



THE EU-MONGOLIA ECONOMIC PARTNERSHIP: The mining sector and beyond

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The EU-Mongolia Economic Partnership

The Mining Sector and Beyond

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Abstract

This briefing paper marks the fourth and final in a series of papers on Mongolia and its relationship with the European Union (EU). The preceding gap between the end of the Country Strategy Paper (CSP) 2007-2013 and the beginning of the CSP 2014-2020, as well as the signing of the yet-to-be-ratified EU-Mongolia Partnership Cooperation Agreement (PCA) presents an occasion to reflect on the current state of Mongolia, the success of EU-Mongolia relations, the development of the relationship from 1989 until 2013, and the prospects for further areas of cooperation between the two parties. As a result, this series of papers will look closely at the areas where cooperation has already been administered and the prospects for continued collaboration in the relevant areas with regards to the priorities of the EU and Mongolia, as well as new areas which should be considered for cooperation from 2014-2020. This fourth paper outlines the state of Mongolia's economy, focusing particularly on trade; urban planning; the environment and the mining sector; foreign direct investment; and education and employment. The paper will address the cooperation already achieved between Mongolia and the EU in these areas, and finally, it will assess where cooperation with the EU could be further administered in the next few years through the PCA.

This paper expresses the views of the author and not the views of the European Institute for Asian Studies.

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Contents

1. Executive summary.....	4
2. Introduction.....	5
3. Environment and the mining sector.....	6
4. Foreign direct investment.....	10
5. Trade.....	12
6. Education and employment.....	15
7. Urban planning.....	18
8. Conclusion.....	20
9. References.....	22
10. List of interviewees.....	25

List of abbreviations and acronyms

ADB	Asian Development Bank
CoC	Chamber of Commerce
CSP	Country Strategy Paper
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GSP	Generalised System of Preferences
GDP	Gross Domestic Product
GNI	Gross National Income
MRAM	Mineral Resources Authority of Mongolia
MNE	Ministry of Nature and Environment
MNT	Mongolian Tugrik
MNC	Multi-National Company
NDS	National Development Strategy
PCA	Partnership Cooperation Agreement
SME	Small and Medium Enterprise
SIS	State Inspection Service
UN	United Nations
USD	United States Dollar

Executive summary

The Generalised System of Preferences (GSP) schemes have played a major role in increasing the volume of trade between the European Union (EU) and Mongolia. As a result, the EU is now one of Mongolia's most important trading partners. This trend is likely to continue with the Union's acceptance of Mongolia onto the new 2014 GSP+ scheme. It is important to note, however, that Mongolia is the EU's 131st trading partner, with Mongolian exports to the EU relatively low in comparison to EU exports to Mongolia. In order to improve Mongolia's share of EU and global markets, the Central Asian state must diversify its economy. Consequently, the Partnership Cooperation Agreement (PCA) will be used to facilitate assistance from the Union in helping Mongolia attain EU product and safety standards in its industries, as well as encourage cooperation between European and Mongolian companies.

Overgrazing of goats, poverty and the mining sector have damaged Mongolia's environment, resulting in climate change, extreme weather conditions, exploitation of natural resources and water supply, as well as desertification and pollution. Even though the Mongolian government has begun enforcing environment protection legislation and attempted to combat corruption within the mining sector, there is still significant room for improvement. The PCA is therefore expected to facilitate EU-Mongolia mining sector cooperation, with the objective of assisting the country in achieving its ambition of reaching EU norms and standards in this industry.

Foreign direct investment (FDI) is regarded as vital to the successful economic development of Mongolia. Yet in comparison to other foreign companies, EU companies have scarcely invested in the Central Asian state. It is important to note that in the last few years, there have also been major disputes between foreign companies and the Mongolian government. The biggest challenge for Mongolia will therefore be to implement laws which ensure that foreign investors respect the country's interests but also do not discourage them from investing. In light of this, the EU plans to establish a basic criteria framework for FDI in Mongolia, which the institution hopes will help to resolve this issue. Ultimately, the EU and Mongolia have emphasised that they wish to see an increase in European FDI. Both sides also expect the PCA to facilitate collaboration between European companies and Mongolian SMEs.

The PCA is also expected to facilitate collaboration in education. There are deep flaws within Mongolia's state education and vocational training system. Mongolian certificates and diplomas are sub-standard, there is a lack of professional education and the jobs available are distinctly limited to specific sectors and offer low wages. Despite the country producing a high number of graduates each year, many students will either choose to study or work abroad, or unwittingly become a member of Mongolia's unemployed, unable to compete with foreign workers. The Mongolian government and the EU have introduced several initiatives to improve the country's education system and encourage qualified graduates to work in Mongolia but there is still more that needs to be done. As a result, education and rural development cooperation between the EU and Mongolia will continue to be a priority.

Mongolia's economic transition, combined with extreme weather conditions, has resulted in a huge influx of Mongolians from the countryside to the capital. This has led to pollution, congestion, and overwhelming pressure on the city's central grid system. The government

failed to respond to this rapidly changing environment for many years and consequently, urban planning initiatives for Ulaanbaatar and infrastructure projects are now an integral feature of the current government's political agenda. Even though the EU has no major plans to assist the country in its urban planning initiatives, it should really consider doing so as Mongolia would greatly benefit from EU expertise in this area. The issue of property ownership will also need to be considered, if the country plans to keep the Mongolian population on side.

Introduction

Since the discovery of an abundant supply of natural resources a few years ago - resulting in a significant increase of FDI in mining projects - Mongolia has become one of the world's fastest growing market economies. The country reported a colossal 17.5 percent growth rate in 2011, decreasing to 12 percent in 2012, with an average growth rate between six and ten percent. It is worth noting that Mongolia's market economy is still small in comparison to its size, and despite being rich in resources, the country lacks the technological expertise and investment to take advantage of them.² Mongolia imports 88 percent of its total consumer goods,³ and the narrow base of its economy makes it highly vulnerable to natural disasters and the volatility of world commodity markets.⁴ Influx of FDI decreased by 49 percent in September 2013 and the value of the Mongolian Tugrik (MNT)⁵ fell by 20 percent at the beginning of 2014.⁶ Four out of ten of Mongolia's biggest banks have gone bust or had to merge in order to avoid insolvency in the last five years,⁷ and foreign debt accounts for about 55 percent of the country's Gross Domestic Product (GDP).⁸

The evolution to a market economy has similarly led to increasing social disparity (Gini index⁹ = 44 percent)¹⁰ and considerable unemployment and underemployment.¹¹ Almost half of the population lives in the capital, Ulaanbaatar, while around 40 percent of the country's workforce herd livestock in the countryside.¹² Gross National Income (GNI) per capita was USD 3,160 in 2012,¹³ although about a third of the population lives on less than USD 1 per day – a figure that has not improved since the 1990s.¹⁴ Mongolians who live in the countryside are particularly affected by high rates of deprivation, exacerbated by the extreme weather conditions and climate change.

² Information obtained through interview.

³ The UB Post. (2014). *The Prime Minister introduces 2014 plans for 'Let's Construct and Create in Mongolia'*. Retrieved from <http://ubpost.mongolnews.mn/?p=7369>

⁴ The UB Post. *The Prime Minister introduces 2014 plans for 'Let's Construct and Create in Mongolia'*.

⁵ The Mongolian Tugrik is Mongolia's national currency.

⁶ Industrial Minerals. (2014). *Mongolia seeks foreign investment*. Retrieved from <http://www.indmin.com/Article/3298318/Mongolia-seeks-foreign-investment.html>.

