STATE OWNERSHIP AND THE DEVELOPMENT OF NATURAL RESOURCES IN MONGOLIA

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Abstract

Mongolia’s natural resource base offers the country a strong opportunity for rapid economic and human development. The country has been searching for an ownership and development model that supports economic growth while recognizing the country’s unique context. Over the past 25 years the development pendulum swung back and forth from a starting place of 100% state ownership of natural resources, to a push for privatization, then in the mid-2000s back to a strong ownership role for the government. In 2015 the pendulum appears to be swinging back away from an emphasis on government ownership due to concerns over slowing economic growth and a sharp fall in foreign investment. Erdenes Mongol, the state holding company for natural resources, is exploring new partnership opportunities and ownership structures and the Prime Minister has proposed trading state ownership shares to private companies for enhanced royalties. This paper offers an overview of the shifting government policies in Mongolia with regard to state ownership of natural resources and some of the factors that have influenced this path. It concludes with observations on the recent proposals by the Mongolian government to privatize some of its natural resource holdings and ways Mongolia might support long-term development.

Introduction

For 15 years from the end of the Communist regime in 1990 until the mid-2000s, successive Mongolian governments pursued policies that greatly reduced the role of the government in the economy. Over 1000 formerly state owned properties and enterprises were privatized through vouchers given to Mongolian citizens and auctions. The government retained ownership of a few large enterprises, mostly legacy operations from Soviet days including the national railway and
airline, electric utilities and several large mines including coal, fluorspar, and the Erdenet copper mine, but the predominant ideology in the first decade and a half of Mongolian independence was one of reduced government involvement in the economy and support for the development of a Western style market economy led by private companies.

In the mid 2000s, however, rising natural resource prices and significant new resource discoveries in Mongolia shifted the approach of the Mongolian government with regard to the level of government involvement in the economy. The government moved to acquire equity stakes in mining projects, shelved plans to privatize state owned resource deposits and took a more activist stance with regard to the regulation, licensing and taxation of private companies in the mining field. The government's shift was highlighted by the adoption in 2006 of both a Windfall Profits Tax on gold and copper producers and a new Minerals Law that allowed the government to acquire equity stakes of 34% to 100% in certain mineral deposits deemed to be “strategic” based on the importance of the deposit in the economic development of the nation or foreign relations. Additional laws in subsequent years, such as the Nuclear Energy Law, the Law on Prohibition of Mineral Exploration and Mining Activities in Areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas (known as the Law with the Long Name), and the Strategic Entities Foreign Investment Law (SEIFL), expanded government ownership or control over natural resource deposits (US Department of State, 2015).

The government’s growing ownership position had widespread public support, and was touted as a key strategy to ensure that benefits from Mongolia's mineral deposits were shared with the government and Mongolian population. The government made lofty promises to the public about how ordinary Mongolians would benefit from government led natural resource production through government programs financed by resource production and cash handouts funded by resource revenues. In practice, however, the Mongolian government was unable to effectively develop the natural resource deposits it owned due to a series of missteps that saw key projects repeatedly delayed as funds necessary for the development of the projects were siphoned to other government priorities. The government took on substantial debt with promises to use the funds for project development, and now must repay the money despite the lack of progress in project development. It also alienated many foreign investors by adopting new laws
and taking actions that increased the risks and reduced the returns to private investment in the mining sector.

In advance of parliamentary elections in 2016, and in light of the serious economic challenges facing Mongolia today, it is important to gain a better understanding of the likely paths for the development of natural resources in the country. The government of Mongolia will play a very important role in ensuring that resources are developed for the benefit of the people of the country given its position as the regulator of the industry and the largest owner of natural resource deposits and almost all related infrastructure. This paper offers an overview of the shifting government approach in Mongolia with regard to state ownership of natural resources, and some of the factors that have influenced this path. It concludes with observations on the recent proposals by the Mongolian government to privatize some of its natural resource holdings and ways Mongolia might support the long-term development of the country.

State Ownership of Natural Resources in Mongolia

Following the fall of Communism in Mongolia in 1990, successive democratically elected governments pursued policies aimed at creating an economy dominated by private ownership and private enterprises. In the 1990s, thousands of properties and enterprises that previously were owned by the state were transferred into private hands through voucher privatization and auctions. These properties included housing, livestock, small businesses and commercial buildings and agricultural processing facilities. In the late-1990s, the Democratic Alliance government under Prime Minister Enkhsaikhan announced plans to privatize virtually all state owned enterprises, including all state owned mines such as the Erdenet copper concern. (Goyal, 1999). These plans were not realized, but in the 2000s, a second wave of privatization saw the privatization of some larger enterprises, including the Gobi Cashmere Company, the Trade and Development Bank and the Neft Import concern, the main petroleum importer and distributer (Far East Economic Review, 2001). A vibrant, free enterprise economy emerged from the privatization process, led by the service sector. By 2006, approximately 70% of Mongolia’s GDP was privately produced, including virtually all trade, service and manufacturing enterprises (EBRD, 2006).

Mongolia’s privatization program faltered, however, with regard to the privatization of legacy state owned firms in energy, mining and transportation. Major state owned assets dating
from the pre-1990 socialist era in Mongolia including the rail network, several fluorspar mines and the Erdenet Copper mine continue to be jointly (50/50) owned with Russian partners, and while discussions were held on their privatization, no actions were taken. The Mongolian government retained 100% or majority ownership of several important coal mines, including Tavan Tolgoi, Baganuur and Shivee-Ovoo, and despite several announced plans for privatization, continues to have 100% ownership of the national airline, MIAT, and the state power system, including power plants and transmission lines. Various plans have been floated for the privatization of many of these state owned assets, but no concrete plans have been established or carried out.

In the mid 2000s the Mongolian government began to shift from a policy approach aimed at shrinking state ownership shares in the economy to a new approach that encouraged greater state ownership and control over key sectors, most notably the natural resource sector. The policy shift by the government mirrored public sentiment in the country, and occurred in the context of rising global mineral values, optimism over the size and value of natural resources in Mongolia and a flood of private investment and interest in the sector. The change in government approach can be traced most directly to shifting public sentiment with regard to the massive Oyu Tolgoi copper and gold mine, which was discovered in 2001 by the Canadian mining company Ivanhoe Mines.

