

A Tale of Two Mongolia's

Mongolia Investors Conference
September 14-15 2006

Arshad Sayed
Country Manager & Resident Representative
The World Bank Group

Outline of Presentation

- There's good news...
- Regionally, and among its peers, Mongolia is doing well
- However, recent slippages suggest cause for concerns
- So, future opportunities depend on addressing new challenges which require strong political will

The good news: a strong track record

Macro Stability

- ▶ Good credit outlook by rating agencies
- ▶ Low external debt service
- ▶ High international liquidity position
- ▶ Improved budgetary execution
- ▶ Positive steps to unify corporate income taxes

More Positive News

- ▶ Growth
- ▶ FDI Flows
- ▶ Increased Exports
- ▶ Increase in domestic credit

Bottom line: When compared to its peers Mongolia *has* done well

The good news: trade and investment regime is quite open

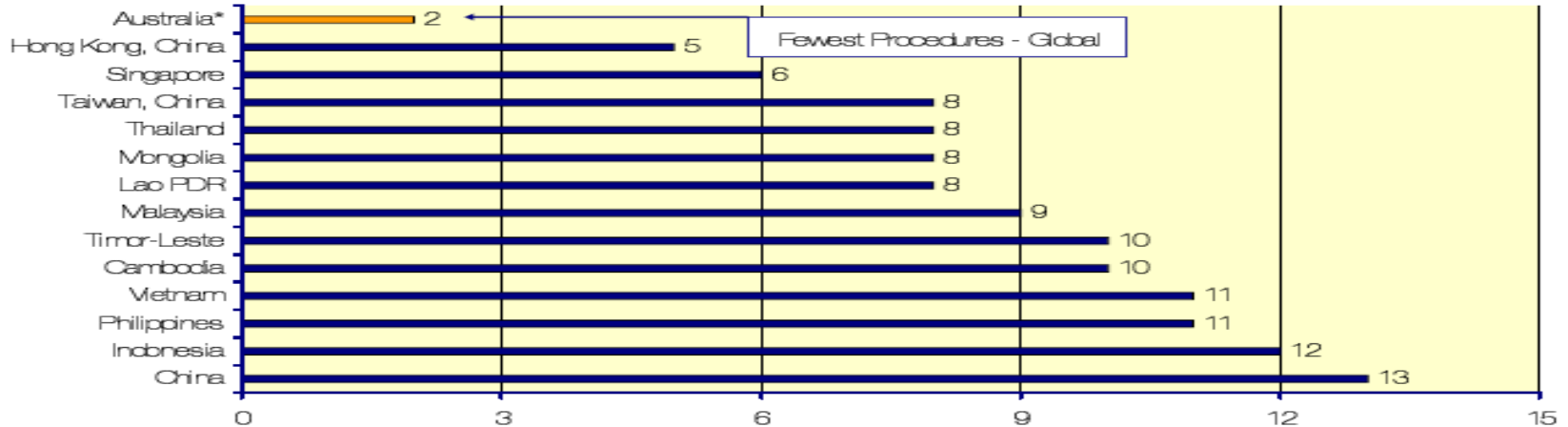
- ▶ Mongolia has one of the least restrictive trade regimes in Asia
- ▶ The foreign investment regime is equally liberal
- ▶ Laws have been revised and updated to meet WTO commitments
- ▶ This simple and relatively liberal trade and investment regime has the potential to enhance transparency, simplify customs procedures, and reduce market distortions
- ▶ In practice a number of problems have prevented this potential from being realized

Bottom line: there is cause for concern as things appear to be slipping – but first lets continue with the good news