⁷ South China Morning Post. (2014). *Mongolia's mining dream turns sour promised bounty proves*. Retrieved from <http://www.scmp.com/business/commodities/article/1421650/mongolias-mining-dream-turns-sour-promised-bounty-proves>.

⁸ Industrial Minerals. *Mongolia seeks foreign investment*.

⁹ Measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution.

¹⁰ 0 represents perfect equality, while an index of 100 implies perfect inequality.

¹¹ European External Action Service. (2007). *Mongolia – European Community, Strategy Paper 2007-2013*, 23 February 2007, p.5.

¹² BBC News. (2013). *Mongolia profile*. Retrieved from <http://www.bbc.co.uk/news/world-asia-pacific-15384630>.

¹³ The World Bank. (2013). *Mongolia*. Retrieved from <http://search.worldbank.org/data?qterm=Mongolia&language=EN>.

¹⁴ European External Action Service. *Mongolia – European Community, Strategy Paper 2007-2013*, p.5.

One of Mongolia's main priorities is to develop an 'export-orientated, knowledge-based and corruption free economy' which improves the quality of life of Mongolian citizens, as outlined in its National Development Strategy (NDS).¹⁵ The main challenges in achieving these goals are to ensure good management of a rapidly growing economy and to implement sustainable development practices. The fair distribution of wealth and protection of the environment will in particular depend on good, effective and efficient governance, which is free from corruption.¹⁶ In order to overcome these challenges, the Central Asian state has enlisted help from the EU.

Consequently, this paper will analyse the successes and failings of Mongolia's market economy, focusing in particular on trade; the environment and the mining sector; FDI; education and employment; and urban planning. The paper will evaluate where cooperation between the EU and Mongolia has already been administered in these areas, followed by an analysis of the likely and potential fields for further EU-Mongolia cooperation. These topics were chosen because they were either the areas of cooperation which were emphasised during interviews and/or areas where EU-Mongolia cooperation could have a significant impact. Research for this paper was mainly carried out through interviews as the paper required first-hand information, but some research was also conducted through consultation of official documents and press releases, as well as recent academic and media publications.

Environment and the mining sector

Mongolia's environment is severely affected by climate change, exacerbated by its susceptibility to dangerous weather conditions. Desertification, widespread poverty, pollution, deforestation, lack of environmental awareness, and weak institutions put a considerable strain on Mongolia's fragile ecosystems.¹⁷ Phenomena such as drought and mass migration of rodents are already common in Mongolia. Mongolia's raw materials have also been profoundly exploited and water supply is becoming scarcer due to the draining of rivers and other factors.¹⁸

The United Nations (UN) reports that 90 percent of Mongolia's landmass is vulnerable to desertification. Desertification has undeniably been caused by climate change but another development has also contributed to the problem. One of Mongolia's biggest exports is cashmere from Mongolian goats, and therefore the cashmere industry is seen as a sector that will produce income. In 2009, there were about 20 million goats and the number is still increasing. As a result of the high number of these animals, many pasturelands have been completely destroyed. Despite being aware of the consequences of this destruction on the environment, herders are still continuing to increase numbers as the price of cashmere is affected by world commodity price fluctuations. For example, in 2011 one kg. of cashmere was worth MNT 70,000 (EUR 40) but in 2012, the price dropped to MNT 45,000 (EUR 26). Consequently, between 2011 and 2012, the price of raw domestic cashmere fell by 35 percent even though national inflation increased by 14 percent. Herders are therefore forced to increase the number of goats in order to cope with the shortfall to their income.¹⁹

¹⁵ European External Action Service. (2011). *Development Cooperation Instrument – Mongolia*, p.3.

¹⁶ Information obtained through interview.

¹⁷ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.9.

¹⁸ Information obtained through interview.

¹⁹ Mongol Mining. (2012). *A Cashmere Story*. Retrieved from http://www.youtube.com/watch?feature=player_embedded&v=YcyaAqVGScA.

The mining sector similarly contributes to environmental damage. In 2013, around 16 percent of land in Mongolia was already leased to the mining sector and other interests, with another 26 percent available for future lease and development.²⁰ Mining causes pollution and health problems, particularly where chemicals, such as mercury, are improperly used.²¹ Mercury use in Mongolian gold mining produces dangerously high levels of pollution as it can travel across large distances, contaminating water and land, thousands of kilometres from the source of pollution. Since mining began in Mongolia, nomadic herders have seen a significant increase in the pollution of local water sources and their pastures.²² In fact, small scale gold mining has been hailed as primarily responsible for destroying the river valleys, with little or no rehabilitation carried out by mining companies or the government.²³ Air pollution is similarly liable for the significant increase in health problems, with the entire Gobi region plagued with dust as a result of mining excavations.²⁴

Autonomous analysts and donors note that the Ministry of Nature and Environment (MNE) has readily advanced the vested interests of hunting, logging and mining lobbies, because of concerns that enforcement of environmental laws could impede economic growth. As a result, environmental legislation has been frequently ambiguous and user fees and penalties are inexpensive and almost obsolete.²⁵ For example, Environmental Impact Assessments (EIA) and their management plans are used to regulate the mining sector. However, they fail to address fundamental environmental issues – they were simply devised to fulfil administrative obligations.²⁶

Government officials from the State Inspection Service (SIS) are responsible for supervising the enforcement of environment protection laws. However, Mongolia's size makes it very difficult for the SIS to monitor activities which contribute to environmental destruction. As a result, implementation of environment laws by the central government is almost impossible. Local government officials are poorly trained and are not allocated the resources required to ensure that the laws are respected, and are also given no real incentive to implement environmental legislation, which is habitually vague. Resource fees for industrial forestry, hunting and mining are inconsistently paid,²⁷ while the majority of environment laws are ultimately ignored, resulting in serious environmental damage.²⁸

Prior to 2012, environmental protection tended to be overlooked by the Mongolian authorities in favour of other issues considered to be more urgent, such as poverty alleviation and economic growth. However, this attitude is starting to change as the detrimental impact of environmental destruction on the daily lives of Mongolians, as well as future tourism, is becoming clear.²⁹ In light of these developments, the country has sought to support international initiatives intent on reducing the speed of climate change, and has even attempted to take a leading role on climate and environment related issues in the

²⁰ The Nature Conservancy. (2013). *Mongolia: Development by Design*. Retrieved from <http://www.nature.org/ourinitiatives/regions/asiaandthepacific/mongolia/explore/mongolia-development-by-design.xml>.

²¹ European External Action Service. *Mongolia – European Community, Strategy Paper 2007-2013*, p.7.

²² Asia Times Online. (2013). *Mongolia takes longer view of resource wealth*. Retrieved from http://www.atimes.com/atimes/China_Business/CBIZ-01-070313.html.

²³ Mongol Mining. *A Cashmere Story*.

²⁴ Journeyman Pictures. (2012). *The Big Dig – Mongolia*. Retrieved from <http://www.youtube.com/watch?v=WkrXYMIMfdE>.

²⁵ European External Action Service. *Mongolia-European Community, Strategy Paper 2007 – 2013*, p.24.

²⁶ Ibid, p.23.

²⁷ Ibid, p.24.

²⁸ Asia Times Online. *Mongolia takes longer view of resource wealth*.

²⁹ Journeyman Pictures. *The Big Dig – Mongolia*.

international community,³⁰ for example, Mongolia hosted the UN Environment Day in April 2013.

