panels, and the possibility that judges can be influenced, the US Embassy recommends that agreements include a provision for offshore dispute resolution. All stability agreements must be approved by parliament.

12. Judicial power is vested exclusively in the courts and judges are independent and subject only to law, according to the constitution. Courts are divided into courts of first instance (soum, intersoum and district courts), appellate courts (aimag and capital city courts), and the Supreme

Court. A decision made by the Supreme Court is a final judicial decision and is binding on all courts and other persons. The Supreme Court is also authorized to provide official interpretation of all laws except the constitution. There is also a provision for specialized courts to be formed. The Constitutional Court exercises supreme supervision over the implementation of the constitution, resolving constitutional disputes.

13. The provisions of all other laws in the jurisdiction are limited by the constitution. The legal system is a civil or continental system of law that has its roots in the soviet system. Today, codes such as the criminal and civil codes and procedures are being rewritten using codes of European democracies as their model. Under a continental law system, code and statute law are the primary sources; the only recognized form of common law is custom; interpretation is liberal; precedents are never more than persuasive; and the views of text writers may be material. Administrative agencies are creatures of statutes. Therefore, the regulations they promulgate must conform to the provisions of the statutes that govern them. Mongolian laws are intended to be self-implementing and specify the authorities of state agencies. If formal or additional implementing arrangements are needed, these are the responsibility of the relevant ministry. The cabinet approves implementing regulations and, if legislative interpretations are involved, they are submitted to the relevant parliamentary committee for review.

#### F. PERFORMANCE REQUIREMENTS/INCENTIVES

14. The US-Mongolian BTIA prohibits performance requirements as a condition of establishment, expansion or maintenance of investments that require or enforce commitments to export goods produced, or that specify that goods or services must be purchased locally. The GOM is in compliance with Trade-Related Investment Measures (TRIMS) provisions, which specifically prohibit performance requirements (i.e., export performance requirements) and local content requirements. Mongolia has submitted a relevant notification to the WTO.

15. There is no requirement that investors purchase from local sources or export a certain percentage of output. However, the current tax incentive for export-oriented industries requires that 50 percent of the firm's output be exported to qualify. There is no requirement that nationals own shares in a foreign investment, that the share of foreign equity be reduced over time, or that technology be transferred on certain terms. There are no government-imposed conditions on permission to invest other than a minimum threshold of \$10,000 (which may be increased to \$50,000 under a proposed amendment to the foreign investment law). There are no restrictions on US and other foreign firms ability to participate in government financed and/or subsidized research and development programs. There are no discriminatory or excessively onerous visa, residence, or work permit requirements inhibiting foreign investors. Tourist or business visas for stays up to 30 days are readily available at the border. Any foreigner staying longer than 30 days must register with the office of citizens' registration (the police), but this is a pro-forma action. Foreign firms have not had any difficulty obtaining visas for skilled workers (supervisors) to set up operations in Mongolia and train Mongolian staff.

16. However, as outlined in paragraph 12, the Mongolian law on income tax of economic entities and organizations provides for export incentives (article 7). These export incentives constitute "red light" subsidies in the meaning of article 3 of the subsidies agreement of the WTO. In the

working party report on the accession of Mongolia, which is referred to in the protocol of accession, Mongolia undertook to eliminate these subsidies in a progressive manner by December 31, 2002. This clause on tax holidays was incorporated into the law of investment (1993) at the time of Mongolia's accession to the WTO and later was transferred to the law on income tax of economic entities and organizations. The holiday provisions are not likely to be lifted by the set deadline. However, this will not contravene GATT/WTO laws ipso facto because Mongolia, as a developing country member, has reserved its right to request an extension from the committee on subsidies and countervailing measures.

17. The main incentives for foreign investors are specified in the Foreign Investment Law and the Taxation Law. A business entity with foreign investment engaged in the following areas shall be granted exemptions from income tax and other taxes:

- power and thermal plants and power transmission networks
- highways, railways and air cargo transportation facilities
- construction engineering
- telecommunications networks

These entities are entitled to 10 years of complete tax exemption and 50 percent tax exemption in the following five years. There is an incentive for other priority sectors in the form of a complete tax exemption for five years with a 50 percent deduction in the following five years.