Benchmarking: Entry Regulation

Procedures to Start a Business

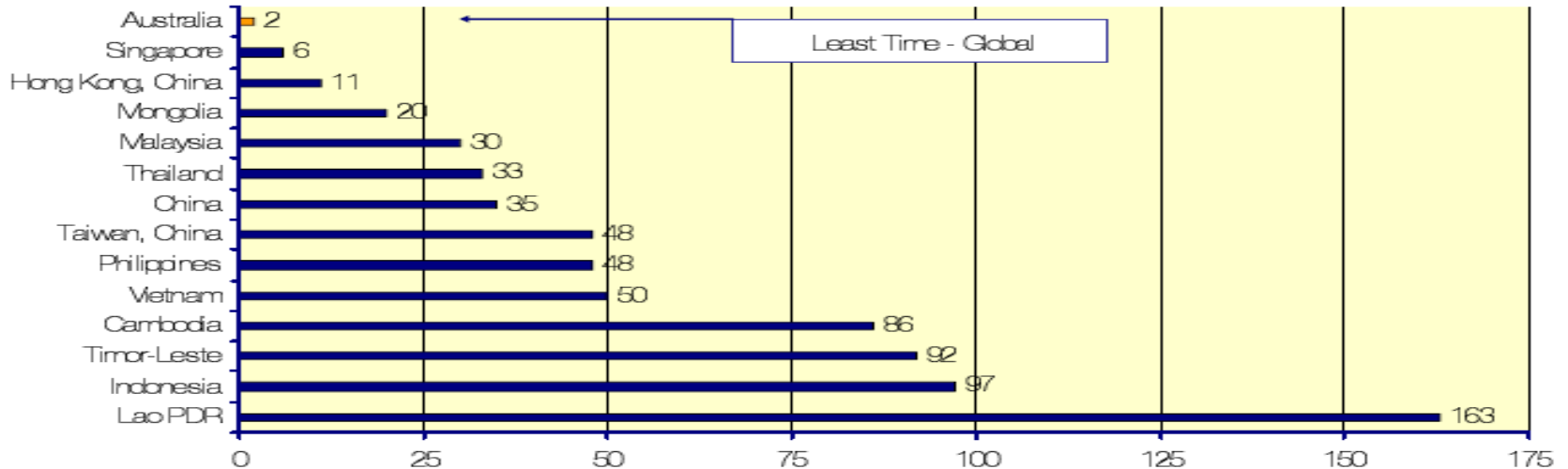
Source: Doing Business Database



*Other economies with the fewest procedures are Canada and New Zealand.

Time to Start a Business (days)

