

Current Status of Mining Development in Mongolia and Investment Strategies and Suggestions

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Abstract: As a pillar industry in Mongolia, the mining industry continues to attract investment from local and foreign investors in Mongolia. Understanding the development status, existing problems, relevant legal environment and policy changes of Mongolia's mining industry can reduce investment risks and protect investment interests. This article analyzes the current situation of Mongolia's mining industry, studies its existing problems, and predicts its future development trends. Finally, it provides countermeasures and suggestions for Chinese companies to invest in minerals in Mongolia.

Keywords: Mongolia; mining development status; invest; countermeasures and suggestions

1. Current status of mining development in Mongolia

Mongolia has a land area of approximately 1.56 million square kilometers and a total population of approximately 3.45 million in 2022. Mongolia is a vast country with a sparse population and rich mineral resources. Currently, more than 80 types of minerals, 1,170 mineral deposits and more than 6,000 mineral sites have been registered. Mainly including copper, gold, silver, iron, coal, and a large number of rare earth resources, etc. The Erdenet copper-molybdenum mine located in Erdenet City has been listed as one of the top ten copper-molybdenum mines in the world and is considered the largest copper-molybdenum mining and concentrator in Asia. It mined 37 million tons of ore, processed 32.5 million tons of ore, and produced about 580,000 tons of copper concentrate and about 5,000 tons of molybdenum concentrate. The coking coal reserves of the Tavan Tolgoi Coal Mine in South Gobi Province rank among the top ten in the world. In 2022, its coal output will be approximately 3.3 million tons, and its sales will reach MNT 427.9 billion. The Oyu Tolgoi copper-gold mine located in South Gobi Province is one of the largest high-quality copper deposits in the world, with a processing capacity of 39.361 million tons of ore in 2022.

1.1 The state promulgates relevant laws to protect the development of the mining industry

After Mongolia's democratization reform in the early 1990s, the State Great Hural passed the Mineral Law for the first time in September 1994, and in June 1997, the new Mineral Law was approved. The Minerals Law introduced in 2006 made them all invalid. On July 8, 2006, the Mongolian State Great Hural passed the Mineral Law. It was later revised in 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2017, 2022, 2023 and other years.

Since the mining industry is a pillar industry in Mongolia, the development of the mining industry has an important impact on Mongolia. Therefore, Mongolia has adjusted its legal content many times in recent years to conform to the actual development situation of Mongolia and at the same time attract more domestic and foreign investors. Investors invest and develop it. On December 23, 2022, the State Great Hural of Mongolia passed the "Mining Exchange Law", which includes seven parts and 26 articles. The purpose of this law is to establish the legal basis for the management and organization of mineral exchanges, organize and supervise exchange transactions, determine the rights and obligations of exchange transaction participants, and standardize the relevant relationships of exchange transactions. This law provides legal protection for domestic and foreign enterprises to purchase mineral products based on fair and equitable competition at market prices. This ensures fair prices for domestic and foreign investors.

1.2 Mining industry is Mongolia's pillar industry

First, the mining industry accounts for a quarter of Mongolia's domestic GDP. On September 24, 2022, Mongolian Prime Minister Oyunerdene stated that the mining industry accounts for 25% of Mongolia's GDP, 90% of export revenue and more than 30% of budget revenue. One out of every four tugriks in circulation in Mongolia is a natural resource, and nine out of every 10 commodities sold internationally are natural resources. As of October 2023, Mongolia's mining industry accounts for a quarter of the total economy, more than 90% of total export revenue, nearly 80% of foreign investment, and is developing into an active driver of the economy, budget and finance.

Second, foreign investment is mainly concentrated in the mining industry. According to the UNCTAD World Investment Report 2020, direct investment flows into Mongolia reached billion MNT2.4 billion in 2019, up from billion MNT2.2 billion in 2018 (an increase of 12.4%), mainly due to continued large-scale mining projects, especially It's the Oyu Tolgoi copper-gold mine.

Data released by the Mongolian Statistics Bureau show that total investment in 2021 will be MNT 15.9 trillion, a decrease of 7.5% from the previous year. Affected by the COVID-19 epidemic in 2020, the mining industry's revenue was MNT 1.2 trillion, a decrease of 14.2%. However, by 2021, investment in the mining industry will reach MNT 8.7 trillion, an increase of 19.0% over the previous year, and investment in the wholesale and retail trade industry will reach MNT 1.2 trillion, a year-on-year increase of MNT 1.2 trillion, an increase of 22.7% over the previous year.

Table 1. Comparison of foreign investment in Mongolia by industry

Unit: billion MNT

	2018	2019	2020	2021
Total	13463.8	16300.7	17162.3	15869.0
Agriculture and animal husbandry	124.6	114.8	67.8	68.0
Mining industry	6191.9	8486.3	7285.2	8667.8
Construction industry	1036.0	1046.5	989.2	928.8

Data source: "Investment 2021" by the Mongolian Bureau of Statistics.

Analysis of the table data shows that currently, the mining industry is still the most important part of Mongolia's foreign investment. Therefore, under the framework of the "New Revitalization Policy", Mongolia still attaches great importance to rejuvenating the country through mining and also focuses on the reprocessing of mineral products, thereby maximizing profits and bringing greater benefits to Mongolia's economic development.