These areas of business include:

- mining and processing of mineral resources (except precious metals)
- oil and coal
- metallurgy and metal processing
- chemical production
- machinery and electronics

Companies that export more than 50 percent of output are entitled to a complete income tax exemption for three years and a 50 percent exemption in the following three years.

18. Several amendments to the foreign investment law were proposed in the fall 1999 session of parliament but have yet to be passed. A new companies law was passed on July 2, 1999. With a new government resulting from July 2, 2000 elections, it is too early to predict whether a new government would change investment incentives.

## G. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

19. Foreign and domestic entities have a right to establish and own business enterprises and engage in remunerative activity. Private entities have the right to freely establish, acquire and dispose of interests in business enterprises. Competitive equality is the standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations.

20. Foreign companies are not permitted to own land in Mongolia. This regulation has much more to do with the nomadic tradition of the country and the accompanying notion that land should not be in private hands than with a discriminatory attitude toward foreign firms or

individuals. Land is obtained on the basis of a leasehold in accordance with the land law. The maximum initial term of a lease is 60 years and the lease may be extended one time for up to 40 years. Leasehold land may be substituted or taken back for a specific state purpose by the government.

## H. PROTECTION OF PROPERTY RIGHTS

21. Mortgages do not really exist in Mongolia because of the weak banking sector. With annual interest rates of around 35 percent, few want or can take out a mortgage. Many businesses try to use their fixed assets as security for various business transactions. One problem with accepting the deed to property as security is that there is no registry of such liabilities, thus no way to tell whether that property has been offered to someone else as security for some transaction. There is currently no leasing law, although a draft has been under discussion for two years.

22. Patent and Copyright Laws were passed by the parliament in 1993. Patents are granted for 20 years for inventions and 10 years for industrial designs. Among the works protected under the copyright law are sound recordings and computer programs. Authors have the exclusive right to reproduce, alter, revise, translate, distribute and present their work. Copyright protection extends for 50 years after the death of the author. Mongolia is a member of WIPO. WIPO conventions on internet intellectual property issues are under consideration by parliament.

## I. TRANSPARENCY OF THE REGULATORY SYSTEM

23. Mongolia does not suffer from a shortage of laws and regulations; what it lacks is experience and enforcement capability. The system is transparent in the sense that copies of the laws are available, often in English, and officials do try to live up to the spirit and letter of the legislation as written. The problem is the sheer volume of new laws that have gone on the books in the last few years. Since 1993 new laws or amendments to previous ones that impact directly on foreign investment include legislation on: accounting, anti-corruption, banking, bankruptcy, the chamber of commerce and industry, communications, consumer protection, copyright, currency regulation, customs, deposits, settlements and credits, economic entities, energy, environmental protection, excise tax, foreign investment, foreign trade arbitration, general taxation, income tax of economic entities and organizations, labor, minerals, partnership and company, patent, petroleum, railway transportation safety, rights of trade unions, securities, and transport facilities and vehicle tax.

24. There is no Federal Register type system in Mongolia. Copies of draft legislation are not available, being considered "secret" until parliament has voted. Proposed rules changes are not circulated for comment in advance and changes may appear overnight. The concept of competition is not widely understood or followed as a practical matter. There is not that much interest in fostering real competition. However, the foreign investment and foreign trade agency implemented a "one stop shop" for company registration. Representatives of FIFTA, the Labor Ministry and Tax Authority are located in one office, cutting somewhat the amount of legwork it takes to complete registration.

25. In addition to the enormous influx of new regulations, the government is undergoing a significant transformation as well. After the parliamentary elections in June 1996, the 13 existing ministries were combined into nine. Parliament is currently considering another government reorganization bill that might combine the foreign investment and foreign trade agency with several other agencies. Further changes are expected as a result of the July 2, 2000 parliamentary elections in which the People's Revolutionary Party won an overwhelming majority of seats. In short, the regulatory landscape in Mongolia in the short-term will continue to change, but the US Embassy in Ulaanbaatar can be an effective guide. There are also several US-Mongolian law firms that can provide effective assistance.