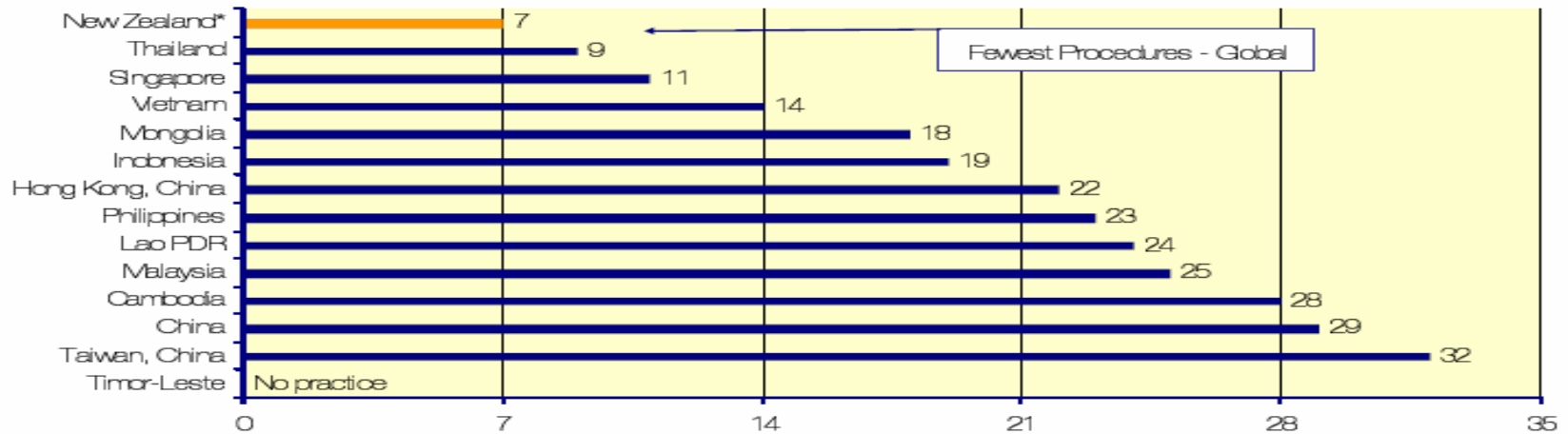
Source: Doing Business Database



Benchmarking: Dealing with Licenses

Procedures to Obtain a License

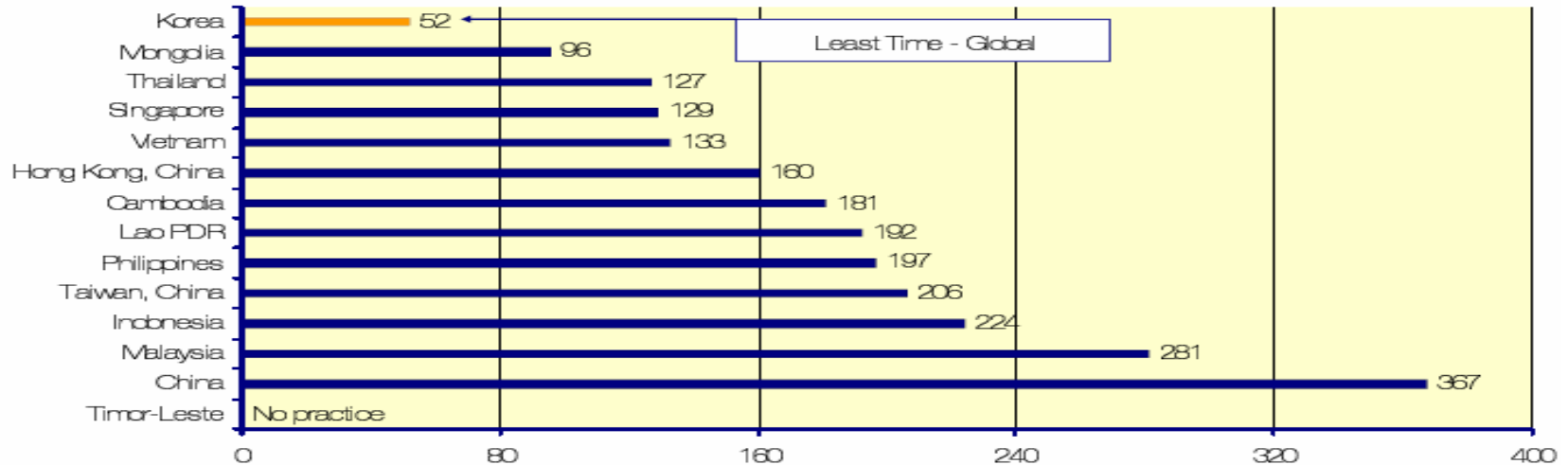
Source: Doing Business Database



*Another economy with the fewest procedures is Denmark.

Time to Obtain a License (days)

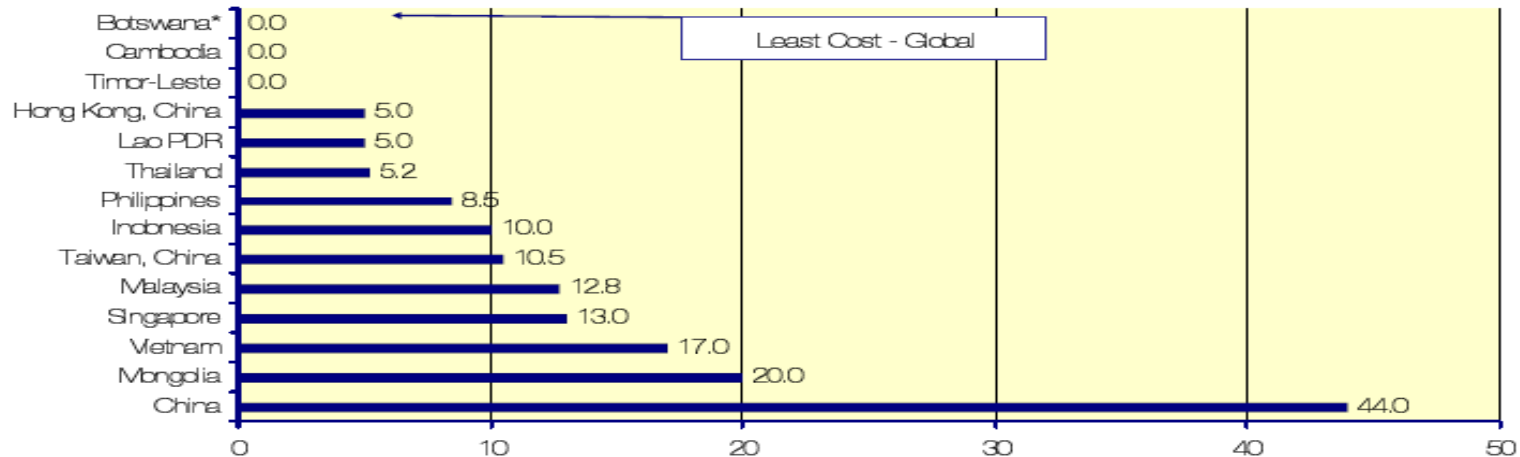
Source: Doing Business Database



Benchmarking: Labor Regulation

Nonwage labor costs (% salary)

