



OPEN SOCIETY FORUM (OSF) is an independent non-governmental organization established in June 2004 as a successor of the Mongolian Foundation for Open Society. OSF's mission is to serve as a platform for informed citizen participation in policy formulation and implementation by supporting quality research, information, and stakeholder dialogue.

OSF works in partnership with Mongolian civil society organizations and seeks collaboration opportunities with the Parliament and Government of Mongolia. Moreover, OSF regularly consults with donors and international organizations on key issues regarding the country's social, economic, and political development.

The Forum organizes its activities in three core program areas: Governance, Economy Policy, and Social Policy.

2021: MONGOLIA SCENARIOS

What are “scenarios”?

Scenarios are stories about possible futures. While we cannot predict the future, especially 10 years from now, we can think about it intelligently. Scenarios are a way to create plausible, consistent and provocative representations of possible futures, so that we can consider their implications. Scenarios answer the question “What if.....?” They recognize that the world is uncertain and that we and our children may be living in a future very different from the one we anticipated.

Why Mongolian scenarios?

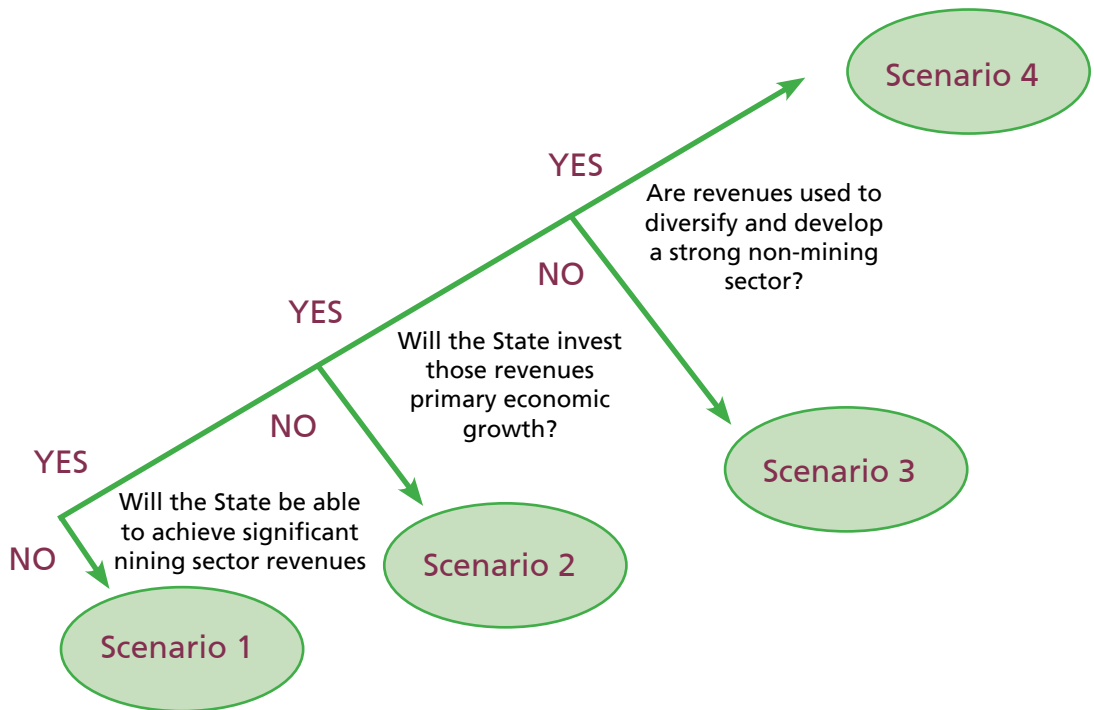
One thing is certain in Mongolia - we are aware that the country has vast mineral resources. However, many things are uncertain - what will market demand be? will prices rise or fall? will these resources benefit all Mongolians, or just a segment of the population? will we waste the revenues we get, or will we invest them wisely...?

Our goal is to present the Mongolian people - citizens, leaders, intellectuals, businessmen and women - with coherent stories about the future which we may face, depending on choices we make in the next months and years.

How did we develop the scenarios?

Open Society Forum is experienced with scenarios. In 2003-2004 we produced the Mongolian Economic Development Scenarios which led to many discussions about critical economic choices the nation was facing. Based on its experience OSF decided to develop scenarios “Mongolia in 2021” which each scenario will depend on how the country will spend its revenue from extractive industries. For these scenarios, we assemble about 30 representatives from the business, government and civil society sectors; we met in three plenary sessions and many smaller group sessions to develop and refine the scenarios. We were assisted by Skillful Means, Inc. a consultancy focused on strategy planning and scenario development and by experts from Revenue Watch International, a nonprofit focusing on resource transparency globally.

Scenarios are created from “driving forces”, critical factors which in some cases are relatively certain - population growth, for example - and in other cases are importantly uncertain -developments in neighboring countries, for example. We began by identifying the concerns of Mongolians about the management of our mineral resources and the management of the revenues which we expect. We then looked at various ways of distinguishing the scenarios from each other. We settled on an “axis” and three key questions which might lead to very different futures.



We also agreed on elements that would be addressed in each scenario - inflation, GDP, mining sector revenues, employment, exchange rates, etc. - and the characters—notably Zaya - in our scenario stories. Then we divided into four teams and started writing the scenarios.

The scenarios are the story of Zaya and her friends and family, to show what might happen to ordinary Mongolians under each of the scenarios depending on how the country will spend its revenue from mining.

In reading the scenarios, it is important to remember several things. Most importantly, the scenarios are not **projections** or **predictions**; we are not claiming that the future will in fact unfold precisely or even roughly along these lines. When reading the scenario, we ask that you consider only three questions: is the scenario plausible (might it happen, even if not exactly as the writers suggested)? Is the scenario coherent (does it reflect a sound internal logic)? Is the scenario provocative (does it make you think)?



FOUR DESTINY OF ZAYA

FATE SHOULD HAVE LEFT MONGOLIAN RESOURCES UNDISCOVERED

...Zaya never thought she would be rich, but she and Orkhon thought they would become middle class professionals who could attain comfortable living...



THE FATE OF MONGOLIA DEPENDS ON OGOOMOR

...Though upset, Zaya was able to manage life using the cash transfers plus her husband's salary. She still carried the hope that one day the promised good life would come true...

ZAYA - HOLDER OF A SOUTH GOBI PROVINCE "GREEN CARD"

...A mining expert Zaya from the Western Tsankhi coal mine of the Inner Mongolia-South Gobi energy complex was awarded the right to enjoy the Naadam holiday in Ulaanbaatar...



ZAYA, CITIZEN OF A FORTUNATE COUNTRY

...After many ministers and company directors had spoken, Zaya raised the issue of the need to reduce the negative impact of oil production on the natural environment, even though oil production had benefited the country overall...



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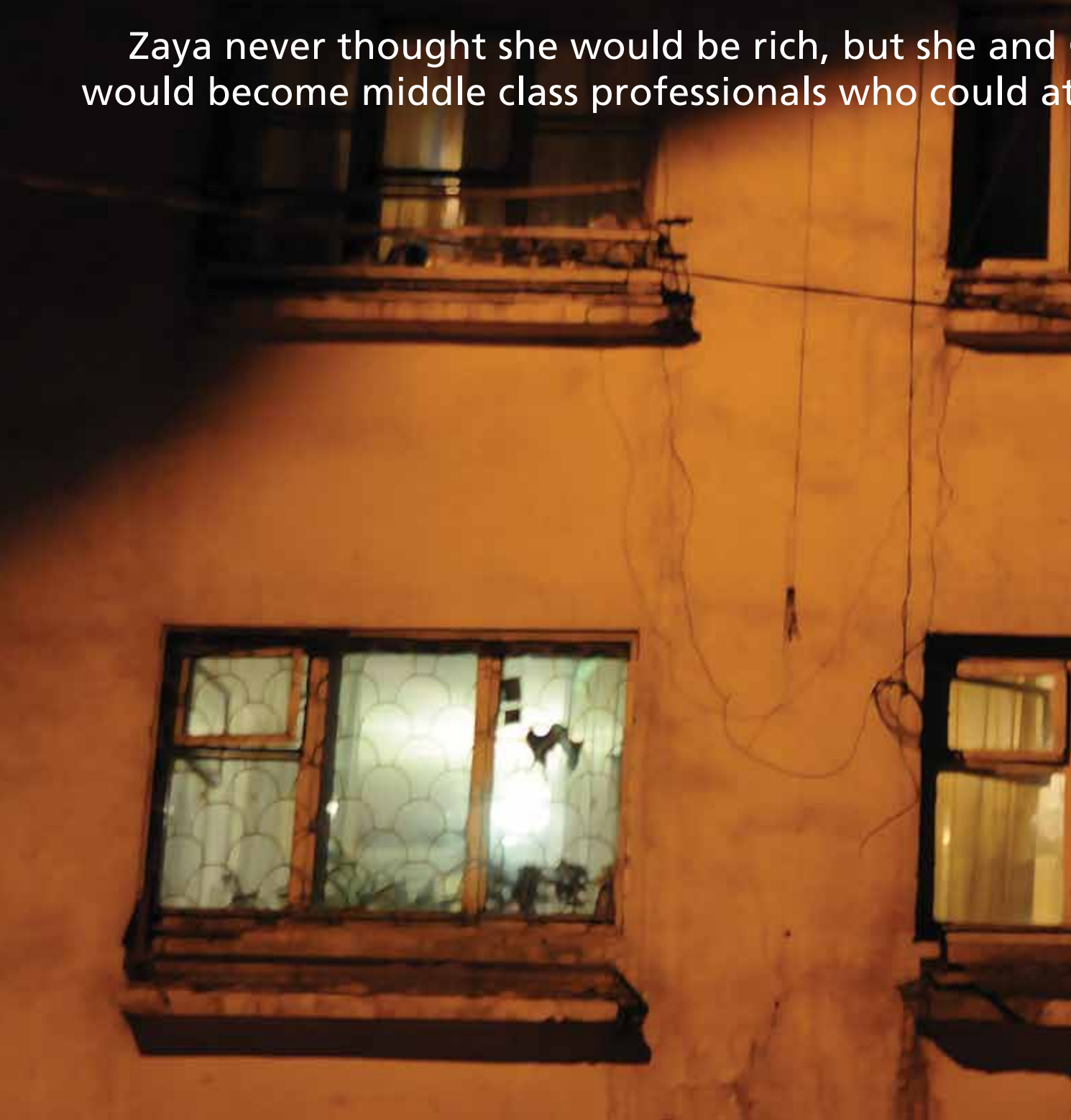
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FATE SHOULD HAVE LEFT RESOURCES UNDISCOVERED

Zaya never thought she would be rich, but she and [unclear] would become middle class professionals who could afford to [unclear]



MONGOLIAN COVERED

Orkhon thought they
would have comfortable living.



1

Today is Dec 31, 2021. Although 37-year old Zaya is getting ready to celebrate the New Year tonight, “Happy New Year” is not really what she is thinking. She has not been happy with her life, being one of the 800,000 households on the edge of collapse and a typical representation of the 3.5 million Mongolians living a miserable daily existence. The mega-mining projects that were hot topics of discussion ten years ago and sparked hope in so many people have mostly disappeared with little trace. And while those who brokered the large investment agreements with foreigners and those who claimed “ownership” of the mines, either openly or through secret arrangements, became rich and are now living far away abroad, it became very difficult for Zaya to live as the country’s middle class collapsed.

Coming from Arkhangai aimag, Zaya entered university in Ulaanbaatar 21 years ago and became a lawyer. She also married and has two children. Zaya’s spouse Orkhon works as a security guard for a small company overseeing a number of placer gold mining projects. He doesn’t even know who the owners are. He is one of the many ordinary employees of the company reassigned as a security guard to protect its assets from theft.

Her children are now 13 and 7 years old. The Mongolian education system is very fragile. The children of the rich either go to private schools or to special public schools which require payment of significant additional fees. Children like Zaya’s go to overcrowded public schools where teachers are underpaid and do not stay long. On top of that, it has become normal for children to spend their time in the school doing nothing.

New Year is supposed to be a happy holiday for urban people who follow the European calendar. However, for Zaya, the New Year celebrations of the last 5 or 6 years are accompanied by fear and deep depression. Over these years the issue of making a living has become a constant concern for her, even though her children have grown up relatively comfortably. She sighs as she looks through her steam coated windows at a family across the way, illuminated by candlelight, thinking that things will only get worse. Ulaanbaatar's obsolete heating lines and old power station mean production is erratic and she is used to power interruptions by now.

2

The children of the people in power when Zaya arrived in Ulaanbaatar a decade ago have also grown up. However their lives are very different from Zaya's. Either directly or behind the scenes they control the distribution of wealth and determine the fate of politicians – family dynasties run the show. All this surprises Zaya and her peers, who were among the vanguard of Mongolian civil society as they became lawyers and professionals.

Zaya had been unable to find work as a lawyer immediately after graduation and wound up doing low level assistants' work for small and minor companies on and off. She was employed this way when the Government inked the Oyu Tolgoi and Tavan Tolgoi investment agreements that had been hot topics of conversation over the years. Like many people, she really expected living conditions to improve, and soon after graduation she married Orkhon who was studying engineering. However, 2012 and 2013, the projected launch dates for large scale production from OT and TT, slipped away quietly. Instead of the grand dreams becoming reality, she began to hear that Mongolia was accused in international courts by investors and international partners who claimed it had violated the terms of its agreements. The companies were countersued by Mongolians in local courts and various contradictory rulings ensued. This radically slowed momentum in the sector.

As Zaya remembers, during the 2012 election



International mining companies

wealthy candidates again bribed voters, but this time the fate of the country irrevocably changed for the worse. The two largest political forces reneged on their pledge not to promise cash to voters and so derail the development of the country. Instead the two parties competed with each other in promising more handouts in the final days before the elections: shares of the Tavan Tolgoi coal mine; ownership in other large mining projects; and increased salary, pensions, social welfare and other incentives. The new government immediately faced the challenge of fulfilling election pledges and started by distributing indexed shares of the Tavan Tolgoi coal mine and then purchasing these shares for 1 million Tugrik cash handout each, which led to significant inflation.

