

FOREIGN DIRECT INVESTMENT IN MONGOLIA

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I. Introduction

As a result of creating a reasonable investment environment, Foreign Direct Investment (FDI) in Mongolia has been increasing. During the last 10 years, 1,600 joint ventures and wholly foreign owned companies from 62 countries were registered in Mongolia, with total investment reaching US\$350 million. Among them, NEA countries' FDI portion is 55% of the total FDI in Mongolia, contributing as follows: China –30%, South Korea –12%, Japan –10%, Russia –5%. If consider Northeast Asia in wide sense of means, their FDI portion reaches up to 66%, assuming North America(USA and Canada)'s FDI is around 9 %, which on the fourth position of the leading countries (see Table 1). By sector, the mining, agro-processing, light industry, communication, construction, trade and service sectors are dominant. Investors from North America mainly interested in mining and cashmere processing sectors and others.

II. FDI in Mongolia by country

(China)

As the neighboring to Mongolia country, China's investment in Mongolia is higher than other countries investment by value and number of companies registered. But average value per an investment is lower. Chinese FDI covers nearly all sectors; primary agro-processing, trade and service and etc.

(Russia)

Compared with China, Russian's investment not so higher what might be expected relying on the former wide relationship with Mongolia. But due to existing Russian Federation's legislation on outflow investment which request complicated procedures and screening investment projects, there are in Mongolia not much investment were introduced to date. Based on the former collaboration in geological prospecting, Russian FDI in mining sector is higher.

(Republic of Korea)

South Korea's contribution in FDI in Mongolia is growing up rapidly during last 2-3 years, and recently reached 61 million USD, overcoming Japanese investors' share. South Korea's FDI in communication sector is competing with Japanese one on mobile phone operator service activities allowing getting down its service charge and upgrading quality.

(Japan)

The Japanese contribution to FDI in Mongolia is around \$50 million, with continuous investment growth during 1993-2000 (see Table 1). The presence in Mongolia of branches of Japanese companies, such as Itochu, Sumitomo, Marubeni, Nissho Iwai, Osaka Cashmere, Mitsubishi and others, may have influenced this growth. Japanese FDI covers the light industry, telecommunications, culture, education, science and media, trade and catering services, processing raw materials of animal origin, and transportation sectors. In comparison with other countries, Japanese FDI is significant in the telecommunications and light industry sectors (see Tables 2-4, FDI by countries in certain sectors).

The Japanese companies Sanshiro, Buyan Holdings, T&I, Mana, Tuya, and STM International are active in cashmere processing, Hasabe International, Sansar Bridge, and Sararo are involved in the hotel and restaurant services sector, Jiguur and Daisogen are active in the tourism sector, Soyol Erdem and Nakhia have a presence in education, and Tavan Bogd is involved in the trade and service fields. Monnis-autoservice, JM Internet motors and other companies are engaged in the trading of Japanese cars. The two Japanese incorporated companies Mobicom and Buyan Holdings, are listed in the top 10 foreign investors in Mongolia.

The Japanese share of FDI in the telecommunications sector is around 50%. In the telecommunications sector, the most successful foreign incorporated company is the Mongolian-Japanese company “Mobicom” JVC, which has introduced a cellular telephone service to Mongolia for the first time. The reasons for Mobicom JVC’s success are as follows:

- It has brought modern technology to Mongolia;
- There is an increasing demand for mobile phones in urban, as well as in remote areas;
- The existence of competitors in this field has required it to be dynamic, to improve its service quality, and to establish service chains throughout the country;
- It has made use of tax incentives provided for investment in this sector.

Japanese FDI is significant in this sector, in the field of cashmere processing. It is known that Mongolian cashmere goods have been introduced on the international market for the first time with the assistance of Japan.

Over the last couple of years, Japanese investment in Mongolia has increased rapidly; 43 wholly Japanese-owned or joint-owned companies were newly registered, including in the mining sector. It is also worth mentioning that Bunka Orient Mongolia and the Mongolian-Japanese JVC are active in software and computer system production and related training, a field to which our government is paying particular attention. Miraishoken Co., Ltd., a wholly Japanese-owned company, is participating in securities trading at the Ulaanbaatar Stock Exchange.