#### J. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

26. Currently, 12 commercial banks are licensed. The minimum capital requirement is now MNT 2 million (about USD 200,000), double the previous requirement. The higher requirement is expected to bring about a consolidation in the banking system, which continued to deteriorate in 1999. Non-performing loan portfolios rose to 47 percent of bank assets in August 1999. Real lending interest rates remain very high (about 30 percent per annum). The Bank of Mongolia, the central bank, has oversight of all banks operating in Mongolia and closed two in 1999. The Banking Law, as amended in 1998, establishes the legal basis for bank audit standards; financial reporting by banks is made explicit; and publication of misleading information is prohibited. Total assets in the banking system are approximately USD 175 million. The largest commercial bank, the Trade and Development Bank (70 percent government owned), has assets of about USD 70 million. The second largest, Golomt Bank (privately owned) has about USD 17 million in assets. Because of high lending rates and relatively small asset size, Mongolian and foreign companies alike cannot access sufficient credit for business expansion.

27. Generally, policies do facilitate the free flow of financial resources to support the flow of resources in the product and factor markets. Although there is an active stock exchange, there is not really a regulatory system that encourages portfolio investment. There do not appear to be cross-shareholding or stable shareholder arrangements used to restrict foreign investment through mergers and acquisitions. Mongolia does not have laws or regulations specifically authorizing private firms to adopt articles of incorporation which limit foreign investment, participation or control. There are no other practices by private firms to restrict foreign investment in domestic enterprises. However, there are sometimes effective lobby groups that close the door in certain sectors such as electric power generation and distribution.

#### K. POLITICAL VIOLENCE

28. There have been no incidents of politically motivated damage to projects or installations in Mongolia in the last 10 years, nor is there any reason to believe that such incidents will occur in the near future. There are no nascent domestic insurrections or belligerent neighbors.

#### L. CORRUPTION

29. Offering or giving a bribe to a public or private official in Mongolia is a criminal offense. Enforcement is handled by the police and there have been arrests and convictions in recent years.

In spring 1996 an anti-corruption law was passed by parliament. Currently, two members of parliament are serving sentences for corruption in connection with the granting of a gambling license, since rescinded. The State Audit Committee has undertaken thorough investigations of alleged malfeasance by public officials. The Civic Will Party head and Member of Parliament, Ms. Oyun, has made anti-corruption a pillar of the party platform. Also, ratification of the OECD Bribery Convention is under consideration by the government. That said, petty corruption is common. Mongolian companies have commented that they must pay customs officers for routine clearances. Embassy has heard that non-western companies provide cash incentives to receive customs clearances and certificates of origins.

30. The penalties for a person accepting a bribe are imprisonment for up to 6 years and possible stripping of position. The sentence may be less than 6 years. If the bribery relates to organized crime or is a repeated offense, the prison term is 10-25 years with loss of position. The penalty for the person giving the bribe is imprisonment for up to 4 years. If the person is a repeat offender, the prison term is 3-10 years. It is also a crime for a Mongolian or a foreigner to bribe a foreign official. However, the police must first determine whether the action was a crime. For more details, consult the Criminal Code of Mongolia.

#### M. BILATERAL INVESTMENT AGREEMENTS

30. Mongolia has concluded bilateral investment agreements with 27 countries: 1) South Korea; 2) Germany; 3) China; 4) United Kingdom; 5) France; 6) Ukraine; 7) Italy; 8) Laos; 9) USA; 10) Kazakhstan; 11) Netherlands; 12) Singapore; 13) Malaysia; 14) Romania; 15) Poland; 16) Indonesia; 17) Czech Republic; 18) Kuwait; 19) Turkey; 20) Cuba; 21) Belgium; 22) Luxembourg; 23) Denmark; 24) Switzerland; 25) Kyrgyzstan; 26) Vietnam; and 27) Bulgaria.

#### N. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

31. An OPIC agreement with Mongolia went into effect in September 1991, making available OPIC direct loans, loan guarantees, and political risk insurance programs in Mongolia. OPIC is accepting finance and insurance applications for eligible projects in Mongolia. OPIC has provided political risk insurance to one American company. Mongolia became a member of MIGA in 1998.

32. The Embassy exchanges currency at the market rate at commercial banks in Mongolia. The togrog (local currency) floats freely. Depreciation in 1999 was 18 percent. The estimated annual US dollar value of local currency likely to be used by the embassy is USD 50,000.