Public protests against foreign miners began to grow after a speech in early 2005 by Ivanhoe Mines chairman Robert Friedland at an investor conference in Florida where he implied that foreign miners such as Ivanhoe would be able to make huge profits from their holdings in Mongolia while paying only minimal taxes (Barta, 2007). Statements such as those by Robert Friedland led to public pressure on the government to find ways to ensure that the people of Mongolia benefitted from the development of natural resources in the country. In response, the government adopted policies that increased taxes on mining output, and most importantly, began to implement a strategy aimed at ensuring that the Mongolian government held equity ownership stakes in all major natural resource deposits.

In 2006 the government adopted the Windfall Profits Tax on gold and copper producers, which placed new taxes on resource producers, and adopted a new Minerals Law that allowed the government to acquire equity stakes of 34% to 100% in major mineral deposits deemed to
be “strategic” (US Department of State, 2015). The government outlined 15 deposits it deemed to be strategic, including copper, uranium, gold and coalmines. The government took further steps in 2009 when it passed a Nuclear Energy Law, which gave the government the ability to seize majority control over uranium deposits in the country, and the Law on Prohibition of Mineral Exploration and Mining Activities in Areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas, which the government used to revoke over 100 previously granted mining licenses due to environmental concerns (US Department of State, 2015).

After the passage of the new Minerals Law in 2006, and the election of Sanjaa Bayar as Prime Minister in 2007, the Mongolian parliament led by the Mongolian People’s Revolutionary Party (MPRP) took several steps that expanded government equity stakes in natural resource deposits in Mongolia. In 2007, the government renationalized the Tavan Tolgoi coking coal deposit to become a 100% government owned deposit (Bulgamaa, 2007), and formed the Erdenes MGL LLC (now called Erdenes Mongol LLC) as a state owned holding company for natural resource deposits owned by the Mongolian government. In 2009 the MPRP led government used the Nuclear Energy Law to seize a 51% equity stake in Mongolia’s largest uranium deposit from a Canadian company allegedly through expropriation, a view upheld by an arbitration ruling in early 2015 that ordered the Mongolian government to pay $100 million in compensation to the Canadian firm (Khan Resources, 2015).

The most important move by the government in terms of ownership stakes was the completion in October 2009 of the long delayed negotiations around the development of the Oyu Tolgoi copper and gold mine. The government reached an agreement with the firm that discovered the deposit and owned the mining rights, the Canadian company Ivanhoe Mining, to enable the project to move forward while allowing the government to buy a 34% equity stake. This arrangement fit with the Minerals Law, but required the government to pay a proportional share of the costs of mine development (Mongolian Mining Journal, 2012). As part of the Oyu Tolgoi agreement, the Mongolian government also negotiated a way to increase its ownership share up to a 50% non-controlling stake after the initial mine investment is recovered over a 30 year period (Oyu Tolgoi, 2012). In 2012, the government formally asked Rio Tinto to accelerate this time frame and give the government at least a 50% share of the mine, but this request was
rejected by Rio Tinto, which refused to renegotiate the original investment agreement (Behrmann, 2012).

The government touted direct ownership of natural resource deposits as a way to ensure that the Mongolian people received maximum benefits from the nation's natural resource wealth. Virtually all political parties and the public supported the policy, and it has never been seriously questioned within the political system. The Minerals Law provision promoting Mongolian government equity stakes had a positive effect in the short-run as it facilitated the negotiation of the long awaited stability agreement between the Mongolian Government and Turquoise Hill Resources and Rio Tinto, the international companies that owned the Oyu Tolgoi copper mine. A Mongolian equity stake was seen as crucial by both the public and the government as a requirement to obtain the social license necessary to permit foreign companies to develop such an important a natural resource deposit. The Oyu Tolgoi agreement played a key role in the economic boom from 2010-2012, by both opening the door to several billion dollars for investment that poured into the country to support the development of the Oyu Tolgoi mine and encouraging other foreign investors to pursue projects in Mongolia.

The apparent success of the Oyu Tolgoi agreement and growing interest in Mongolia by foreign mining firms encouraged the Mongolian government to expand its role in the ownership and management of natural resource deposits. For example, after taking a 100% ownership stake in the Tavan Tolgoi coal mine the government floated a variety of plans for development, including a partial privatization of the mine. However, after disagreements and delays with regard to privatization plans, the government shifted course and took ownership of not only the mineral deposit, but all related infrastructure. The government bought the rights to a paved road used for exports from the mine that had been built by the private Mongolian Mining Company, and a partially completed railroad project. In 2012 the government paid Mongolian Mining $59 million to take over the railway, and in 2014 the government bought the rights to the paved road for $90 million (Wee, 2014).

In addition to direct ownership stakes in mineral deposits, the government also became much more active with regard to control over mining licenses held by private companies. In 2009 more than 100 mining licenses held by private firms were suspended and many were later revoked after the passage of the Law on Prohibition of Mineral Exploration and Mining
Activities in Areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas. In 2010 the Mongolian President halted the issuance and processing of new mining and exploration licenses due to national security concerns, and in 2013 a criminal court in Ulaanbaatar overturned more than 100 mining licenses due to alleged corruption by the officer who granted the licenses (US Department of State, 2015). Private license holders protested that these actions stripped them of private property rights, and questioned whether these actions were legal (US Department of State, 2015).

National security concerns and geopolitical considerations have also been used by the Mongolian government to influence economic activity related to natural resources. In May 2012 concerns over the potential sale of a major privately held coal deposit to a Chinese state owned company led to the rapid passage of the Strategic Entities Foreign Investment Law (SEIFL). Under this law the Mongolian government gained broad rights to control the sale of privately held natural resource rights. While aimed at preventing the sale of Mongolian resources to Chinese state-owned firms, the law also gave the government multiple levels of review and approval over almost all significant natural resource related ownership transactions. The passage of the law scuttled the sale of the largest foreign invested coal project in Mongolia, the South Gobi Sands mine, to the Chinese firm Chalco, and signalled the Mongolian governments intent to actively regulate which foreign firms were allowed to own Mongolian resource projects. South Gobi Sands, while remaining owned by a Canadian firm, received further Mongolian government sanction through the suspension of its production licenses and a corruption and tax probe by the Mongolian government, which led to the suspension of coal production for parts of 2012 and 2013 and a sharp fall in the company’s share price (Yun, 2014). In 2015 the company was found guilty of tax evasion by a Mongolian court and ordered to pay $18 million in taxes and penalties to the government, an amount that the company said would force the firm into bankruptcy (Kohn, South Gobi faces insolvency if tax verdict stands, 2015).