Revenues from the open-pit Oyu Tolgoi mine,



Photo by Alistairuff, 2007.

lost trust in Mongolia and began to demand concessionary deals to justify the risk that agreements would be cancelled or renegotiated.

which began to operate in the summer after that the election, were spent for repayment of loans the previous government borrowed from its operator, Rio Tinto and from China and Russia in 2012 and 2013 and spent on pre-election cash distribution. It soon became clear that Mongolia's share of revenues had essentially all been pledged to others and would not contribute to the national economy. In the next years the mining infrastructure and supply chain became riddled with corrupt practices, so the cost of mining increased and tax revenues on profits decreased. Once the Euro zone economic crisis led to a severe restriction in financial capital, minor political parties and civic groups began to demand state ownership of at least 50% of the Oyu Tolgoi project. Because of this, Oyu Tolgoi's investors decided to suspend investment in developing

the underground mine and to wait for political processes to play out.

In this environment, the Tavan Tolgoi coal mine became the next big disappointment. The government and foreign partners disagreed about the mineral reserves available, expected market price, cost of development and rate of return. As a result only the State-owned coal company, Erdenes Tavan Tolgoi, mined coal there on a small scale.

Fearing the anger of voters, before the 2016 election politicians attempted to review a number of investment agreements signed with international companies. It became very difficult for investors to determine who was making decisions as various shady figures emerged, generally seeking shares or outright bribes. As the rules of the game became uncertain it became increasingly difficult for mining companies to raise funding and by 2015, no new investments were being made. Zaya vaguely remembers that large mining companies began to sell their assets. Not only Western and Korean mining companies, but even Russian and Chinese ones lost trust in Mongolia and began to demand concessionary deals to justify the risk that agreements would be cancelled or renegotiated.

Thus a vicious cycle started. Politicians used Mongolia's expected future revenues as collateral for borrowing from investors in order to distribute cash in order to be elected again. Proposals to review investment agreements and increase State ownership were raised in each election cycle under pressure by groups advocating more equal distribution of wealth and by populist politicians, many of whom had conflicts of interest. Money raised that way was spent immediately on vote buying. As a consequence, the government's ability to borrow fell over time and voters became more and more dissatisfied and distrustful of politicians. At the same time, cash transfers had seriously reduced incentives for many to look for work and people became ever more dependent on ever smaller handouts. Even when the government distributed the remaining shares of Tavan Tolgoi to citizens, people merely sold these for small amounts of money and these shares were perceived as no more valuable than a piece of paper.

2021 MONGOLIA SCENARIOS

Mongolia never benefited from the relatively high price of minerals in 2012-2016, and when commodity prices declined as a new recession started in Europe and the USA in 2018-2019, foreign investment in the mining sector essentially dried up completely.

3

By 2020, government finances were in crisis. The budget deficit had increased annually because the government had to start repaying the huge loans it took for monetizing the Tavan Tolgoi shares distributed to citizens, for investing in big mining projects and for compensating foreign companies who had sued the government in international courts. When the price of coal dropped in the world market between 2018 and 2019, the budget deficit had already reached 15% of GDP. The Financial Stability Law was never implemented properly and by 2017 no funds were available in the Stability Fund. Since the Development Bank of Mongolia was unable to make payments on its bonds additional pressure was put on the State budget. And the many

commercial banks who had borrowed from abroad in hope of great returns from the mining sector were also unable to make payments. The government invested in two banks in order to prevent them from bankruptcy and accordingly, the State budget's condition became even worse. Consequently, the Financial Stability Law was annulled, since even if the government issued new bonds, no one would buy them. Because of all these circumstances, the government took additional loans from China; by 2020 its debt totaled 150% of GDP, an amount far greater than that taken from the Soviet Union during the socialist regime.

By 2021 China was essentially the only foreign partner in Tavan Tolgoi and began to set the actual price it would pay for coal. Since China had recently increased its black and lignite coal production in its border areas neighboring Mongolia, its demand dropped. Even though Mongolian public officials and World Bank analysts warned political parties that China's demand for Mongolian coal would decrease, the government was unprepared for the sharp decline of Mongolian revenue from coal exports.



Photo by Jens Roetzsch, 2008. Photoman agency



Photo by Jayselley, 2010. Getty Images

When commodity prices declined as a new recession started in Europe and the USA in 2018-2019, foreign investment in the mining sector essentially dried up completely.

The budget was by now running an extraordinary deficit and inflation was out of control since the government was printing money in order to continue cash transfers. According to official reports, the inflation rate is 12%, but for a long time inflation has been running over 30%. Private companies also borrowed significant amount of money from domestic and foreign sources and this too increased the overall level of national debt.

4

Oligarchs are the undisputed power in Mongolia. Zaya read on the internet that just over 200 families essentially control the economy and political parties. World Bank statistics show that the top 10% of the population get at least 45% of annual national income and own some 90% of assets. They seem to have no fear of public anger, or even of the courts and authorities. In the midst

of widespread poverty, these families compete with each other in organizing lavish weddings and parties to highlight their wealth. Zaya still remembers seeing a wedding invitation decorated with real pearls and reading about guests being handed the keys to houses and luxury cars as gifts. The oligarchs own the local media and the media in turn publicize and praise all this lavish spending.

Zaya and her friends often talk about the time when things started to go wrong. The election of 2012 was disappointing, and soon after the oligarchs really took control. Police, defense and military spending increased significantly, while expenditures and investments in education and social services plummeted in real terms. Zaya even heard a rumor about a secret agreement, supposedly signed by the people who won in the 2016 election, that they would pass on their parliamentary seats to their children. Though it



reads like a bad film plot, it certainly seems to be a reliable feature of elections since then. There always seems to be a coalition of the same individuals and interests, all drawn from these oligarch families. If only courts functioned that reliably, she thinks!

Everyone knows that the oligarchs will do whatever is necessary to protect their positions and interests. Attacks on civil society leaders and protesters are common nowadays, and these attacks make use of the police and sometimes even the armed forces. Desperate people once in a while have taken to the street in protest demonstrations, however the organizers are chased down one by one or in groups and put in prison, so in general the demonstrations have no impact anymore. Her classmate Ireedui is in prison again for “revealing State secrets” all because his website put up a story about links between the Minister of Justice and Russian business interests, a story which had already been published in a Russian newspaper.

The country’s defense establishment now seems to serve the interest of oligarchs and there are rumors that Chinese or Russian security “advisors” and informers are working with the secret service. However, it does not mean that life is safe for those serving the oligarchs. During the New Year celebration last year, her husband Orkhon did not come home, doggedly guarding one of the placer mines of his employer. He was beaten by thugs until his eyes were indistinguishable from his face. Zaya did not dare ask too much about what happened, and he only muttered something about “... conflicts among oligarchs”. Zaya knew that the people in power would do anything to protect themselves from downfall, and since it can be unsafe to work as a lawyer, she watches her step

all the time. She takes no clients who have legal issues involving oligarchs and mostly just drafts meaningless contracts – even if everybody knows the courts won’t pay much attention to those contracts anyway.

Zaya never thought she would be rich, but she and Orkhon thought they would become middle class professionals making a comfortable living. That looks impossible now.



Photo by T.Uusuhbaatar, 2002.

Zaya can’t see any way to escape current conditions. Although different studies show that the unemployment rate is 20% and around 60-80% of the population is living in poverty, no one really knows the exact numbers since statistics from the Ministry of Social Welfare are completely unreliable. What Zaya knows is that the disappearance of the small middle class led to a creation of two parallel economies: one for the few extremely rich with access to the world market, and a domestic market for the poor majority.

The western region became a desert as a consequence of frequent droughts between 2012-2017, and as a result of global climate warming. Rivers disappeared permanently. All this increased migration of people from the south and west to the central region.

The western part of Mongolia has essentially been abandoned by its native residents because of desertification and tourists now think it is a part of the Gobi Desert.



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The population of Ulaanbaatar reached 2.5 million and this created unprecedented burdens for sanitation, food, heating and power supply. As a result, Ulaanbaatar became a cold, dark, polluted and violent city. The number of homeless people grew and crime and violence increased. Budget expenditures for the police and security services also increased significantly and policemen are now visible everywhere. Many conclude that Mongolia has become a police state primarily as

the consequence of the vicious circle of poverty. Zaya remembers how much safer she felt in Moscow on her last visit and wonders how matters came to this.

5 Zaya's two best friends will be visiting her for New Year celebration, so she is in the kitchen. Virtually all the food in the house is



Photo by T.Usurbodir. 2003.

either fast growing vegetables from eastern China or dried and canned Korean products for long storage. Local vegetables are only a memory because of the collapse of agricultural farming sectors several years ago. A fierce competition among oligarchs for permissions to export meat to China and Russia led to massive overgrazing and erosion of pastureland. Parliament compounded the problem by passing laws on pastureland which led to confusion about ownership rights. Much land was taken by the rich and fights amongst poorer herders over the

remaining pastureland led to the near collapse of traditional nomadic livestock husbandry. The western part of Mongolia has essentially been abandoned by its native residents because of desertification and tourists now think it is a part of the Gobi Desert. The remaining herders are now living in the Khovsgol-Bulgan-Selenge region. Contrary to what is being said in tourist brochures, Mongolia no longer has a real nomadic culture.

6

Undraa, Zaya's childhood friend, knocks on the door and enters the house swiftly. She laughs as if she brought the whole Southern Gobi region with her. She lives in the Gobi desert with her husband, who works in the Sainshand Industrial Park. More than 10 years ago she founded an NGO focusing on rural health, and at least she has a solid base of clients. Alcohol abuse is on the increase and at the same time male life expectancy has declined. Family abuse is common too. Moreover, tuberculosis is so rampant in ger villages that rumors abound that it is a strategy to keep the population down. Though most NGOs are not strong and most of them fail, at least she is working in an area where foreign donors and western churches are still willing to provide funds. The government provides little support and almost all goes to so-called civil society organizations allied with special interests. NGOs that receive funding from abroad are severely restricted by government regulations, and besides, many foreign donors have essentially given up any hope to work with NGOs. Public participation in civil society and social organizations has sharply declined.

Undraa often complains that she spent her productive years in the Gobi desert waiting for her husband to be promoted; instead Sainshand is still barely functioning after 10 years due to inadequate planning and funding. Her husband's last hope was to be appointed to a management position in the metal and steel plant, but this hope has been dashed now that its opening is again delayed. It seems that one of the plant's managers borrowed money from one of the oligarch banks at unsustainably high interest rate and the bank is



ULAANBAATAR

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Photo by Jens Reetzch, 2009, Photoman agency



Photo by Jens Rosefzch. 2010. Photoman agency

In the midst of widespread poverty, a few rich families compete with each other in organizing lavish weddings and parties to highlight their wealth.

now claiming ownership. Undraa says the whole area is like “...a female camel licking her wound after falling into a bottomless pit...”

This plant was one of more realistic projects implemented by the Development Bank of Mongolia. However, the Bank itself is essentially bankrupt, since many loans were never repaid and it wasted foreign loans on one inefficient project after another. It became yet another reason for the increase in the foreign debt of the country. Zaya was slicing bread when she thought about empty terms like “development” and “stabilization”. In order to meet obligations, the government was continuously printing money and as a result inflation kept climbing. Now, prices are totally in different digits compared to what they were 10 years back. The young generation roll their eyes when adults laugh saying that “...10,000 Tugrik bread is actually 600 Tugrik bread...”.. Since the Tugrik exchange rate fluctuates so drastically, the Chinese Yuan is now the main currency in circulation and even the country’s basic financial figures are calculated in Yuan.

Undraa makes a call to find out why Khishgee is late. She teaches social science in a public secondary school and after a failed marriage she became hesitant to start another. Khishgee said she was attending a meeting of teachers who want to strike but are afraid of the consequences. Since the press was not attending, people were talking openly and she really wanted to hear what was being proposed. She said people talked about rampant violence and even assassinations as various groups fight for control of districts and companies.

The three women enjoy themselves as best they can. They look at the flickering streetlights and ponder the fragility of life. Orkhon finally comes home just after midnight, only a little drunk. He attended a rally by the Chairman of a new radical and pro-communist political party. Orkhon awkwardly said that he now plans to work for “New Politics”. Given what has happened since 2012, he considers this as the best way to improve his children’s future. He also thinks that only if Mongolia had not found natural resources, this resource curse wouldn’t have happened.

