

FOREIGN INVESTOR COMPANY COMPETITION IN THE MINING INDUSTRY OF MONGOLIA

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ABSTRACT:

The document is about explained foreign investor companies that play an important role in Mongolia's foreign policy strategy and national security. In the context of economic cooperation, Mongolia announced a "multilateral" policy strategy in dealing with the other country in early 1990. Therefore, attracting foreign investment to the Mongolian economy has become the main factor in Mongolia's development. It creates a competitive environment between countries, especially foreign investor companies backed by major powers such as Russia, China, Canada, and the United States. This document explains the Mongolian mining sector and identifies its challenges, constraints, growth, and contribution to the national economy. Moreover, the document also describes foreign direct investment trends in the mining sector in Mongolia, their processes, advantages, and government policies compared to foreign direct investment in mining in developing countries.

KEYWORDS: Foreign Investor Company, mining industry, economic growth, Mongolia.

INTRODUCTION:

A few years ago, Mongolia's modern economy was experiencing rapid growth due to the development of the mining sector. The major source of Mongolia's economic wealth is copper,

gold, coal, uranium, and vast resources of other minerals. The largest mining projects in foreign investor companies include the Tavan Tolgoi coal mine and the Oyu Tolgoi copper and gold mine. The Government of Mongolia's calculated that Oyu Tolgoi gold and copper inputs can only generate revenue equal to 30% of the country's GDP. The potential incomings from the Tavan Tolgoi coal deposit will form the basis for the social benefits from the "Human Development Foundation" [1]. The World Bank estimates, that GDP from Tavan Tolgoi and Oyu Tolgoi will increase to \$24 billion over the next 10 years. Last year, GDP was not more than \$15 billion [2].

The mining sector is the most important sector of our economy, accounting for half of total production and 40% of export earnings. Therefore, one of the most important Mongolia's economic development is the involvement of foreign companies in large-scale mining development. Besides, cooperation with foreign companies plays an important role in Mongolia's foreign policy strategy and national security.

Most large foreign companies interested in Mongolia's mining sector are supported by the government. For example, Japanese companies («Mitsui» and «Marubeni», American «Peabody Energy») or they are state companies themselves (Chinese «Shenhua Energy», and «China National Nuclear Cooperation Overseas Uranium», Russian JSC "RZD" and JSC "Atomredmetzoloto," South Korean «Korean resources»), etc.[3]

TABLE I. Leading foreign investor companies in the mining sector of Mongolia

Name of the company	Country	Type of Mineral
Rio Tinto	Australia	Copper, gold
Peabody Energy	USA	Coal
Shenhua Energy	China	Coal
Marubeni	Japan	Coal, Uranium
Centerra Gold	Canada	Gold

Table 1 shows, current conditions of competition for the influence in the region. Mongolia is located next to two of the world's largest economies, Russia and China. The majority of Mongolia's mining exports go to China (about 90%). As a result of foreign direct investment in Mongolia over the past decade, 1,600 joint ventures and foreign companies from 62 countries have been registered in Mongolia, bringing the total investment to \$ 350 million[4]. China is the largest investor (30%), followed by South Korea (12%), Japan (10%), and Russia (5%).

More than two decades ago, Mongolia made a peaceful transition from communism to democracy, leaving behind a centrally planned economy, a one-party authoritarian system, a free-market economy, and a multi-party parliamentary system. Growth in the mining sector can have both positive and negative effects on economic development. Growth in the mining sector should generally increase GDP and GDP per unit return on labor and capital (including domestic ownership).

The supply of natural resources increases.[5]. To make up for the domestic deficit, capital and labor need to be invested so that their impact on GDP is greater than others. In order to determine the output of the mining sector, its export revenue, budget revenue, and its impact on GDP growth, a series of assumptions need to be made for each mining activity and project proposed in this sector. These depend on the distribution of commodity prices, the

probability of cash flows, and the relationship. (Table 2).

TABLE II. Production and investment in the mining sector (billion MNT)

Year	2007	2008	2009	2010
Investment	436.8	502.5	750.9	2940
Production	1268.9	1583.2	1496.2	2633.2

Therefore, foreign direct investment is the main source of investment. In particular, foreign direct investment in mining is expected to be significant, and the Mongolian government plans to use the proceeds to finance ambitious projects. Foreign-invested companies have generated more than \$ 4 billion in tax revenue over the past 15 years. During the mining boom of 2011-2012, Mongolia's tax revenue exceeded two billion MNT or 48% of annual tax revenue[6]. Foreign direct investment has been instrumental in changing Mongolia's trade. Exports of copper, coal, and other minerals are expected to increase in the future with the opening of large mines. Foreign companies have also contributed to the increase of industrial and capital goods.

METHOD AND MATERIALS:

This problem can be explained by the distinction between "hard power" and "soft power" by Harvard University professor Joseph Nye. Nye explained "soft power" as "the ability of the state to achieve the desired outcomes in international affairs through persuasion using ideology, science, and culture as an effective instrument of their political influence on other countries". On the other hand, "hard power " includes foreign policy methods such as military, political, and economic influence. Advantages of "hard power" - military, political and economic sanctions are effective in open conflict in the region. These factors are ineffective for Mongolia, which has friendly relations with all major powers. In this situation, the "soft power" factors are more effective. By

processing these factors, it will be possible to organize useful political discussions and approach its leadership. Therefore, these controls analysis can be involved in decision-making - which company/country meets the requirements of modern technology, transparency, sustainability, and so on.

RESULT AND DISCUSSION:

The "soft power" method is widely used in the mining sector in Mongolia. This one of the most distinct segments in the struggle. One of the most exciting moments in the struggle for influence in Mongolia is the dialogue between the mining industry and other countries. Two of the best-defined things are included.

Firstly, China is the most important trade and investment partner today in Mongolia. Chinese investor companies are focusing on acquiring large foreign mineral deposits in China for further production and transportation. In pursuing this policy, China relies on its competitive advantages, such as a wide range of finances and the proximity of its markets to mineral resources.

Secondly, almost all formal meetings of Mongolian leaders with representatives of all Western powers are held in connection with "common democratic values." Western foreign companies participated in the mining sector in Mongolia. Discovered by companies "Rio Tinto" and "Ivanhoe Mines", addressed the members of the Mongolian Parliament in July 2009(copper and gold deposit Oyu Tolgoi).

CONCLUSION:

Foreign direct investment has had a major impact on our trade. Exports of copper, coal, and other minerals are expected to increase with the opening of large mines in the future. Foreign direct investment has influenced

Mongolia's infrastructure development. For example, foreign investment has helped build the railway system in Mongolia, and direct investment in the telecommunications sector has expanded the country's mobile and internet connections. Mining companies contribute to local development by supporting their infrastructure and economic development projects. Foreign investment in mining has brought the latest technology to Mongolia, and mining-related services have brought world-class equipment suppliers and mining consulting services. Foreign direct investment in the telecommunications sector has brought modern technology to the ICT sector, and foreign direct investment in services such as accounting and tourism can introduce international standards and management and be used for the country's further economic growth.

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