Government ownership of the country’s largest coal deposit and other mineral resources have raised fears that government actions against private producers have been taken in part to limit competition that might hurt government owned mines. The South Gobi mine can be seen as a potential competitor against the Tavan Tolgoi mine for the sale of coal to Chinese buyers, and therefore its elimination might be seen as an act by the Mongolian government to protect its own mining interests. Fears have also been raised about the government’s actions to take over the
ownership of the infrastructure necessary for coal exports from the region (US Department of State, 2015). The agreements to take over the road and railway do include provisions to guarantee access to the infrastructure for other companies, but as the owner the government can give priority to its own production over cargos from other firms. Due to the virtual shut down of the South Gobi mine and an overall slowdown in private coal production, in 2014, the Mongolian government reportedly displaced private producers to become the largest coal exporter due to declining exports from private mines and increasing exports from the government owned Tavan Tolgoi deposit (News.mn, 2015).

Because mining is by far the largest source of output and export for Mongolia, the steps taken by the government make it the dominant economic actor in the country today. It is a majority or minority owner of almost all major mineral resources in the country and associated infrastructure including electricity and transportation. From 2005 to 2014, despite calls for increased foreign investment, the government steadily increased its ownership stakes in both mining deposits and related infrastructure. A sharp drop in foreign direct investment, a worsening government financial position and a softening of international markets for natural resources led the Mongolian government to make changes in its policies toward foreign investors. In November 2013 the government improved the climate for foreign investment by removing many of the provisions in the SEIFL law that required government approval for most foreign investments in strategic sectors and strengthened provisions aimed at protecting private investors (Platts, 2013). In recent years government officials have discussed the privatization of government owned assets, including electricity production plants, electric transmission lines and government shares in coalmines supplying the power plants (Shih, 2013). In early 2015, the government proposed swapping its equity ownership for enhanced royalty payments from miners such as Rio Tinto, however no foreign companies accepted the offer and no specific plans for the privatization of state owned mines or infrastructure have been adopted (Edwards T. , Mongolia looks at equity for royalties swap in big mining projects, 2015).

In addition, the Mongolian government sent a mixed signal in early 2015 on its desire to reduce its ownership stakes in key mines by agreeing to expand its list of strategic deposits to include the Gatsuurt gold mine. The Gatsuurt gold mine was a 100% privately owned project held by the Canadian firm Centerra that was blocked from development due to its designation as being located in a river basin. The company spent years trying to find a way to meet Mongolian
government demands outlined in the Law on Prohibition of Mineral Exploration and Mining Activities in Areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas, but could never find a way to move the project forward. Centerra therefore lobbied to have the mine designated as a “strategic deposit” in an effort to move the project forward by giving the government a direct stake in the mine development. The designation, which was granted by parliament in January 2015, allows the Mongolian government to obtain up to a 34% equity stake in the operation (Lazenby, 2015). This project highlights the complications that can result when a government is both a potential owner and a regulator of a natural resource deposit.

The move by Centerra to lobby to have its 100% privately owned mine declared a strategic deposit is a signal of the difficulties faced by foreign investors in developing 100% foreign owned mining projects in Mongolia. The fact that the foreign owner felt that a designation as a “strategic deposit” was the only option for development of the mine signals the hurdles private companies face in the development of natural resource deposits. While this represents just one case, other private owners might be compelled to bring the government on board as a partner in exchange for the right to develop privately held natural resource deposits. Private mine development will be greatly complicated if the government uses its regulatory powers to force private owners to hand an ownership stake or share of royalties to the government in exchange for development approval.

The Tavan Tolgoi coal mine is a major project that offers an interesting case study in government ownership plans. In recent years the government has taken steps to buy out private shares in the mine and related infrastructure, including a paved road and a partially constructed railroad built to facilitate the export of coal from the Tavan Tolgoi mine and other nearby mines to the nearby Chinese border. After gaining full ownership over the mine and abandoning efforts to partially privatize the mine through an international IPO, the government attempted to develop the mine on its own. Erdenes Tavan Tolgoi, the government owned mine operator, received more than $300 million from the Chinese firm Chalco as a pre-payment for future coal deliveries. It planned to use these funds to develop the mine infrastructure and export coal. However the central government appropriated the funds away from the mine to fulfill election promises of cash advances to Mongolian citizens, leaving the mine unable to finance the production and export of the coal promised to Chalco.
In late 2014 the government announced a new plan to develop the Tavan Tolgoi mine with foreign participation. After a bidding process it selected the Chinese firm Shenhua and Japanese firm Sumitomo together with a Mongolian partner, the Mongolian Mining Company, as potential production partners in the mine. Negotiations, however, have been hampered by several key issues, including the unpaid debt to Chalco, the ownership structure and political concerns about Chinese control over Mongolia’s natural resources and infrastructure (Edwards T., Negotiations Drawn Out Over Mongolia's Largest Coal Mine, 2015). While negotiations are ongoing, the current plans indicate that the Mongolian government intends to maintain its ownership of the coal deposit, while seeking to find ways to encourage the private investment necessary to finance the development of the mine. However private investors may be reluctant to pay for project development without firm guarantees that the Mongolian government will not interfere in the project, and that the firm financing the production of the coal will be able to benefit from its production and sale.

As long as the government maintains its ownership stake, it is relatively easy for the government to cancel or change production contracts with mine operators, as has happened repeatedly in recent years. The companies currently negotiating to take over the development and operation of the Tavan Tolgoi mine are aware of this history, and it will be telling to see what arrangements they seek with the Mongolian government to balance the needs of foreign investors for investment security with the goal of the Mongolian government to maintain control and ownership over the underlying natural resource deposit.

Factors influencing Mongolian government ownership of resources

To gain a better understanding of why the Mongolian government took greater control of natural resources in the country and whether the government's approach is likely to change, it is important to review a variety of factors that have influenced government policy with regard to natural resource development in the country. Seven interrelated areas have been identified as key drivers of the government's approach to natural resource development. These seven factors include:

1) public opinion that strongly supports government ownership;
2) the interrelation within Mongolian democracy of business and government;
3) a history of government ownership and control of the economy through Mongolia's socialist past;

Factors influencing Mongolian government ownership of resources
4) a strongly held belief that the lands and resources of Mongolia belong to the Mongolian people;
5) a fear of foreign domination, particularly by China;
6) the observation that government ownership of natural resources is widely practiced in developing countries worldwide;
7) and a belief that foreign investors will be happy to invest in Mongolia no matter the conditions imposed.