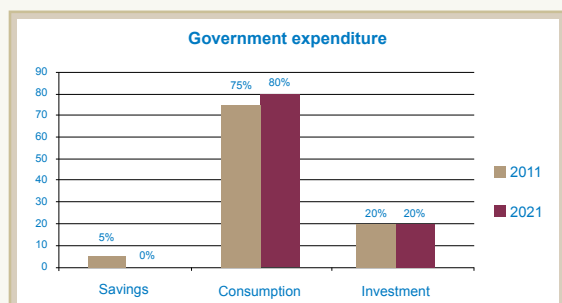
Economic Indicators

Indicators	2011	2016	2021
GDP per capita (USD)	2,786.13	7,579.21	7,762.09
Real GDP growth	15%	3%	1%
Government mining revenues (mln USD)	733.82	1,944.54	1,327.15
Inflation	11%	20%	12%
Poverty level	39%	30%	24.50%



Revenue management indicators

Indicators	2011/2009	2021
Stability Fund (bln)	281	50
Human Development Fund (bln)	0	0
Development Bank (bln)	50	0
Revenue Management Index (Revenue Watch Institute, weak-0; strong-100)	38.2	33
Herfindahl Index (0-1, 1-high export concentration)	0.489	0.55

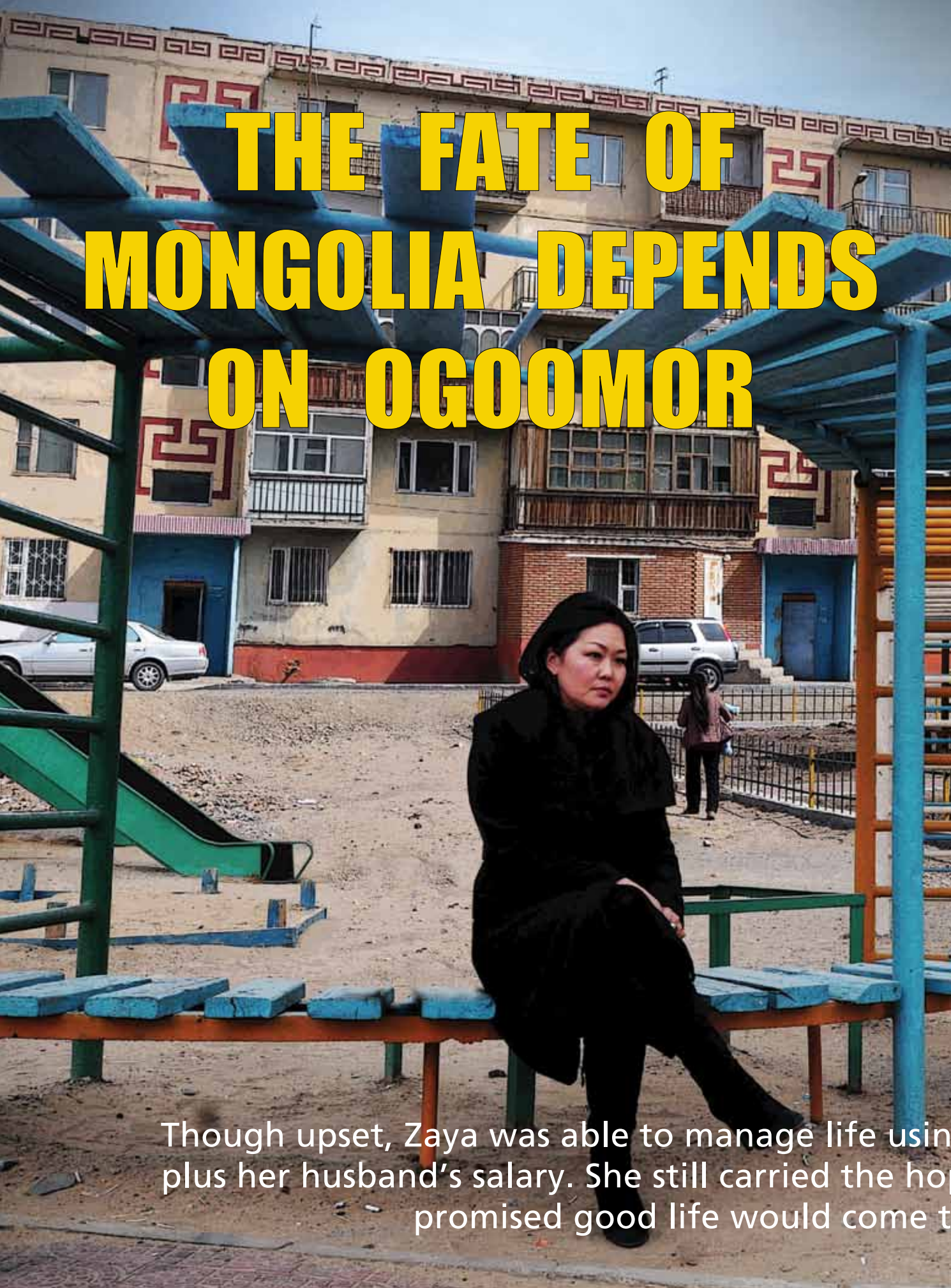


Governance Indicators

Indicators	2011	2021
Global Integrity, (very weak-0; very strong-100)	57	23
Banking Industry Country Risk (S&P, 1-10, 10-extremely high)	9	10
Competitiveness Ranking (World Economic Forum, total 142 country)	96	110
Open Budget Index (Open Budget Partnership, very weak-0; very strong-100)	60	36

- ◁ Elections characterized by fraud and vote-buying. MPs viewed as self-interested business people or weak tools for business interests. People suspect motives and integrity of politicians.
- ◁ Parliament descends into short term interest groups scrambling to gain access to funds. Coalitions are short lived, based on short term interests.
- ◁ Mining sector is viewed as asset to be divided between powerful interests. No interest in long term sustainability – either in Mongolian hands or under foreign management. Constant pressure on foreign investors for payments, side deals, etc. Willingness to sign away long term interests for short term gains.
- ◁ No serious funding for Development Bank or Stability Fund. Funds which are deposited – or appear to be deposited – quickly pledged to individual business and political interests.
- ◁ Citizen dissatisfaction kept in check through payoffs/subsidies and threats. Rule of law extremely weak.
- ◁ Country has no strategies against inflation, price shocks, national debt. Increasingly dependent upon foreign lenders, and vulnerable to increasing demand for handing over of assets.
- ◁ Crime high, unemployment high, public health problems serious.

THE FATE OF MONGOLIA DEPENDS ON OGOOMOR



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1

Even though the sun had risen high in the sky, sunlight does not penetrate the dark clouds looming over Ulaanbaatar. It is yet another gloomy morning in the capital city. Spring winds smear the downtown glass high-rise buildings with trash and soot gathered up from the poverty stricken slums. Tattered residential apartments act as a makeshift border between two very different worlds; worlds with nothing in common, except the wind. The sides of residential buildings facing the downtown are painted and nicely decorated with artificial green lawns under the windows. But the sides of the buildings facing the slums look like ruins, ragged and worn out, as if they could collapse at any time.

Zaya Mongol appears from one of the rundown apartments, kicking trash out of her way as she begins her dusty walk. Though only 30 years old, Zaya looks much older, worn out like the building she lives in. Her four children are watching her through the apartment window. The Mongolian government implemented many cash distribution programs to support population growth over the last 20 years. Therefore, it is no longer surprising for Mongolian women to have 4 children or more at her age. As a result, the population growth rate is at a historical high.

Zaya graduated from the university 10 years ago with a law degree. However, she never worked as a lawyer. Shortly after graduation, she married Orkhon and gave birth to three children. Unfortunately, Orkhon was unemployed and often spent the family's monthly cash allowance on gambling and vodka. As the situation worsened, Orkhon threatened the children and started to beat Zaya. Seeing no other option, she divorced him, taking the children with her.

A few years later, Zaya married again and gave birth to a fourth child. Her husband, Zhipeng, was a Chinese engineer supervising the construction of an industrial plant in Sainshand. Along with the mining boom, many Chinese workers migrated and settled in Mongolia since most Mongolians were unwilling to work for salaries which were less than their monthly cash transfer from the government. With the influx of Chinese workers, marriage between Mongolian women and Chinese men became common. Zaya's marriage to an employed Chinese engineer allowed her to have a happy life with an average standard of living.

As her father had foreseen, Zaya's life unfortunately changed from a sweet dream into a feverish nightmare. When the 2018 global economic crisis hit, investment in the Sainshand Industrial Park was stalled. Zhipeng was laid off and shortly after went to his home in China, leaving nothing for the family except the apartment in which they lived. Zaya did not try to find work as she lacked experience in her field and in fact, more importantly, she lacked the motivation to

work. Zaya was confident that the economic crisis would end within a few months and a "normal life" would return, including the government social welfare allowances that her family depended on. Now, looking back over a harsh 3 years, Zaya is despairing and hopeless as it is still a struggle to survive.

Mongolia's development path seemed to start in 2013 with the regaining of foreign investors' confidence when the government decided to implement mining agreements signed in 2009. Big mines such as Oyu Tolgoi and Tavan Tolgoi began production in 2013 and it was the year that Zaya and many ordinary Mongolians felt real progress was very close.

Politicians continued to say that Mongolia was becoming one of the most highly developed countries in the world. People were mesmerized by political promises of all Mongolians living in luxury and not needing to work and were overwhelmed with excitement in anticipation of living a life of leisure while receiving cash transfers.

The political party which won the 2016 parliamentary election pledged even larger cash distributions than previously enjoyed: increasing monthly allowances for children to 300,000 Tugriks and for every Mongolian to 500,000 Tugriks. All these payments were financed by loans taken in advance from foreign mining companies, pledging future mining revenues as collateral. These events seemed so recent to Zaya.

Initially, the government cash transfers were sufficient to maintain an adequate standard of living but, within a few years, the Tugrik was devalued and



Гэрэл зургийг Б.Бямба-Очир, 2012.

The Parliament adopted a proposal to rename the Herders' Fund as the "Chinggis Khan Fund" with the aim of distributing 500,000 Tugriks to each citizen and 300,000 Tugriks to each child per month.

inflation increased sharply. The standard of living deteriorated for most people. Though upset, Zaya was able to manage life using the cash transfers plus her husband's salary. She still carried the hope that one day the promised good life would come true.

However, sudden misfortune fell and by early 2018, an economic crisis had begun. Deposits in the Stabilization Fund, established in 2013, were used first to finance a welfare program for herders, then one for old people and children, and eventually for every individual. Thus, when the economic crisis hit the country, the Fund's deposits were already exhausted. The Mongolian economy was unprepared for such a crisis. In 2020, as the economic crisis deepened, some cash transfer programs were cut causing huge public protests. Now, everyone complains that "15,000 Tugrik is not enough to buy a kilo of meat, and the 300,000 Tugrik allowance for children is now worth no more than the 100,000 Tugrik we were getting when the program started".

Now, as expenditures for cash allowances are cut, a majority of Mongolians are experiencing hardships; a few are so wealthy, however, that they haven't felt the crisis at all. People at many protest demonstrations say that "2% of Mongolians are exorbitantly rich and another 10% are rich, and the middle class (mostly consisting of people providing services and logistics for mining and construction) make up 30% of the population... This means that more than half the population is poor and relies totally on government social welfare programs". Zaya listens intently and ponders the events of the last 20 years. Actually, during the last ten years, Mongolia became known for its mineral resources and the revenues it generated. However, despite nonstop talk of revenue management, Mongolia did not use these revenues either for economic growth nor for long-term sustainable development.

Zaya overheard people discussing a recent newspaper interview with an economist. Using facts and figures, the economist explained that although the Mongolian government was earning \$6 billion dollars a year from the mining sector, a majority of this revenue was spent financing current expenditures of the government and inefficient infrastructure projects. The interview straightforwardly pointed out that the large projects financed by the Natural Resources Fund

were managed by cronies of politicians and were very inefficient. This speech confused Zaya. When thinking about various development works, ranging from soum-level construction to a modern road network passing through the native village of a Transportation Minister and to the narrow gauge railroad connecting Mongolia from North to South, it was hard to be critical and say that the government was doing nothing. However, when she thought about the unfinished construction work of a large recreational park with underground parking for 5000 cars, which was initiated by a member of Parliament elected from her district and financed by the Development Bank in order to fulfill his election promise, Zaya felt sad. The global economic crisis and fall in commodity prices stopped completion of this park and dashed Zaya's hopes of buying a larger apartment and a new car.

2 The number of participants joining the protest demonstration in Central Square kept increasing and by noon the square was full. The protestors echoed what speakers were saying from the stage. They waved banners painted with slogans such as, "Mongolian meat should not be more expensive than European meat", "Natural resources should belong to the people", and "Stop corruption - fulfill your pledges and increase the cash transfers". Although Zaya shouted these political slogans at the top of her voice, her main objective for joining the demonstration was to get her cash transfer increased. Some of the protestors were drinking vodka on the edge of the square. Luxury brand shops near the square had been locked down and were protected by armed security guards. Protestors had attacked and robbed these shops a week ago during a previous demonstration and the police used force to disperse the crowd. On the western side of the square, several dozen people stood quietly holding banners stating "Cash transfer programs will not improve our lives", "Invest mining revenues to future development", and "Stabilization Fund and Development Bank should report and be accountable". Later, they silently disbanded.

In the afternoon, word spread that a representative of the government was going to make



a statement. Soon, Ogoomor, the young Minister of Finance, walked onto the stage surrounded by his bodyguards. He is the son of one of the influential members of the ruling party who was elected from Arkhangai Province to Parliament with the slogan “Electricity to each bag¹ and a Megjid Janraisig² to each soum”. Because of the influence of his father,

1 A smallest administrative unit in Mongolia

2 Megjid Janraisig is 25 meter tall golden statue of the Buddhist deity of compassion

Ogoomor studied abroad and was viewed as a very promising politician.

“Citizens! Since 2018, the international market price of minerals has declined by 60% and our government revenue has dropped by 54%. This means our budget deficit has reached 35 trillion Tugrik which equals 28% of our GDP³. Therefore,

3 By mid 2020, GDP of Mongolia increased 3 times in nominal terms compared to 10 years ago and reached 125 trillion tugrik. However, real growth is negligible and the poverty level did not drop at all.



Photo by Jens Roelzsch, 2010. Photomon. agency

to your current monthly allowances!”

“Hurray! Hurray!”

With that, the young Minister became a national hero within a few minutes and proudly left the stage. Ogoomor knows that continuing to distribute cash transfers is very harmful to the country’s economy. However, this is politics, what can he do?

The Stabilization Fund was set up in 2011-13 when budget revenues were very high. Ogoomor knows very well that deposits to the Stabilization Fund were initially used to establish a “Herders Fund” at the demand of the herders. This fund disbursed loans with no interest rate to herders who had lost their animals in the recent dzud. But soon after the Herders Fund changed its objective and began to disburse loans to all herder households with a purpose of increasing the number of livestock. As a result, along with the environmental effects of mining, overgrazing has resulted in many herders having little or no pastureland at all. Even though Ogoomor is aware of these facts, before the 2016 election he initiated and developed a proposal to rename the Herders’ Fund as the “Chinggis Khan Fund” with the aim of distributing 500,000 Tugriks to each citizen and 300,000 Tugriks to each child per month. His proposal was successfully adopted by Parliament.

If revenues from mining as of 2013 could have been maintained, the government would have supported the cash transfer programs easily. However, a significant portion of the anticipated mining revenues had already been taken in the form of loans in advance and had been spent to fulfill populist pledges of politicians. In addition many projects financed by the Development Bank went bankrupt and Mongolia’s credit rating was downgraded. Mongolia borrowed 12 billion RMB from China in order to finance the North-South railroad project; then, in 2020, Mongolia again took a loan which was equivalent to 1.2 trillion Tugrik from China in order to maintain the cash transfer programs. Mongolia did not invest in the mining sector and, eventually, foreign companies came to dominate the sector. Hiring Chinese workers was one of conditions of the Chinese loans but what could Mongolia do? And these weren’t the only problems. Starting from 2020, Mongolia started to pay \$900 million dollars annually to

Spring winds smear the downtown glass high-rise buildings with trash and soot gathered up from the poverty stricken slums. Tattered residential apartments act as a makeshift border between two very different worlds; worlds with nothing in common, except the wind.

we have had to reduce cash transfer programs and postpone large development projects.”

“Oh, no!”

