

Mineral Rich, Sparse and Remote: What Options for Mongolia? Speaking Points

INTRODUCTION

How can Mongolia, a mineral-resource rich economy that is also small, sparse and landlocked develop its comparative advantage to encourage and maintain sustained inclusive growth? How can Mongolia avoid the resource curse?

Experience from other similar countries suggests that much can be done, but that good economic policy is crucial!

If managed well, natural resource wealth does not have to lead to a resource curse.

- Consider the case of Finland. As Mongolia, it is a very sparsely populated country: the most sparsely populated in the European Union. It was one of the poorest countries in Europe around the middle of the 19th century. Today it is a high income industrialized country. Its growth was fuelled by the expansion of industries based on domestic raw materials, such as timber and iron ore, which lay the basis for a more diversified economic structure. Even today the forest and metal industries in Finland still employ a large share of the industrial labor force. This suggests that raw-material based production is not only a temporary stage in economic development. It can be a sustainable element of an advanced industrial structure and a development strategy based on raw materials can form a solid base for sustainable development.

Also, small isolated economies often do well; they find niches in the huge global marketplace.

- In the early 1960s many economists, and even a Nobel Prize winner in Economics, James Meade, regarded Mauritius, a small isolated country, as a hopeless case. However, since its independence in 1968 Mauritius developed from a low income agriculturally based economy to a middle income diversified country with competitive industrial, financial and tourism sectors.
- Korea was once also considered a basket case. Look at it now!

Similarly, in Mongolia good economic policy and long-term strategic planning should ensure that natural resources are used as a basis for sustained diversified growth.

AVOIDING THE “RESOURCE CURSE”

Theoretically, having large natural resource reserves – such as Mongolia’s copper, gold and coal reserves – should benefit a country. Additional income from natural resources can be used to invest in a countries infrastructure or education.

However, cross-country studies suggest that resource *abundance* (large resources/head) seems to be good, but resource *dependence* (remaining highly dependent on resource exports for an extended period without diversifying at all) seems to be bad!

The extensive literature on resources and development proposes several dimensions of a “resource curse” or “generalized Dutch Disease” syndrome, and there are signs that suggest that Mongolia is starting to suffer from several of these dimensions:

- Terms-of-trade volatility: Mongolia has become increasingly dependent on a narrow range of exports, and therefore vulnerable to commodity price shocks. Large fluctuations in the price of copper, gold or coal, such as those that we have seen in recent years, can create growth diminishing boom-bust cycles. This has to be managed: volatility causes risk-averse investors to specialize prematurely in non-traded sectors; this further increases export concentration, volatility and specialization, reducing growth (Hausmann and Rigobón, 2003).
- A high proportion of “point-source” natural rent in the economy may also encourage rent-seeking, reducing transparency and deteriorating governance. In modest cases rent-seeking can simply sustain poor policies, such as high rates of industrial protection that delay the maturation of infant industries (often heavy industry: Auty, 2001); in extreme cases, it may combine with other grievances to fan and sustain civil conflict (Collier 2007). Some recent changes in Mongolia’s laws are alarming: The new procurement law, which allows for the granting of non-competitive contracts, reduces government accountability.
- Appreciation of the real exchange rate due to increasing resource exports may suppress other exporting sectors with increasing returns or more potential for learning by doing than resource extraction. This can result in export concentration; over the long run, this slows growth.¹ Some countries have tried to use protection to develop other industries not compatible with their comparative advantage; the result has been adverse. Since 2002 the contribution of the Mongolian mining sector to both GDP and exports has increased every year. Since 2006, Mongolia’s real exchange rate has appreciated.

I want to start by talking about these three dimensions of the resource curse: volatility, governance and export concentration. For each dimension, I suggest ways how Mongolia could deal with these to avoid Mongolia’s long-term growth being slowed due to the consequences of a resource curse. I will focus on the importance of export diversification - especially in the context of sparse, mineral rich and remote economies such as Mongolia. I flag the role investment climate reforms, education, technological upgrading and active policies can play in encouraging export diversification.