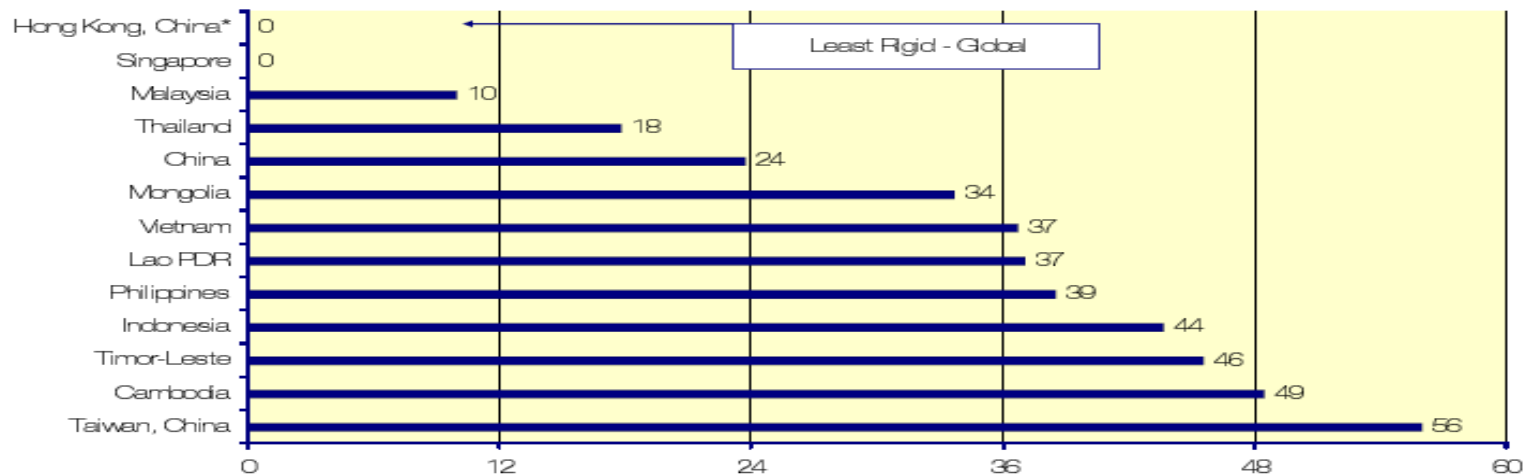
Source: Doing Business Database



*Other economies with the least cost include Ethiopia, Namibia and Nepal.

Rigidity of Employment Index (0 – 100)

Source: Doing Business Database

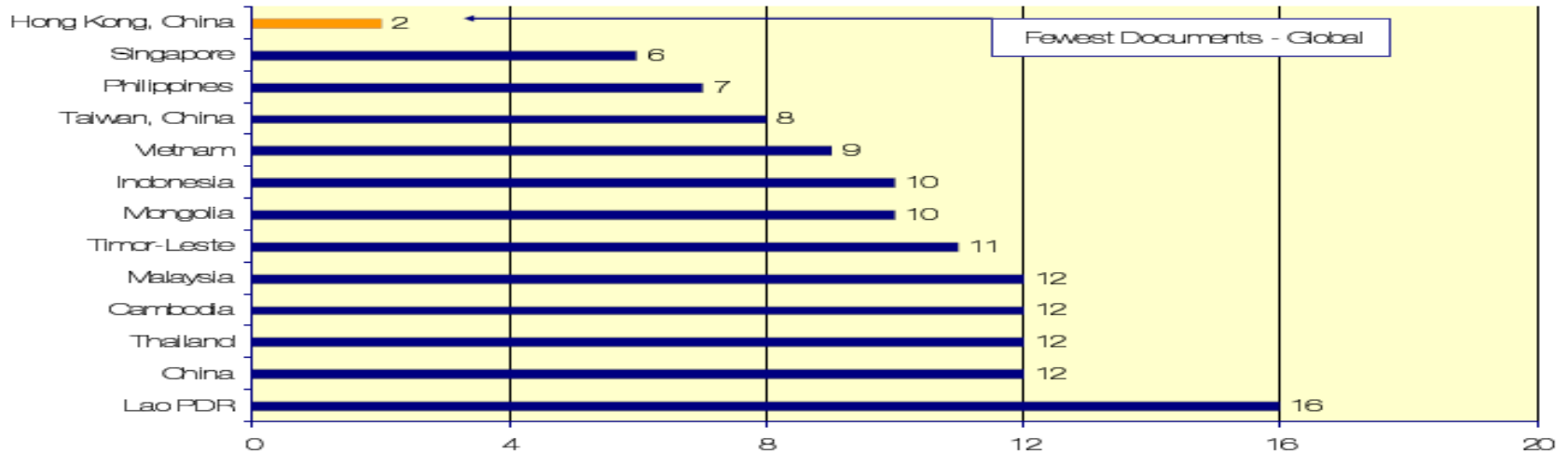


*Other economies that offer the least rigid conditions are the Marshall Islands and the United States.