“However, as result of our government’s hard work, and using all of our available resources, we have decided to distribute to each citizen 4,000,000 Tugriks in cash or \$1000⁴ by June, 2021 in addition

4 Due to high inflation rate The Mongolian tugrik was devaluated

and 1 USD equals 4000 tugrik.



Photo by Andrews, Roy Chapman. 1911. Photomom agency



Photo by Jens Roetzsch. 2010. Photomom agency

service its foreign debt and soon will be unable to pay the minimum interest payment due. Minister Ogoomor is worrying about how to explain these situations to the Prime Minister.

- Minister Ogoomor, can I ask you a few questions? I'm from the media.

-...

- Why did the Stabilization Fund not act as it was supposed to when the budget is in deficit?

"The last 10 years were a period of prosperity for the Mongolian economy, allowing us to grow and develop rapidly. During this period, 70% of the mining revenue was used for cash distribution programs to improve standards of living of our citizens and 30%

was spent through the Development Bank to finance large, long-term infrastructure projects. Therefore, only a small percentage of revenues was deposited to the Stabilization Fund and it is simply not enough to overcome today's crisis."

"The International media reports that the Development Bank of Mongolia is actually bankrupt? Is this true?"

"That is a slanderous and false report!"

"What do you think about real estate assets, purchased abroad with funding from the Development Bank, ending up in the names of certain Ministers?"

"This issue is being investigated by the courts."

"The Mongolian government already borrowed from abroad enormously using its future revenues as collateral. Lately, Mongolia has come under debt burden and its credit rating was drastically downgraded. Therefore, it is impossible now to borrow from abroad. So who and what will be the sources of the 4 million Tugrik cash transfer that you just promised?"

"We are using our internal resources. Our reliable partners of many years expressed that they are ready to provide us assistance."

"By internal resources, do you mean printing more money? If this happens, you won't be able to curb our already ballooning inflation and investments will be stalled. Won't this push our entire economy to the brink of total collapse?"

"In this difficult time, it is important for us to unify and work together for our country rather than criticizing those who are working hard. I apologize but I'm very busy and must conclude this interview..."

Since Ogoomor doesn't have answers to these difficult questions, he wants to finish the interview quickly. The journalist is correct - when international and domestic sources for raising funds are exhausted there are only two ways to raise budget revenue: raise taxes or print money. Even if taxes were increased, businesses do not have enough revenue to pay, so it is unlikely that the budget revenue would increase. Ogoomor explained all this and even more at a party meeting. However, party members chose the option of printing money. In fact, isn't raising taxes like stealing from themselves? This is an indication of how common it had become for personal interests to supersede the public interest. Governance in Mongolia had been drastically weakened. Unfortunately, there

is no coherent political opposition to dispute decisions which are against the national interests. Trans-party oligarch groups control politics, civil society acts as the puppets of politicians, public has become passive and lethargic and prefers to receive cash transfers from the government rather than fight for change. This reminds people of the period 300 years ago when Mongolia was under the oppression of the Manchu Qing Dynasty.



In 2020, as the economic crisis deepened, some cash transfer programs were cut causing huge public protests.

3

It is 6 a.m. on yet another dusty, gray Ulaanbaatar morning. Ireedui rubs his eyes as he gets up from behind his computer and prepares to go to his day job. His all-night work on www.ireedui.com website has nothing to do with his full-time work monitoring CCTVs and surveillance cameras in a 5-star luxury hotel. At

and other intellectuals post articles and engage in debates on the website. The website has become very popular among people and has become something of a political debate club for the middle class. Like intellectuals in other societies, their activities have not progressed beyond discussion and writing. However, recently they have been debating about whether it would be right or wrong to join the demonstrations in the central square



Photo by B.Bayasgalan. 2008.



Photo by Jens Roetzsch. 2008. Photomon agency

Government secretly revoked law to ban mining north of 47th latitude and issued licenses to foreign mining companies in order to pay back debt.

40 years old, Ireedui is a very talented software programming engineer who dreams of developing an economy based on knowledge and designing world class software programs. However, in order to support his family he works as full-time employee in the hotel. He earns about \$3,000 a month, which is sufficient to sustain an average living standard.

Ireedui had faced a difficult decision: migrate abroad and work in his specialized field as many of his friends recommended, or continue to work like this in Mongolia. He decided to stay. Ireedui explained his decision to stay on his website as “We, the Mongolian intellectuals, shouldn’t act like the foreign businesses who invested in Mongolia only for the purpose of money laundering, getting rich quickly and running out when the economic crisis hits. Unlike them, we can’t abandon our country when our country needs us most”.

The website that Ireedui runs at night is a platform for his concerns about the future of his country and its current development path. He

and take to the streets to strengthen democracy and demand reforms. Some of the headlines of most popular posts on the website include:

“Shall we continue giving away strategically important deposits to foreigners?”

“Mongolia has become a country that imports drinking water!”

“Projects to divert Kherlen and Orkhon rivers, funded by rehabilitation money, are stalled. No Kherlen and Orkhon rivers and no rehabilitation.”

“Government secretly revoked law to ban mining north of 47th latitude and issued licenses to foreign mining companies in order to pay back debt.”

“Donated funds intended for “Mongolian Lung Association” and “Mongolia-Free of AIDS” programs ended up in the pockets of corrupt officials”.

On his way to work, Ireedui is driving his son to a private high school in his medium-sized Chinese jeep, a vehicle common among middle class families.

“How are your studies and exams going, my son?”

“Good, good! I got an ‘A’ in every class this term!”

“How was the picnic with your classmates?”

“It was wonderful! We came across a small, flowing river, but the water was polluted and they told us not drink or use it for hand washing. We also saw a rural herder family.”

“Good. Have you sent your application for law school yet?”

“No. Even if I became good lawyer, I’d never be able to become a judge. So I’ve decided to become a mining engineer.”

...

In the afternoon, at 1 pm, Ireedui’s normal working day was continuing. His co-workers were out for lunch. Minister Ogoomor, a regular customer at the hotel, was meeting with a member of Parliament from the opposition party in a luxurious private room. Ireedui was watching a special CCTV camera as they dined on Australian lamb prepared by a French chef and drank a bottle of 100-year old wine. The scene reminds him of the lifestyle of rich Arabian sheikhs.

While checking equipment, Ireedui accidentally activated the hidden microphone in the private meeting room. The conversation between Minister Ogoomor and his guest was not an official discussion, instead it was a secret talk about how to win some of the large bids announced by the Ministry of Finance and share the profit. The conversation touched on how to embezzle the remaining money in the Stabilization Fund and also how to get loans guaranteed by the Development Bank and so transfer all the risks to the government. This was a perfect example of powerful officials sacrificing the future of Mongolia for their personal gains.

Ireedui realized that the Minister was directly responsible for the government budget. Moreover, because of such corrupt officials who act only for their private interests, Mongolia was not developing as it could, using its natural resources instead of simply selling much of its wealth. In order to share his discovery, he posted the recording on his website without any comments.

In the evening, at 6 pm. Ireedui, heading home from work, was met by two young men in glasses and black suits.

- Citizen Ireedui, come with us...

4

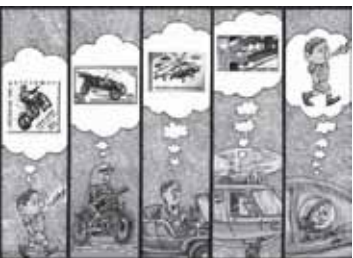
A warm spring has arrived in rural Mongolia, and it has become too hot to wear deel, the traditional long insulated garment. But despite the warmth, no sign of grass is seen on the surrounding hills and mountains. The land looks as gray as the streets of Ulaanbaatar. Mr. Mongol gently gallops his dark horse through the tumbleweed strewn valley. At 70 years old, Mr. Mongol, is considered one of “rare species”. He is among those who have remained loyal to the fast-disappearing nomadic culture and way of life. Mr. Mongol, known for his solid but stubborn character, is going to the soum center to pick up his cash transfer and to buy supplies and food for his family and livestock. His wife waits for him in their remote mountain home.

Actually, Mr. Mongol is a native of South Gobi province. He moved to this area three years ago in search of pastureland since it became impossible to survive on herding in his home province. His migration out of South Gobi is a good illustration of his stubbornness: nowadays, herding and living on livestock is about as exotic as Tibetan monks living on a high plateau deep in meditation isolated from the rest of the world. Moreover, at this time, everyone is attempting to get a “South Gobi green card” that allows people to get more allowances and cash transfers from the government rather than living in other provinces. His friends and neighbors laughed when they heard that his sole reason for leaving the province was to search for pastureland. These days, most herders⁵ work as farm laborers on land close to the big cities or can be found living in traditional gers along tourist routes. The few remaining herder families, like Mr. Mongol’s, are not herding their own livestock but are called “salaried herders” herding the livestock and running horses for politicians and rich urban residents.

It is generally known that the only economic sectors that grew in the last two decades were mining and mine related services, entertainment and

⁵ After the 2014-2015 zud, the government was pressure by herders to set a The “Mongol Herder Fund”. The fund disbursed soft loans to help herders buy livestock animals. However, most of the loans from the fund were graded as “bad loans” and the loans were discontinued before the 2016 election. The standard of living for herders has not improved much.

S.Tsogtbayar



It is generally known that the only economic sectors that grew in the last two decades were mining and mine related services, entertainment and construction sectors. Even though there has been an economic diversification policy in place, other sectors simply did not develop or disappeared altogether.

construction sectors. Even though there has been an economic diversification policy in place, other sectors simply did not develop or disappeared altogether. A few years ago, large subsidies were allocated to support crop farming. It seems, however, that politicians and their cohorts were among the only ones who benefited from the subsidy. Much of the agricultural land was held by large companies, which in turn were owned by politicians and their cronies. This did not boost competitiveness or productivity but simply made a few individuals wealthier at a high cost to taxpayers. The failure of this so-called incentive can be clearly seen today as herders, such as Mr. Mongol, eat Chinese produced flour. Due to the budget deficits of the last several years, crop farmers have not received any subsidies at all. Furthermore, authorities allocated much of the funding of the “Virgin Land Campaign 4, 5, and 6” to their own companies and local councils under the pretext of developing public-private-civil society partnerships. The government shouldered the burden and risks of these inefficient programs and projects. To date, no one has been held accountable for this colossal waste of state funding.

Through diligence and hard work, Mr. Mongol maintains over 500 animals, including sheep, goats, horses, and cows. Thus, he is considered quite wealthy. However, most meat, dairy, wool, skin and hide businesses buy their raw materials from commercial farms and Mr. Mongol does not earn enough money from his livestock to keep his family fed and his herd growing. Herders’ living standards continue to be very dependent on government cash transfers. Despite the profitability of raising more goats, Mr. Mongol “stubbornly” refuses allowing goats to make up more than 10% of his total herd.

It seems that the soum center has fewer and fewer people as months pass. Today several people are near the soum administration building waiting for their monthly cash transfers. The bank which used to distribute the money had gone bankrupt and is now a place for loitering drunkards. Groups of children play on the roof of the incomplete building of the swimming arena which does not function due to water shortages. At one time, this soum had a population of 5000 people and over 500 households in its center. Now, the soum’s population has dwindled to less than half that number.

In addition to the incomplete pool, traces of many inefficient investments made when the government was earning sufficient income from the mining sector can be found. A cultural center of 5000 seats was planned but the building has not been finished even though a construction company from the city came and started it. Still, some large investments in building hospitals and schools were made, useful and highly beneficial to the area. For instance, the soum’s secondary school is fully equipped with state of the art technology including a high-speed internet connection and computer lab.

Exhausted from riding all day under the fierce sun, the elderly Mr. Mongol was barely able to walk into a cafe, run by the wife of the soum’s governor.

“Can you give me a cup of tea”

“We don’t have tea.”

“Then, at least give me some water”

“A cup of water is one yuan”

“How much is that in Mongolian currency?”

“We don’t accept mongolian currency anymore grandpa. The Mongolian Tugrik is worth less than the paper it’s printed on.”

“This is shameful! You are a Mongolian trying to sell an old man a cup of water for . . . Chinese money?”

Suddenly Mr Mongol stopped

EXPECTATION

People were mesmerized by political promises of all Mongolians living in luxury and not needing to work and were overwhelmed with excitement in anticipation of living a life of leisure while receiving cash transfers.



talking and fell over.

Mr. Mongol regains consciousness in the soum hospital under a large sign proclaiming “This hospital was founded by the initiative of Mr. Ogomor, a member of Parliament and Minister of Finance”. It is not the first time Mr. Mongol has collapsed due to his high blood pressure but now the doctor is informing him of extremely bad news: he has belly cancer and there is no treatment for it. The doctor believes the reason she is seeing more and more cancers is due to polluted drinking water. Currently, one out of every two people in this region has this cancer.

Mr. Mongol felt that not all public investments were a waste as he received modern and excellent medical care at his soum hospital. Unfortunately, he realized that even sophisticated medicine couldn't stop the progression of his disease.

5

Zaya left home with happiness and satisfaction. Today is the day that she'll receive the government cash transfer. It's exciting for her to remember that a year ago she took part in the public protests demonstration demanding an increase in the cash transfer. Since then, the price of goods has increased several times and her standard of living continues to deteriorate. But Zaya is happy believing that things would be much worse if the cash allowances had not been increased. Within a

few minutes, she arrived downtown via the newly completed subway. The subway system has been under construction for the past 10 years, delayed several times due to poor urban planning.

Although Zaya thought she arrived early, there's already a long line of people waiting to get cash from the ATM. Zaya purchased a newspaper and made herself comfortable in the queue. She can see headlines that “A horse owned by the Prime Minister won the Kentucky derby - PM handed award of \$21 million”, “Crime is on the increase”, “Mongolia built the largest falcon statue in the world,” and “Stock market is in chaos due to news that deposit reserves are fake” and shakes her head.

Unexpectedly, an acquaintance in the queue hands Zaya a letter from her father. She is barely able to read the address written in old Mongolian script. It is addressed to “Daughter Zaya Mongol, from dad”. But just as she opens the envelope a strong gust of wind blows the letter out of her hand.

Zaya doesn't want to take the risk of losing her place in the queue and at the same time is wondering whether to run after her letter or not.