¹ Real exchange rates do appear to be quite responsive to resource exports; for oil exporters, Korhonen and Juurikkala 2007 find a consistent relationship between real the exchange rate and oil prices with an elasticity of about 0.4.

a) Volatility: Reducing Boom-Bust Cycles

As we see today, resource prices are very volatile. For instance, although copper prices were increasing every year since 2001, the recent financial crisis has resulted in a dramatic drop in copper prices in just the last month: they are now about half their peak level.

- Natural resource prices (oil, metals) are also, statistically, close to a random walk which means that they are very hard to predict.

In countries in which natural resources are a significant share of GDP, large fluctuations in commodity prices increase the tendency towards extreme boom-bust cycles. These are exacerbated by pro-cyclical access to capital markets. Everyone wants to lend money when you don't need it!

The destructiveness of boom-bust cycles is clear from many cases:

- Mexico borrowed against expectations of increasing real oil prices after 1981 and suffered badly when these expectations turned out to be far off track.
- Venezuela was one of the fastest-growing Latin American economies, with growth averaging 6.4 percent. But following several euphoric boom years after 1974, it experienced a sharp decline, with output per head halving over the next two decades.
- Nigeria offers a third example, with “voracious” spending increases outpacing revenue increases up to 1984, followed by sharply lower spending debt-constrained spending thereafter (Budina and van Wijnbergen 2008).

How much should resource exporters be saving, considering the great uncertainty over whether high prices are temporary or longer-term? Spending decisions by natural resource rich countries are increasingly benchmarked on the permanent income approach, which relates the target primary non-resource deficit to the permanent income expected from the resource; the sum of returns on savings out of past resource income and future income expected from reserves still in the ground. Norway follows this model

- Some countries use instead a “reference price” mechanism to stabilize fiscal spending around the longer term trend. Chile is a world leader here; its Copper Stabilization Fund has worked very effectively, together with a structural surplus rule to stabilize its spending.

Among both transition economies and natural resource rich countries, Mongolia has performed well. Since the transition Mongolia has outperformed most transition economies in terms of real GDP, including Albania, the Czech Republic, Hungary, the Slovak Republic and Slovakia.

However with the expected further increase in the share of the mining sector in GDP, prudent management of windfall revenues will be imperative to maintain macroeconomic stability and fiscal and debt sustainability.

- As a first step of course, a stable, competitive and transparent legal, regulatory and fiscal regime for the mining sector is essential for its continued growth and development. To this end it is important to provide a mining taxation regime that allows for efficient mining operations, encourages exploration, research and development, and the right degree of value-added processing, and at the same time, generates revenues for the government for it to spend prudently.

Faced with the need to avoid boom-bust cycles and save for the future, many countries have instituted resource funds: Rietveld and Pringle (2007) identify 23 major funds for managing sovereign wealth; many are owned by mineral exporters. These funds can vary widely in many ways, including around their objective (stabilization or long-term saving), the rules governing deposits, withdrawals and investments, and their degree of transparency.

- Funds are neither necessary nor sufficient to improve fiscal discipline; however they have several potential contributions, including the possibility of linking savings to a long-term national goal to help people understand the need for prudent management. Norway's fund is linked to its heavy future pension obligations; current spending is limited to a few percent of the balance. It is now the largest pension fund in Europe, with a balance of some NKR 2 trillion, about \$300 billion.

In turn, for Mongolia to avoid boom-bust cycles and increase levels of saving for the future, it may be useful to strengthen its Development Fund. Currently only windfall gains, that is, income above a certain commodity price threshold, are contributed into this fund and only 1/3rd of these gains are saved (with the other 2/3rd being invested in infrastructure and directly distributed through cash handouts in equal proportions). This has resulted in a huge fiscal expansion, an increase in inflation and a loss in efficiency due to technical and absorptive capacity limitations. It allows almost no room for medium-long term consumption smoothing.

b) Maintaining and Improving Good Governance and Institutions

Mongolia starts from a good institutional basis. Despite recent political uncertainties and frequent turnovers, it is a relatively well functioning democracy. Unlike many mineral exporters, it is a peaceful country, and has a good world image. These assets are important for its long-term development.