Mining similarly poses other serious risks, in particular the ability and capacity of the public and private sector to manage and exploit future mining revenues for the profit of the whole population through social redistribution. There are many countries in Central Asia with an abundant supply of natural resources, but only a small proportion of their populations are able to benefit – an outcome that the EU does not desire for Mongolia.³¹ In fact, some critics argue that the Mongolian government is not ready for projects of this sort of magnitude and predict greater corruption and political instability,³² due to the fact that corruption is already rife in the mining sector. For example, the Mineral Resources Authority of Mongolia (MRAM) responsible for overseeing the provision of mining licences, illegally issued 120 mining licences in 2013.³³ This revelation reflects a wider issue of fairness in accumulation of mining licences in Mongolia.³⁴

Unsurprisingly, the mining sector is regarded as one of the biggest challenges to the success of Mongolian development. In order to succeed, the country must achieve the delicate balance of accommodating the aspirations of the multi-national companies (MNCs) and Mongolian demands for transparency, collaboration, and employment.³⁵ Mongolian citizens argue that foreign companies have been given too much leverage; FDI mining deals do not ask for many extra provisions and investors are under no obligation to provide any data. There is ultimately a general feeling that foreign investors are only concerned with economic returns with no thought for the actual impact of mining on Mongolia.³⁶ Consequently, Mongolians have put pressure on their government to ensure that local businesses are included in major mining sector projects and that Mongolian staff are employed on the mines.³⁷ One particular issue is that the capacities of the Mongolian ministries are much weaker than the capacities of MNCs which employ, on average, 200,000 staff. It is thus easier for these companies to take advantage of Mongolia, demonstrating the real necessity for safeguards.

The importance of this issue can be seen in the Rio Tinto deal and its permit for excavation of the Oyu Tolgoi mine, which provoked substantial criticism from many Mongolians. They claimed that the agreement negotiations were corrupt and opaque with no public consultation undertaken over the deal. They see Mongolia's share of the mine as unfair and are unhappy about the company's treatment of local Mongolians. Rio Tinto has similarly been criticised for closing off open water sources which have been available for Mongolians to use for thousands of years.³⁸ On a slightly different note, it is clear that the MNC actually underestimated the professional readiness of Mongolia to undertake such a huge project under a modern Western business framework. This, combined with the bad practices carried out by Rio Tinto, highlight the need for better transparency from both sides in order to avoid misunderstandings in the future.³⁹

³⁰ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.9.

³¹ Information obtained through interview.

³² Freedom House. (2011). *Mongolia*. Retrieved from <http://www.freedomhouse.org/report/freedom-world/2011/mongolia>.

³³ Asia Times Online. *Mongolia takes longer view of resource wealth*.

³⁴ Journeyman Pictures. *The Big Dig – Mongolia*.

³⁵ Information obtained through interview.

³⁶ Information obtained through interview.

³⁷ Asia Times Online. *Mongolia takes longer view of resource wealth*.

³⁸ Journeyman Pictures. *The Big Dig – Mongolia*.

³⁹ Information obtained through interview.

Relations between the Mongolian government and Rio Tinto have in fact been less than cordial with disputes over the deposit of funds from Mongolian exports; demands for a greater share of revenue for Mongolia; and clashes over the lack of Mongolians on the Oyu Tolgoi Mining Corp board.⁴⁰ These conflicts have led to delays in extraction and production, as well as the suspension of licences.⁴¹ Even though the first shipment of copper concentrates from Oyu Tolgoi was transported to China on 9 July 2013,⁴² collaborative work on the underground expansion of the mine was put on hold following disagreements.⁴³ Over six months later, it seems the end of the dispute may be near as the Director of Erdenes – the national company which owns Mongolia’s share in Oyu Tolgoi – suggested that all of the issues between Mongolia and Rio Tinto could be resolved by the end of February 2014.⁴⁴

The Mongolian government has attempted to rectify criticisms levied against the mining sector by adopting a ‘zero tolerance’ policy against corruption, and introducing measures to protect the environment as well as enhance local participation and development in the mining sector.⁴⁵ A new mining law was proposed in March 2013, with provisions including stricter environmental requirements with regard to closure of mines and rehabilitation of former mining sites; increased local participation by delegating the initial approval authority of new mines to local communities; improved control and enforcement of regulations on mining licence issuing; and greater requirements for mining deals to include stipulations for local development and local sourcing.⁴⁶

The EU has been paying close attention to the development of Mongolia’s raw materials and mining sector, with the European Bank for Reconstruction and Development (EBRD) engaged in the Oyu Tolgoi mine. The EU has tried to assist the country in the reform and modernisation of its prevailing institutional and legislative frameworks; in the modification and clarification of the land tenure agreements to foster long-term management and investment in the land; in inciting greater public participation; and in public disclosure of misconduct and information.⁴⁷

The EU’s primary objectives for the period 2014 to 2020 will therefore be to continue engagement with Mongolia on these industries, in particular assisting the country in achieving EU regulations and norms. In terms of combating degradation, climate change is a major aspect of both EU internal and external policy. There has been some dialogue between Mongolia and the EU in this area, but there are no concrete plans yet. The EU has also managed to lower the level of mercury pollution in Europe and therefore this is an area in which they can assist Mongolia. The EU will similarly seek to advise Mongolian officials on suitable environmental legislation and safety regulations for combating environmental

⁴⁰ Reuters. (2013). *Rio Tinto likely to name Mongolian to head Oyu Tolgoi*. Retrieved from <http://www.reuters.com/article/2013/07/30/mongolia-riotinto-oyutolgoi-idUSL4N0G01JM20130730>.

⁴¹ Mongolia suspended their mining licences for work on the Hugo North mineral vein at Oyu Tolgoi in February 2013.

⁴² Seeking Alpha. (2013). *Rio Tinto's Mongolian Saga Brightens: Outlook Going Forward*. Retrieved from http://seekingalpha.com/article/1544412-rio-tintos-mongolian-saga-brightens-outlook-going-forward?source=google_news.

⁴³ Reuters. (2013). *Rio Tinto puts Oyu Tolgoi expansion on hold, needs Mongolia finance nod*. Retrieved from <http://www.reuters.com/article/2013/07/29/mongolia-riotinto-financing-idUSL4N0FZ1M620130729>.

⁴⁴ The UB Post. (2014). *Oyu Tolgoi issues could be settled this month*. Retrieved from <http://ubpost.mongolnews.mn/?p=7350>.

⁴⁵ Information obtained through interview.

⁴⁶ Asia Times Online. *Mongolia takes longer view of resource wealth*.