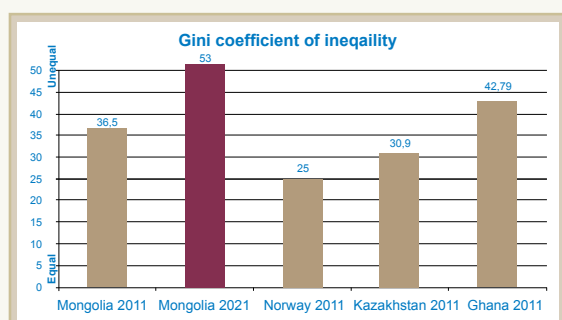
Zaya is no longer the master of her own fate, her life has become like the unpredictable spring weather. Will Zaya, who has grown used to easy access to material goods, food and money, ever know that her father has written to her saying “Like the wind, you need to make a drastic change in your life...”?

Mongolia has become a country that imports drinking water!



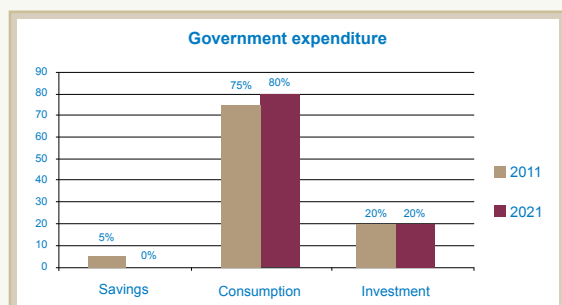
Economic Indicators

Indicators	2011	2016	2021
GDP per capita (USD)	2,786.13	10,063.23	11,637.85
Real GDP growth	15%	2%	0%
Government mining revenues (mln USD)	733.82	2,168.91	1,918
Inflation	11%	25%	25%
Poverty level	39%	33.90%	45.20%



Revenue management indicators

Indicators	2011/2009	2021 on
Stability Fund (bln)	281	0
Human Development Fund (bln)	0	-200
Development Bank (bln)	50	0
Revenue Management Index (Revenue Watch Institute, weak-0; strong-100)	38.2	30
Herfindahl Index (0-1, 1-high export concentration)	0.489	0.5



Governance Indicators

Indicators	2011	2021
Global Integrity, (very weak-0; very strong-100)	57	25
Banking Industry Country Risk (S&P, 1-10, 10-extremely high)	9	9
Competitiveness Ranking (World Economic Forum, total 142 country)	96	105
Open Budget Index (Open Budget Partnership, very weak-0; very strong-100)	60	25

- ◊ Elections marred by vote buying. MPs not elected with strong local support. Parliament viewed as lacking legitimacy. No political will in Parliament for strong decisions. No serious analysis of future. MPs continue to look for easy solutions
 - ◊ Continue current contracts in exchange for funds for govt.
 - ◊ Continue obtaining citizen support with subsidies
 - ◊ Provide assistance to particular business interests, without national strategy.
- ◊ Technical competence of government never strong. Patronage appointments dominate major institutions. Civil service grows weaker.
- ◊ No serious investments in mining sector. No serious requirements for local capacity building. Sector is cash cow, to be milked. Sector comes to be almost entirely foreign run. Little local employment. Local ownership is fiction, since few Mongolian firms have serious competencies.
- ◊ Development Bank makes investments to satisfy political pressures. No national plan for development. Bank quickly runs out of funds and relies on foreign loans to continue financing projects.
- ◊ Citizens become reliant on government subsidies. No major growth in business sector. Culture of dependency grows.
- ◊ Fiscal Stability Law not taken seriously. Stability Fund underfinanced and collapses after first price shock. Central Bank neither competent nor independent and finances govt debt.
- ◊ Inflation high, eroding value of subsidies and MNT. Mongolia becomes highly indebted to outside lenders, primarily China.
- ◊ Mongolia as resource-rich, competence-poor country dependent on neighbors. Host of "poor country" social problems.



ZAYA - HOLDER OF SOUTH GOBI PROVINCE “GREEN CARD”

A mining expert Zaya from the Western Tsankhi coal mine of the Inner Mongolia-South Gobi energy complex was awarded the right to enjoy the Naadam holiday in Ulaanbaatar.



A SE

1

Today is July 11, 2021 which, as weather forecasters warn, will be the hottest day of the century. At noon in the “Oyu Tolgoi” central stadium in the capital city the celebrations begin: for “Naadam”, the national holiday, for the 815th Anniversary of the founding of the Great Mongolian state, for the 110th Anniversary of the declaration of independence, and the 100th Anniversary of the People’s Revolution. A couple of years ago, the Oyu Tolgoi mining company announced that it would build a giant stadium with 80 thousand seats in exchange for retaining their 66% stake in ownership in the mine. However, all available land in Yarmag, where they planned to build the stadium, had been taken for residential districts. For a few years authorities searched for a place to build the stadium and finally chose the old Ulaanbaatar airport, available after operations were moved to the new airport in the Kho-shoot valley. The new stadium was opened this summer during Naadam holiday. It ranks as the 3rd largest in the Northeast Asia after the May 1 stadium with 150,000 seat in Pyongyang, North Korea, and the “Birds’ Nest” stadium with 100,000 seats in Beijing.





The community group “Native Residents of 40,000 Housing Units”, from one of the oldest residential districts of Ulaanbaatar, adamantly opposed naming the stadium “Oyu Tolgoi”, but the protesters were quieted after a big campaign whose message was “Oyu Tolgoi is the only global Mongolian brand...”, as the Gobi cashmere factory went bankrupt in 2018 due to the shortage of raw materials.

Giant screens in the stadium cover much of the sky and shade people from the scorching sun; they flash the names of the major mining companies, led by Oyu Tolgoi, in three languages. This accords with the law passed by State Great Khural last year requiring the use of Mongolian and the Cyrillic alphabet. However, the screens are dominated by English words such as “mining”, “resource”, “coal”, “uranium”, “minerals”, “Beijing”, “Shenhua” and Dachin” and by Chinese characters, since the actual names of most mining companies are either English or Chinese. The last attempt to use

Photo by Y.Odbayar, 2011.

The traditional horse racing venue “Khui Doloon Khudag”, is now filled with permanent camps of different horse-owning companies, instead of traditional gers of traditional horse-trainers.



Photo by Alan cordova. 2010. Getty Images

The trees which used to cover the foothills of the Zaisan mountains had all been cut down and more houses had been built.

traditional Mongolian script, at least for company names, was made 10 years ago and was unsuccessful.

A section, headed by mining expert Zaya from the Western Tsankhi coal mine of the Inner Mongolia-South Gobi energy complex, shipped 1 million tons of coal during the first half of the year and was awarded the right to enjoy the Naadam holiday in Ulaanbaatar. They were seated in the special podium known as “South Gobi”.

Chinggis E, the newly elected President of Mongolia whose victory at the polls was just announced a few days ago, opened the Naadam celebration, saying:

“As the newly elected head of the state, I want to say good, positive things about our country’s past, present and future. Mongolia is on the threshold of the third decade of the 21st century as a strong and confident mining nation. Some people call us not Mongolia but “Minegolia” both in praise and in blame. But we can’t be blamed for benefiting from the enormous wealth bestowed on us by Buddha in this vast territory left by our ancestors. We are Mongolia. We are also Minegolia. The time when we just shipped our wealth away after digging it up is over.

“After the 2012 election, we reviewed our policy on the mining sector and developed both a comprehensive map of the mineral resources of Mongolia and a road-map for developing the mining sector, with the help of the World Bank and the Rand Corporation. Based on this, we established the comprehensive steel and copper smelting industrial park in Sainshand, financed by a big portion of the mining revenue of the last 10 years. The industrial park opened before the Naadam festival.

“Our government is learning from international experiences and working to support development of competitive industries that will be owned by local

government once the mines close. We have launched many new initiatives such as the mining industries center. One such initiative is to help local businesses to improve their operations.

“The time is close for Mongolia to become a country that does not depend on others for its fuel and petroleum needs. To do this, we are cooperating with Germany in constructing coal-to-liquid fuel plants in Sainshand and Shivee-Ovoo, which are almost finished. A mere ten years ago, we were importing energy from Russia; now as result of the successful construction of power plants in Ukhaa Khudag, Tavan Tolgoi, Oyu Tolgoi, Nariin Sukhait, Khoshoot, near our large coal deposits, we export our surplus energy to China.



The Chinggis Mall constructed on the location Goods sold in the giant shopping

“In this way an intergrated mining-energy-heavy industries complex that covers much of southern part of Mongolia has been created; its competitiveness on the Asian continent matches that of industrial regions of the Gulf countries. We were able to overcome global economic crisis’ and the sharp decline of commodity prices of 2018-2020 with the reserves of the Stabilization Fund set up by mining revenue.

“Mining makes up 90 percent of the total export of Mongolia and the economy is growing at a rapid yearly pace, and Mongolia leads the region in terms of economic growth. Our GDP per capita exceeds \$15,000. As President of Mongolia, I state that Mongolia is on the new path of development!”

After the opening speech, the President went to his specially prepared seat. Zaya kept her eye on him and tried to recognize some of the 99 Members of Parliament and some of the 20

Cabinet Members sitting in rows on both sides of the President.

A man on the right hand side of the President stood up and bowed in respect. He was Prime Minister Gerelt-Erdene. He managed the coalition of two big political parties during the 2020 parliamentary election, united under the promise of raising GDP per capita across Mongolia to \$20,000 over the next four years, to match the current per capita GDP in South Gobi province. The coalition won the election in a landslide victory.

2

The Naadam wrestling competition began three days ago and the preliminary selection of 2048 wrestlers finished yesterday. 256 famous and high ranking wrestlers, with championship titles like “Lion” “Garuda” (a bird of Buddhist mythology), “Elephant”, “Hawk”, and “Falcon” appeared on the green arena of the stadium. These days the main wrestling competition is held quickly so as not to bore international guests, especially busy investors. The maximum duration of a wrestling bout is now set at eight minutes. Last year’s champions from the local wrestling clubs “Giants of Great Mongolia” and “Giants of the Khovsgol” were wrestling on behalf of “Ivanhoe Mines” and “Shenhua MAK” mining companies respectfully. The rumor of billions of tugrig spent by the companies in trading for wrestlers was a main topic of conversation among the thousands enjoying the Naadam festival.

The next day, Zaya visited “Khui Doloon Khudag”, the traditional horse racing venue, to see the five-year old horses race. It was extraordinary to see all the tall, imported thoroughbred horses rushing to the finish line, throwing up clouds of dust; nowadays only the best purebred horses are officially allowed to race in the “Naadam” celebration. It was interesting that three of the horses among the first five finishers belonged to MPs of the State Great Khural and the other two horses belonged to directors of mining companies. The winning horses were awarded prizes in the form of pure gold bullions instead of the jeeps awarded at previous Naadam festivals. These

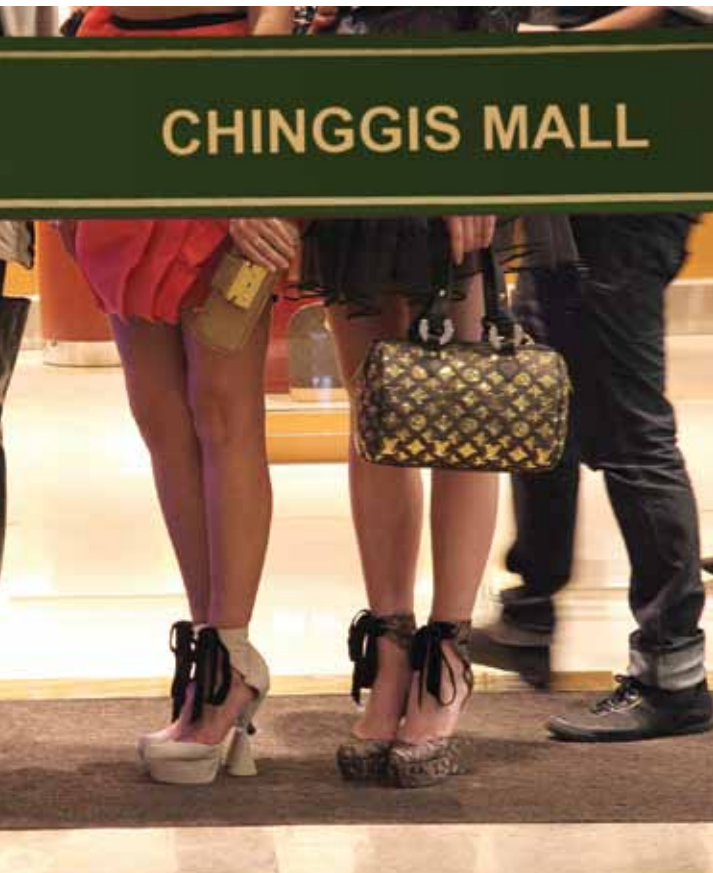


Photo by B.Byamba-Ochir. 2009.

of the defunct garden park south of the central square of Ulaanbaatar. center are now of very good quality, but their prices have sky-rocketed.