2. The existing problems in Mongolian mining investment

2.1 Relevant laws and regulations are inconsistent and the legal environment needs to be improved

First of all, imperfect regulations in the mining field affect foreign direct investment. First, in 1994, the State Great Hural of Mongolia approved the first Mineral Law, which was later revised. According to the provisions of this law, exploration licenses in Mongolia are obtained through bidding and application. However, according to the regulations revised by Mongolia on November 10, 2017, Mongolia only issues exploration licenses through bidding in areas designated by the country, which affects the number of exploration licenses issued by Mongolia. From the situation where the domestic legal adjustments in Mongolia have caused damage to the interests of enterprises or investors, it can be found that the adjustment of a law in Mongolia is directly related to the interests of investors, and the discontinuity of laws and regulations increases the investment risks of investors, causing concerns among investors, thus affecting foreign investors investment in Mongolia.

Secondly, the unstable legal environment in Mongolia continues, which brings adverse factors to economic development. In March 2021, in the 2021 "Economic Freedom Index" report released by The Heritage Foundation, Mongolia was listed as a country with medium economic freedom. Mongolia ranks 86th among 178 countries, with a score of 62.4. In 2020, Mongolia ranked 126th among 180 countries, with a score of 55.9. The report points out: Mongolia's property rights in the legal environment, financial freedom in the open market environment, and regulatory coordination efficiency have all declined.

2.2 Frequent government changes and unstable policies

First of all, Mongolia's leadership is unstable and frequent changes in government affect its domestic development. Since the democratization reforms in the 1990s, Mongolia has had 16 prime ministers in nearly 30 years from 1990 to 2021. Since Mongolia's democratic reform, among the successive prime ministers, only one prime minister has served a full four-year term, and four prime ministers have served less than one year. Every change of prime minister will affect the changes in the members of the government team.

Secondly, the government's low efficiency hinders the development of trade and investment in Mongolia. Some administrative and technical departments in Mongolia conceptually hope that China will participate in Mongolia's economic and financial development, and hope that this process will bring additional benefits to Mongolia, such as building hydropower stations and roads for Mongolia. Therefore, in the early stage of China's investment in Mongolia, Mongolia agreed to better conditions and worked more efficiently. However, once the funds were injected, these officials were sluggish and their policies and measures could not keep up. This affects investor confidence to a certain extent and hinders the development of trade and investment in Mongolia.

3. Countermeasures and suggestions for investing in Mongolian minerals

3.1 Understand the relevant laws and regulations of Mongolia before investing to reduce investment risks

Although the Mongolian government is constantly improving its legal environment, in the mining field and foreign investment, it is not uncommon for interests to be damaged due to its legal environment and frequent changes in government. Therefore, before investing in Mongolia's mining field, Chinese companies, it is necessary to have a comprehensive and complete understanding of Mongolia's legal environment. This not only provides protection for its investment, but also allows timely responses to changes in Mongolian laws or government policies in the future to minimize damage to interests.

3.2 Scientific evaluation of minerals before investment

Mongolia is a country rich in minerals, but the reserves and mining environment of each mine vary greatly. Scientific evaluation of mineral properties is essential before making an investment. If the evaluation is unreasonable, it will increase investment costs and affect returns. During the expansion period of the Oyu Tolgoi underground mine, investment losses occurred due to unscientific estimates of construction period and cost, which were significantly different from the actual situation. Therefore, it is particularly important to protect one's own interests by conducting a comprehensive scientific assessment of minerals before investing.

3.3 Multilateral cooperation can be adopted to avoid risks

Due to the unstable legal environment and policies in Mongolia, multilateral cooperation enterprises are more capable of avoiding risks than sole proprietorships, thus adapting to Mongolia's development model. According to the experience of some Chinese-funded enterprises, sole proprietorships encounter more difficulties than joint ventures, and bilateral joint ventures encounter more difficulties than multilateral joint ventures. Therefore, choosing Mongolian or Western companies to cooperate before investing will relatively reduce some troubles in future production.

4. Conclusion

In terms of law, in order to protect the development of the mining industry, Mongolia has continuously revised and improved its laws since the first step of the "Mining Law" was promulgated in 1994, in order to comply with the actual development of the mining industry and protect the interests of domestic and foreign investors. In terms of politics, successive governments of Mongolia have continuously implemented the mineral mining goals in the national development plan and implemented the strategy of rejuvenating the country through mining within their legal framework. In terms of economy, the mining industry accounts for a quarter of Mongolia's domestic GDP and is also an area where foreign investors focus on investment. Therefore, under the framework of the "New Revitalization Policy", Mongolia still attaches

great importance to rejuvenating the country through mining and also focuses on the production of mineral products. Reprocessing, thereby maximizing profits and bringing greater benefits to Mongolia's economic development. At present, Mongolia's mining industry still faces unstable regulations, frequent government changes, unstable policies, and restrictions on foreign investment to avoid relying on a single country. This brings certain risks to domestic and foreign investors in Mongolia. In order to reduce risks, Mongolia is actively taking measures to improve existing problems in the mining industry. Before investing in Mongolia's mineral industry, companies need to have a comprehensive understanding of Mongolia's mineral industry.

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Fund project:

China,2022 National Social Science Fund Western Project: "30-Year Research on Mongolia's Transformation and Development from the Perspective of Peripheral Diplomacy" (Approval Number: 22XGJ001), phased results.