The share of Japanese tourists in the Mongolian tourism sector is significant. In 1999, Mongolia received about 158,000 foreign visitors, of which 34,000 were tourists. 9,200 Japanese tourists visited Mongolia in 2000, accounting for 27% of total tourists. Continued growth in the tourism sector requires the development of transport and hotel infrastructure, both of which need substantial capital investments. The future of the Mongolian national airline will have a significant impact on this sector.

III. Improving Investment Climate

The Government of Mongolia has been taking some measures to create a favorable foreign¹ and domestic environment for foreign investment. Domestic legal environment-related incentives and rights for foreign investment have been established in the Foreign Investment Law and other relevant Mongolian laws. In order to simplify the registration system and to deal with queries, the Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA) has established a “one-stop service” for foreign investors. FIFTA is the government agency

¹ Mongolia has signed the “Investment Protection and Mutual Protection Agreement” with 31 countries, while the “Exemption on Double Taxation Agreements” has been signed with 19 countries around the world. Mongolia has joined the “Washington Convention on Settlement of Disputes” and has also been a full member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group since January 1999; investors will thus be eligible for risk insurance through MIGA. Mongolia became a member of the World Trade Organization (WTO) in 1997. Mongolia has been given a B+ rating by Standard and Poor’s.

responsible for the promotion and facilitation of foreign direct investment and the promotion of foreign trade in the country (<http://www.investnet.mn>).

Decisive factors in the choice of Mongolia as an investment location include access to particular raw materials such as cashmere and minerals, extensive incentive packages for investors, and good local partners and contacts.

Disadvantages cited by investors include frequent changes in government personnel and lack of transparency in procedures by government officials. Other disadvantages are the under-developed banking system and the high costs of transportation because of its distance from major markets. For the tourism sector, the short duration of the tourist season was rated as a particular disadvantage. Particular concerns were noted by investors in the cashmere sector, relating to the deteriorating quality of Mongolian cashmere due to the virtual collapse of the government's long-term breeding program.

Table1: FDI in Mongolia by country of NEA and North America
(Unit: thousand US\$)

No	Country	Sum	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1	China	106,796	865	100	152	1,314	2,105	2,214	3,102	7,301	24,303	21,275	44,065
2	Japan	48,452	100	533		656	987	8,349	12,555	797	3,764	3,567	17,145
3	South Korea	38,935				32	2,400	2,628	1,123	3,060	2,578	9,033	18,082
5	Russia	16,635		52	339	62	1,441	6,083	445	3,081	1,454	1,400	2,279
30	North Korea	559						358	201				
4	USA	27,355					1,113	543	10,229	1,046	1,661	4,898	7,866
12	Canada	7,558							100	7,363	45	10	40
	Others	103,614			590	778	14,757	9,204	12,579	9,378	6,437	32,120	17,770
	Total	349,905	965	684	1,081	2,842	22,802	29,379	40,334	32,027	40,241	72,302	107,245

Table 2: Japanese FDI in Mongolia contribution in some sectors 1993-2000
(Unit: thousand US\$)

	Tele-communications	Light industry	Culture, Education, Science & Media	Processing raw materials of animal origin	Trade & catering services	Tourism	Food industry
Japan FDI	8	28.1	2.9	1.9	2.5	0.296	0.8
Total FDI in sector	16.2	73.3	11.3	40.2	36.5	9.6	9.9
% of sector's FDI	49	39	26	5	7	3	8

Table 3: FDI contribution in telecommunications by country 1993-2000
(Unit: thousand US\$)

Country	FDI in 1993-2000 (Unit: thousand US\$)
Japan	8,003
S. Korea	5,230
China	1,399
Others	1,629

Table 4: FDI contribution in light industry by country 1992-2000
Unit: thousand US\$

Country	FDI in 1994-2000 (Unit: thousand US\$)
Japan	28,140
China	17,087
Hong Kong	7,222
Taiwan	6,753
S. Korea	6,336
USA	3,807
Others	3,987