The quality of institutions is critical in determining whether countries avoid the resource curse or not. Studies show that natural resources only have a negative impact on growth performance among countries with inferior institutions. A high proportion of “point-source” natural rent in an economy (from oil or minerals) may encourage rent-seeking, reducing transparency and deteriorating governance. In modest cases rent-seeking is reflected in poor policies that delay the maturation of infant industries (Auty, 2001). In extreme cases, it may combine with other grievances to fan and sustain civil conflict (Collier 2007).

From countries like Chile, Malaysia and Indonesia we see a number of common elements that can support good resource management and the effective use of such resource income:

- These countries have had two goals: preserving social stability, and widely-shared growth.
- There has been a fairly broad basis of support for such goals.
- There have also been close relationships between politicians and technocrats equipped to deal with complex long-run problems of resource management.

There are three things that Mongolia needs to consider to ensure the maintenance and improvement of its institutions and thereby avoid the resource curse.

Firstly, ensuring political stability, together with building capacity and understanding amongst Mongolian politicians and people, can contribute to resources being used to promote long term sustained growth in Mongolia.

- Consider Botswana, a notable success despite diamond exports. One of the factors that contributed to Botswana's economic growth and good use of resource income, in addition to good institutions, has been the stability of the political system. Politicians understand the management issues involved, and are able to work with technocrats effectively.

Secondly, especially in the context of mineral resource management, **a transparent political system and a long-term focus is important to ensure natural resources are used to benefit the country as a whole**, rather than a small select group of politicians. Many commentaries have drawn attention to the low levels of transparency and accountability in many natural resource exporting countries and the implications for development. Such an outcome might not be surprising, because of the magnitude of the common-property problem posed by "point-source" rents.

- Poor governance can be seen as a two level principal-agent problem: between the ultimate principal (the citizen owners of the resource) and their agent (the host government), and between the host government (acting as principal on behalf of the citizens to manage and spend oil income on behalf of the population) and the foreign mining companies (the ultimate agent).² Whether governments can successfully play this double role depends on whether transparency is good enough to ensure that the government acts as an effective principal and the extent to which it is accountable to the citizenry. It is important to develop transparent mechanisms to enhance public oversight of mining revenue expenditures and ensure accountability.
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- In Mongolia, thanks in part to its socialist past, a third of windfall gains that are accumulated in the Development Fund are directly distributed to citizens through cash transfers. This can be a useful way to improve resource management

accountability. However, both horizontal and vertical accountability can still be strengthened.

Thirdly, corruption, often rampant in countries with low levels of accountability and transparency, significantly increases business costs. Unofficial payments, required for obtaining licenses, starting businesses and exporting or importing products, pose a serious obstacle to growth. An expansion of patronage networks embedded in political parties and regional and business networks leads to serious consequences for corruption levels – and therefore growth.

- Rapid expansions of Mongolia's public revenues have created 'fiscal space'. If public perception of corruption were to increase, this will reduce political support for saving during times of high commodity prices.

c) Avoiding Excessive Export Concentration

Trade theory tells us that countries will specialize according to their comparative advantage. But from comparative studies we know that countries which concentrate on one a narrow commodity sector and do not diversify at all are liable to get locked into a slow growth development trap.

Coxhead (2007) reviews the performance of developing countries with a primary exports share of 60 percent or more of merchandise exports in 1971. There were five countries that were more resource-dependent than the mean – Malaysia, Thailand, Chile, Indonesia and Sri Lanka— and that sustained high growth rates, at around 3.5% per head over 1975-2001. They all diversified towards manufactures or, as in Chile, widened their range of resource-based exports to include new and more sophisticated products.

