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Turning commodity dependence into
sustainable, inclusive and equitable economic
growth for landlocked developing countries
(LLDCs): The case of Mongolia

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1. Introduction

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- ❖ 3 million citizens
- ❖ Area as big as Western Europe
- ❖ Landlocked between China and Russia
- ❖ Rich in minerals

1. Introduction

(3)

Main driver of economic growth - Mining

Mining accounts for

- ❖ 80 % of exports
- ❖ 20-25 % of GDP
- ❖ 25-30 % of state budget revenue
- ❖ One of heavy dependent LLDCs on primary commodities
- ❖ The mining sector will continue to play critical role in economic growth along with livestock

Mining potentials

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RESERVES OF KEY MINERAL OF MONGOLIA

№	Mineral types	On 01.04.2014
1	Gold tn	2493.5
2	Silver, thousand.tn	92.9
3	Copper, Million <u>tn</u>	117.0
4	<u>Molybdenium</u> , thousand. <u>tn</u>	1012.0
5	Zink million <u>tn</u>	49.0
6	Iron ore thousand <u>tn</u>	1166.3
7	Tin, thousand <u>tn</u>	50.9
8	Lead thousand <u>tn</u>	2051.4
9	Flour spar million <u>tn</u>	3,8
10	Coal billion <u>tn</u>	25.9

RESOURCE; Mineral resource registry office of Mongolia

Introduction

(5)

- ❖ Downward trend of international commodity prices; net global outflow of financial capital from emerging markets - pressures on Mongolia's economy.
- ❖ Though it is expected to grow around 10 % in the coming years.
- ❖ In addition to the extractive industry, livestock breeding is in a good shape.

2. Current socio-economic environment (6)

- ❖ Global Commodity boom until 2012, the fast development of several countries as China, India, Russia and Brazil expanded opportunity and contributed to growth and investment attraction
- ❖ GNI per person in Mongolia USD 3700, twice higher than 5 years ago (growth largely due to direct and spread effects from mining income)
- ❖ Employees in mining sector:
 - 2010: 34,000
 - 2013: 50,000

2. Current socio-economic environment (7)

- ❖ Spread effects into housing or property assets and services sectors (infrastructure at some extend-grid and road, trade and banking so on) have been noticed
- ❖ Poverty and inequality still remain the main challenges together with lack of economic diversification and productive employment opportunities
- ❖ Most important: Two Mega projects are launched
 - ❖ Oyu Tolgoi - OT (copper-31.1 Mt; gold-1328t),
 - ❖ Tavan Tolgoi- TT (coal-7.4 Bt)

3. Enhancing value-added of top minerals/coal, copper/ (8)

- ❖ For Mongolia coal and copper account for the greater portion in the economy
- ❖ **COAL** is in high demand both in Mongolia and in the Asian region. 60% of total estimated coal resources (162.3 Bt) is brown coal (Lignite).
- ❖ Domestic need: Lignite is principle energy source for both power generation and heating. Mongolia as a coldest country where heating is needed almost throughout year. Expected to rise twice in short run.

3. Enhancing value-added of top minerals/coal, copper/ (9)

- ❖ Two big (450-500 MW) power plants, in Mining area of Gobi, and in Capital city Ulaanbaatar will be built in 2-3 year. Currently power shortage is covered by imports from China and Russia.
- ❖ In addition 5-6 power plants proposals of total capacity more than 3000 MW have been supported by the government
- ❖ Discussions within “Steppe road” (Талын зам) programmes being initiated on high voltage electric line connecting Mongolia with China and Russia

3. Enhancing value-added of top minerals/coal, copper/ (10)

- ❖ Developing a coal-based chemical industry in Mongolia: coal gasification; fertilizer production
- ❖ Mongolia's export -18.4 Mtpa of which 4.4 mt washed in 2013
World trade of coking coal in 2013 is 314 Mtpa of which Chinese - 93.0 Mtpa.
- ❖ China's metallurgical net import forecast at 100 Mtpa after 2018 and thermal coal import could be doubled in coming 10 years and reach 400 Mtpa according to CRU China estimates
- ❖ China has third largest coal reserves in the world after USA and Russia and its increasing production cost provides more opportunities for coal exporting countries
- ❖ Mongolia has a potential to export from 30 to 50 Mtpa

3. Enhancing value-added of top minerals/coal, copper/ (11)

- Copper is the second mineral potential for Mongolia. Present export -around 300.0 thous. ton p.a. copper in concentrates, it will double after the OT full operation
- World copper consumption 20 Mtpa, China's 8.8 Mtpa (44 %, own production in 2013 is 1.65 Mtpa), China's concentrate imports will rise to about 5 Mtpa in metal basis by 2020 (CRU China forecast)
- The copper sector in Mongolia could bring more value addition by manufacturing of finished copper products

4. Main Challenges and growth opportunities

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- ❖ First, building of adequate transportation network
- ❖ Second, building of energy and electricity generation to supply new mining projects
- ❖ Solution: building railways and electricity plants to increase national income and value added from mining operations

4. Main Challenges and growth opportunities (13)

- ❖ Third, enhancing the quality of commodity exports by refining or processing the primary products
Solution: In this regard Mongolia needs favorable external conditions (preferential tariffs etc) and closer integration in mining cooperation (toll-refinery system for copper and other metals etc)
- ❖ Fourth, human and financial capital shortage.
Solution: Education and training of technical and engineering staff, skilled workers, private investment encouragement, develop mining services industry, leasing. R&D, financial and tax support

4. Main Challenges and growth opportunities (14)

- ❖ Fifth, commodities price fluctuations. Solution: to create a foreign exchange buffer reserves, adequate unemployment insurance
- ❖ Summary: Success in these key issues would enable Mongolia to overcome a lot of the problems of its landlocked condition and make its mining industry and whole economy more sustainable (economically, socially and ecologically). Mongolia needs to make continued efforts to stimulate linkages between its mining sector and the rest of the economy to ensure the benefits from mineral wealth are widespread and sustained.

Thank you for your attention!

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