#### O. LABOR

33. Employment in Mongolia is officially regulated by the Labor Law and certain sections of other statutes. The Foreign Investment Law states that “a business entity with foreign investment shall primarily employ citizens of Mongolia. Persons from abroad may be hired for jobs requiring special or high qualifications.” The BTIA stipulates that companies “shall be permitted to engage top managerial personnel of their choice, regardless of nationality.” Mongolia suffers from a high level of unemployment and underemployment. The literacy rate is

over 90 percent and foreign companies are generally impressed by the qualifications and motivation of their Mongolian workers. Math skills are high, making Mongolia suitable for high tech jobs. Demand for fluent English-speakers somewhat exceeds supply, but the situation is improving as Mongolians are aggressively seeking opportunities to study English at home and abroad.

34. Mongolian law provides for internationally recognized worker rights. The Labor Law of Mongolia outlines official holidays (eight per year) and sets the amounts of vacation time owed depending on the length of service. Annual leave of 30 days per year is common. The standard workweek is five days, 40 hours, although longer or shorter hours can be negotiated between the employee and employer. Compensation for overtime, night work and dangerous jobs is addressed in the labor law. The law sets a minimum wage, revised periodically to follow changes in the cost of living. Companies pay 19 percent of payroll costs to the government for pensions, health coverage and other allowances. A new national pension system is being introduced with USAID assistance. The retirement age for men is 60 and for women, depending on years of service and number of children, 45-55.

35. Maternity leave includes 45 days before the expected date of birth and 56 days after. A new mother is allowed to leave her job for up to two years without losing her position. When a company lays off a worker, the company is required to pay compensation equivalent to the average wage for a period not less than one month. Employment of teenagers is also addressed in the Labor Law. A revised and updated Labor Law, fully consistent with ILO standards, was recently passed by parliament. The embassy is aware of only one case of child labor abuse, by a garment manufacturing company. Mongolian authorities are investigating.

36. Labor unions are unfettered and can openly organize and protest. Strikes are few because of unemployment levels. No restrictions are imposed on the right to strike. Labor conditions in manufacturing enterprises are good as compared to neighboring countries according to qualified observers, although plant and mine safety conditions could be improved.

#### P. FOREIGN TRADE ZONES/FREE PORTS

37. There are provisions in Mongolian law for free trade zones and there have been discussions between the Mongolian and Russian governments on this subject. One part of Mongolia has been declared a free trade zone, but no firms are currently operating there. A law concerning special economic zones and export processing zones was presented to the cabinet during the 1999-2000 legislative sessions, but has not yet been passed on to the parliament.

#### Q. FOREIGN DIRECT INVESTMENT STATISTICS

38. All statistics provided by the Foreign Investment and Foreign Trade Agency of Mongolia.

#### CUMULATIVE INVESTMENT VOLUME (THROUGH JULY 2000) IN MILLIONS OF U.S. DOLLARS

TOTAL	308.4
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UNITED STATES	27.1
CHINA (INCL. HONG KONG)	86.0
JAPAN	47.5
SOUTH KOREA	30.4
RUSSIA	15.5
CANADA	9.3

#### FDI BY SECTOR, AS OF JULY 2000, AS PERCENT OF TOTAL FDI

MINING	24.8%
LIGHT INDUSTRY	19.6%
RAW MATERIAL PROCESSING (INCLUDES CASHMERE)	10.9%
TRADE AND CATERING	6.4%
CONSTRUCTION	6.3%
BANKING/FINANCIAL SERV.	5.4%
TELECOMMUNICATIONS	5.0%

#### NUMBER OF BUSINESS ENTITIES WITH FOREIGN INVESTMENT, BY COUNTRY, AS OF JULY 2000

USA	61
CHINA	460
RUSSIA	246
SOUTH KOREA	168
JAPAN	85
GERMANY	49
OTHERS	361

### CHAPTER 8: TRADE AND PROJECT FINANCING.

#### A. THE BANKING SYSTEM

Under the Banking Law of 1993, a two-tiered banking system was created out of the former monobank. Parliament appoints the Governor of the Bank of Mongolia (BOM) and approves its budget. The Bank of Mongolia supervises commercial banks. In March 2000, foreign exchange reserves of Mongolia reached \$123 million. Currently 12 commercial banks are licensed by the BOM. Some are state-owned and/or controlled, some are entirely privately owned.

#### B. FOREIGN EXCHANGE CONTROLS

There are no foreign exchange controls affecting either investment or trade in Mongolia although occasionally the commercial banking system has shortages of dollars that slightly delay remittances. The local currency, the togrog, floats freely. Several banks and exchange kiosks are licenses by the BOM to engage in foreign currency exchange.