- Zambia for example has long concentrated on copper exports. It was one of the richest African countries at independence in 1968, today it is one of the poorest countries in the world. Only recently has Zambia begun to diversify its export base, and this has coincided with a period of more rapid growth.

Mongolia can do better! Since it's transition from planned to market economy it has experienced growth in all its sectors: its primary, secondary and tertiary sectors.

- In the primary sector livestock husbandry and agriculture output expanded due to the "efficiency dividend" associated with liberalization of state farms and collectives, the emergence of private ownership and incentives. Nevertheless, Mongolia's primary sector is very vulnerable to extreme climate conditions. Severe winter weather storms – dzuds – which have been increasing since the 18th century, bring extreme cold, heavy snow and strong winds. During the summer, droughts often reduce water availability and destroy crops.
- Mongolia's services or tertiary sector, currently the largest sector of the economy, has also expanded since 1993, fuelled by government spending on education and health. Growth has been prevalent in retail and wholesale trade, transport, communications and financial services.

- In recent years, in the secondary (or industrial) sector, which includes mining, manufacturing and construction, sources of real GDP growth has become concentrated on mining. In 2005, the mining sector directly accounted for 18 percent of GDP, 66 percent of industrial output, almost 76 percent of export earnings and 20 percent of government revenue. The rapidly expanding mining sector has been due to both new activities and projects coming on stream as well as until only recently the run up in global commodity prices.

Although currently economic activity is spread across primary, secondary and tertiary sectors, export revenues largely stem from mining. Experience from other natural resource rich countries suggests that Mongolia needs to be careful not to become solely dependent on mining as the engine of the country's future growth. Mining sector output may increase substantially over the next decade. It could double or even triple if large projects, such as the development of the **Oyu Tolgoi mine in the Southern Gobi Region**, get development approvals and are successfully commissioned. Mongolia has consequently become increasingly dependent on a narrow range of exports, and vulnerable to commodity price shocks.

Diversifying a resource rich country is not easy. Even in well-managed countries, appreciating real exchange rates can pull factors of production away from other export sectors; closing off the flow of imports will only result in higher prices for all domestic goods and services and less competitive conditions. Boom-bust cycles compound the problem by increasing price risk and further discouraging investments in other export sectors.³

- In Mongolia, partly due to massive foreign direct investment inflows in the early 2000s and the recent commodity price boom, with prices rising every year between 2003 and 2007, the real exchange rate has been appreciating (the current financial crisis has led to a severe drop in copper prices however, to a 33 month). Exchange rates fluctuations need to be monitored carefully.

How can Mongolia, a small, sparse isolated country, avoid the trap of becoming heavily dependent on the mining industry and diversify its comparative advantage beyond minerals, livestock and cashmere?

Diversifying Mongolia's Comparative Advantage

Small, sparse isolated mineral rich countries such as Mongolia do have special hurdles to overcome. Remoteness increases transportation costs for exports to reach markets, increases the costs of imported inputs and reduces potential positive externalities from proximity to other industrial centers. The cost disadvantages for small countries are large – more than 30% for the smallest countries.

³ Hausmann and Rigobón 2003.

- However, for a small country, comparative advantage in a limited range of diverse activities can be sufficient. Specialization in a range of such niche activities renders comparative disadvantage in other activities irrelevant.

Given the hurdles that small, sparse mineral rich countries such as Mongolia face, it is particularly important for such countries to make best use of their comparative advantage, and indeed to develop their potential comparative advantage, to encourage sustained and inclusive growth.

What is Mongolia's comparative advantage? Let me first suggest that a country's comparative advantage is not fixed. Although it is partly exogenous, it is also partly endogenous.

On the one hand, geographical advantages and disadvantages, such as isolation, sparseness, mineral wealth and weather conditions are largely exogenous. Factor proportions, such as capital, labor and technology are fixed in the short and medium-run.