This section of the paper briefly reviews each of these seven factors, and discusses their implications for the long-term path with regard to government policies toward ownership of natural resources.

1) Public Opinion

The first, and arguably most important, factor influencing the government's ideological path and approach with regard to natural resource development has been strong public support for a growing government ownership and control stake. In the past, the Mongolian public has generally supported direct government ownership of natural resource deposits. The most widely recognized social survey in Mongolia, the Politbarometer conducted by the Sant Maral Foundation, found in April 2015 that 83.5% of the Mongolian public believed that strategic mine deposits in Mongolia either should be wholly state owned (21.7%) or jointly owned by the government together with private entities (61.8%) (Sant Maral Foundation, 2015). According to this poll, only 4.8% of Mongolians believed that private businesses should be the sole owner of strategic mine deposits and only 0.2% supported full ownership of strategic mines by foreign companies. In recent years, public sentiment and pressure has primarily been aimed at efforts to increase the Mongolian government’s ownership stake over natural resources, a key issue in the 2012 parliamentary elections.

The reluctance of the Mongolian public to support foreign ownership, or even foreign stakes in natural resource deposits in Mongolia, is tied to other factors highlighted below, such as the socialist tradition in Mongolia, a feeling that all resources must belong to Mongolians, and a fear of foreign domination or exploitation. These feelings are so strong that all major political parties have supported government ownership of key natural resource deposits. The primary contested issue in public discourse has generally been not whether to reduce government control, but how far to extend it. As long as public opinion so strongly supports a strong government role,
it is hard to imagine how the government will substantially reduce its direct ownership stakes in strategic natural resource deposits.

2) Democratic Structure

A second issue that supports the growth in government ownership and involvement over time is the structure and operation of democracy in Mongolia. Mongolia's political system has two main political parties, but the parties themselves are weak with regard to their ability to support and control their political candidates and elected representatives. Because elections in Mongolia are relatively open and hotly contested, candidates need to have substantial resources to run successful election campaigns. The political parties do not have the resources to finance candidates, so most candidates who run either have substantial personal wealth or the backing of important business groups who finance the campaigns. In the 2012 election, it cost a reported $2 million to run a campaign for parliament, a figure far out of reach for average Mongolian citizens (Kaiman, 2012). Most members of parliament in Mongolia are business people, including the owners of some of the largest firms in the country (Mendee, 2014).

The small size of the parliament and system of appointing parliament members as Ministers overseeing important government departments encourages rent seeking by parliament members once they are in office. Government ownership of valuable natural resource deposits offers members of parliament and their allies opportunities to profit from their positions. With parliamentary elections coming in 2016, the interest of current parliament members to profit from connections to natural resource projects can be expected to grow as those members seeking re-election search for funds to finance their campaigns, and those who plan to leave parliament want to profit before their departure.

The public itself is also sceptical of many privatization schemes, because many people perceive these schemes as efforts by politicians to move state assets into the hands of politically well-connected people. Privatization schemes in Mongolia and other former Communist countries often benefited a small wealthy elite much more than the average citizen. Given the lack of public support for privatization, and the benefits many politicians gain from their control over natural resources, it seems unlikely that parliament members will give up their control over natural resources prior to the upcoming 2016 Parliamentary elections.

3) Socialist Past
A third force that helps explain the growing influence of the government over natural resource wealth is the extensive national history with state ownership of natural resources. Under the socialist regime led by the Communist party, which was in power from 1924-1990, all natural resource and infrastructure assets were state owned. Mongolia's long history of state socialism instilled a belief that ownership "by the people" of assets such as natural resources or land meant government ownership and control over those assets. While Mongolia did successfully privatize many smaller state owned assets, including homes, urban land, and commercial spaces, the vast majority of land in Mongolia remains owned by the people with oversight provided by local governments. This system of land ownership, and the ownership of legacy state owned firms from the Communist era, does not appear to be subject to change.

The Mongolian government also continues to own all or a substantial portion of key infrastructure assets and natural resources, including the electrical system, railroads and approximately 20 natural resource deposits and mines. While discussions have been held about privatizing these key assets, the government has maintained its ownership shares of most of the socialist era infrastructure and mine projects it inherited. Arguably the most important and most influential mining project controlled by the Mongolian government is the Erdenet copper mine, which started as a 50/50 joint venture between the Mongolian government and the Soviet government during the Communist era. After 1990, the Mongolian government maintained its 50% ownership share of the mine, and the mine provided the government with its largest source of revenue. The mine, and the nearby town of Erdenet that was built with Soviet assistance, are often cited within Mongolia as models for other resource development projects.

4) Mongol Exclusivity

A fourth influence over the ownership of natural resources in Mongolia is what might be called "Mongol exclusivity". Mongol exclusivity refers to the belief that the land and natural resources of Mongolia belong exclusively to the people of Mongolia. This belief is reflected in the Land Law, which prohibits the ownership of land in Mongolia by foreigners (Tumenbayar). As a small country dominated by one ethnic group, Mongols are fiercely protective of their land and resources. Many Mongols have trouble understanding how foreigners might directly own natural resources that are located on Mongolian land no matter who is involved in discovering and producing the resources. The ultimate ownership of these resources is understood to belong exclusively to the people of Mongolia. Foreigners may be invited to help develop the resources,
but it is not understood how or why foreigners might be allowed to own the resources as these are clearly a part of Mongol territory.

5) China and Russia

A fifth influence, which is related to the concept of Mongol exclusivity, is the sense of concern that all Mongols have about the potential domination of their country by one or both of their larger neighbors, Russia, and especially China. Mongols fear that private ownership of natural resources might allow their neighbors to gain control of the economic system and exploit Mongolian resources for their own benefit while cheating the Mongols out of their share of benefits. Both fears have historical precedents, as Mongolian territory was controlled economically and politically in relatively recent times by both of Mongolia's neighbors. Mongolia's fears were spelled out in the SEIFL, which was spawned by the potential sale of a Mongolian coalmine from its Canadian owners to a Chinese state owned enterprise. This sale convinced lawmakers that they could not trust foreign firms to watch out for its interests, and that government oversight and control was necessary to ensure that Mongolia's interests were protected. While the SEIFL was eventually restructured, restrictions on foreign investments by foreign state owned companies and investments in strategic natural resource deposits continue to be restricted by the Mongolian government.