## C. GENERAL FINANCING AVAILABILITY

The sources of financing available for US exporters and investors are:

### THE WORLD BANK:

The World Bank, based in Washington, D.C., publishes bidding opportunities in the United Nations publication "Development Business." This is available by subscription from United Nations, PO Box 5850, Grand Central Station, New York, New York 10163-5850.

The World Bank conducts procurement by the rules of international competitive bidding through Mongolian government agencies; nonetheless, successful bidding requires close coordination with the Mongolian government entity responsible for development OF a project at the consulting stage, when specifications are being established.

### THE INTERNATIONAL FINANCE CORPORATION (IFC):

IFC maintains an office in Ulaanbaatar and is seeking to become more active in Mongolia. IFC's core business is project finance. These are projects with anticipated cash flows that can cover debt-service repayment to lenders and payment of dividends to shareholders. They are without government guarantees. IFC can be contacted through its Washington, D.C. headquarters at (202) 473-0631 or at its Ulaanbaatar office

### THE ASIAN DEVELOPMENT BANK (ADB):

ADB loans in Mongolia have largely been for infrastructure and agricultural projects. Once a project is initially approved by the ADB and the Mongolian government, it is included in a monthly publication called "ADB Business Opportunities" which is available by subscription from the Publications Unit, Information Office, ADB, PO Box 789, Manila, Philippines, fax (632) 632-5122 or 632-5841. The Commerce Department has established a multilateral development bank operations office (fax: 202/273-0927) which publishes information to assist companies in winning such contracts.

### EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD):

Mongolia became a member of the EBRD in 2000 although it has not yet been approved to participate in lending programs.

### US TRADE AND DEVELOPMENT AGENCY (TDA):

The Trade and Development Agency would like to expand its participation in projects in Mongolia. Once active sectors and potential projects are identified for possible feasibility study financing or technical assistance, TDA will hire its own technical consultant to review the project. TDA's basic criteria for project funding are:

1. the project is a developmental priority of the host country
2. there is a likelihood of project financing
3. the US export potential is significant
4. there is foreign competition for the project

Contact the US Trade and Development Agency at 1621 North Kent Street, Suite 200, Arlington, Virginia 22209, tel: 703/875-4357, fax: 703/875-4009, [www.tda.gov](http://www.tda.gov).

### C. TERMS OF PAYMENT

In Mongolia's market economy, there are many ways to finance imports. The most common is the letter of credit. The Trade and Development Bank and Golomt Bank are familiar with letters of credit, as are major importers/distributors in Mongolia.

### CHAPTER 9: BUSINESS TRAVEL.

**Visas:** Foreigners traveling to Mongolia must have a valid passport and entry/exit visa. Short-term visitors who plan to stay in Mongolia for less than 30 days do not need a letter of invitation when applying for a visa overseas. Those who plan to stay for more than 30 days require an invitation from a state administrative organization, political party, public organization, economic entity, Mongolian citizen, or a foreign citizen who has resided in Mongolia more than three months. Visas can be obtained from Mongolian embassies and consulates worldwide. The cost of an entry/exit visa for a US citizen is \$45. Two photographs are required. US citizens can also get visas on arrival at the Ulaanbaatar airport or at the Russian or Chinese border crossings if arriving by train. The cost for this kind of visa is \$50.00. A seven-day extension of the existing visa costs \$15.00 plus \$2.00 for each additional day of extension. Visas are issued on the next working day. Express service entails surcharges of up to 100% of the normal fee.

**Residency Permits:** All foreigners wishing to remain in Mongolia for more than 30 days must apply to the State Center for Civil Registration and Information (part of the police department) for a residency permit. US investors can contact the Foreign Investment and Foreign Trade Agency (FIFTA) for assistance. Permits are generally issued within a couple of days and are valid for a period from three months to one year. A temporary residency permit can be renewed an unlimited number of times. Each renewal will re-validate the permit for a period of from three months up to one year, as requested by the investor.

**Chinese Visas:** A US citizen traveling to Mongolia via China **MUST/MUST** have valid Chinese visas. A visa is required even if the traveler is only transiting Beijing airport. If you transit Beijing twice (to and from Mongolia), you must have a two-entry Chinese visa.

**Health:** Western standard medical care is not available in Mongolia. Travelers are encouraged to buy medical evacuation insurance.