However on the other hand, both factor proportions and the quality of the business environment that affects the efficiency with which firms and industries operate, and thus the resulting comparative advantages in specific industries, can be altered through appropriate policies.

- In Sweden, the heavy investments by the Swedish government into improving infrastructure and education allowed industries to make best use of their initial comparative advantage in natural resources, and then expand this comparative advantage to other industries. In the 1870s heavy investments in railroads made it possible to transport raw materials and finished goods across the country. The state financed technical education, such as forestry secondary schools and agricultural colleges, which supported the development of mechanical and engineering industries. Lars Magnus Ericsson, the founder of the telecom company still carrying his name, had received state grants for studying electrical engineering industry in Germany and Switzerland, as had most other leading industrialists in the country.

How can small resource rich countries take advantage of their comparative advantage? And how can they increase the number of industries in which they have a comparative advantage? Lederman and Xu (2007) find that comparative advantages in natural resource sectors do not only depend on actual resource endowments, but also on complementary factors; trade policy and the business climate, human capital and technology. Some countries have also benefited from active policies.

The Importance of Openness and an Open Trade Policy

After its transition from a planned economy to a market economy, Mongolia quickly established an open trade policy and a freely floating exchange rate regime. Many resource rich countries, unfortunately, did not follow this route, but heavily protected industries that did not conform to their comparative advantage. These industries have often never become globally competitive, where they have, they have taken far longer to

“grow up” (Auty, 1990)⁴ . Especially in small countries with small domestic markets, keeping an open trade policy is crucial to increase access to larger markets.

Maintaining openness includes trade policy but goes beyond this. Encouraging foreign players to contribute in terms of foreign direct investment and technical expertise will support the development of Mongolia’s economy, whether in mining or more broadly. Investors attracted by opportunities and sound policies bring new ideas, new markets. This is often more important than their money.

This is a two-way street. Out-migration can also increase remittances and provide a diaspora that learns and returns.

Improving the Investment Climate

To broaden their comparative advantage and overcome the barriers posed by remoteness, small economies such as Mongolia need to dramatically improve the investment climate and develop excellent logistics to reduce business costs.

Technological progress and worldwide trade and investment liberalization are presenting new opportunities for countries to harness global markets for growth and poverty reduction. These opportunities need to be seized!

Logistics. Currently Mongolia scores very poorly on the Logistics Performance Index, it is ranked 136th out of 150 countries. Infrastructure bottlenecks have led to costly transport, complex logistics, and long transit times.

However, poor logistics due to geography do not necessarily condemn a country to poor export performance.

- Mauritius, has been quite successful in diversifying away from sugar production to textiles, garments and financial services even though it was ranked 132nd on the Logistics Performance Index, not much better than Mongolia.

Infrastructure. Furthermore, appropriate policy and investments can improve logistics and ease infrastructure bottlenecks.

- Korea developed from one of the poorest countries in Asia, whose infrastructure was completely destroyed by the end of the Korean War in 1953, to one of the wealthiest countries in Asia today. It now has a very advanced and modern infrastructure, very high levels of human capital and is a leader in the fields of science and technology. Transportation is excellent, with an extensive network of railways, highways, and air routes, including South Korea’s Incheon International

⁴ A particular risk for large “mega-project” investments is the conflict of interest that can arise when a private partner with a small equity stake in a largely public project is also a major contractor or supplier. Profits from cost overruns can then more than compensate for equity losses. This creates incentives for over-optimistic feasibility studies and for downplaying the risks, with potentially huge losses for the government (Gelb 1988).

Airport, which has repeatedly been named as the best airport in the world by the Airports Council International. On the Logistics Performance Index Korea now ranks 25th, one of the best in the world.

In Mongolia, currently one third of windfall gains that are collected by the Development Fund are spent on infrastructure. Also Mongolia is receiving a lot of support in the form of development aid. It is important that these funds are used as efficiently as possible. Good economic management and governance can reduce infrastructure bottlenecks and other business costs by improving roads, electricity systems, security, and financial systems. This will both increase Mongolia's competitive advantage in its established markets, including copper, gold and cashmere, and provide the necessary foundations for a wider range of other industries to become competitive.