China is the country most often cited as posing a threat to Mongolia’s economic independence. Almost 90% of Mongolia’s exports, mostly unprocessed natural resources, are sold to China, which serves as a monopsony buyer for key resource exports such as coal, copper, iron ore, gold and crude oil (Oxford Business Group, 2015). State ownership of natural resources and infrastructure is touted as a way to allow Chinese investment, while still protecting Mongolian interests. For example, a key aspect of the negotiations over the Tavan Tolgoi coalmine with foreign partners led by Shenhua of China is how to maintain Mongolian government ownership of the mine while encouraging foreign partners to invest the funds necessary to develop the mine and related infrastructure, such as a railway to the border.

Maintaining government ownership is seen as important to maintain control over the deposit and ensure that Mongolia gains its rightful share of returns on the deposit. The government itself has negotiated and endorsed agreements with Chinese firms for the sale of natural resources, such as coal and the development of infrastructure including railways, border
trans-shipment facilities and power plants. Many of these deals would probably not have been allowed if the Mongolian partner were a foreign firm or even a Mongolian firm, but because the partner on the Mongolian side is the Mongolian government, there is a belief that national interests will be protected.

The insistence on government ownership of natural resources and controls over the sale of natural resource deposits and infrastructure to foreign firms is in part related to the poorly developed regulatory powers of the Mongolian government. In most developed economies, natural resource deposits are privately owned and operated, but the government has oversight of key issues including taxation, environmental controls, labor standards, transportation, safety and other aspects of the mine operation through its regulatory rules and regimes. In Mongolia the regulatory functions of government are poorly developed, lacking both clear rules and the personnel and administrative structures necessary to carry out key oversight functions. Government ownership is seen as a way to ensure that regulations are followed, in particular that the government receives its fair share of revenue from the project. In practice, there is evidence that the Mongolian government has ignored some of its own laws when developing government owned natural resource deposits, such as environmental regulations at the Tavan Tolgoi mine (US Department of State, 2015).

6) Developing Country Resource Nationalism

A sixth influence has been the fact that national ownership of natural resource deposits is widespread among developing countries worldwide. The natural resource boom of the mid-2000s led many resource rich countries around the world to renegotiate their relationship with natural resource producers (Humphry, Sachs, & Stiglitz, 2007). The rise in natural resource prices also coincided with the rise of the "Beijing consensus" development model, which emphasized the importance and advantages of state owned enterprises and the deep involvement of the government in the economy (Kurlantzick, 2013). While organizations such as the World Bank and IMF have encouraged and supported Mongolia to study the resource experience of a variety of both developed and developing countries, including Chile, Botswana, Norway and Canada, its approach is most aligned with Botswana, where the government holds all natural resource rights (Government of Botswana, 2010). While Botswana has encountered some challenges in successfully developing its natural resources under government ownership, overall the country’s
success provides an example to countries such as Mongolia that it is possible to build national prosperity while maintaining government ownership of natural resources (Lewin, 2011).

7) Foreign Investment Challenges

Finally, Mongolia seemingly has a strong belief that foreign investors will come and invest in the country no matter the structure of ownership or rules it establishes, based on the inherent wealth of natural resources the country possess and its strategic location and importance. Even while passing a number of pieces of legislation that placed new restrictions and requirements on foreign investors, Mongolia continually professed its interest in attracting more foreign investment. The country's belief was seemingly verified in the late 2000s, when foreign investment poured in despite the passage of several laws that were seen as harmful to foreign investors such as the Windfall Profits law, the Law with the Long Name. The Mongols were therefore shocked when foreign investment began to slow in 2012, and then fall sharply in 2013 and 2014 following the passage of laws such as SEIFL. Foreign investment in 2014 was down approximately 85% from 2011 to early 2015, leading to a severe current account deficit for the country and related problems, including a slowing economy and sharp devaluation in the national currency (US Department of State, 2015).

Mongolia’s moves against foreign investment coincided with sharp declines in the prices of key natural resource exports, such as coal, a tightening of global credit markets, and the ending of the foreign fund inflows associated with the first phase of the Oyu Tolgoi mine. Problems were compounded due to long delays in the negotiation of the agreement with Rio Tinto on the development of the second phase of the Oyu Tolgoi project, and moves by the government to penalize foreign firms for alleged tax fraud. In early 2015 a court ruled that the largest coal mining firm in the country, the Canadian based company South Gobi Sands, owed over $18 million in taxes in Mongolia, a figure that the company reported would drive it out of business (Kohn, South Gobi faces insolvency if tax verdict stands, 2015). Even more chilling than the tax bill, however, was an associated ruling by the Mongolian courts that three officials from the company must serve 6-year prison terms due to alleged tax evasion (Edwards T., Mongolia jails American, two Philippine citizens in tax evasion case, 2015). The imposition of criminal charges against company officials for a civil tax issue sent shock waves through the ex-
pat community and reportedly led to several cases of foreign firms pulling their international employees from the country and ending foreign investment projects.

The first six factors cited above continue to support a strong, and growing role, for the Mongolian government in natural resource development. The one factor that has shifted decisively against the path Mongolia took with regard to government ownership and control over natural resources is the final one, the willingness of foreign investors to continue to invest in Mongolia as the government took greater control over the sector. Coupled with declines in the value of key commodities, including coal and copper, and delays in mine development, in early 2015 the Mongolian economy and government faced an impending crisis as funds ran short and debt payments loomed (Asian Development Bank, 2015). Mongolian corporate and government debt was downgraded, and the government was unable to finance and manage the development of the natural resource deposits it owned. The government announced an austerity budget for 2015 that forecast rising taxes and cuts to spending plans, and turned to the IMF to discuss a loan to help meet its financial obligations (Mongolian Observer, 2015).