**Business Hours:** The standard work week is Monday through Friday, 0900-1800, with an hour for lunch.

**Holidays (on the day before an official Mongolian holiday, offices close at 1400):**

January 1: New Year  
 February : Lunar New Year (dates vary every year)  
 June 1: Mother and Child Day  
 July 11-13: Naadam, the Mongolian national holiday

November 26: Constitution Day

**In-Country Travel:** There are no restrictions on in-country travel. MIAT airline offers domestic service to all provincial capitals. Jeeps are also available for hire for more remote destinations. Most of Mongolia's road network is unpaved and travel can be prolonged, tiring and adventurous.

**Practical Information:** There are several hotels of reasonable standard in Ulaanbaatar. Lodging in outlying towns is basic; hotels frequently do not have hot water and sometimes no water at all. Ger camps (felt tents) offer alternative accommodation. The tourist ger camps are clean and comfortable and usually have reliable plumbing. The Mongolian diet is based on dairy products and mutton. Outside Ulaanbaatar vegetables are rarely served, although root vegetables are often available at local markets. Ulaanbaatar offers a variety of restaurants offering traditional Mongolian food as well as European and Asian cuisine. The standard voltage is 220 volts/50Hz. Sockets are of the two-pronged pin type (similar to Russian). International direct dial is available in hotels. In Ulaanbaatar, internet cafes abound. Parts of Mongolia are not connected to the power grid. Outside Ulaanbaatar few Mongolians speak a foreign language. A translator is required and can be hired in Ulaanbaatar. The cost is approximately \$30 per day. Although many government officials speak English, they often prefer to conduct official meetings in Mongolian. Plan to hire a translator.

**Temporary Entry:** The Mongolian Chamber of Commerce and Industry can arrange for duty free import of display items for trade shows. For more information, contact the MCCI in Ulaanbaatar: Mr. S. Zorigt, Head of Exhibitions and Trade Fair Bureau, MCCI, Sambuu Str. 11, Ulaanbaatar 38, Mongolia; fax: 987-1/324-620; email: Monchamb@magicnet.mn.

**Travel Information:** For further information on international travel, travel advisories, etc., please see travel information on the Department of State's website: <http://travel.state.gov>. The US Embassy in Ulaanbaatar also has a website: [www.us-mongolia.com](http://www.us-mongolia.com).

## CHAPTER 10: US AND COUNTRY CONTACTS.

### A. Mongolian Government

Ministry of Agriculture and Industry

tel: (976-1) 325-028

fax: (976-1) 323-442

Ministry of Defense

tel: (976-1) 458-755

fax: (976-1) 450-496

Ministry of External Relations

Political Department

Foreign Trade and Economic Cooperation Department

Enkh Taivny gudamj 7A  
Ulaanbaatar, Mongolia  
tel: (976-1) 311-311  
fax: (976-1) 322-127  
mongmer@magicnet.mn

Ministry of Finance  
tel: (976-1) 329-070  
fax: (976-1) 320-247

Ministry of Health and Social Welfare  
Olympic Str.-2  
Ulaanbaatar-11, Mongolia  
tel: (976-1) 321-569  
fax: (976-1) 327-872  
mhsw@magicnet.mn

Ministry of Infrastructure Development  
Government Building-2  
United Nations Str-49  
Ulaanbaatar 210646, Mongolia  
tel: (976-1) 324-379  
fax: (976-1) 311-381

Ministry of Justice  
tel: (976-1) 325-225  
fax: (976-1) 322-383

Ministry of Nature and Environment  
tel: (976-1) 326-595  
fax: (976-1) 321-401

Ministry of Science, Technology, Enlightenment and Culture  
Government Building III  
Ulaanbaatar, Mongolia  
tel: (976-1) 327-445  
fax: (976-1) 323-158  
bmostec@magicnet.mn

Central Bank  
The Bank of Mongolia  
Commerce Str. -6  
Ulaanbaatar-11, Mongolia  
tel: (976-1) 322-166  
fax: (976-1) 326-252  
telex: BOMCB MH 79333

Civil Aviation Administration of Mongolia  
Buyant-Ukhaa Airport  
Ulaanbaatar-34, Mongolia  
tel: (976-1) 379-888  
fax: (976-1) 313-127  
caamak@magicnet.mn

Coal Authority of Mongolia  
Ulaanbaatar-21, Mongolia  
tel: (976-1) 681-995  
fax: (976-1) 681-995