Private capital. Providing a good investment climate is necessary to attract private capital and avoid capital flight. Private capital in turn can play a critical role in building infrastructure, supplying energy, financing businesses and trade and fostering regional integration within an open global economy.

- Africa is capital poor in part because its poor business environment is associated with the highest capital flight in the world: 40% of African private wealth is held outside of Africa. Improving financial sector intermediation could decrease the high cost of capital in Mongolia. ⁵

Regional Policies. In order to maximize comparative advantages in selected industries, and to increase the range of industries in which a sparse country has a comparative advantage, should the focus be to achieve regionally balanced growth? Or should a country first focus on developing some clusters with very high levels of infrastructure and economic activity?

This is always a delicate political issue; under political pressure many countries support balanced regional development policies. But such policies require caution. In Mongolia government policies should accompany rather than attempt to offset the economic concentration and agglomeration externalities around Ulaanbaatar and other major cities.

Although it may be politically desirable to achieve balanced regional development within a country, in the medium term experience shows that economic development tends to be spatially unbalanced. The development of clusters of economic activity in certain regions can influence economies of scale, generate technological externalities, such as knowledge spillovers from research and development, technical knowledge and accumulated learning by doing. Paul Krugman has just won the Nobel Prize for research in this area. And the 2009 World Development Report considers this question in depth.

⁵ Currently the cost of capital in Mongolia remains high. Even though the deposit interest rate has fallen since 2000, at 13 percent in 2006, it is still high. The interest rate spread dropped to almost half its 2000 (15.9 percent) level by 2006 (8.4 percent). Receipts from remittances have fluctuated significantly between 2000 and 2007, ranging from 1.1 percent of GDP in 2000, up to 11.2 (202.5 million USD) percent in 2004 and down again to 5 percent (that is 194 million USD) in 2007.

Investing in Human capital and Technology

In addition to improving the investment climate, what other approaches can expand a sparse mineral resource rich country's comparative advantage?

Investing in Human capital

Studies show that a high level of labor force education, or human capital, is not only an extremely important complementary factor to natural resource abundance – improving a country's comparative advantages in the natural resource sector, it also provides the basis for a country to expand their comparative advantages to other sectors.

- In the 19th century, education was central to the development of new industrial activities in resource rich Scandinavia and in the economic and political accommodation of shocks. A well-educated labor force facilitated the movement of workers across economic activities and assisted in sectoral restructuring as new industries developed in the process of natural resource exploitation. Examples include Denmark's shift from the export of grains to the export of livestock in the 1870s, the shift in Sweden and Norway from lumbering to pulp production, and Sweden's adoption and improvement of British metallurgical techniques, which allowed the Swedes to develop their iron and steel industries.
- In Finland, the acquisition of knowledge and skills were of central importance for Nokia's transition from a raw-material-based company to a knowledge-based high-tech telecom producer. New knowledge was constantly brought into the corporation, large long-term investments were made into research and development and in the 1980s Nokia established Nokia University to raise the educational level and formal competence of employees. Furthermore, very substantial public investments in relevant higher education, the establishment of formal linkages between universities and industry, and industry-financed research organizations are contributing to the creation of a knowledge cluster.

Standard education levels are high in Mongolia, especially compared to natural resource rich countries in Africa. However the presence of skill mismatches poses a significant problem. To support the structural shift in the Mongolian economy an emphasis needs to be put on improving foreign language skills, IT and technical skills and communication skills. Implementation of a relevant curriculum that teaches practical subjects, thinking skills and communication skills, by blending the academic and vocational curricula, could connect school and work. Public policy should provide an appropriate institutional framework for facilitating the sustainable use of land, minerals, and other resources, as well as promoting learning and internationalization.