Benchmarking: Trading Across Borders

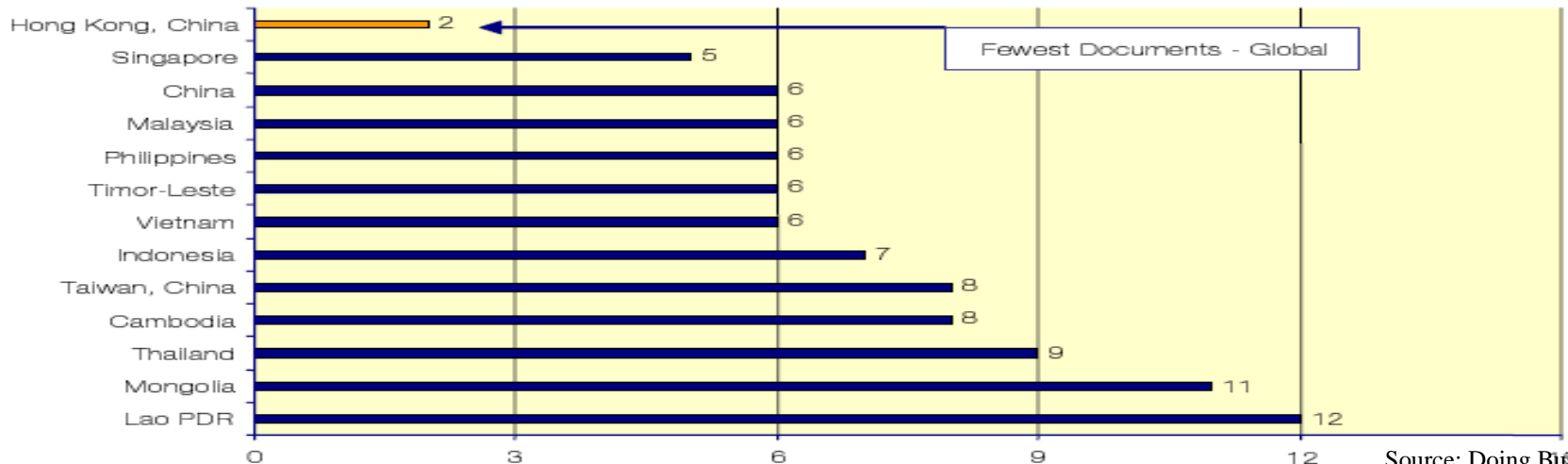
Documents to Import

Source: Doing Business Database



Documents to Export

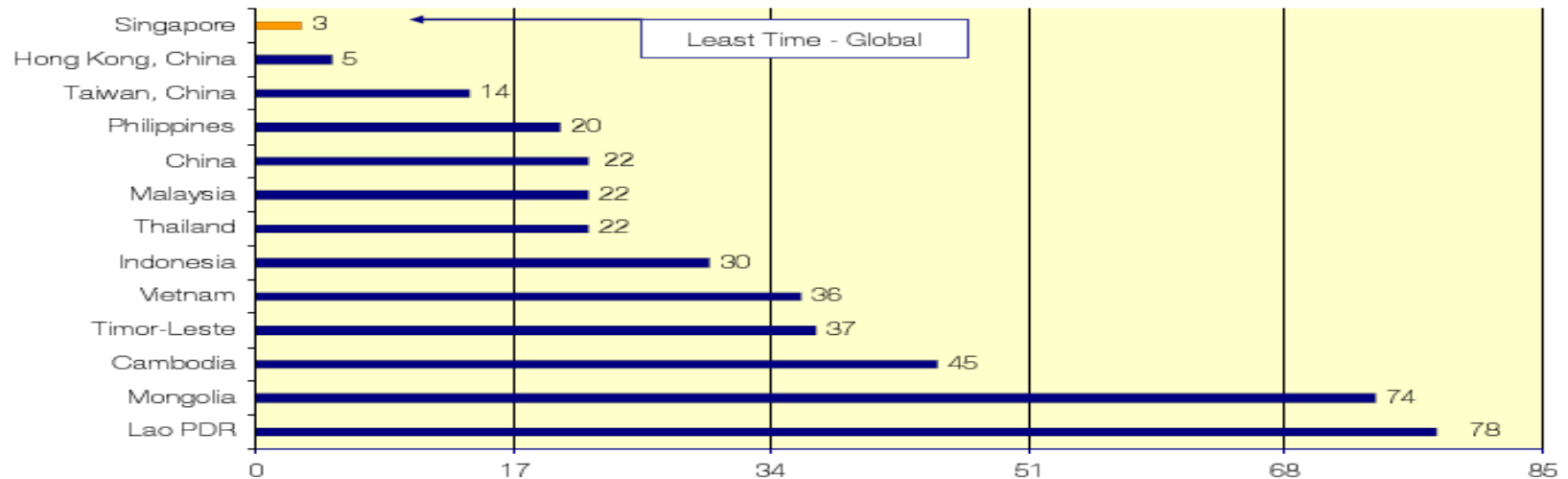
Source: Doing Business Database



Benchmarking: Trading Across Borders

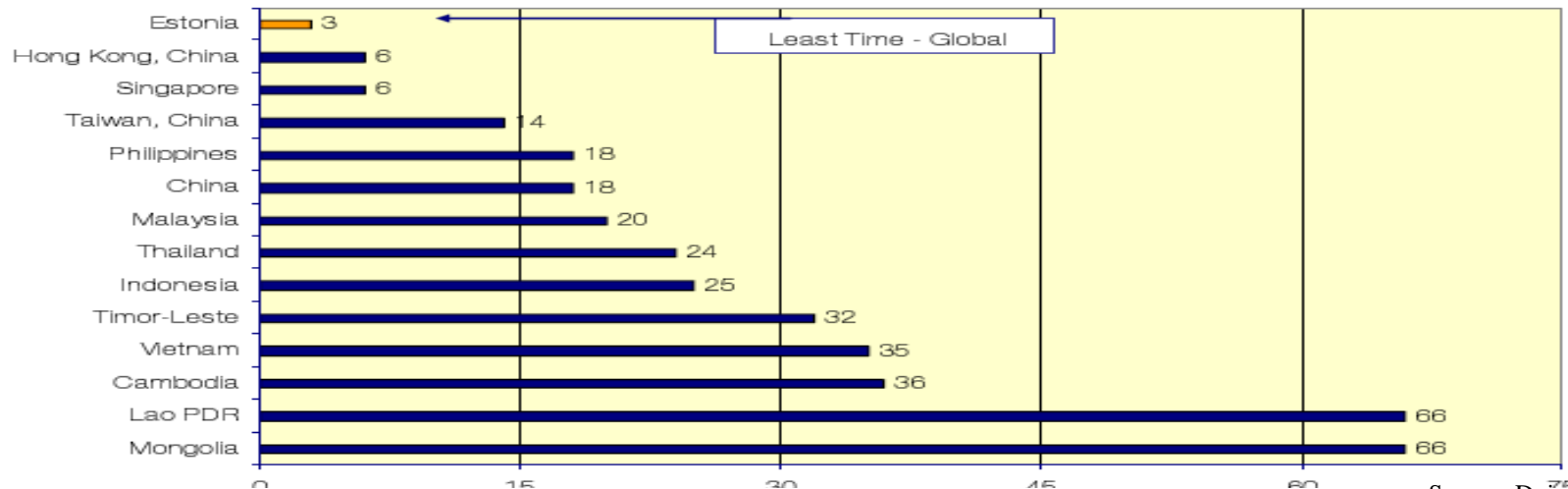
Time to Import (days)

Source: Doing Business Database



Time to Export (days)