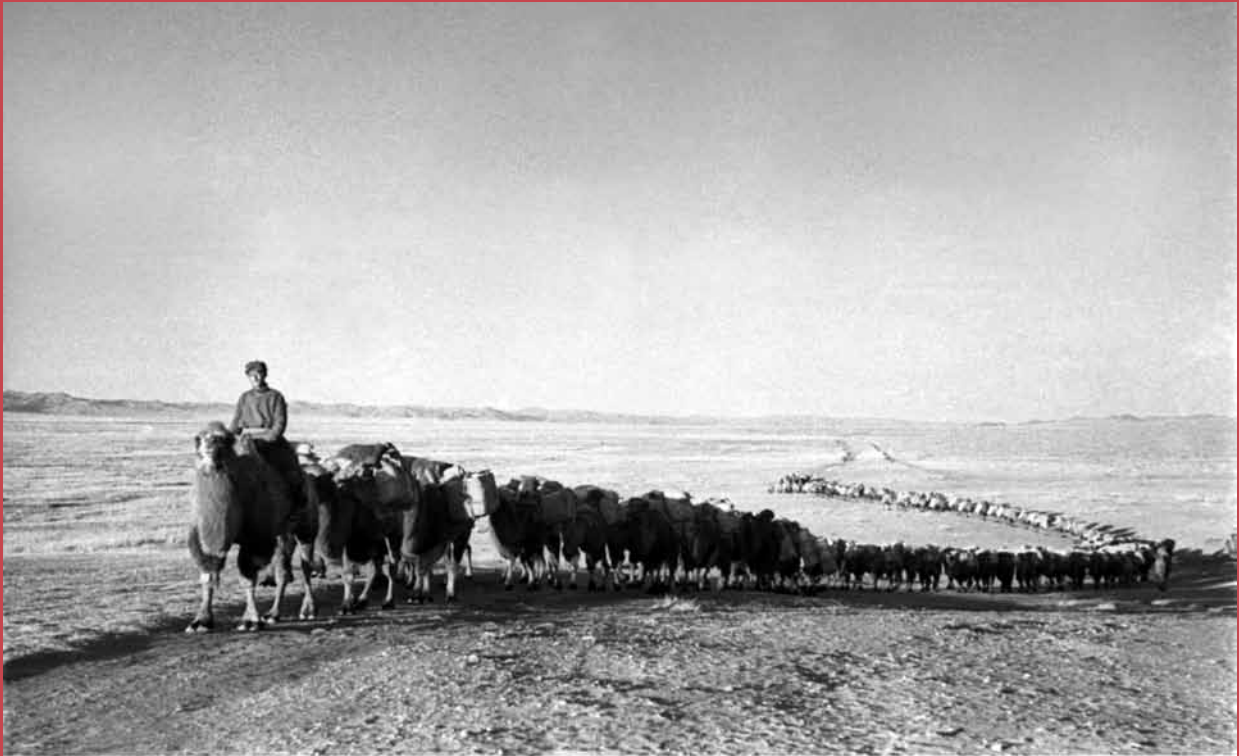


Photo by D.Demberel, 1942. Photoman agency

days local Mongolian horses can only be found at minor horse races, generally organized in honor of horse trainers.

The traditional venue is no longer large enough to accommodate the public enjoying the celebrations. The whole valley is now filled with permanent camps of different horse-owning companies, instead of traditional gers of traditional horse-trainers. Since it was decided to organize next year's horse race in the Khosshoot valley near the airport; work on a tunnel from north of Bogd mountain to the south began a few years ago.

On her way back to Ulaanbaatar, Zaya looked to the south of the city and saw that the trees which used to cover the foothills of the Zaisan mountains had all been cut down and more houses had been built. It seemed clear that the country had money now. They say that Mongolia is taking in \$4-6 billion annually in mining revenues. Giant development works financed by mining revenues were started everywhere, but many of these were never completed. The long block wall stretching from the west of Ulaanbaatar to the east of town

was built under the pretext of building a subway, and divided the town right down the middle. Since then, several years have passed and the first two subway stations are expected to be working by 2024. A few years ago, lawmakers elected from Gobi provinces, campaigned actively to build Ulaanbaatar-Mandalgobi-Dalanzadgad railroad right to the capital of South Gobi province. Zaya knows that although many dams were constructed and a never ending pile of dirt can be seen everywhere as result of construction, it is not clear when the railroad will be completed.

In the afternoon Zaya visited the largest store in Mongolia, the Chinggis Mall, constructed on the location of the defunct garden park south of the central square of Ulaanbaatar. Goods sold in the giant shopping center are now of very good quality, but their prices have sky-rocketed. Zaya had to buy clothes for herself and gifts for her parents, for the sake of buying something, but she was shocked at the recent price hike and spent several million tugrig. It was officially reported that the price of goods had increased on average threefold over the last 3 years.



Photo by B. Temuulen, 2010.

3

Actually, though Zaya has graduated from the law department of the National University of Mongolia, she failed the bar exam over three consecutive years. Some of her friends told her indirectly “You’d better work on the election campaign of one of the big political parties. It is even better if you can join the party as a member”. She later realized her situation was due to her failure to follow that advice. Since then, she decided to change her profession and entered the University of Coal Technology and became an open pit-mine engineer and went to South Gobi. Since moving Zaya has been able to visit her native place only once a year, so she decided to use this opportunity to visit her parents. The next morning she took the express- train to Sainshand, the capital of Eastern Gobi province, and from there she took the Eastern Mongolian railway know as “Battulga” (for the former Minister of Road, Transportation, Construction and Urban Planning) to Sukhbaatar province.

There is only one other person in Zaya’s

compartment; very few people were on the train. There have been a number of criticisms that this well-constructed railroad, designed to ship coking coal from Tavan Tolgoi east through Russia to Pacific Ocean ports, was built at an exorbitant cost and does not produce good economic returns. However, Zaya disagrees with these criticisms. Why? Because this is the rail line that allows her to meet her parents.

At dawn, the train crosses the border of Zaya’s native province. Zaya did her her best to spot livestock and gazelle herds, which she used to see grazing in the thousands during her childhood. However, she could not see any now, only various mining sites and urban settlements.

Her parents and little brother picked her up from Sukhbaatar station in the provincial capital. Her parents were originally from a place called Tumentsogt, but settled near the railway station this spring after losing half their livestock during the Dzud disaster of the 2020s. She breathed in the fresh air of her native land and looked happily at her parents as nice memories of rural life awoke in her.

Her father pointed to a newish Japanese car and said, “*We bought this with remittances sent by you - our daughter. It has an air cooled engine*” while kicking tires and starting the engine.

The Sukhbaatar railway station neighborhood now has many Korean residents. Two years ago when the Koreans clashed, Mongolia temporarily accepted 30,000 North Korean refugees by UB government decision. A portion of the North Korean refugees settled here and were employed building the cement plant. Her dad said “*We always somehow end up connecting with these people. Do you remember your grandpa telling us how he worked as a security guard in a kindergarten that hosted orphaned North Korean children after the Korean war in the 1950s. Now I’m supplying meat to these Koreans. The refugee committee buys meat for quite a good price and I’m selling them the rest of my livestock that survived the Zud*”. Soon, they reached her parent’s home not far from the train station.

Since arriving here, her parents live in a wooden house built using Canadian technology; they no longer use the traditional Ger. Zaya noticed that the rural lifestyle has changed a lot. Nowadays herder households with many animals are very rare. Since households with thousands of animals are extremely rare, the new title of “Herder with 500 Animals” is given to successful herders. Horsemen are rarely seen on the steppes now; cars are seen instead. Zaya’s father continued “We no longer have to search for gasoline. Since they set up the station here, finding fuel for cars has become really easy.” Zaya was very upset to learn that the secondary school of Tumentsoigt soum from which she graduated, and the soum hospital in which she was born, had been closed down. Administrative reform resulted in administrative offices, hospital and schools being consolidated in the capital.

4

Zaya stayed for a couple of days in her parent’s home and then took the train back. While on the journey, she called her classmate Gerlee via video call from her cell phone and asked her to meet her in Sainshand, where Gerlee lives. Soon the two classmates, who had not seen each other for a long time, met happily and began a

lively conversation. Her friend started:

“Since the large industrial plants have been built in Sainshand many people have come to work here. They say workers of the steel plant make 3 to 4 million tugrig a month. Along with this, the price of goods is on the rise. The salaries of teachers like me are still lagging behind.

- *What does your husband do?*

-He came from Korea and began to work in the ‘Eastern Gobi’ meat factory; he gets two million a month. It is an embarrassingly small salary compared to workers at your mine. I would like to ask you one thing: if our family moved to Tsogttsetsii near the Tavan Tolgoi mine, could we find good jobs there? If only we could get the \$1,000 allowance given to residents of South Gobi province each month!

- *It is hard to say now. I just visited my parents and my little brother Bataa begged me to get him a “green card” for South Gobi Province. He is not qualified for that. Over the last few years, the South Gobi administration has been restricting employment of people from other provinces since there are so many requests from Mongolians and from Chinese. Do you know Chinese?*

- What? My English is not that bad....

- *Recently, the Governor of our province issued an order permitting Chinese companies to hire Chinese language interpreters from other Mongolian provinces since there is no university teaching Chinese language in South Gobi.*

- Maybe I should go to UB and study Chinese now through a training course. Think about a job for me just in case...”

After a half hour, Zaya boarded the next train. In the evening she reached Tsogttsetsee and was met by her husband Bayaraa and their 3-year old son. They spoke about the Naadam celebration. *“How large is the new stadium of Ulaanbaatar? While you were away, our son and I went to Dalanzadgad and saw the Naadam celebration of South Gobi Province in the new stadium there. It is named “Ukhaa Khudag”, as it was built by Energy Resources Company. The Naadam celebrations of South Gobi province were very grand. All three top state leaders, the President, PM and Speaker of the Parliament came for the celebration. Did you know that? All other dignitaries came by personal choppers. Their race horses were transported by air.”*

5

Bayaraa is originally from Arkhangai aimag. About a decade ago, he moved to Ulaanbaatar with his parents and became a resident of the capital. He met Zaya while studying at medical school and soon after moved to Tsogttsetsee with his wife. He always says "I'm still drinking the water of the Orkhon River!" It's true; the development of the giant mine projects of Oyu Tolgoi and Tavan Tolgoi led to the drying out of surface waters and by 2018 almost all of South Gobi became a desert. Many billions of tugriqs were immediately spent on a project to bring water from northern Mongolia. In 2019, the water of the Orkhon River was carried by a pipeline almost a thousand kilometers to Tsogttsetsee. However, most of the water is used by the mine. In same year, the Kherlen River in north Mongolia was diverted to Khanbogd Soum, but that too was essentially entirely for the Oyu Tolgoi mine.

The water projects awoke Mongolian civil society. Groups with names such as "Hands Off the Orkhon River", "Let's Scale Back the Mining Sector", and "The Herders' Front to Save Pastureland" began to emerge, opposing diverting river water for mining and generally criticizing the mining sector. These groups were led by people like Onobayar, Magnaidorj, and Taivantor who fought for many years against ninja miners and gold mining companies operating along river banks in Arkhangai and Uvurkhangai provinces, and who spent time behind bars for this. Recently the civic groups claimed that authorities are secretly negotiating with a foreign country over diverting not only the Zavkhan and Khovd Rivers in western Mongolia, but also Khovsgol and Uvs Lake waters under the guise of reducing desertification of the Western region. They claim that the true intention of this effort is to supply water to coal and phosphorus mines and their associated industries. One anonymous source said that the foreign country was Korea.

This spring, the activities of these groups took on regional dimensions as they began to cooperate with Russian public organizations such as "Save Lake Baikal" and "For a Full Selenge River" and jointly organized several protest actions. This is related to fact that the Orkhon River was polluted

by miners for many years and some of the river water was diverted to South Mongolia. All this began to affect Lake Baikal, which is the largest fresh water reservoir in the world.

Environmental protection concerns were not only caused by mining. The "Virgin Land" campaigns, now in its sixth year and funded with large amounts of government money, did not bring adequate results. The fact that Mongolia is still not fully meeting its domestic grain needs is no longer considered so important given the other disastrous results of the virgin land campaigns. Fertile lands in Tov, Selenge and Bulgan Provinces were plowed uncontrollably, resulting in increased desertification and a shortage of pastureland for livestock. Traditional animal husbandry no longer exists in these regions now. No herders are left in these areas, having been replaced by farmers who raise highly efficient animals such as pigs and chickens.

Observers unanimously agreed that the implementation of the law on the privatization of pastureland, approved by Parliament under pressure from the lobby of lawmakers elected from rural areas in 2016, pushed traditional herding, which had existed in the vast Central Asian steppes for thousands of years as an essential part of nomadic culture, to the brink of extinction.

The World Health Organization last century officially dropped "Mongolism" as the name for Down's Syndrome at the request of Mongolia representatives. However, one foreign researcher recently used the term "Mongolism" to describe the current situation in Mongolia; this received wide notice and the term began to be used along with "Dutch disease", which we all know very well. Researchers characterized "Mongolian disease" as the sacrificing of a country's natural environment and patrimony in exchange for significant mining revenues. Though some Mongolian patriots protested against the term, it is widely used now.

6

The 12th Mongolian Economic Forum, which is called the "Mongolian Davos", was held in Feb, 2021 on the theme "Mongolia's Economy: What to Do?" During the forum, conflicting assessment and evaluations were presented and



Photo by Jens Roetzsch, 2007, Photomon agency

heated discussions and arguments ensued among economists and researchers. Many spoke:

Baldan, the Minister of Coal:

“During the last decade, the mining sector, especially coal companies, have been much criticized. There is an old Mongolian saying against “arguing with the person who gave you fat meat”. In the last 20th century, the herding sector was essential for the economic life of Mongolia; now in the 21st century it is coal. A decade ago, the poverty level in Mongolia was 36%. Now this has been reduced by three quarters. This is the benefit of the coal which is cursed by some people”.

Li Hua Pung, Resident Representative of the World Bank:

“If you remember, after the 2012 election when your new government was formed, the World Bank report said there is no hope for Mongolia to get out of the vicious cycle of cash distribution to poor residents and price hikes as direct result of the cash distribution, with increased poverty as prices rose. At the time, our representative was almost chased out of your country. The situation has changed very

much since then. The distribution to Mongolian citizens of shares of the Erdenes MGL company, which held a majority of the Tavan Tolgoi deposit, the largest coking coal deposit in the world, did not bring the anticipated benefits. Eventually, the shares were concentrated in the hands of only a few people; however, Mongolians stopped waiting idly for cash distribution programs such as the “ Gift of the Motherland” and “Treasure Shares” programs. Average pay of the mining and mine-related sectors gradually reached the level of developed western countries. However, it should be noted that the economy is restricted by mining and economic diversification is insufficient. Therefore, the World Bank considers that Mongolia is not yet on the path of sustainable development.

Cabinet Member, and Governor of Ulaanbaatar Metropolis, Duuren:

“Although I was born in the USA, it is not long ago that I came to the land of our ancestors and took up public office. Until recently Ulaanbaatar has been developing very rapidly without an efficient urban plan and has faced many pressing issues and challenges; now these are being solved. First

of all, if we can implement the agreement signed two years ago by Mongolia, Russia and China, about constructing natural gas pipelines through Mongolian territory, our city will get rid of its name Utaanbaatar ('Smoky Hero') and regain its previous name of 'the White Princess of Asia'”

The famous economist Bayarsaikhan:

“There is ample evidence that the distribution of cash and free shares to our citizens, generated by mining revenues from the sale of our natural wealth, without having to lift our fingers, has reduced economic incentive and created overdependence on the state and led to poor governance. We all see that companies such as MWX benefit most from increased government spending and increased mining revenue by winning most of government procurement contracts. These companies are expanding enormously and put their people in any government position they want. Huge investments have been made in infrastructure, especially the infrastructures designed to transport minerals in large quantities. This has led in some cases to surplus infrastructure capacities. The Development Bank has financed many inefficient projects and so the financial capacity of the bank has deteriorated rapidly and is putting a great deal of pressure on the national budget.... Factories and plants in the non-mining sector, such as Gobi, have been bankrupted because of deteriorating payment conditions. This in turn led to the bankruptcies of some major commercial banks and by early 2021 we ended up with only 3-4 banks. Large international banks are poised to take over the banking sector.”