Investing in technology

Although it is not possible to systematically generate major technological breakthroughs, it is possible to create an environment where firms or entire industries are well positioned to adjust to changing conditions and to benefit from market opportunities and innovations coming from the rest of the world. Indeed, **the rate at which technology has been defusing and adapting to the conditions of developing countries is unparalleled, and the technological gap with industrialized countries is closing.**

- The case of Finland again suggests how technological upgrading can encourage a diversification beyond the industries based on domestic raw materials. Starting off as suppliers of simple intermediate products to more advanced economies in Europe, Finland was able to upgrade the technological level of their raw-material-based industries and to establish a foundation for a more diversified economic structure. Over time, Finland managed to successfully diversify into related activities such as machinery, engineering products, transport equipment and various types of services.

Encouraging Diversification by Active Policies

As noted above, an open trade policy is essential if resource-rich economies are to develop well in the longer run. But active policies to support new industries and enter new markets may be beneficial. Firms face “first mover” costs and “discovery” costs. The first movers will need, for example, to train employees in new skills which later entrants can benefit from. Government can help, to develop appropriate knowledge, standards and infrastructure. However caution is required. Especially in the context of natural resource development a long term horizon is important to avoid an erosion of competitiveness in other sectors.

Linkage programs

Rather than supporting the emergence of non-existent industries that may not provide a country with comparative advantage and result, it is advisable to support those industries that already emerged but make more of them. Instead, linkage programs to help develop local suppliers to existing sectors, such as mining, livestock and tourism can deepen spillovers, and increase domestic value added.

Public-Private Partnerships to encourage new sectors

As Chile shows, export diversification does not need to mean diversification towards manufacturing or heavy industry, which could go against Mongolia’s comparative advantage. Chile offers good examples of active policies to encourage a range of new exports, such as salmon, fruit, and wine. These have involved public-private partnerships with industry groups, supporting the acquisition of knowledge, setting standards, etc. The need to be competitive on external markets has always been the driving force behind such policies, not to protect the domestic market against imports.

Protecting the natural environment

Even a difficult geography can be turned to advantage. Special interest tourism around Mongolia's remoteness and natural beauty may benefit from a comparative advantage which is actually based on high transport costs. Tourists spend heavily on domestic goods and services.

In much of Africa – another resource rich largely sparse region – tourism has been the sector with the highest export growth for some time. Most tourists come to Africa for its unique cultural and natural heritage. Botswana is a country with some similarities to Mongolia: mineral rich, with a very low population density and landlocked. It has made special efforts to develop high-value tourism, and with much success. Mongolia can similarly market its unique cultural and natural assets.

To maintain Mongolia's comparative advantage in this sector, environmental degradation, through uncontrolled build up of hotels and damaging development of mines should be avoided. The Southern Gobi Regions for instance, is richly endowed with mineral wealth. However, it is also home to many threatened species and is one of the last relatively intact natural landscapes on Earth. This needs to be taken into account when considering the development of active and proposed mines, which bring along associated infrastructure build-ups, increases in population and more heavy use of already extremely limited water resources.

CONCLUSION

Like any country, Mongolia has some strong advantages *and* faces particular development challenges.

Compared with many other natural resource rich countries, some strengths are noticeable. Besides a strong resource base, it is a parliamentary democracy, it has seen quite high growth and sustained relative macroeconomic stability, it has an educated labor force, and a favorable, and peaceful, world image. Even though it is remote, its border with China means that it is close to a major market for its products.

Mongolia must build on these advantages and take a long-term view of its prospects. Poverty is still a major problem affecting a large part of the population. Further investments can make education more relevant to changing conditions. Protecting the environment will be necessary to ensure that Mongolia's comparative advantage in eco-tourism can be maintained.

Increasingly, countries are benchmarking themselves against each other. And investors are benchmarking countries against other countries. Mongolia needs to be aware of where it stands in the global economic landscape, to look carefully at the experience of other countries, and to learn from them.

This could lead to Mongolia becoming Asia's version of Finland's success story!

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