⁴⁷ European External Action Service. *Mongolia – European Community, Strategy Paper 2007-2013*, p.24.

degradation as well as effective management of resources and their transfer to public services, resulting in a more successful social policy.⁴⁸

Ultimately, Mongolia is hoping to learn from the experiences and protocol that the EU uses to protect the environment and begin to develop a green economy. In particular, the country welcomes assistance in achieving EU norms and standards to protect the environment, prevent corruption and enforce social redistribution.⁴⁹ It is clear that the EU can help Mongolia make mining-led economic growth more sustainable and inclusive by providing the country with expertise and 'know-how'. The EU should therefore also support Mongolian officials in their attempt to educate citizens about mining. Finally, it can assist the government in setting up a legal framework to deal with mining investment disputes and consequently, ensure that disputes are avoided in the future and foreign interests in the mining sector are not jeopardized. Through Corporate Social Responsibility (CSR), the EU consequently hopes to create the right mining investment criteria for Mongolia.⁵⁰ With this in mind, Mongolia and the EU agreed on a new program, called the Economic Governance for Equitable Growth (EG4EG) at the Joint Committee Meeting in September 2013, seeking to reinforce the economic governance of Mongolia's mining revenues, and foster sustainable development in the process.⁵¹

Foreign direct investment

Foreign direct investment plays an acute role in the growth of the Mongolian economy. Ten thousand foreign entities have been registered and established since Mongolia opened itself up to FDI and USD ten billion worth of investment has been raised in the country since the opening of the market.⁵²

In terms of European FDI, Mongolia is eligible for loans from the European Investment Bank (EIB) and the EBRD, which opened an office in Ulaanbaatar in 2006. The EBRD has accumulated a sizeable presence in the country,⁵³ launching a new programme with the EU in May 2012, in collaboration with the Mongolian Small and Medium Enterprise (SME) agency, to assist SMEs in Mongolia. The objectives of this programme were to improve the business environment in which local entrepreneurs operate, and to help Mongolian SMEs achieve their growth potential, thus boosting their role in the country's economy.⁵⁴ The EBRD has also invested in the development of Mongolia's national railway system.⁵⁵

It is not only the EU institutions and bodies which invest in the Central Asian state; individual member states have also undertaken several initiatives. The Czech Republic has used its own experience with economic development – and its former need to encourage FDI during the post-communist period – to help Mongolia in attracting FDI, as well as providing it with vital technologies and 'know-how'. In fact, the Czech Embassy in Ulaanbaatar is currently implementing a trilateral project in collaboration with Germany and Mongolia. One specification of the project was the organisation of a study stay of Mongolian

⁴⁸ Information obtained through interview.

⁴⁹ Information obtained through interview.

⁵⁰ Information obtained through interview.

⁵¹ European External Action Service. (2013). *JOINT STATEMENT, EU-Mongolia Joint Committee, Ulaanbaatar, 10 September 2013*.

⁵² Information obtained through interview.

⁵³ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.9.

⁵⁴ Delegation of the European Union to Mongolia. (2012). *EU and EBRD launch new programme for Small- and Medium-sized Enterprises (SMEs) in Mongolia*. Retrieved from http://eeas.europa.eu/delegations/mongolia/press_corner/all_news/news/2012/20120530_01_en.htm.

⁵⁵ Information obtained through interview.

experts in the Czech Republic from 29 November to 5 December 2010, so that they could familiarise themselves with the experiences of the Czech economic transformation and accession negotiations to the EU, including transposition of EU norms and standards, and economic operation of trusts, as well as experiences in the field of foreign investment.⁵⁶

Yet in spite of these advances, European investment in Mongolia has so far remained very limited, due to a supposedly unsecure business environment, a lack of information about local business opportunities, and the distance between both parties. Investment and cooperation requires patience with the Central Asian state – decisions are not immediate and are usually made in an ad hoc manner. Subsequently time restraints usually prevent deals from coming to fruition.⁵⁷ European investors have also expressed concerns about a mooted law which outlines that the government must approve any foreign direct investment in strategic sectors like mining. The National Investment Law similarly put in place a provision which requires Mongolia to hold a 49 percent share in all investment deals. These laws have discouraged European investment, particularly in cases where there is a potential investment of billions of euros. Factoring in the risks involved, investment companies want to hold a larger share. Concerns of global foreign investors were reflected in the 49 percent decrease in FDI in Mongolia in September 2013.⁵⁸ It was noted in one interview that this is a challenge that will need to be overcome if the country has any hope of attracting a more diverse set of large investors from the EU.⁵⁹

For the period 2014 to 2020, the European Commission will likely continue its engagement with the EBRD and EIB, capitalising on their resources in order to effectively implement the new Country Strategy Paper (CSP),⁶⁰ for example, by continuing to endorse the EBRD's activities through technological support "in the areas of investment attraction, institutional strengthening and training, infrastructure and financial sector development".⁶¹ Mongolian SMEs benefit significantly from funding and assistance from the EU – therefore, in collaboration with international donors, the EU should continue to help SMEs implement EU norms and standards. The PCA is also expected to facilitate the ability of the EU to monitor Mongolian economic standards.

A priority for the EU and Mongolia is to ensure that the country can trade on its own terms. This is a reason why Markus Ederer, Head of the EU Delegation for China and Mongolia resident in Beijing, referred to the PCA as "an agreement between equals". The EU promises to respect the rules and therefore not take advantage when it comes to trade and investment with the country.⁶² President Barroso therefore explained in a speech in November 2013, that the EU "wholeheartedly supports initiatives that create the best business environment for domestic and foreign stakeholders alike".⁶³ If any EU companies were involved with any sort of misconduct, including land grabbing, the European Commission would be strongly advising them to rectify any wrong-doing, however, there is

⁵⁶Embassy of the Czech Republic, Ulaanbaatar. (2010). *The Czech Republic and the Federal Republic of Germany are the first EU Member States which respond flexibly to the challenge of the Prime Minister S. Batbold to take the European standards and norms*. Retrieved from http://www.mzv.cz/ulaanbaatar/en/political_relations/european_union/the_czech_republic_and_the_federal.html.

⁵⁷ Information obtained through interview.

⁵⁸ MINING.com. (2013). *Mongolia gears up for the fight of its mining life*. Retrieved from <http://www.mining.com/mongolia-gears-up-for-the-fight-of-its-mining-life-70319/>.

⁵⁹ Information obtained through interview.

⁶⁰ Information obtained through interview.

⁶¹ European External Action Service. *Mongolia – European Community, Strategy Paper 2007-2013*, p.14

⁶² Information obtained through interview.

⁶³ European Commission. (2013). *"EU-Mongolia: Third neighbour and first class partner"*. Retrieved from http://europa.eu/rapid/press-release_SPEECH-13-937_en.htm.

no framework in place to deal with this. It is also important to note that EU interests will be taken into account when trading with Mongolia; at the Joint Committee meeting in September 2013, the European Commission expressed European companies' fears over investing in the country to the Mongolian trade and investment ministries.⁶⁴

Mongolia similarly has significant investment needs which can be met by European investors, including its large infrastructure projects, such as the development of a national railway system.⁶⁵ There are also many other opportunities for EU companies to capitalise in Mongolia, either through large-scale investment in the mining sector or through agriculture, livestock, renewable energy, and more. President Barroso reaffirmed the Union's commitment to encourage more EU firms to invest in Mongolia, highlighting in a speech in November 2013 that "the more European firms become active in the Mongolian economy, the more they will bring with their expertise and this will spread out across the Mongolian economy".⁶⁶ He then demonstrated the sincerity of this pledge as he announced that the European Commission would be coordinating a 'Mission for Growth' in 2014, bringing together EU and Mongolian businesses in the hopes of facilitating cooperation between them.⁶⁷ The EU will also help to further facilitate cooperation by "creating favourable conditions" and offering European companies advice on Mongolia's "economic environment and legal requirements".⁶⁸

Mongolia is interested in collaborating with EU companies and learning from the Union's experiences in attracting further FDI;⁶⁹ objectives which both parties expect the PCA to help facilitate. In fact, the European Commission is planning to collaborate with Mongolia on setting up a framework for the creation of the right environment for European investors and protection for Mongolia. The EU reaffirmed this commitment at the Subcommittee on Trade and Investment in September 2013,⁷⁰ in which the framework for basic FDI criteria provisions was also discussed.⁷¹ Such a framework would help to ensure that agreements between foreign companies and the Mongolian state are mutually beneficial, including CSR provisions. Finally, there are serious proposals underway for setting up a European Chamber of Commerce (CoC) in Ulaanbaatar which would act as a branch of the one in China. A European CoC in Mongolia would help to increase economic relations between both parties and would better enable the EU to monitor the country's macro-economic tendencies.⁷²

Trade

The EU is Mongolia's third trading partner after China and Russia, accounting for 8.1 percent of total foreign trade in Mongolia.⁷³ The main exports from Mongolia to the EU are cashmere, wool, textile products, and precious metals, whereas EU exports to Mongolia mainly consist of machinery and transport equipment, chemicals, medicine, cosmetics, food,

⁶⁴ Information obtained through interview.

