

Remarks by Ambassador Jonathan Addleton

“Recent Trends In Mongolia’s Trade, Investment and Economy”

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Thanks for the opportunity to say a few remarks at this year’s annual NAMBC conference.

Let me also thank Ambassador Goldhawk for his keynote NAMBC address yesterday, which certainly resonates with my own perspective. North America writ large is one of Mongolia’s important “third neighbors.” Just as Canada and the United States are partners, colleagues and friends in North America, we look for opportunities to work together in Mongolia and believe that we can both play a positive role in the development of this country as well.

Certainly, there have been high level visitors to and from both Ottawa and Washington in recent months, culminating on the US side with Vice President Biden’s visit to Ulaanbaatar in August.

As the title of my talk indicates, my hope is to cover three main issues – recent developments in Mongolia’s economy as well as recent developments on the trade and investment front – relatively briefly, leaving time for questions, comments and discussion afterwards.

First, with regard to broad economic issues at a macro level: especially when looking around at the rest of the world, the Mongolian economy has rebounded and is doing relatively well. For sure, most Finance Ministers around the world would envy Mongolia’s recent economic record on economic growth and the corresponding increase in revenues that have been raised because of it.

Mongolia’s mining sector alone increased by perhaps 40 percent in 2010 and now represents more than one-fifth of the economy. Even the agricultural sector participated in Mongolia’s impressive growth rates, increasing by perhaps 20 percent.

Without doubt, Mongolia has benefitted from high commodity prices, including the recovery in copper. The rapid increase in coal output is also a contributing factor, as is the growing number of mining projects either underway or in the pipeline. As the most recent IMF report on Mongolia noted, Mongolia should have “a bright economic future and an opportunity to spread prosperity to all of its citizens.”

The qualifier – actually, this qualifier is not included in the IMF report, but it is one that I believe needs to also be mentioned here -- is that Mongolia should have “a bright economic future” – but it is by no means guaranteed!

In reality, not everything that “should” happen actually comes to pass. For Mongolia, a range of issues need to be addressed:

-- One is of course the issue of equality and the sharing of economic growth across broad segments of Mongolian society.

-- Another is the continued need for Mongolia to move beyond simply garnering dramatic international headlines about its bright and shining future; while welcoming these headlines, Mongolia also needs to make sure that there is a substantive reality behind them, a substantive reality that leads to real, sustained long-term investment involving quality international and domestic firms that are open, transparent, care about the environment and are committed to high standards.

-- Yet another challenge is overall policy management and implementation against a backdrop of an increasingly complex social, political and economic landscape that will surely affect and shape the decision-making process in Mongolia for many years to come.

To use the IMF phrase, while Mongolia is emerging from the global recession in relatively good shape, all evidence also points to the fact that the Mongolian economy is “overheating.” For months, my briefings to visitors from Washington have included the comment that “Mongolia is facing increased inflation, big-time.” That certainly seems to be happening now.

The sobering reality is that inflation is one of the most notable “symptoms” of the so-called “Dutch Disease” that commentators have been expressing concern about for some time. Among other things, increased inflation tends to make Mongolia businesses less competitive, in turn making it more difficult for the Mongolian private sector to operate effectively.

Typically, the recommended policy response to high inflation is fiscal restraint. Beyond that, it also needs to be pointed out that poorer citizens are usually the first to be adversely affected as inflation rates increase, especially if that increase is related to the price of food and other essential commodities.

Put another way, the “good news” story about economic growth in Mongolia is very important; but amidst that positive and most welcome development, there are also some continued concerns, including concerns about inflation, concerns about poverty and concerns about income distribution.

Second, with regard to trade: investment in OT and elsewhere is being accompanied by dramatic increases in trade, starting from a relatively low base.

Most of Mongolia’s exports are in the form of commodities – and almost all of those commodities, whether coal, copper, gold or other natural resources, are being bought by China. In fact, China’s share of Mongolia’s exports has increased from almost nothing two decades ago to around two-thirds a few years ago to 85 percent or more today. Even if China experiences an economic downturn during the coming years, the proximity of Mongolia to the Chinese market and the relative competitiveness of Mongolia as a minerals producer likely means that Mongolia’s commodities will continue to find their way to its large neighbor to the south in large quantities for the foreseeable future.

While Mongolia's exports are increasing dramatically, its trade deficit is also widening. At a superficial level, the fact that Mongolia's imports are at this point far outstripping its exports may seem like a cause for concern.

In reality, such a development is to be expected – imports in heavy equipment are needed now to set in motion the exports of Mongolia's mineral resources later. And, as Mongolia's exports increase during the coming years, so will demand for future imports, some of them related to productive sectors such as mining and agriculture but others representing the probable response to the demand for more consumer-oriented goods and services that is likely to grow still further during the coming years as per capita incomes in Mongolia continue to increase.

Parenthetically, one of the very big challenges Mongolia faces in the years ahead is to shape a domestic labor force that not only has the skills to work productively in the mining sector but can also respond to the huge demand for goods and services that is likely to develop in the years ahead.

As regards exports from North America to Mongolia, companies from both the United States and Canada, already benefitting from Mongolia's expansion in trade, should have still further opportunity as Mongolia's economy expands.

Certainly, US exports to Mongolia, are now increasing at a very rapid rate and I expect the situation for Canada is similar. For example, I arrived in Mongolia in late 2009, a year in which US exports to Mongolia were valued at around \$40 million. Last year – 2010 – US exports to Mongolia surpassed the \$100 million mark for the first time, reaching \$115 million. And, for 2011, I would not be at all surprised if the total value of US exports to Mongolia reaches \$250 million or possibly even \$300 million.