Galtseren, director of the Mongolian University of Economic Studies:

“Today, some ministers say there is no such thing as ‘Mongolian disease’ and, if we can continue developing the mining sector without serious obstacles for another 10 years, we can recover what we lost and fully rehabilitate our natural environment. Let me ask you: Now a one-liter bottle of water in South Gobi province costs \$5. Since South Gobi residents have so much money, they can buy it. What if this happens throughout Mongolia? Yes, ‘Mongolian disease’ is different from ‘Dutch disease’. Why? Because in Holland, the oil was in the ocean and there was no land to pollute. Dutch disease covered a small area equal to 2 soums (counties)

of Mongolia and there was not much to pollute and degrade. So how have we been able to pollute and degrade such a large area... For what? We just built several skyscrapers in Ulaanbaatar and many paved roads leading to the Chinese border. 60% of the mining revenues are spent on mining infrastructure development. What is the use of luxurious buildings, such as our 20 floor House of Parliament, our 10 floor Presidential Palace, the Palace of Unity, the Ulaanbaatar statue? The telecommunication sector has on the whole fallen into foreign ownership. What do we do with the thousands of youth that do not work in the mines and have no profession and vocation? Who can answer these questions?

Galtseren was supported by Enkh-Amgalan who had resigned from his post as Minister of Finance, where he worked between 2016–2019, due to his differences of opinion with the Prime Minister. He now works as Director of an alternative economic research center. He said,

“The state is collapsing and so the natural environment is being destroyed. Today, people who are working in mining companies are appointed as heads of government agencies and ministries such as minerals, customs and tax. On the other hand, government sector employees who went to school abroad with taxpayers’ money and gained sufficient skills and qualification for working in these ministries and agencies instead went to work for mining companies. The Mongolian state has become like a revolving door.”

Researcher Ochirmunkh:

The Mongolian government has tried very hard to attract western investors over the last several decades. Initially, western companies did come to Mongolia. They were running here and there to sell Mongolia’s raw materials to China. They even stopped asking for licensing permission from us. During the 20th century, Mongolia was directed from Moscow; now it seems Beijing is the place that decides for Mongolia. It appears that the so-called western companies have become Chinese owned companies suddenly. In short, don’t you see that now China is investing heavily in Mongolia and taking over the whole country?”

Ochirsuren, who was governor of Mongol bank

at the beginning of this century, said
“Many people don’t like the fact that the Chinese Yuan has become more valuable and is more freely used in the Mongolian economy than the dollar. Some populists scare people into thinking that this has reversed a major accomplishment of the Mongolian revolution of last century, which distanced Mongolia from the Yuan after 100 years. This is empty talk of people who don’t understand the economy. We have to accept the fact that today the Chinese Yuan is a major global currency; just like US dollar was 10 years ago”



Photo by T.Boatcar, 2011.

7 Soon after, Zaya was invited to the 5th anniversary of the Inner Mongolia-South Gobi provincial energy complex. A total of 10 people from the West Tsankhi coal mine were also invited to the celebration. They took the train from Tsogttsetsii and arrived in the central train station of Dalanzadgad. More train cars from other mines of the complex and 5 train cars from Ulaanbaatar and 2 separate cars for governors of South Gobi and Eastern Gobi provinces were connected to the train convoy and all headed south.



Photo by Frans van der Lee, 2008.

The implementation of the law on the privatization of pastureland pushed traditional herding, which had existed in the vast Central Asian steppes for thousands of years as an essential part of nomadic culture, to the brink of extinction.

There are 4 border crossings between China and Mongolia and coal trains pass 24 hours a day through them. A 15 minute window allocated for passenger trains to pass through the border point of Gashuun Sukhait was increased to 30 minutes for the anniversary celebration and the arrival of its delegates.

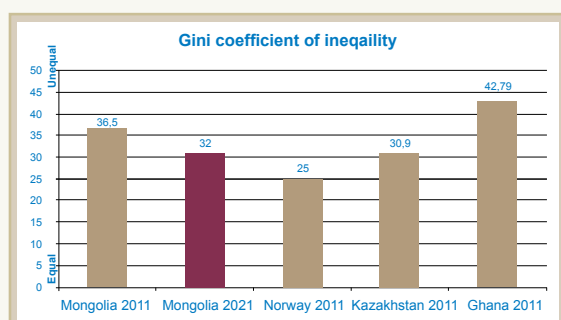
After crossing the border, the delegates participated in another ceremony at the railway station in the Chinese city of Jehu. They were delayed a little bit. A train of Chinese workers going to the mines of South Gobi province was also waiting at the station. Zaya knows some Chinese after working with Chinese for several years,

so she has no option but to overhear and understand their loud talk. One elderly Chinese man said he first visited Mongolia 10 years ago and now goes 4-5 times a year and intends to settle down there eventually even though there is special easy border regime for passing between South Gobi province and Inner Mongolia. He discusses housing prices with the other Chinese workers. Still another young Chinese man wants to marry a Mongolian co-worker, a local woman. He mispronounces her name. However, Zaya understood from their conversation that the woman is not agreeing to this. In contempt, Zaya says to herself “You could not even pronounce her name correctly” and distances herself from the Chinese workers.

As they approached Khokh Khot in Inner Mongolia the train crawls through skyscrapers and arrives at the central train station full of flowers. They can clearly see the banner declaring, “Long Live Friendship Between Inner Mongolia and South Gobi Province” in both languages. At the same time Zaya regretfully thinks that, “if we ship more and more coal to China it seems our friendship will last longer.”

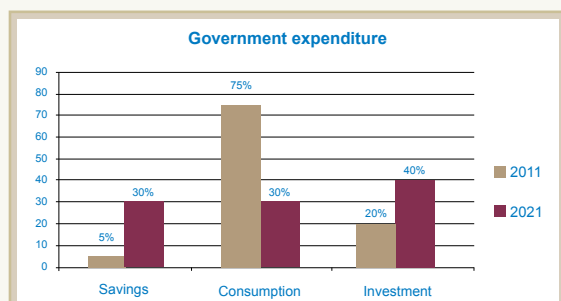
Economic Indicators

Indicators	2011	2016	2021
GDP per capita (USD)	2,786.13	8,999.61	15,310.17
Real GDP growth	15%	4%	3%
Government mining revenues (mln USD)	733.82	2,451.81	4,449.56
Inflation	11%	12%	9%
Poverty level	39%	22.70%	20.30%



Revenue management indicators

Indicators	2011/2009	2021
Stability Fund (bln)	281	778
Human Development Fund (bln)	0	150
Development Bank (bln)	50	1000
Revenue Management Index (Revenue Watch Institute, weak-0; strong-100)	38.2	58
Herfindahl Index (0-1, 1-high export concentration)	0.489	0.49



Governance Indicators

Indicators	2011	2021
Global Integrity, (very weak-0; very strong-100)	57	71
Banking Industry Country Risk (S&P, 1-10, 10-extremely high)	9	7
Competitiveness Ranking (World Economic Forum, total 142 country)	96	76
Open Budget Index (Open Budget Partnership, very weak-0; very strong-100)	60	50

- ◊ Election results mixed in 2012, but no vote buying. MPs have clear backing from citizens. Mining and business interests have strong supporters in Parliament. Despite no clear majority, new Parliament shows political will & competence:
 - ◊ Commissions analysis of mining sector and national strategy
 - ◊ Passes clear laws to regulate and support mining environment
 - ◊ Analyzes experiences in other countries
 - ◊ Makes a clear decision to concentrate on making Mongolia major global player in mining and energy production over long term.
- ◊ Clear targets set for Mongolian participation in mining sector and clear limits on foreign domination of sector. Terms of business compel foreign companies to invest in building Mongolian capacity as well as sector.
- ◊ Strong requirement for investing proceeds in Development Bank (10%). Development Bank competent. Makes sound investment, primarily in building up and diversifying mining sector. Government does not neglect other public health and education.
- ◊ Mongolian business leaders make serious commitment to create long term globally competitive business and sector. Forego quick profits for long term business competitiveness. Mongolia becomes diversified mining dependent economy, relatively stable & successful, but vulnerable to price shocks.
- ◊ Fiscal stability taken seriously. Creation of strong stability fund and willingness to use it to stabilize national finances during price shocks. Fund resists pressures to use assets for other purposes. Inflation fought rigorously by independent Central Bank.
- ◊ Environmental problems are important – water use & quality.

COUNTRYSIDE

Zaya did her her best to spot livestock and gazelle herds, which she used to see grazing in the thousands during her childhood. Nowadays herder households with many animals are very rare. Since households with thousands of animals are extremely rare, the new title of “Herder with 500 Animals” is given to successful herders. Horsemen are rarely seen on the steppes now; cars are seen instead.



Photo by R.Enkhbat, 1998. Photomon agency



ZAYA, CITIZEN OF A FORTUNATE COUNTRY

After many ministers and company directors had spoken, Zaya raised the issue of the need to reduce the negative impact of oil production on the natural environment, even though oil production had benefited the country overall.



1

Ten years ago, only Australia was seen as a good example of managing mineral resources successfully but today Mongolia as well. And results of sound policies on managing its enormous mining wealth are very clear. Mongolia struggled hard at the outset to follow the paths of Latin America, the Middle East and Azerbaijan, but fortunately, the political environment of the country improved. Mongolia's leaders initially dreamed of turning Mongolia into a global mining giant producing high value mining products. Now, looking back, the failure of these dreams has proven to be a good thing. Mongolian cashmere is as recognized worldwide as Scottish wool and world celebrities praise it as "the real thing"; Mongolian beef is on par with New Zealand lamb and French wine. The Mongolian financial sector is considered a safe haven and as reliable as Singapore's. Mongolia is seen as one of the best destinations for adventure travel and tourism and the number of tourists visiting Mongolia continues to increase.

Zaya, an economist and a lawyer, is just one of many ordinary Mongolians who are living in this fortunate country of 3.5 million residents, now ranking 25th in the world in terms of development. She graduated from a university in



Rural areas have improved a lot: even winter barns for livestock animals have electricity now and the roads are paved and it has become as pristine as it was in the 13th century. Herders have become highly educated and many products such as dry milk, fermented milk, and cheese are now available in the cities.

Ulaanbaatar 10 years ago and headed to Dornod province which was becoming the new economic center of the region. Many companies, seemingly all with “Petro” in their names, were producing oil. Roads and railroads to China and Korea had been built and Korean farmers were farming the lands. Zaya began working in a law firm dealing with land disputes between local herders and large companies and soon realized that nomadic livestock husbandry was being legally pushed out of the province. This made her heart sad and as a result she quit her job and founded a nonprofit organization to support and defend the interests of herders. In this capacity, she participated in a launching ceremony for the railroad linking the transport of crude oil from Dornod to the new refinery in Sainshand. After many ministers and company directors had spoken, Zaya raised the issue of the need to reduce the negative impact of oil production on the natural environment, even

though oil production had benefited the country overall.

Zaya doesn’t like the fact that the last open wild steppe in the world has slowly been turned into rice and vegetable farms and that the water of Buir Lake is increasingly diverted to crop farming in the area. As it is mainly Koreans who farm, no one really knows how, or if, the local residents benefit from farming, especially given the impact on the natural environment.

Once, as Zaya drove alone on the highway to Khalkhgol, she had a flat tire and was delayed for some time in the scorching summer heat on the wide open steppe called Menen. While sitting in her car, with no shade to protect her from the sun, Zaya asked herself what could be done on this steppe other than growing rice. She thought “Why couldn’t we grow sea buckthorn on the steppe? At least it is native to Mongolia!” Soon after, Zaya proposed to the Natural Wealth and Land Recla-



and paths have improved. Environmental rehabilitation work was done and there are many veterinarians and animal husbandry specialists. Clean milk, and ecologically- clean-jerk meats are being produced here.

Photo by R.Enkhbat. 1996. Photoman agency

mation Fund that they focus not only on the areas directly impacted by mining but also other areas subject to environmental deterioration. Her proposal was supported, and over time, sea buckthorn saplings began to be cultivated from Buir Lake to the eastern Mongolian steppe. Now these saplings have matured into large thick forests that can easily hide a man and a regular supply of berries is harvested from this area. The berries are processed in the region and the extract is transported to Darkhan, in central Mongolia, for further processing by a Mongolian-Hungarian joint pharmacy venture. The factory is now internationally well known and its products are popular amongst older Japanese and Chinese as well as world-class athletes. Many experiments show that sea buckthorn from the steppes of Menen has unique properties, building both strength and stamina. Last year, the documentary “Green Energy” about the history of sea buckthorn cultivation in Dornod won a prize

at an international film festival. The documentary started with a reenactment of Zaya stuck in her car looking out over the steppe.

2

Zaya has two siblings. The older one, Khishig, graduated from a university abroad, majoring in management. He took a position as manager of small and medium enterprise development in the provincial government of South Gobi province, the location of the enormous Tavan Tolgoi coal mine. Khishig proposed a master plan to develop and support businesses which produce finished products instead of the tangle of cafes, restaurants and souvenir stands run by the local population. His proposal was supported and funds became available for local micro-businesses and then for medium sized ones. Locally owned companies began to produce electronic components for the heavy-duty mining trucks and to provide computer and internet services to the plant and power stations of Tavan Tolgoi. Khishig’s plan, also allowed foreign SMEs start businesses and compete in the market. For example, the “Mongolian Mind” company innovated and started to produce a pen-shaped micro-device that measures air pollution levels in the mines and radiation levels in foods. Two out of five young partners are from the ethnically Mongolian regions of Buryat and Kalmyk in the Russian Federation.