⁶⁵ Information obtained through interview.

⁶⁶ European Commission. "EU-Mongolia: Third neighbour and first class partner". Retrieved from http://europa.eu/rapid/press-release_SPEECH-13-937_en.htm.

⁶⁷ Ibid.

⁶⁸ European Commission. (2013). *MEMO - Joint Statement of H.E Mr. Jose Manuel Barroso, President of the European Commission and H.E Mr. Tsakhiagiin Elbegdorj, President of Mongolia*. Retrieved from http://europa.eu/rapid/press-release_MEMO-13-1002_en.htm.

⁶⁹ Information obtained through interview.

⁷⁰ European External Action Service. *JOINT STATEMENT, EU-Mongolia Joint Committee*.

⁷¹ Information obtained through interview.

⁷² Information obtained through interview.

⁷³ Information obtained through interview.

beverages and more, with most products coming from Germany.⁷⁴ The United Kingdom and Italy are the principal EU importers of Mongolian goods, mainly raw cashmere and gold.

Mongolia receives significant economic benefits from maintaining close relations with the EU. It was a partner in the original EU Generalised System of Preferences (GSP) scheme which gives member countries tariff-free access to selected EU products. Since 2005, Mongolia has likewise been eligible for tariff-free access to 7200 products under the GSP+ scheme, covering over 90 percent of the country's exports.⁷⁵ The scheme has played a significant role in increasing EU-Mongolia trade – by 10 percent in 2008, while Mongolian exports to the EU increased by nearly 60 percent between 2004 and 2008. Mongolian exporters have made good use of the scheme – by increasing the utilisation rate to 87 percent of eligible exports in 2008 – albeit mostly still focused on textile and cashmere.⁷⁶ Mongolia applied for the new GSP+ scheme and was approved in December 2013. Mongolia has benefited from the new scheme since 1 January 2014.⁷⁷

However, Mongolian markets are still not fully exploited; partially due to a weak infrastructure – particularly transport – and a poor quality of production, which becomes apparent when considering figures published by the Directorate General for Trade from 2012 and the first quarter of 2013. These figures reveal that Mongolia is the EU's 131st trading partner,⁷⁸ and there is a big gap between the EUR 418 million in EU exports to Mongolia and the EUR 28 million that accounts for Mongolian exports to the EU.⁷⁹

It should be noted that Mongolia is declared by many other states to be a free market economy, but not by the EU. The EU uses free market status as a tool to solve trade disputes with its trade partners, as it places conflicting actors on a more equal footing. There are no trade disputes between Mongolia and the EU and therefore, the awarding of free market status would simply act as a political symbol rather than actually result in the progression of relations. Mongolia has in fact produced all the necessary documentation to prove fulfilment of the five criteria requirements, in Mongolia; once the EU translates these documents, it can reconsider the allocating of free market status to Mongolia.⁸⁰ The country, nevertheless, reiterated its desire to be granted market economy status by the EU at the September 2013 Subcommittee on Trade and Investment.⁸¹ Furthermore, in an effort to advance trade Mongolia has formulated an ambitious trade agenda, which it hopes will diversify the economy and enhance exports, for example, introducing measures to increase the value of products according to EU requirements, in the hope that they will then be eligible for sale to the European market.⁸² Mongolia also hopes that the diversification of the economy can be achieved through using revenue acquired from the mining sector.⁸³

For the period from 2014 to 2020, the EU will support Mongolia's efforts to create policies which will ensure product diversification within the economy, the improvement of product

⁷⁴ Embassy of the Czech Republic. *EU-Mongolia Trade*.

⁷⁵ European External Action Service. *Mongolia – European Community, Strategy Paper 2007-2013*, p.4.

⁷⁶ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.8.

⁷⁷ Directorate General for Trade, European Commission. (2013). *Practical guide to the new GSP trade regimes for developing countries, December 2013*, p.11. Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152012.pdf.

⁷⁸ Directorate General for Trade, European Commission. (2013). *European Union, Trade in goods with Mongolia*. Retrieved from http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113420.pdf.

⁷⁹ Embassy of the Czech Republic, Ulaanbaatar. *EU-Mongolia Trade*.

⁸⁰ Information obtained through interview.

⁸¹ European External Action Service. *JOINT STATEMENT, EU-Mongolia Joint Committee*.

⁸² Information obtained through interview.

⁸³ Mongol Mining. *A Cashmere Story*.

quality, and an enabling environment for business. In addition, through schemes such as the EU Trade Days, introduced in Ulaanbaatar in March 2013, the EU has sought to increase its exports to Mongolia and help Mongolia diversify its economy.⁸⁴ Specifically the EU Trade Days strove to establish possibilities for co-operation projects with EU companies as well as provide training and opportunities for Mongolian companies to export their goods and services.⁸⁵ In order to gather information on companies exporting to the EU, in November 2011 the Mongolian Chamber of Commerce met with EU ambassadors, who also expressed their interest in assisting the promotion of Mongolia's market economy, in order to achieve EU norms and standards.⁸⁶ Mongolia has great potential to develop industry sectors – such as wool, leather, meat, renewable energy and tourism – into export-led sectors. Consequently, these industries are ideal for collaboration with the Union in achieving EU standards, which would lead to an increase in the value of Mongolian exports. It would also make Mongolian products more competitive in the domestic market and suitable for export to the EU market.⁸⁷

In fact, EU norms and standards are already in the initial stages of introduction of potential products for export in Mongolia.⁸⁸ The first step will be to improve the standardisation system in Mongolia itself, and then to research how to match Mongolian standards with the norms and standards of the EU. The EU and Mongolia signed a project in April 2013 titled the 'Modernisation and Standardisation for the Implementation of EU Norms and Standards' which has begun to be implemented. If Mongolia is successful in its application of this project, it would be mutually beneficial for both parties as it would be able to export more of its products abroad. In this regard, the EU will be looking to gain free access to raw materials in rural areas for EU companies, through commodity exchange whilst also promoting EU technical and safety standards within the raw materials sector.⁸⁹ President Barroso reaffirmed the EU's commitment to "support the modernisation of Mongolia's standardisation system [by bringing] its regulatory framework closer to EU standards" in a speech during his official visit to Mongolia in November 2013.⁹⁰

The EU has also implemented several projects to help Mongolian SMEs. These include a project co-financed with the EBRD providing precise actions for specific financial actors; a project to help Mongolian SMEs reach EU standards; and the introduction of an Export Help Desk to help Mongolian SMEs when they have EU market access issues. These projects are supplemented by joint ventures between the EU and the Mongolian government. The Mongolian government wants to promote information on the business environment and therefore the EU will be looking to organise EU Trade Days in 2014, which would be combined with political meetings on specific economic issues. The PCA is expected to facilitate cooperation between the EU and Mongolian SMEs in the raw materials sector whilst assisting and monitoring Mongolian SMEs in adopting EU standards in newer industries.⁹¹

⁸⁴ Delegation of the European Union to Mongolia. (2013). *EU TO COOPERATE WITH MONGOLIA ON EXPORTS TO EU & DIVERSIFYING ITS ECONOMY (22/03/2013)*. Retrieved from http://www.eeas.europa.eu/delegations/mongolia/press_corner/all_news/news/2013/20130322_en.htm.