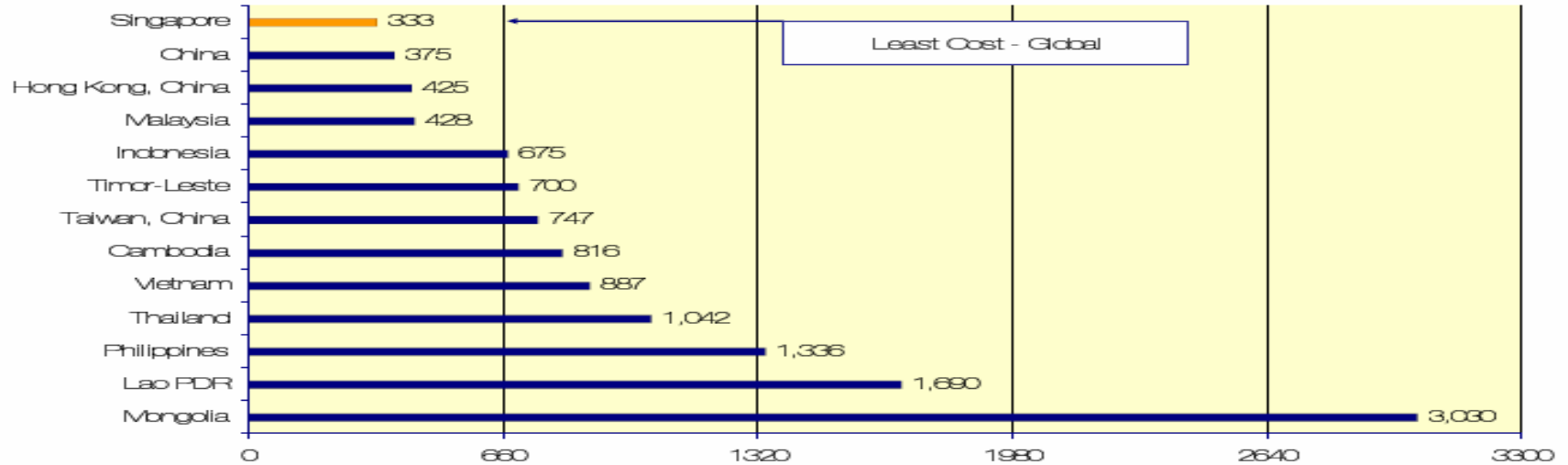
Source: Doing Business Database



Benchmarking: Trading Across Borders

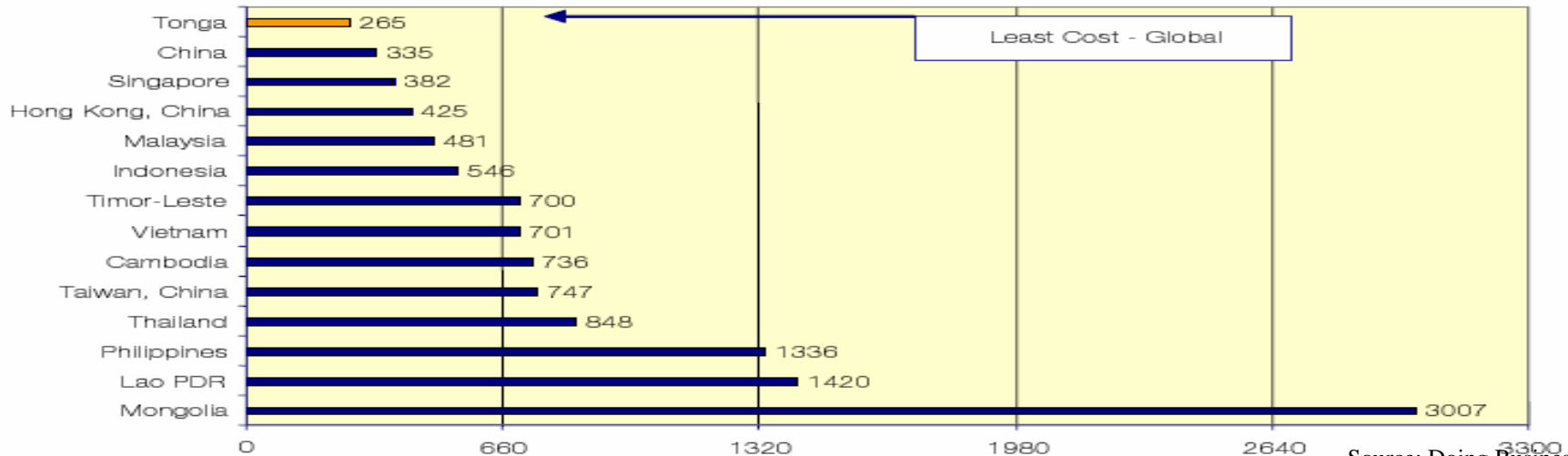
Cost to Import (US \$ per container)

Source: Doing Business Database



Cost to Export (US \$ per container)