As Mongolia’s financial situation has worsened, signs have emerged that the country is now reconsidering its policies around government ownership of natural resources. In February 2015, Prime Minister Chimed Saikhanbilig held a referendum using SMS phone texts, reportedly to gauge the willingness of Mongolian citizens to pursue new mining deals with foreign miners (Hornby, Mongolians text ‘no’ to austerity, 2015). The referendum was open to any cell phones in Mongolia, and asked people whether they preferred austerity measures or to go ahead with foreign invested mining projects, in particular the Oyu Tolgoi phase 2 that has been under negotiation for several years. The results of the unscientific referendum indicated that 56% of people participating rejected austerity and endorse moving ahead with foreign partners on major mining agreements. However observers pointed out the uncontrolled nature of the referendum in terms of how votes were cast, the relatively low participation rate and the underwhelming mandate offered given the seemingly unpalatable choice of “austerity” as the only option to moving ahead on projects with foreign mining companies (Dierkes, 2015).

While the method of the poll was questioned, the poll appeared to be part of a larger plan by the government to jump start mining development by reducing government control and ownership shares over strategic mines. Immediately after the poll results were announced, Prime Minister Chimed Saikhanbilig proposed an amendment to the mineral resources law that would
allow the government to exchange some or all of its equity ownership shares in strategic mine deposits with the leading private owners in exchange for a larger share of royalties from the mine (Edwards T., Mongolia looks at equity for royalties swap in big mining projects, 2015). While foreign mining companies did not embrace the proposal, it signalled a shift in the approach taken by some members of parliament.

The government also took steps to reform Erdenes Mongol, the state holding company for mining related assets, including the government shares of Oyu Tolgoi and Tavan Tolgoi, by appointing Bayanjargal Byambasaikhan as its chair (Business Council of Mongolia, 2015). He was previously a leader within the private business community as head of the Business Council of Mongolia, and his appointment was touted as positioning Erdenes Mongol as more a sovereign wealth fund, similar to Singapore’s Temasek, rather than a company involved in the direct management of natural resource projects (Business Council of Mongolia, 2015). No details emerged, however, on how Erdenes Mongol might change the ownership and governance structure of state owned natural resource deposits.

In May 2015, the Mongolian government reached a long awaited agreement with Rio Tinto over the second phase expansion of the Oyu Tolgoi mine, a project that is projected to bring more than $6 billion in investment to Mongolia and lead to a significant expansion of mine production (Edwards T., Oyu Tolgoi Deal is a Win for Mongolia But No Game Changer for 2015, 2015). The Oyu Tolgoi deal, however, did not change the basic ownership structure of the mine, with the Mongolian government retaining its 34% share. In contrast to past efforts by the Mongolian government to increase its ownership share, in these negotiations the Mongolian government reportedly offered to decrease its ownership share in exchange for higher royalties. Rio Tinto, however, did not accept the offer and the government’s ownership share remained at 34%.

In contrast, in spring 2015 the once promising negotiations over the Tavan Tolgoi mine stalled in parliament and faced an uncertain future. The deal reportedly got held up due to questions of ownership for the mine and associated infrastructure, and concerns about the level of Chinese involvement (Khash-Erdene, 2015). Therefore, while Mongolia made some progress in advancing its mining development through the deal with Rio Tinto, it did not fundamentally change its policies toward state ownership of natural resources. Parliament members and
potential candidates are likely to once again debate the issue in the lead up to the summer 2016 parliamentary elections, offering voters a chance to express their opinions through the ballot box.

**Problems created by state ownership of natural resources**

Transparency International, the Revenue Watch Institute and other foreign observers have highlighted numerous theoretical and actual problems created by direct ownership of natural resource deposits by the Mongolian government (Natural Resource Governance Institute, 2014) (Chene, 2012). Their warnings echo many of the elements highlighted by researchers in their analysis of what is known as the “resource curse”. The term resource curse was coined to explain why many countries that were blessed with abundant natural resource deposits were unable to develop successful economic and political systems that benefitted the wider populations of the countries. For example, a widely cited study by Sachs and Warner found that being a natural resource exporter actually hurt a country’s economic development potential (Sachs, 1995). Because of its heavy reliance on natural resources in both its domestic economic production and exports, Mongolia has often been cited as a classic example of a country that may be prone to the impacts of the resource curse. Elements of the curse include what is known as Dutch Disease, where an overvalued currency leads to deindustrialization and the decline of other sectors of the economy outside the natural resource sector, excessive economic volatility due to the sharp changes in natural resource prices on world markets, and what is known as the governance curse, where democracy and government performance is undermined by corruption as individuals seek to benefit personally from government control of significant resource deposits and natural resource development is inefficient as resources are developed based on political rather than economic logic (Lewin, 2011).

Mongolia experienced elements of the resource curse, with natural resource development projects yielding a short-term boom in the country, but potentially undermining long-term growth prospects and democracy. Mongolia’s reliance on natural resources for the majority of its economic production and exports left the country vulnerable to economic volatility given the wide price swings of commodities on global markets. Mongolia’s largest natural resource export by both value and volume is coal, and weaknesses in global coal prices and competition from other coal producers, such as Australia, sharply cut export earnings in this sector in recent years (Asian Development Bank, 2015). Other export commodities, including copper, gold and crude
oil also saw sharp changes in their prices, booming in 2011-12 but falling in 2013-2015. The government ran large budget deficits as it made spending projections at the top of the market cycle and then faced falling revenues as market values sank (Asian Development Bank, 2015). The government was advised by international agencies such as the IMF and ADB to find ways to diversify the economy and follow counter cyclical policies, running government surpluses and making investments through vehicles such as sovereign wealth funds in boom times, and then dampening downturns with extra government spending (Asian Development Bank, 2015).

The Mongolian government not only failed to follow these policies, it compounded the nation’s risk with regard to swings in natural resource policies by investing its assets in natural resource projects rather than investing in efforts to diversify the economy and types of assets it holds. By focusing on equity ownership stakes rather than putting in place policies aimed at taxing the production of privately owned mines, the Mongolian government placed a huge bet on the natural resource industry. The government did not build up savings during the boom of 2011-12, and instead sharply increased spending and used the boom to borrow additional money on international markets through the issuance of bonds such as the $1.5 billion Chinggis Bond placement in November 2012 (Natarajan, 2012). The bond proceeds were used for projects that did little to enhance Mongolia’s economic capacity, leading to concerns about how Mongolia will pay back to funds starting in 2017 (Mongolian Economy Magazine, 2014).