Much of this increase is associated with the import of mining and other heavy equipment from the United States. Some "big ticket" items such as the agreement for the purchase of three Boeing aircraft signed during President Elbegdorj's visit to Washington in June have not yet been reflected in the figures. Even while US exports in these areas are on the upswing, demand for US food, medical equipment, consumer goods and other products is also increasing.

Of course, the rapid growth in US exports to Mongolia makes our Embassy and especially our commercial section look very good – in fact, a more than doubling in the pace of US exports to Mongolia in 2010 and again in 2011 would represent one of the fastest rates of export growth in East Asia and very possibly the world. We welcome this development and very much want the volume and value of exports from North America to Mongolia to continue to increase.

Third, with regard to investment: While often regarded as another positive part of Mongolia's unfolding economic story, I have to acknowledge some measure of concern in this area.

Certainly, the launch of OT and the fact that it is being implemented ahead of schedule represents a potentially important "success story" for "third neighbor" interest and investment in Mongolia.

However, any dispassionate observer would also have to note that the “third neighbor” investment story in Mongolia is not uniformly positive and in some areas is becoming quite problematic and even troubling. Expectations in Mongolia are huge – and some of these have been fed by the selling and reselling of mineral licenses, not necessarily the actual implementation of new projects that create jobs and generate income streams.

Put another way, flipping mining licenses or promoting stock plays abroad is not the same thing as building and operating a mine. The concern here is the development of a situation in which there is an illusion of economic activity but without any substance behind it, at least in terms of positive activity that truly benefits the economy and society.

From a US perspective, additional private sector US investment in Mongolia is still very much needed to deepen and expand a multi-faceted bilateral relationship, providing the long-term shared economic interest that truly brings countries together over a long period of time. In my view, we still very much need one or more “signature investments” at Tavan Tolgoi and elsewhere to provide substance to our bilateral relationship and bind our countries more closely together for many decades yet to come.

The fact is, trade figures are like a roller coaster and can change quite dramatically over a short period of time. But investment, most especially including large scale investment, promotes important and perhaps even essential support to long-term relationships in other areas as well, especially if the companies involved are transparent, provide significant training for local staff, respect environmental considerations and are committed to technology transfer.

Paralleling the comments made by my Canadian colleague Ambassador Goldhawk yesterday, we too have been increasingly frustrated and even disappointed at our efforts to make headway on a Transparency Agreement which would strengthen Mongolia’s business climate and make it more attractive, for domestic and foreign investors alike. In reality, a Transparency Agreement ranks among the least complicated of any international trade or investment agreement – yet in recent months and despite discussions at the most senior levels of government, it seems that we have made no real headway on the Transparency Agreement at all.

At last year’s NAMBC conference in Ulaanbaatar, I described myself as a “sober optimist” when it comes to business prospects in Mongolia. This year, I would certainly continue to use that phrase “sober” when describing my own perspective on the overall quality of Mongolia’s business and investment climate. Very likely, this perspective will be reflected in the latest edition of our annual Investment Climate statement which should be posted on our Embassy website early next year.

For all the highly favorable international publicity about Mongolia, the reality is that as an Embassy we are hearing many individual stories that cast some doubt on Mongolia’s stated commitment to openness, transparency and a “level playing field” when it comes to foreign investment.

Some of the stories that we hear touch on issues that might be considered “normal” during a time of economic expansion, when the demands on Mongolia’s administrative apparatus are

becoming acute and some level of frustration is understandable and even to be expected. While certainly representing a challenge, these obstacles can over time be overcome.

More worrisome, though, is that some of these stories relate to perceptions about the sanctity of contracts, the efficacy of the legal dispute system and the level of corruption faced by business, developments that could easily have a “chilling effect” in the months and years ahead as far as the reality of doing business in Mongolia is concerned.

Recent statements by senior Mongolian officials about re-opening the OT Investment Agreement long before the mine is even in operation also cause understandable concern, including about the meaning and reliability of contracts negotiated and developed carefully and over long periods of time.

Having just returned from western Mongolia’s “great lakes” region, I am reminded that at last year’s NAMBC conference I referred to the Mongolian proverb that states “when the lake is calm, the ducks are also calm,” suggesting that the lake represents Mongolia’s business environment and the ducks represent Mongolia’s investment community, both foreign and domestic. My concern this year is that the lake right now is not exactly calm – leading the ducks to consider flying elsewhere.

As Ambassador Goldhawk noted yesterday, at least some of the issues associated with Mongolia’s business environment are closely related to one of the biggest challenges that Mongolia faces in the years ahead – that of “good governance,” a phrase that goes to the heart of what determines the future fate of countries around the world, including my own.

Mongolian leaders across the political spectrum have also publicly acknowledged each of these areas as a matter of concern. Indeed, the ability to recognize these issues and speak openly and forthrightly about them is a testament to the vibrancy of the debate as well as the openness of this society. But as Mongolian commentators have also acknowledged, actions always speak louder than words.

Looking ahead to the coming twelve months, it is my sincere hope that Mongolia will be successful in terms of responding effectively to the many challenges that lie ahead, not only on the “good governance” front but also with respect to broader business environment concerns. If that happens, I have little doubt that Mongolia’s goal of a “bright economic future” and the opportunity “to spread prosperity to all its citizens” will in fact be achieved.

Thank you – and now I would be happy to respond to any questions.