Khishig was named “Best Manager in Mongolia” in 2020 by the Mongolian Management Association for his efforts in the reform of the small and medium enterprise sector, and soon after he was given an opportunity to work in the Ministry of Mining. The Minister at that time, Jaltsav, was found to have taken bribes and was suspended from Parliament at the demand of the Independent Agency against Corruption. Soon after the case was investigated, he was sentenced to a five year jail term and was required to pay a significant amount of money in damages. Along with Jaltsav, several other politicians and high ranking ministry officials were embroiled in the case, resulting in many vacancies in government departments. Everyone with relevant work experience and accomplishments

was able to apply for these positions and sit for an exam. Khishig was thinking to apply, but the aimag government appointed him as Department Head, so he did not.

Bayaraa, Zaya's younger brother, graduated from a vocational training school and became an employee of "Selenge-Oyu Tolgoi Water Supply Company". Everyone knows that Turkey built a gigantic hydro-power plant and huge dam on the Selenge river in the rocky passes of Bulgan aimag. Its surplus water is pumped to South Gobi through a thousand kilometer long pipeline. This massive project has essentially solved the water problems of the region. Bayaraa is an operator of this pumping station. Recently, he connected with Zaya through his laptop computer and showed her his workplace.

3

Zaya's family lives in a two-story house located in the southeast of Choibalsan City facing the Kherlen River. Fruit trees grow along both sides of the house. Her husband Altangerel is an engineer at a wind-power complex of the Dornod region. They have two school-age sons.

In the afternoon, the eldest son, Bayaraa, comes home from school and pulls out and unfolds his iMon to charge it. This is the tablet computer that every child gets from school, and it includes all the necessary textbooks, thus lightening up the school bag. Today's homework was to write a composition titled "My Grandfather". Bayaraa made an internet call to his grandfather, who lives in Arkhangai province. Fortunately, grandpa was at his home in the Soum center after having visited the hospital in the provincial capital. Bayaraa explained his homework and recorded his grandpa's story, using new software which converts Mongolian speech to text. Adults complain that today's children are too lazy to write by hand, but maybe it is just jealousy.

His grandfather said:

"...I'm doing well since I went for surgery in Ulaanbaatar last fall. Yesterday, I went to the provincial capital and visited the hospital. The doctor said I'm getting better. It is a disease called cancer. Last year, when I went through medical diagnosis, it was ok. You all should go through

medical diagnosis every year. I went through surgery at the "Central Polyclinic No.6". They gave me traditional medicines to drink when I got back home. A Russian woman was in the hospital room next to mine. Poor thing. She looked like she had brought all her money with her. I asked her why she came. She said 'I read on the internet that hospitals in your country are treating people with a combination of traditional healing and



modern medical science and are paying attention to both the body and the mind'. Since health standards were pretty poor ten years ago, the government invested significantly in the health sector, sending Mongolian doctors abroad for training and bringing foreign doctors in to train Mongolians. They say, doctors are making good money and getting rich now. Oh, well..."

"Compared to years ago, Ulaanbaatar has no traffic jams and very little air pollution, but it is still difficult for an old person to get around. When I drive there is no free parking space, and thus, I go by foot, but I can't figure out the subway system and get lost easily. Now I'm back home and it's so nice. Our rural areas have improved a lot: even winter barns for

livestock animals have electricity now and the roads and paths have improved. Environmental rehabilitation work was done around the Chuluut River and I think it has become as pristine as it was in the 13th century. Now there are modern slaughter houses and dairy processing factories. Herders have become highly educated and there are many veterinarians and animal husbandry specialists. Many products such as dry milk,



“Sun bridge”, 2012.

fermented milk, and ecologically-produced dried meats are being produced here.”

“Because of privatization I now own the winter barn and spring camping ground passed down through generations of our family; I am thinking of opening a small tour-camp for foreign tourists. I will make it look like an authentic old ger and prepare the horse’s reins, bridles, and tethering lines and so on while I still can make them. These kinds of exhibits are now trendy worldwide, so why waste this opportunity? International and domestic tourists come here to see and feel our nomadic culture: milking cows, making dairy curds, herding animals; all this is interesting for them. Since there is no crowded traffic around here and only green factories and

traditional animal husbandry, it is so nice not only for international tourists, but also for us locals. If my business turns out to be good, I will buy a second-hand helicopter with other locals. Then, I can see my children in town any time I want. Recently, aviation fuel started being produced in Darkhan, and the price is reasonably cheap.”

“The large foreign-owned gold-copper mine which was in the south of our aimag looks like it was never there. There was much talk about establishing a large town there, but once they finished extracting the minerals they put back the soil. The workers quarters were disassembled and moved, just like traditional gers. Now only a few white gazelles are left in a fenced area. Also, the water diverted from the Northern Selenge River through the underground pipeline remains. It is very clean water and last year when Lake Ogii dried up because of drought, it was filled up again by turning on the tap for few days. The Minister of Natural Environment said on TV that the waters of the spring floods were saved and used for this. The Minister received an award from the Russians for protecting the Buryat, an autonomous region of the Russian Federation, from flood. You know Gerlee, he is growing wheat there. He found good land with no flood danger and not many livestock animals and set up his farm. The farm is not far from railway station Number 2121 on the Ulaanbaatar-Bayan-Ulgii line. Everybody knows this. I go there sometimes and buy animal feed, flour and fruits. You know that I like raisins very much. I’m also getting domestically produced apples and plums from there...”

4

Zaya was preparing dinner at home and her youngest son Tsengel came to help her. While helping her, the boy turned on the TV which was broadcasting a ceremony honoring the English language translation of D. Gantugs’ “Mongolia’s Great Leap Forward”. The economist’s book has been ranked fifth on the Mongolian bestseller list for the last few weeks. P.Ochirbat, the first President of Mongolia, was invited as a guest at the ceremony and amused people with his great sense of humor. “You all know why I was invited here today?” he asked. “Yes, I said in 1991 that I

would make Mongolia an Asian Tiger and I was attacked by the media for almost 30 years for saying that. I was in trouble for turning Mongolia into a “pub” country (Bar means tiger in Mongolian and Baar also means pub in Mongolian). One cartoonist has been drawing me as tiger for almost 30 years now. It’s because I’m not that photogenic. Some people still ask me ‘When will Mongolia become a Tiger?’ For the past 20 years, I have never said the word ‘Tiger’ in public, but despite this, I always believed deep in my heart that, although the word “Tiger” is no longer trendy today, Mongolia has in fact become an “Asian Tiger” compared to 30 years ago”.

At the closing of the ceremony, a young journalist asked Gantugs why he translated his book into English. He answered “Mongolian history of the last ten years is basically the story of how we improved our governance. This is the story about how we were able to unite for the development of our country; of how the Mongolian government changed into a modern government. I thought the book would be useful for other countries with mineral resources”.

Zaya thought, “Yes, it really is true. After the 2012 election, there was a national level dialogue and everybody in urban and rural areas discussed how to spend the anticipated mining revenues. Young and old, all understood the dangers of becoming dependent on mining and cash transfers and everyone came to know terms such as ‘Dutch disease’ and ‘Gulf syndrome’”. As if he read her mind, her eldest son asked: “They say that our country used to be poor. How did we become as developed as we are now?”

Zaya said “This is a long conversation. But its history is very short. I will try to tell it briefly. Bayaraa, my son, prepare me a sweet sauce for the tomatoes. Add two spoonfuls of sea buckthorn oil and olive oil on top of a little mustard and stir well. We will make a nice salad with fresh goat milk cheese and tomato.”

“It all started from mining, my son. When we were young, there was mining boom in our country and abundant coal, copper and gold deposits were discovered. In addition, uranium and other rare-earth elements, very scarce in the world, were also found. Because our population is so small, we were unable to develop all these

mineral resources ourselves, so we signed agreements with many large international companies to jointly develop these deposits. Initially, we were lost; we did not have any experience about how to use these vast resources. On top of that, cunning and dishonest people benefited a lot during this time. The economy was growing but the people were still very poor. A few people who sold the mineral claims got rich quickly and became very influential in government. The newspapers were always writing about corruption and embezzlement, but despite that nobody was held accountable.”

“Mongolian people began to seek justice and, in the 2012 Parliamentary election, they mainly elected candidates who promised to work for justice. Those politicians began to put in place laws to protect public wealth from embezzlement by government officials regardless of what political parties they were from. This worked and led to new jobs being created and day-to-day improvement in living standards. Businesses were no longer owned by the state, investment projects were developed based on sound estimates and feasibility studies, and bidders were selected honestly. Then it was no longer necessary to work in government to succeed in business. In fact, it even became difficult for public officials to do business because of conflict of interest laws. You see, the danger of corruption is that it increases public mistrust and decreases incentives. If businessmen compete on the basis of corruption, bribery and political cronyism, instead of on business skills, knowledge and initiative, this cuts at the foundations of development” she ended, and set the table. The children were very happy for their father was returning from work.

While eating dinner, the two sons buried their parents with questions. “Daddy, did our country get much money from the mining? How was it spent?” “Initially”, he said. “it was not easy. However, after the 2012 election, we agreed to review the agreements of Tavan Tolgoi and Oyu Tolgoi mines with our international partners and set up teams comprised of national and international specialists. This proved to be very efficient. As result of the renegotiated investment agreements, Mongolia started earning quite a large amount of income from mining. Before,



Photo by D.Jargalsaikhan. 1996.

it was uncertain how much money was being received by the government; but now it is clear since it is reported daily, like the weather forecast. As of today, mining revenue accumulated from the beginning of the year reached \$6.5 billion.”

“Where is the money being spent? Did it get used for discovering additional mines, Daddy?” asked Bayaraa. “The government stopped cash transfers to citizens and mining revenues were accumulated in a special fund. You see, normally citizens pay taxes to cover government expenses; but it would be difficult to monitor government revenues and spending if mining revenues, together with taxes, were also accrued into the budget. Therefore, revenue from natural resources are deposited in a special fund. This way, the government became more transparent and didn’t grow too big. The government allocated trillions of Tugriks from mining revenues to development funds for health, education, and infrastructure, based on public opinions. It was also used to establish and develop domestic industries. For example, it is a very good thing that we produce pure copper from copper concentrates. The copper is used in household appliances and in urban development and construction. And you two know that your mom is very happy that harmful plastic pots and cups have been replaced by copper ones.

Zaya continued the conversation and said: “Since our country has a very fragile natural environment and can’t support uncontrolled mining operations, the government decided to develop only strategically important large deposits. This was a

very good decision. When there are other opportunities for growing our economy, why destroy our pristine natural environment and degrade our country? It is not like we have to feed 100 million people. There are many ways to feed three to four million of us”.

5 On the eve of the Lunar New Year, Bat-saikhan Demberel, who won the 2021 Nobel Prize in medical science along with two Japanese scientists, came back to Mongolia on a visit and was met with a very warm welcome. He is just one example of Mongolian scientists honored internationally and who are working in important positions around the world. This is result of sending many of the most talented children to internationally well-known schools over the past 10 years. As a result, Mongolian universities and colleges are staffed with good teachers and professors and the competitiveness of Mongolian schools is much improved. Mongolians are proud that their intellectual capacity has been expanding. Now Mongolians can tackle anything.

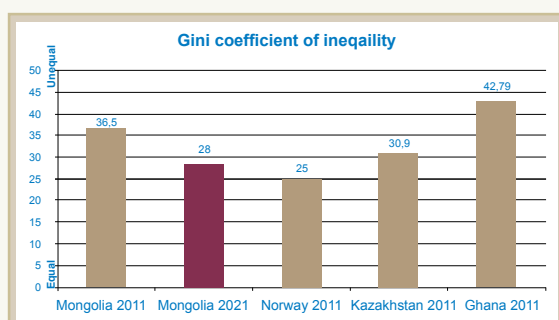
Today is Feb 22, 2022. Tomorrow is first day of the Lunar New Year of the Iron Tiger year. This is a national holiday in Mongolia, which leads not only Asia but the entire world in its economic growth. Today Mongolians wear traditional clothes and greet each other according to centuries-old traditions and customs. Fate of the Mongolians will rise up!

Photo by Stefan Passe. 1913.

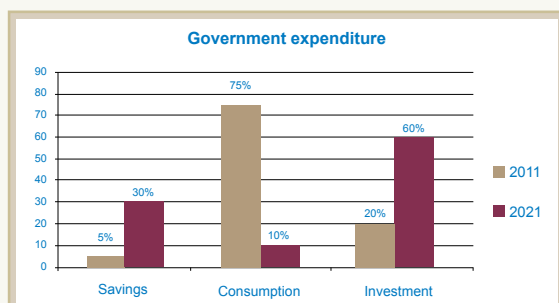


Economic Indicators

Indicators	2011	2016	2021
GDP per capita (USD)	2,786.13	8,720.50	17,999.10
Real GDP growth	15%	6%	7%
Government mining revenues (mln USD)	733.82	2,563.25	4,203.2
Inflation	11%	8%	5%
Poverty level	39%	20.40%	10.70%



Revenue management indicators		
Indicators	2011/2009	2021
Stability Fund (bln)	281	1600
Human Development Fund (bln)	0	1500
Development Bank (bln)	50	3000
Revenue Management Index (Revenue Watch Institute, weak-0; strong-100)	38.2	78
Herfindahl Index (0-1, 1-high export concentration)	0.489	0.3



Governance Indicators

Indicators	2011	2021
Global Integrity, (very weak-0; very strong-100)	57	81
Banking Industry Country Risk (S&P, 1-10, 10-extremely high)	9	5
Competitiveness Ranking (World Economic Forum, total 142 country)	96	65
Open Budget Index (Open Budget Partnership, very weak-0; very strong-100)	60	80

- ◁ Election results mixed in 2012, but no vote buying. MPs have clear backing from citizens, even if no political faction is dominant. MPs from various parties – with strong voter backing – agree to cooperate
- ◁ Parliament leads process of national dialogue on future of Mongolia. Carefully selects advisors, carefully educates public.
- ◁ Parliament pledges to high level of transparency on all development matters – revenues, expenditures, budgetary calculations.
- ◁ Decision to keep Mongolia as independent as possible from foreign economic & political pressures.
- ◁ Significant investment in Development Bank, with mandate to diversify economy.
- ◁ Central Bank firmly independent. Fiscal Stability Law firmly backed. Stability Fund well funded and invested off shore.
- ◁ Decision to invest massively in education and in key sectors: food production, tourism, bio-technology.
- ◁ Government and elected officials strive to project competence, caution, concern for future and long term.