As retirement planners always explain to their clients, in terms of risk you always want to avoid investing your long-term investment retirement funds in your own employer. If your employer falters, then you risk losing both your current income and your long-term security because the two come from the same source. Planners would recommend that investment savings be invested in sectors that are not correlated with your primary income source. Because the Mongolian government's primary investments are in natural resource projects, it has no alternative source of revenues to balance the falling resource revenues. Investment strategists encourage governments in natural resource dependent countries to invest a portion of their natural resource revenues in non-resource holdings and assets outside the home country to provide counter-cyclical security to the country (Humphry, Sachs, & Stiglitz, 2007).

The government also built up a form of debt during the development phase of the Oyu Tolgoi mine. As an equity investor in the mine, the government is responsible for paying a one-third share of the multi-billion dollar development costs. It paid a portion of these costs just after
the signing of the investment agreement, and agreed to pay back the remainder of the development costs out of its future production share from the mine. The future returns to the government from the mine will be reduced for an estimated 20 years while it pays off the development costs for the mine (Hume, 2015).

While Mongolia has taken on additional risk and lowered short-term government revenues due to its ownership of equity stakes in mining projects, the governance curse offers perhaps the greatest challenge to long-term development and efforts to translate wealth in the ground to wealth for its citizens. Direct state ownership of mineral resources creates several conflicts and inefficiencies that call into question whether the general population is best served by the government’s strategy around equity ownership. First, the government lacks the expertise necessary to develop and manage mining enterprises. Significant issues and delays have hampered the development of the largest state owned deposits, including the Tavan Tolgoi coal mine and the Oyu Tolgoi copper and gold mine, creating questions about the Mongolian government's ability to manage large, complex mineral development projects. While the issues are less in the news, it is also questionable whether it has managed its legacy mine holdings from the Communist era -- including the Erdenet copper mine, the Baganuur coalmine and other holdings -- in an efficient manner that has maximized the returns from the mines.

The government holds its equity shares in numerous mines through a 100% state owned company known as Erdenes Mongol (formerly Erdenes MGL). The firm has amassed a wide portfolio of properties, including the government’s 34% share of Oyu Tolgoi, the Tavan Tolgoi mine and related infrastructure including a paved road and railway under construction, and stakes in the mining properties that were developed prior to the fall of Communism, such as a 50% share of the Erdenet copper and molybdenum mine and the coal mines Baganuur and Shivee Ovoo (InfoMongolia, 2014). The wide range of holdings by the firm call into question whether it can effectively manage the assets in its portfolio, given that each mine and natural resource poses its own challenges with regard to the ownership arrangements, mining operations, transportation issues and marketing options.

In addition to inefficient management, the direct ownership of mineral deposits by the government potentially undermines democratic structures and creates opportunities for corruption, as politicians and civil servants are put in charge of valuable and complex enterprises. Achieving political office provides control over the wealth of the nation, creating
opportunities for patronage and personal gain. As highlighted by a special report from Transparency International, a non-profit that studies corruption issues worldwide, “In spite of important anti-corruption steps taken in recent years, Mongolia is facing important governance and corruption challenges. The quality of governance, as captured by major governance indicators, seems to be declining over years, especially with regard to government effectiveness and control of corruption.” (Chene, 2012).

The report highlights a range of measures that show a high level of corruption in Mongolia, including Transparency International’s Corruption Perceptions Index and Global Corruption Barometer and the World Bank’s Worldwide Governance Indicators (Chene, 2012). (For a comprehensive listing of Mongolia’s ranking across a variety of social and government indexes see the Mongolia Scorecard compiled by the Mongolia Focus Blog at: http://blogs.ubc.ca/mongolia/mongolia-scorecard/). Mongolia’s political parties, parliament and judiciary are highlighted as the most corrupt institutions in the country, with a general lack of transparency, safeguards and checks and balances in the political system. Corruption is seen to be widespread in the natural resource sectors, including concerns about government procurement such as favoritism for firms that are well connected to politicians and political parties (Bertelsmann Foundation, 2014).

Mongolia also performed poorly on the Resource Governance Index produced by the Revenue Watch Institute, receiving a “failing” mark, primarily due to the lack of data and transparency associated with the state owned mining company Erdenes Mongol (Natural Resource Governance Institute, 2014). Erdenes Mongol received one of the lowest scores for quality of governance given by the ratings agency to state-owned mining companies worldwide, with the report highlighting, “Almost no information is available on the functioning of the company. It publishes no financial reports, despite a legal obligation to do so.” (Natural Resource Governance Institute, 2014). During a workshop held in October 2014, the Board of Erdenes Mongol pledged to raise their governance standards to the level of well-managed state owned firms in countries such as Norway (Namkhajantsan & Bagirova, 2014). However it is unclear how the firm plans to change its management structure or make its operations more transparent in practice.

Direct ownership puts the government in a conflict of interest position as it is both setting and enforcing rules and regulations for the mines, while also sitting as an owner impacted by
those rules and regulations. Questions have been raised, for example, about whether it has followed its own environmental rules with regard to the development of the Tavan Tolgoi coal mine, as mine development has moved ahead much faster than would be expected if all the environmental impact statements and other documents required for private mine development were required for this wholly government owned mine (US Department of State, 2015). The case of Centerra’s Gatsuurt mine also highlights the challenges private mining companies have faced in terms of meeting a complex web of requirements and regulations. While that mine has yet to receive final approval to begin production, the foreign owners seem to feel that government ownership is necessary to cut through the regulations that have stalled the project and allow the mine to gain an operating license.

Concerns have also been raised about the potential impacts on private mines due to the competition between state owned mines and privately owned mines (US Department of State, 2015). The government has a duel role as the primary regulator of mines, while also competing in the market place against the same mines. There are concerns that it might seek to slow down or eliminate privately owned mines that are seen as competitors to its state owned mines. For example, privately owned coalmines in the South Gobi region might be perceived as competitors with the Tavan Tolgoi mine for exports of coal to China. The government's takeover of the main road and rail routes from the mines to China gives it the power to limit the shipment of privately produced coal cargos that might compete with government-produced coal.

The government’s direct ownership of natural resource deposits creates numerous conflicts of interest for it and in many cases puts it in direct competition with the private sector. The wide range of holdings within the government portfolio pose a significant management challenge, and thus far it has not demonstrated a talent for efficient management of the mining and infrastructure projects it owns. An investment focus by the government in the natural resource sector also exacerbates risk by concentrating government assets and revenues on this one economic sector. On the other hand, the government of Mongolia is in an envious position compared to many developing country governments in that it holds the rights to numerous, valuable assets. The government has a cash flow problem due to internal and external factors impacting the natural resource sector, but the government holds considerable wealth in its assets. The challenge for the Mongolian government is to find a way to successfully transform the natural resource wealth of the country into wealth for the citizens of the country. The fact that the
government directly owns many of the natural resource deposits creates both opportunities and challenges in this endeavour.