Customs General Administration  
Ulaanbaatar-20, Mongolia  
tel: (976-1) 323-715  
fax: (976-1) 329-024

Ulaanbaatar Customs Administration  
PO Box 86  
Ulaanbaatar-34, Mongolia  
tel: (976-1) 328-473  
fax: (976-1) 328-970

Foreign Investment and Foreign Trade Agency  
2nd floor, Sambuu Str. 11  
Ulaanbaatar 38, Mongolia  
tel: (976-1) 321-438  
fax: (976-1) 324-076  
investboard@magicnet.mn  
website: www.mol.mn

Intellectual Property Office of Mongolia  
Baga toiruu-31  
Ulaanbaatar-46, Mongolia  
tel: (976-1) 321-323  
fax: (976-1) 327-638

Minerals Resources Authority  
Builders' Square 13  
Ulaanbaatar 211238  
tel: (976-1) 310-370  
fax: (976-1) 327-307  
mram@magicnet.mn

National Tourism Center of Mongolia

Ms. Haliun, General Director  
Chinggis Avenue-11  
Ulaanbaatar-28, Mongolia  
tel: (976-1) 318-492  
fax: (976-2) 318-492

National Statistical Office  
Baga toiruu-44  
Government Building 3  
Ulaanbaatar-11, Mongolia  
tel: (976-1) 320-262  
fax: (976-1) 324-518

Petroleum Authority of Mongolia  
PO Box 37/81  
Ulaanbaatar, Mongolia  
tel: (976-1) 631-176  
fax: (976-1) 631-176  
petromon@magicnet.mn  
<http://www.pam.mn>

General Department of National Taxation of Mongolia  
Jigjidjav Str-6  
Ulaanbaatar-46, Mongolia  
tel: (976-1) 321-340  
fax: (976-1) 327-686

## B. CHAMBERS OF COMMERCE/TRADE ASSOCIATIONS

American Mongolian Business Group  
Mr. Maurice Lynch, President  
Munkh-Orgil, Idesh and Lynch  
International Trade Center  
Baga toiruu 37 B  
Suite 500/5th floor  
Ulaanbaatar, Mongolia  
tel: (976-1) 325-344  
fax: (976-1) 325-358  
mlynch@mongolialaw.com

Mongolian Association of Advocates  
Ulaanbaatar-46, Mongolia  
tel: (976-1) 326-861  
fax: (976-1) 326-861  
erdem@mtu.edu.mn

Mongolian Chamber of Commerce and Industry  
Mr. S. Demberel, Chairman  
Sambuu Str-11  
Ulaanbaatar-38, Mongolia  
tel: (976-1) 327-176  
fax: (976-1) 324-620  
monchamb@magicnet.mn

Mongolia Consumers' Union  
Mr. Tsendbayar, Director  
Room 302  
Trade Unions Building  
Sukhbaatar Square  
Ulaanbaatar, Mongolia  
tel: (976-1) 320-026

Mongolian Employers' Federation  
Khudaldaanii gudamj-15  
Ulaanbaatar-38, Mongolia  
tel: (976-1) 325-635  
fax: (976-1) 325-635  
monef@magicnet.mn

Mongolian Stock Exchange  
Sukhbaatar Square-14  
Ulaanbaatar, Mongolia  
tel: (976-1) 310-470  
fax: (976-1) 325-170  
msebatj@magicnet.mn

Mongolian Women Lawyers Association  
PO Box 547  
Ulaanbaatar 210646, Mongolia  
tel: (976-1) 322-212  
fax: (976-1) 322-212  
mwla@magicnet.mn

### C. MARKET RESEARCH FIRMS

Mongolian Advertising Association  
Room 1205  
Sambuu Str-11  
Ulaanbaatar-38, Mongolia  
tel: (976-1) 323-035  
fax: (976-1) 323-035  
buderdene@usa.net

Mongolian Marketing Associatioin  
Mr. Dagvadorj, President (also professor at National University of Mongolia)  
PO Box 20/192  
Ulaanbaatar, Mongolia  
tel: (976-1) 327-813  
fax: (976-1) 324-385  
econinst@magicnet.mn

#### D. BANKS

Golomt Bank  
Sukhbaatar Square-3, 4th floor  
Ulaanbaatar-11/20A, Mongolia  
tel: (976-1) 311-530  
fax: (976-1) 312-307  
telex: 79247 GLMT MN  
golomt@magicnet.mn