⁸⁵ Information obtained through interview.

⁸⁶ Embassy of the Czech Republic, Ulaanbaatar. (2011). *EU ambassadors meeting in Ulaanbaatar on 23-24 November 2011*. Retrieved from

http://www.mzv.cz/ulaanbaatar/en/political_relations/european_union/setkani_velvyslancu_zemi_eu_v_ulanbataru.html.

⁸⁷ Embassy of the Czech Republic, Ulaanbaatar. *EU-Mongolia Trade*.

⁸⁸ Information obtained through interview.

⁸⁹ Information obtained through interview.

⁹⁰ European Commission. "*EU-Mongolia: Third neighbour and first class partner*".

⁹¹ Information obtained through interview.

Both parties also promised to “exchange views on priorities for trade and investment-related development cooperation”.⁹²

Finally, the likelihood of an EU-Mongolia Free Trade Agreement (FTA) in the immediate future is low. The EU has its own resource constraints because it is currently in the process of negotiating FTAs with many other countries. Mongolia is also currently negotiating an FTA with Japan and therefore commencing negotiations on another FTA is simply not logistically possible for the Mongolian government. Nevertheless, the outcome of the Japan-Mongolia FTA will be watched closely by the EU and this will be an area that the PCA will seek to facilitate cooperation on in the future.⁹³

Education and employment

Mongolia is a relatively young state with 33 percent of inhabitants aged below 15, and 59 percent under the age of 25. Even though education comprises a relatively high amount of public expenditure (approximately 16 percent) and the number of private universities has increased, the quality of the state education and the vocational training system has declined.⁹⁴ There is similarly a wide discrepancy between rural and urban education.⁹⁵ The lack of public-private partnerships which would provide students with access to superior, demand-driven teaching is also regarded as an obstacle. Ultimately, the educational facilities offered by Mongolia are unable to cope with the rapidly changing requirements of the country, and there is a broadening disparity between “educational supply and market demand”.⁹⁶ There is particular a lack of professional education for new sectors such as animal husbandry and construction,⁹⁷ exacerbated by the fact the government still limits the number of students on the required courses.

Furthermore, Mongolian certificates and diplomas are not recognised abroad. Surprisingly the number of graduates has steadily increased, in spite of the country’s certification systems being substandard. There were 14,000 graduates in 1990 compared to about 90,000 in 2002.⁹⁸ However, it should be pointed out that 40 to 60 percent of university graduates join the unemployed each year.⁹⁹ The shortage of qualified workers and technicians means that the country must import skilled, foreign labour from countries like China and South Korea. Domestic graduates searching for jobs in Mongolia are therefore usually outcompeted by foreign graduates or foreign labour forces, due to the low standard of their degrees.¹⁰⁰ This phenomenon is damaging the economic prospects of Mongolians and “raises the new social challenge of a large number of unemployed and frustrated youth”.¹⁰¹ Moreover, most of the job opportunities that are available are in construction,

⁹² European External Action Service. *JOINT STATEMENT, EU-Mongolia Joint Committee.*

⁹³ Information obtained through interview.

⁹⁴ European External Action Service. *Mongolia – European Community, Strategy Paper 2007-2013*, pp.5 – 6.

⁹⁵ MAD Investment Solutions TV. (2012). *What now UB? An in-depth look at the current state of Mongolia's Infrastructure*. Retrieved from <https://www.youtube.com/watch?v=55fzDC8I-K8>.

⁹⁶ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.7.

⁹⁷ Information obtained through interview.

⁹⁸ The UB Post. (2013). *Education should go beyond the needs of mining companies*. Retrieved from <http://ubpost.mongolnews.mn/?p=3427>.

⁹⁹ The UB Post. (2013). *Students should have a supportive context*. Retrieved from <http://ubpost.mongolnews.mn/?p=3461>.

¹⁰⁰ The UB Post. (2013). *Let's halt the flow of our labor force to foreign countries*. Retrieved from <http://ubpost.mongolnews.mn/?p=4190>.

¹⁰¹ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.7.

mining and engineering – it is almost impossible to get jobs in other sectors such as in the arts, media or law.¹⁰²

At the other extreme, many able students are either not employing their competences or working abroad, exacerbating the 'brain drain'.¹⁰³ In 2010, it was found that 107,000 Mongolian citizens were living and working abroad – about four percent of the whole population – and this figure did not include Mongolian citizens living and/or working abroad illegally; surprisingly, the majority of Mongolian families have at least one relative working or studying abroad. In 2000, money sent from South Korea to Mongolia from Mongolian workers was equal to approximately 10 percent of Mongolia's total GDP.¹⁰⁴ One of the main reasons why Mongolians work abroad is due to low wages. The average wage in the country is very difficult to live on, and Mongolians can earn three to four times more abroad.¹⁰⁵ In addition, students can receive a much higher standard of education outside of the country.¹⁰⁶

The Mongolian government is aware of this issue and education has become one of its main priorities. The government tried to address the brain drain by implementing programmes to encourage Mongolian workers to return home from abroad and work in Mongolia. Following implementation of these programmes, the number of Mongolian citizens working in South Korea did reduce from 10,000 in 2011 to 9,000 in 2012.¹⁰⁷ However, it is clear from these figures that the majority of Mongolians still remain unconvinced about the benefits of returning back home to work.

To address the issue of educational sub-standards, the Mongolian government has attempted to introduce EU standards in the education system. The Cambridge Educational System was first implemented in Mongolia about two to three years ago, although it is still in the initial stages. Those youths who have started studying through this system, will finish in 13 years – the period required for completion of the course. The vocational training system is similarly under renovation, following its collapse at the end of the communist period. Rebuilding and reintroducing vocational education facilities are seen by the Mongolian government as the fastest and shortest way to reduce unemployment, as well as produce the greatly needed professionals for the newly developed and developing sectors. Donor attention has also been directed to projects which will assist in resolving the flaws within the education sector.¹⁰⁸

The EU argues that employability of the youth in the countryside should also be ascertained in relation to free enterprise and SME organisation outside of the cities, adding that proficiency development should also "encompass the managerial-type skills needed to underpin SME development".¹⁰⁹ The Mongolian government allocated around MNT 27.4 billion (EUR 12.1 billion) to 32 projects dedicated to entrepreneurs in order to promote SMEs, and to increase the number of workplaces.¹¹⁰ From 2007 to 2013, the EU also offered

¹⁰² The UB Post. Education should go beyond the needs of mining companies.

¹⁰³ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.7.

¹⁰⁴ The UB Post. (2013). *Brain drain takes Mongolia's youth and vibrancy*. Retrieved from <http://ubpost.mongolnews.mn/?p=3114>.

¹⁰⁵ The UB Post. *Let's halt the flow of our labor force to foreign countries*.

¹⁰⁶ The UB Post. *Brain drain takes Mongolia's youth and vibrancy*.

¹⁰⁷ The UB Post. *Let's halt the flow of our labor force to foreign countries*.

¹⁰⁸ Information obtained through interview.

¹⁰⁹ European External Action Service. *Development Cooperation Instrument, Mongolia*, p.12.