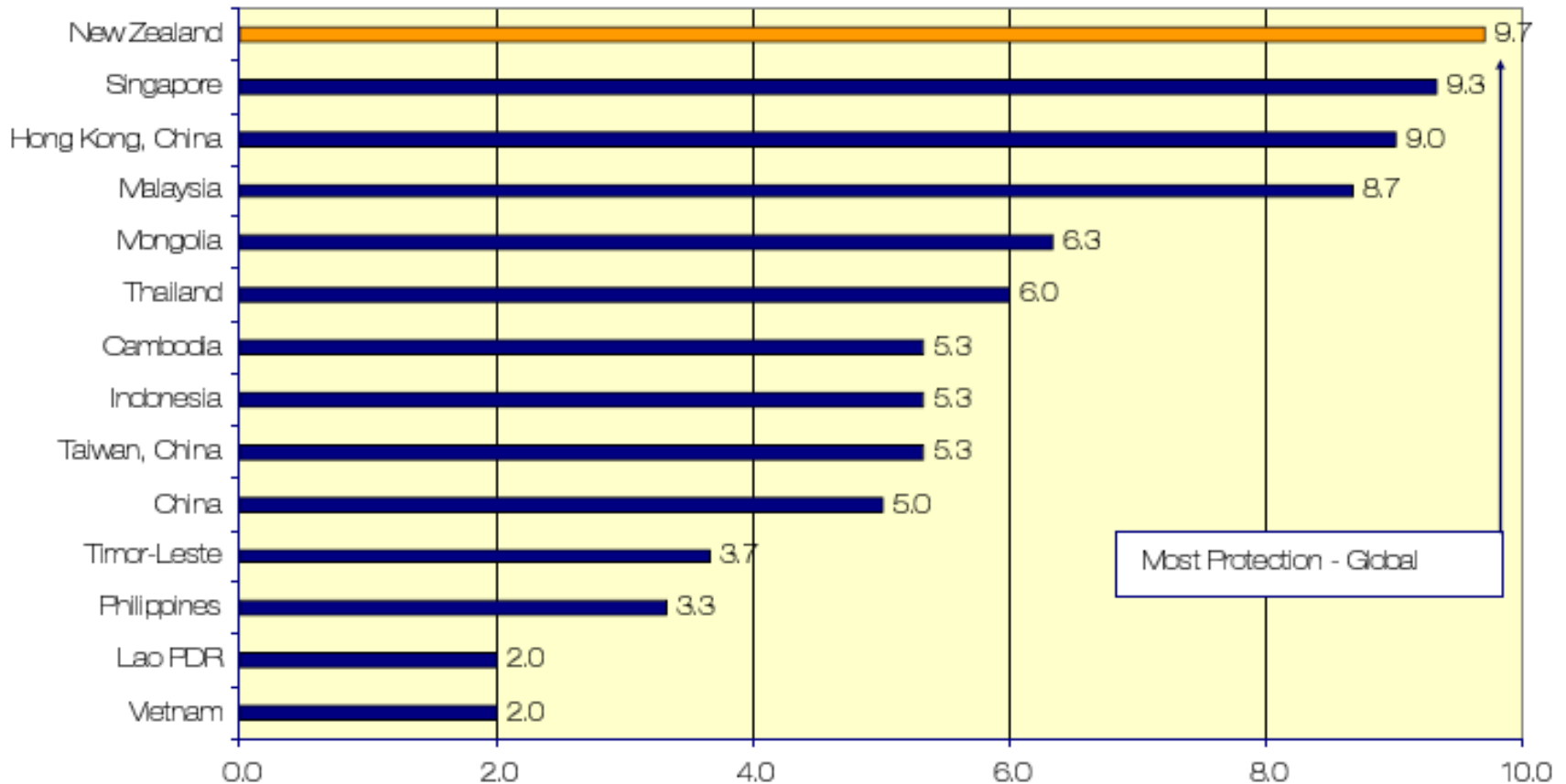
Source: Doing Business Database



Benchmarking: Investor Protection

Investor Protection Index

Source: Doing Business Database



Regionally, Mongolia stands equal among peers, so is there need for concern?

- The external environment and competition is changing rapidly
- Mongolia's peers are moving faster, and more decisively to remove bottlenecks for trade and investment
- There is a danger that Mongolia's natural and climatic weaknesses will be overshadowed by those that are man made – bureaucratic and ecological

Things are slipping....



Ease of...	2006 rank	2005 rank	Change in rank
<i>Doing Business</i>	45	41	-4
Starting a Business	55	54	-1
Dealing with Licenses	34	35	+1
Employing Workers	61	57	-4
Registering Property	17	17	0
Getting Credit	65	59	-6
Protecting Investors	19	18	-1
Paying Taxes	56	53	-3
Trading Across Borders	162	161	-1
Enforcing Contracts	41	40	-1
Closing a Business	115	113	-2

So, good times in the past few years does not mean things will continue this way.....

- Export expansion continues to be narrowly based
- Increase in domestic credit is mainly in the form of short-term loans for wholesale and retail trading activities, suggesting a consumption boom whose sustainability is uncertain
- Value-added per worker is low by international standards and most firms are operating well below capacity
- Investment by domestic firms is low – only 26% of all investment in 2004. Bank-financed private investment is even lower, representing only 8% of all investment
- Job creation, has been limited

What needs to be done to prolong these good times for all?

- Recent efforts of the government to reform the tax code are steps in the right direction
- Customs processes need to be reformed with a view to reducing delays and reducing rent-seeking
 - Over half the firms that export and nearly three quarters of those that import report that time taken to clear customs is not predictable
- Addressing the legal and institutional gaps that make lending risky would lower the costs of finance and improve access
- The licensing and inspections regime needs to be reviewed, rationalized, and appropriately resourced