Trade And Development Bank  
Khudadaalnii gudamj-7  
Ulaanbaatar-11, Mongolia  
tel: (976-1) 326-289  
fax: (976-1) 311-618  
telex: 79334 TDB MH  
SWIFT Code: TDBMMNUB  
TDBMGTG@magicnet.mn

Savings Bank  
tel: (976-1) 312-043

#### E. US EMBASSY CONTACTS

US Embassy Ulaanbaatar  
Big Ring Road  
Ulaanbaatar  
Mongolia  
Tel: (976-1) 329-095  
Fax: (976-1) 320-776

Mailing Address From US:  
US Embassy Ulaanbaatar  
4410 Ulaanbaatar Place  
Department of State  
Washington, DC 20521-4410

Ambassador's Office  
Ambassador Alphonse F. La Porta  
ambassador@usembassy.mn

DCM Mark Willis  
dcm@usembassy.mn

Defense Attache Office  
Maj. John Baker  
Defense Attache  
dao@usembassy.mn

Economic/Commercial Section  
Economic/Commercial Officer Laura Byergo  
econ@usembassy.mn

Commercial Assistant Allison Croft  
commerce@usembassy.mn

Political Section  
Political Officer Lynn Roche  
pol@usembassy.mn

Consular Section  
Consular Officer Tim Roche  
cons@usembassy.mn

#### F. WASHINGTON-BASED USG MONGOLIA CONTACTS

US Department of Commerce  
International Trade Administration  
Mongolia Desk Officer Brenda Carter  
14th And Constitution Avenue  
Washington, DC 20230  
Tel: (202) 482-3583  
Fax: (202) 482-1576

Multilateral Development Bank Office  
Tel: (2020) 482-3399  
Fax: (202) 482-5179

TPCC Trade Information Center  
Tel: 800-USA-Trade

US Department Of State  
Office of China And Mongolia

Bureau of East Asia & Pacific Affairs  
Room 4318, 2201 C Street, NW  
Washington, DC 20520  
Tel: (202) 647-6796  
Fax: (202) 647-6820

US Department of Agriculture  
International Trade Policy  
Asia American Division  
Foreign Agricultural Service Stop 1023  
1th And Independence Ave., SW  
Washington, DC 20250-1023  
Tel: (202) 720-1289  
Fax: (202) 690-1093  
Email: deatonl@fas.usda.gov

Office of US Trade Representative  
600 17th Street, NW  
Washington, DC 20506

G. US BASED MULTIPLIERS  
US-Mongolia Business Council  
Steve Saunders, President  
1015 Duke Street  
Alexandria, VA 22314-3551  
tel: 703/549-8444  
fax: 703/549-6526  
steve.saunders@us-mongolia.org

## CHAPTER 12: MARKET RESEARCH.

The following reports are available from the Embassy:

Recent Developments in the Petroleum Sector  
Investment Opportunity in the Petroleum Sector  
Investment Opportunity in the Telecommunications Sector  
Investment Opportunity for Property Development  
Telecommunications Sector: Tender in Mongolia  
Privatization of Gobi Cashmere Corporation  
Tender for Electric Shovel for Mine Operation  
Standard and Poor's Sovereign Credit Rating on Mongolia  
Tender for Medical Equipment for Rural Hospitals  
Privatization of Khailaast Gold Mine  
Opportunities in Fluorspar  
US-Mongolia Construction 2000 Trade Mission  
Tender for Supply of Pre-Insulated Polyethylene Water Pipes and Fittings

Privatization of Trade and Development Bank  
Foreign Investment and Foreign Trade Agency's One Stop Shop  
Results of US-Mongolia Construction 2000 Trade Mission  
Recent Economic Performance  
Mongolian Census 2000  
Tender for Supply of Valves for Potable Water Lines  
Mongolia Competitive Sectoral Benchmarks  
Spring Trade Fair in Mongolia  
Mongolian Chamber of Commerce Events in 2000  
Investment Opportunity in Makhimpex Meat Company

#### CHAPTER 13: TRADE EVENT SCHEDULE.

The Mongolian Chamber of Commerce and Industry sponsors two annual trade shows, one each spring and autumn. The fall 2000 trade show will be held in Ulaanbaatar on September 12-16.