¹¹⁰ The UB Post. (2013). *Prime Minister delivers report on progress of ongoing projects*. Retrieved from <http://ubpost.mongolnews.mn/?p=4771>.

scholarships for Mongolians to study at higher education institutions in Europe and devoted significant levels of funding towards vocational training initiatives. The Mining Technology Institute initiative has been particularly successful, with EU professionals teaching Mongolian students about mining technology. In addition, Germany and the Czech Republic have set up bilateral training schools.¹¹¹

For the period 2014 to 2020, it is expected that the PCA will facilitate further cooperation in improving education and youth employment; areas in which the Mongolian government particularly desires further input and assistance from the EU. The country is especially keen to deepen relations in terms of student exchange. Currently EU scholarships do not reach the poorest youths because only richer Mongolians families can afford to send their children to European universities. Strong student visa restrictions make it even more difficult for Mongolian students to study in the EU. If the Union hopes to succeed in increasing the number of Mongolian students studying abroad, the visa issue will need to be addressed.¹¹²

Greater student exchange is viewed as the best way for the EU to contribute to the establishment of a middle class in Mongolia.¹¹³ The ERASMUS Mundus Programme will therefore be extended in Mongolia in the form of the new 'Erasmus for All' programme¹¹⁴ for the period 2014 to 2020. The EU and Mongolia hope that this programme will significantly increase the number of EU scholarships granted to Mongolians, as it will specifically target the most disadvantaged youths in Mongolian society.¹¹⁵ During his official visit to Mongolia in November 2013, President Barroso reaffirmed the Union's commitment to increase the number of Mongolian students, doctorates and researchers eligible for scholarships and study in Europe.¹¹⁶

The Mongolian government is similarly looking for possibilities to have Mongolian diplomas and certificates recognised and accepted by educational institutions abroad. Once diplomas and certificates are accepted, Mongolian students will be able to advance more rapidly. Consequently, the EU should look to assist Mongolia in achieving international standards in its grading systems. Again, the recent EU project on 'Modernisation and Standardisation for the Implementation of EU Norms and Standards' will be useful in raising the quality of the Mongolian certification system.¹¹⁷

In terms of vocational training and rural development, educational training projects in the countryside are still on-going and will continue from 2014 to 2020; a decision which has been greatly welcomed by the Mongolian government. Mongolia and the EU expect the PCA to facilitate greater cooperation over existing and new vocational training initiatives, in the hopes of creating new income opportunities for the rural and peri-urban strata of the population and contributing to the diversification of Mongolia's economy. It should be noted that there has been some scepticism about the impact of the vocational training initiatives that have been implemented so far by the EU, but perhaps a little more time must be given before a judgement can be made about the success of these initiatives.¹¹⁸

¹¹¹ Information obtained through interview.

¹¹² Information obtained through interview.

¹¹³ Information obtained through interview.

¹¹⁴ European Commission. *MEMO - Joint Statement of H.E Mr. Jose Manuel Barroso, President of the European Commission and H.E Mr. Tsakhiagiin Elbegdorj, President of Mongolia.*

¹¹⁵ Information obtained through interview.

¹¹⁶ European Commission. *"EU-Mongolia: Third neighbour and first class partner".*

¹¹⁷ Information obtained through interview.

¹¹⁸ Information obtained through interview.

Urban planning

The state of the urban environment in the capital city of Ulaanbaatar and to a lesser degree in a few secondary cities, pose major problems. As extreme winters (dzuds) and the transition from a communist, centralised economy to a capitalist, market economy have made life as a nomadic herder particularly difficult, more and more Mongolians have migrated to Ulaanbaatar. A city that was originally envisioned for 500,000 people with reliable public transportation, now contains 1.2 million people, with many second-hand cars and high carbon-dioxide emissions. This accounts for almost half of the Mongolian population, and that number is only set to increase. There is also a huge congestion problem as a result of the high number of cars. It is subsequently clear that the rural exodus has already contributed extensively to pollution and issues of infrastructure.¹¹⁹

In addition, land speculation is very high, with most property in the city costing between MNT 1.5 and 3 million per square metre.¹²⁰ As a result, many rural migrants do not live inside the city, but live in ger districts¹²¹ on the outskirts of the northern part of the city. Some 40 percent of the inhabitants are connected to the central grid system; the rest – mainly the ger districts – have no access to central heating, electricity, the water supply or even the sewage systems. This has posed huge environmental problems, particularly in winter, when they are forced to burn coal or any other materials for heat in order to cope with the extreme weather conditions. Air pollution is therefore rife during winter; in fact the pollution levels increase so much that visibility is reduced to barely two to three metres because of the smog.¹²²

For many years, the Mongolian government failed to introduce any urban planning initiatives which would assist in taking the strain of overpopulation away from Ulaanbaatar. As a result, not only is the power grid under increasing pressure from the influx of inhabitants, it also leaks by about 50 percent. In the last couple of years, the Mongolian government has realised the scale of the deterioration and has begun to reintroduce urban planning initiatives in the hopes of tackling the urban planning problem.¹²³ There is, however, no easy fix for the power grid as the system needs huge repairs. It is therefore likely that another form of power supply will be needed if Ulaanbaatar has any chance of coping with the increasing energy demands. In this regard, the country is looking to build a new power plant; Combined Heat and Power Plant No. 5.¹²⁴ Although the Asian Development Bank (ADB) is working with the Mongolian government to find public-private partnerships to provide the income required for successful construction of this proposed power plant, the project is currently being delayed.¹²⁵

A new power plant is not the only urban planning initiative to be introduced in recent years. Negotiations are currently underway with rural migrants to adjust the perimeters of the ger districts and move some households into available apartments in the city, as well as newly constructed apartments and houses. The properties to be allocated to individuals will

¹¹⁹ Information obtained through interview.

¹²⁰ The UB Post. *Brain drain takes Mongolia's youth and vibrancy.*

¹²¹ Ger districts refer to shanty towns in which the majority of houses in these areas are traditional Mongolian ger tents.

¹²² MAD Investment Solutions TV. *What now UB? An in-depth look at the current state of Mongolia's Infrastructure.*

¹²³ Information obtained through interview.

¹²⁴ MAD Investment Solutions TV. *What now UB? An in-depth look at the current state of Mongolia's Infrastructure.*

¹²⁵ ZAZA Corporate Counsel LLC. (2013). *Another Possible Delay For Power Plant NO.5.* Retrieved from <http://www.zazacorporate.com/news-378>.

depend on the size of their current property, their assets and the size of their family.¹²⁶ Twenty locations for housing projects have now been selected, with the first apartments to be ready by autumn 2014. Those that are not taken by residents in the ger districts will be sold to private companies at market value. New markets, shopping centres and car parks are also set to be built.¹²⁷ Furthermore, Mongolia and the ADB reached an agreement to redevelop the ger districts in December 2013 through certain initiatives, including improving access to water and heating supply.¹²⁸

To combat pollution, the Ulaanbaatar City Administration has introduced a project to advise on and provide less polluting and more ecological substances to the ger districts to burn for warmth during winters. The city has also attempted the decrease the number of cars; on certain days, some cars are not allowed to join the traffic if their number plates end with a certain number. Ulaanbaatar hopes to ease congestion by reserving one lane on three lane roads lanes for public transportation and taxis,¹²⁹ and increasing fees for vehicles using roads in Ulaanbaatar.¹³⁰ Finally, the construction of a metro system will begin in 2016; it will cost USD 1.5 billion and should be completed by 2020.¹³¹

