

**Statement by
Supachai Panitchpakdi,
Secretary-General of UNCTAD**

**Presentation of the draft Investment Policy Review of Mongolia
National Stakeholders' Workshop
Ulaanbaatar, 26 March 2013**

AS PREPARED FOR DELIVERY

Your Excellency, Mr. Nyamjav Batbayar, Minister for Economic
Development,
Excellencies,
Representatives from the private sector,
Ladies and Gentlemen,

It is a great pleasure for me to be with you today at the presentation of UNCTAD's Investment Policy Review of Mongolia. We are honoured by the trust the Government of Mongolia places in UNCTAD's technical assistance, and it has been a great pleasure to work with Mongolia on the Review. We sincerely hope that our fruitful collaboration will continue for the implementation of the recommendations.

The document before you is in draft form. The purpose of today's meeting is to review its findings and recommendations in an open and frank discussion. This will enable us to fine-tune the final report, which will then be presented to UNCTAD's Commission on Investment and Enterprise for Development in Geneva later this year. I would like to take this opportunity to invite the Government of Mongolia to Geneva on that occasion. We hope that Mongolia can be represented at the highest level at this important intergovernmental session, which will also involve some key private-sector participants.

As you may know, investment policy reviews are one of UNCTAD's core technical assistance programmes. To date, we have assisted more than 35 countries under this programme, with one main objective in mind — making FDI work for development. As the experience of many countries shows, FDI can be a powerful driver of economic diversification, integration into the world economy and - ultimately - of development. But such gains are not automatic; they require coherent policies to balance the need to attract FDI with the country's development objectives. In order to assist countries in developing or fine-tuning such policies, UNCTAD's Investment Policy Reviews, together with our recently published Investment Policy Framework for Sustainable Development, can provide guidance based on best practices and lessons learned in countries across the globe. We hope that our insights can be of use to Mongolia.

Distinguished participants,

Mongolia has changed dramatically over the last 30 years. It has successfully introduced democratic governance and a more open economic regime in the early 1990s. The discovery of large mineral resources and the entry of leading international mining companies have opened previously unimaginable development opportunities. As a result, Mongolia has seen some of the fastest economic growth-rates in the world for several years, and concrete gains in terms of poverty reduction are beginning to materialize.

Today, however, Mongolia is at a turning point. Rapid social and economic development are within reach, but there are also a number of risks associated with the country's mineral resource-based growth,

including the much-cited "resource curse". Allow to me briefly outline some of the main concerns regarding the country's FDI performance: The large majority of foreign investments so far have been directed to the mining sector, while inflows to other sectors, such as manufacturing, agriculture and services, have been negligible. In addition, most FDI inflows appear to involve a single country, which has led some to raise concerns. And the small amount of non-mining FDI received is largely concentrated in the capital city, with little impact on the development of poorer regions. Finally, while FDI has generated significant export and fiscal revenues, it has not yet had a major impact on employment, and linkages with local companies remain weak. Thus, it is clear that further efforts are required to ensure that the revenues derived from the mining industry are used effectively and geared towards sustainable development.

UNCTAD's Investment Policy Review aims to assist the Government of Mongolia to address these concerns. The research conducted for the Investment Policy Review shows that there are many opportunities to diversify FDI inflows beyond mining, into sectors such as tourism, financial and business services, manufacturing of niche products, livestock and infrastructure. Sectoral diversification could also help to diversify the geographical sources of FDI. The fast growing number of foreign representative offices opening in Ulaanbaatar is indicative of such potential. However, to date, many of these non-traditional investors are still in a cautious 'wait and see' mode, and turning their interest into concrete investments will require continued policy effort.

In this context, the IPR proposes an FDI strategy that aims at addressing both the policy concerns of avoiding dependency on any one

country as well as supporting socio-economic development by focussing upon three pillars of diversification. These are:

- 1) *Sectoral diversification* to generate economic growth beyond mining and reduce vulnerability to external shocks;
- 2) *Geographical diversification* to promote regional development within Mongolia; and
- 3) *Source country diversification* to contribute to Mongolia's "third neighbour" policy.

The proposed strategy consists of a comprehensive mix of regulatory, institutional and industrial policy measures requiring wide ranging reforms and a new approach to FDI policy and promotion. Allow me to briefly mention some of the key elements of the strategy.

One key aspect is the revision of the FDI policy. Trade and investment liberalization has been a central pillar of Mongolia's development strategy since the early 1990s. However, in order to address the policy concerns related to the over-dependence on few countries of origin of investment, Mongolia has recently adopted legislation on foreign investment that could prove counterproductive to achieving the diversification objective. The IPR recommends revising the new policy on FDI in strategic sectors in several areas: to replace the comprehensive pre-establishment screening of foreign investors with a national security test, and to address competition, environmental and technical compliance concerns through the regular permitting process.

There is also a need to strengthen institutional effectiveness. Key institutions, such as the Ministries in charge of environmental protection, mining, tourism, and the judiciary, often lack the human and financial

resources needed to effectively carry out their mandates. Governance remains a major obstacle to private sector development and investment. To increase FDI inflows from non-traditional countries, these issues should be forcefully addressed.

Opening new opportunities for investment in sectors other than mining and construction will further require addressing infrastructure and skills deficiencies affecting all investors in the economy, but also the adoption of sectoral policies and professional investor targeting strategies. In this respect, the IPR recommends targeted programmes built around the actual or potential opportunities that exist within Mongolia.

Overcoming the considerable infrastructure and skills impediments will require new policies to make effective use of both public and private funding, including FDI. A modern concessions regime is in place. However, projects on the concessions list are often not supported by feasibility analyses, which reduces their attractiveness to private investors. There is a need to strengthen project planning and identification. The IPR recommends that concessions be utilized for commercially viable projects with social and economic benefits while projects with no direct commercial interest be financed through the mining revenue surplus.

The IPR identifies as a policy priority, the closing of the current skills gap, as it may determine the success of the economic diversification effort. In this area, we recommend two sets of programmes based on practice and the experience of the IPR programme in other countries. These include establishing partnerships and cooperation agreements with foreign universities and technical institutes, and attracting skills through foreign workers and the Mongolian Diaspora.

The review also provides concrete recommendations to develop financial and business services, unleash the potential of tourism and promote niche markets. It also recommends a programme on SME development and entrepreneurship, aimed at regional development, in the mining areas and more generally across the country. My colleagues will present the key elements of this strategy to you in more detail.

Excellencies,

Ladies and Gentlemen,

Let me close by thanking the Ministry of Economic Development for its support to the Investment Policy Review, as well as the Ministry of Foreign Affairs for its kind assistance. Let me also add that much of the value of this review lies in the implementation of its recommendations. I therefore wish to call on the donor community to consider supporting the follow-up and implementation of this review.

I hope that this review process will help Mongolia to further strengthen its investment framework and policies, attract high-quality FDI and move forward on the path of sustainable development.

The recommendations suggested in the IPR have all been conceived with the purpose of "making FDI work for development". I hope that the Government will find them useful and we look forward to our future cooperation.

Thank you very much.