What needs to be done to prolong these good times for all?

- Lower transport costs and improve reliability

(Estimates of the cost (US\$) and time needed to transport TEU container)

	Port of access				
	Tianjin	Tianjin	Tianjin	Votoschny	Brest
Destination	US	US	Europe	US	Europe
Border crossing	ZamynUud	ZamynUud	ZamynUud	Sukhbaatar	Sukhbaatar
Mode of transport	Rail-rail	Road-rail	Rail-rail	Rail	Rail
Domestic transport	170	170		65	65
Border crossing charges	250	250		35	35
Transit transport charges	500	655			800
Port and logistics charges	123	123		80	120
Cost of empty return	437	514			
Total to port	1480	1300	1480	1160	1020
Shipping and other charges	3591				
Total to destination	5071		2500		2100
Days on average to port	7	5	7	17	19
Days-range	4 to 12	4 to 10			
Quoted days to destination	24				

What needs to be done to prolong these good times for all?

- Improving the transport options Mongolian firms have for getting goods to and from external markets will take time

In the meantime...

- Ratification and implementation of tripartite Agreement on Transit Transport with China and Russia will be very important
- And the government might want to consider a (partial) open skies policy towards charter flights for tourists and air freight service taking a cue from other countries:
 - Cambodia's decision in 2000 to partially open up its skies has led to a dramatic increase in the number of tourists visiting Cambodia (including from China)
 - Liberalization of Kenya's civil aviation sector has led to Kenya becoming the largest exporter of perishables (cut flowers and leguminous vegetables) transported through air freight to Europe

So, the future will depend on what is done today

In sum, the government has taken some recent measures which are steps in the right direction:

- Reform of the tax code and strengthening of tax administration
- Development of a more robust public financial management system, that is far more open and transparent
- Anti-corruption efforts aimed at disclosure and strengthening institutions for prosecution of corruption
- But, more can and should be done – if the recent momentum of growth, prosperity, and real improvement is not to be halted or eroded