Outside of Ulaanbaatar, major infrastructure projects were established in 2013 with the purpose of building more paved roads in the city, as well as paved roads to link the six centres of the provinces; a total of MNT 229.7 billion (EUR 101.3 billion) was allocated to the implementation of these projects. Many of the roads are now open, for example, the road connecting Choi and Sainshand which was completed on 5 September 2013. Following approval by the State Hural two years ago, the construction of new railways has also started in Mongolia. A 217-km railway from Ukhaakhudag to Gashuunsukhait is currently being built, with a capital expenditure at about USD 540 million.¹³² Other important infrastructure projects are the ongoing construction of the industrial complexes in the eastern part of the country, in Sainshand, in the Dornogovi province,¹³³ and the construction of another international airport, about 60 km from the city. This project is set to cost USD 350 million and will be completed by 2016.¹³⁴ In terms of housing, the Mongolian government introduced plans in January 2014 to launch an apartment housing project for 1,000 households in every province.¹³⁵

The Mongolian government has expressed a particular interest in receiving urban planning and power supply suggestions from the EU as well as cooperation on these initiatives. Furthermore, as there is a need to renew planning of the main cities and towns, development cooperation with the EU institutions would be welcomed in terms of expertise in construction and demography.¹³⁶ Although the Union has some interest in examining and offering expertise on the power grids in Ulaanbaatar, it has no concrete plans to cooperate with Mongolia on any of its other urban planning initiatives. However, capacity building in

¹²⁶ Information obtained through interview.

¹²⁷ The UB Post. (2014). *N. Gantumur: Redevelopment of Ulaanbaatar and the first metro in Mongolia are on their way*. Retrieved from <http://ubpost.mongolnews.mn/?p=7635>.

¹²⁸ The UB Post. (2013). *Mongolia and ADB to redevelop ger districts with 320 million USD*. Retrieved from <http://ubpost.mongolnews.mn/?p=7029>.

¹²⁹ The UB Post. (2013). *Ulaanbaatar uses recycled waste for infrastructure development*. Retrieved from <http://ubpost.mongolnews.mn/?p=7012>.

¹³⁰ The UB Post. (2013). *Ulaanbaatar road users to pay annual fees*. Retrieved from <http://ubpost.mongolnews.mn/?p=6932>.

¹³¹ The UB Post. *N. Gantumur: Redevelopment of Ulaanbaatar and the first metro in Mongolia are on their way*.

¹³² The UB Post. *Prime Minister delivers report on progress of ongoing projects*.

¹³³ Information obtained through interview.

¹³⁴ Information obtained through interview.

¹³⁵ The UB Post. *The Prime Minister introduces 2014 plans for 'Let's Construct and Create in Mongolia'*.

¹³⁶ Information obtained through interview.

urban planning will not only be very important for the successful economic and social development of Mongolia, but also for the success of EU rural development initiatives. Without effective urban planning in the countryside, these initiatives will ultimately fail. The EU should therefore seek to use the PCA to facilitate future urban planning cooperation with Mongolia because it can provide the much needed expertise in this area. In particular, Mongolia would be looking for assistance from the EU in preparing world class professionals in the field of urban planning and conducting research in the standards and technology required for tall buildings, underground constructions, building apartments, and demography. The Union could also assist Mongolia in producing regulatory frameworks for its infrastructure projects.¹³⁷

As major urbanisation has already begun to affect the traditional way of life for nomadic herders, surveys have shown that the issue of land is becoming more and more prominent; the number of complaints has increased quite significantly with regard to the use and ownership of land, as well as the number of conflicts between herders. Any urban planning initiatives and infrastructure projects therefore must be sensitive to localities and the idea of right to property, and the method of implementation must be carefully formulated.¹³⁸ The issue of property ownership is unfortunately yet to be addressed by the Mongolian government. With more land being allocated to mining and other infrastructure projects, the importance of recognising the land rights of Mongolian citizens will become ever more pressing.¹³⁹ The EU is in support of the rule of law and protection of private property, but has not formulated a stance on how to assist Mongolia in addressing the right to property per se.¹⁴⁰ This is another area which should see further cooperation between both parties. In particular, the EU should offer its expertise to help Mongolia tackle the issue of property ownership, taking into account the culture of the nomadic people which has been an integral part of life for many generations.

Conclusion

The long-term objective of Mongolia is to develop into a middle income, knowledge-based country by 2021. The mining boom, which has attracted world-wide attention, is regarded by many actors as an excellent opportunity for the country to achieve this ambition through foreign investment. However, there have been many examples of mining deals that have mainly focused on advancing the interest of foreign companies and in some cases, it is clear that MNCs have taken advantage of Mongolia's administrative weaknesses.¹⁴¹ In order to ensure that future FDI is therefore mutually beneficial, Mongolia has to tread the fine line between protecting its interests and its environment, whilst also providing an attractive, safe environment for foreign companies looking to invest – a balance which is fundamental to the country's sustainable development.

Strong environment laws will therefore be essential if Mongolia wants to prevent the complete destruction of its eco-system by huge mining projects. The country has enormous potential to create prosperity and stability, if it invests profits earned from the mining sector back into the country for the benefit of the whole population. In this way, Mongolia should follow the example of Norway with its oil-based wealth distribution schemes, and the EU has

¹³⁷ Information obtained through interview.

¹³⁸ Information obtained through interview.

¹³⁹ The UB Post. (2012). *Age old Mongolian nomadic heritage under threat due to mining*. Retrieved from <http://ubpost.mongolnews.mn/?p=2057>.

¹⁴⁰ Information obtained through interview.

¹⁴¹ Information obtained through interview.

promised to help the Central Asian state in balancing its mining boom with sustainable development.¹⁴² It should be noted, however, that despite the best intentions of the EU and Mongolia, the mining sector is still an area where the EU's involvement is very low compared to other actors, so it remains to be seen how EU-Mongolia cooperation will work in this sector for the period of 2014 to 2020.

Trade has been fundamental to the progress of EU-Mongolia relations. Both parties have benefited from an increase in trade, and Mongolia, in particular, has profited from conducting trade with entities other than Russia and China. However, as is clear from the huge trade deficit Mongolia runs with the EU, Mongolia must continue to enforce initiatives which will diversify its economy, as the country cannot simply rely on the finite raw materials sector for its trade revenue. The importance of moving away from this reliance on mining also applies to education reform. When there are no raw materials left for Mongolia to exploit, in order to avoid economic collapse it will need to have developed an economy which is driven by a skilled labour force in many diverse sectors.

Similarly, the importance of urban planning in and outside of Ulaanbaatar, as well as infrastructure development, cannot be underestimated. Urban planning and a resilient infrastructure ensure economic efficiency and lead to greater improvements in health care, education and social security – progress which is fundamental to sustainable development. As it stands, the EU has no major plans to assist Mongolia in its urban planning initiatives. However, this is a stance which should be seriously reconsidered as Mongolia would greatly benefit from EU expertise in this area.

Ultimately, while cooperation with the EU ensures the provision of vital knowledge and expertise, it is important to note that the interests of China and Russia will also influence the Mongolian government in the management of its economy. For the EU, the main challenge towards closer economic cooperation with Mongolia therefore rests upon a considerate and careful dialogue that balances the interests of this landlocked country with its immediate neighbours and external partners. In addition, the EU's competing commitments to other important partners should be taken into consideration when predicting the extent to which the EU-Mongolia economic relationship will progress. Nevertheless, it is clear that the EU does have a vested interest in Mongolia, and will do its utmost to assist the country in its development until the point that this assistance is either no longer wanted or required.

¹⁴² Information obtained through interview.

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