**Conclusion**

Mongolia would appear to be a country with all the ingredients necessary to reach a relatively high level of economic growth and development. The country has a small, homogenous population that has a high level of literacy and basic human development. It has a vast landmass and significant natural resource deposits, especially when considered on a per capita basis, located in close proximity to a country with almost unlimited demand for the natural resources it has available. Mongolia made significant advancements in economic development over the past decade, but development has stalled due to the inability of the country to find a successful policy formula that allows the country to access the financing and expertise necessary to fully develop its natural resource deposits and infrastructure. While external market forces have played some role in the economic slowdown, the primary challenges Mongolia faces are institutional rather than resource based.

One of the key institutional failures in Mongolia is that in many cases the government has played a hindering rather than a supporting role in economic development, especially with regard to natural resource deposits. The development of major projects with government ownership shares, including Oyu Tolgoi and Tavan Tolgoi, has been held up due to Mongolian government indecision and mismanagement. These delays have slowed economic growth and cost the Mongolian people income and the other benefits associated with a higher GDP, such as improved health and educational opportunities. However, there is no clear public consensus on an alternative development model that might include the privatization of state shares in mines, as the Mongolian public still strongly supports a direct state role in natural resource projects and privatization programs would likely face significant opposition. The key to Mongolian economic development, therefore, is to improve the management of state owned natural resource and infrastructure projects, as privatization of state owned assets appears to be unlikely in the medium term.

In theory, a state owned firm should be able to be managed as efficiently as a privately held firm. In practice, however, state-owned firms in the natural resource sector have often
failed to efficiently extract natural resources and deliver value to the people of resource rich countries (Ascher, 1999). B. Byambasaikhan, the new CEO of Erdenes Mongol vowed to review the management and financing of the natural resource deposits and firms within the Erdenes Mongol portfolio, with a goal of restructuring these assets to unlock their value over time (INS, 2015). He pledged to model Erdenes Mongol on Temasek, the Singapore based investment management firm (Temasek, 2015). Erdenes Mongol, however, currently falls far short of global standards with regard to transparency and governance, as highlighted by the Revenue Watch Institute (Natural Resource Governance Institute, 2014). The firm has also been plagued by scandals within several of its main asset holdings, such as Erdenes Tavan Tolgoi, which saw its CEO arrested on corruption charges in early 2015 (Kohn, Mongolia's Coal Chief Jailed for Abuse of Power, Embezzlement, 2015).

One source of guidance for Mongolia is the Natural Resource Charter, which provides guidelines for countries to follow in natural resource development (Natural Resource Governance Institute, 2014). Precept 6 of the Charter highlights the risks and opportunities of nationally owned resource companies, and some general guidelines for how to make these companies operate in a more efficient manner (Natural Resource Governance Institute, 2014). Transparent governance and a clear separation of authority between national resource companies and the regulatory function of the state are two of the key issues highlighted in the report. The Natural Resource Governance Institute rates countries worldwide on their adherence to the key precepts of the Charter, and while Mongolia rates relatively well for its overall institutional structure, with a clear separation between the agency that grants mining licenses in Mongolia and Erdenes Mongol, the opaque governance and lack of regular reporting by Erdenes Mongol are identified as key issues that need focus for Mongolia to improve its natural resource management (Natural Resource Governance Institute, 2014). The new Chairman of Erdenes Mongol has pledged to follow international standards and best practices (INS, 2015), but translating and implementing global best practices for corporate governance and operations into the Mongolian context will be challenging.

One potential country role model for Mongolia is Botswana, which is recognized as a country that has been relatively successful in developing its natural resources under government ownership and insuring widespread human development (Lewin, 2011). Michael Lewin identifies several key factors that helped Botswana develop successfully. These include strong
leadership that fostered transparency and collaborative governance, strong property rights and rule of law, and a functioning democratic system that includes free and fair elections, government transparency and responsiveness to the concerns of voters (Lewin, 2011). Mongolia has a strong democratic system, but needs to improve the transparency and process of government decisions and the rule of law. Strengthening these factors will help the government build trust, both with the people of Mongolia and with foreign investors. Improving the management and operation of government owned resources will depend on collaborative partnerships between the government and private firms, both domestic and foreign. Without trust, partnerships are difficult to develop and maintain, as has been evident in the multiple failed attempts to build partnerships for the development and operation of the Tavan Tolgoi mine.

Finally, the government needs to build macro economic structures that support the long-term development of the country. Economic experts have long called on the government to take steps to diversify its income sources and assets. They have recommended that the country build a sovereign wealth fund that would accumulate assets when resource prices are high, similar to the Chilean Sovereign Wealth Fund (Smith, 2014). A sovereign wealth fund invests resource revenues in a diversified portfolio of holdings such as stocks, bonds and equity in a variety of firms or investments with a goal of maximizing long term return to the fund, helping to finance government expenditures, pensions and other long term needs. They offer a way to diversify holdings and income away from natural resources, and to insulate the economy from the negative effects of resource development, including currency appreciation and inflation, a set of negative conditions known as the “Dutch Disease” (Humphry, Sachs, & Stiglitz, 2007). While Mongolia is currently running large budget deficits and is not in a position to immediately invest in a sovereign wealth fund, it can establish the framework for such a fund and make plans to invest in the fund when resource prices rise.

Experts have also called on Mongolia to improve the education system and business climate in the country to help diversify the economy and build human capital. Mongolia has established a Human Development Fund, but has spent the money from the fund on cash handouts to families rather than investments in education and other human capital initiatives (Isakova, Plekhanov, & Zettelmeyer, 2012). Investing in human capital is seen as a key long-term strategy to ensure that Mongolians are able to participate in the high value jobs associated with natural resource development, and continue to develop other sectors of the economy. A
skills shortage means that both domestic and foreign natural resource companies are unable to fill key positions with Mongolian employees. Mongolia might expand efforts to improve its national education system by partnering with foreign educational institutions. These education efforts will also help create a workforce with a diverse set of skills to support Mongolia’s continued development as it shifts over time from a producer of raw materials to a value added and service economy.

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