



Mongolia

The first steppes towards capitalism

At the end of June, Mongolian voters ended 75 years of Communist rule by installing a liberal democratic government. The historic election result marks a new chapter in Mongolian history. But it also raises a host of challenges for the incoming government. In a recent interview held in the nation's capital, Ulaanbaatar, Prime Minister Enkhsaikhan talked to Ben Davies about his plans to accelerate reform and lay the foundations for sustained economic growth

EMI: Your appointment as prime minister of Mongolia follows the election of the first truly democratic government in more than 70 years. To what extent does this mark a watershed in Mongolian history?

Enkhsaikhan: The victory of the Democratic Coalition is not a coincidence. For the past two years, we have been preparing our platform for this election all over the country. We were sure that our policies would be actively supported and that we would

be elected to carry out economic reforms in Mongolia.

EMI: Politically and economically, Mongolia has already gone through a period of unprecedented change. How would you describe the current state of the country?

Enkhsaikhan: The economic situation is not good. Firstly, the Mongolian economy is too dependent on only a handful of export items such as copper and cashmere. Copper prices in

the world markets have already fallen by 30% since the beginning of the year. This drop has revealed a number of weaknesses. Because normal free market principles have not been fully carried out in Mongolia, we are now embarking on sweeping reforms to liberalise prices on electricity, coal, gasoline and petroleum and to eliminate the price consensus committees. We will also eradicate trade barriers and embark on large-scale privatisation. As far as the banking system is concerned, the previous government introduced a two-tier banking system a few years ago, but the reforms were not carried out in full, so we need to restructure the whole system. As for investment, we plan to create all the necessary conditions to encourage both local and foreign investors. So to summarise your question, we are now in a transition period from one economic system to another.

EMI: In your first six months in office, what are you hoping to achieve?

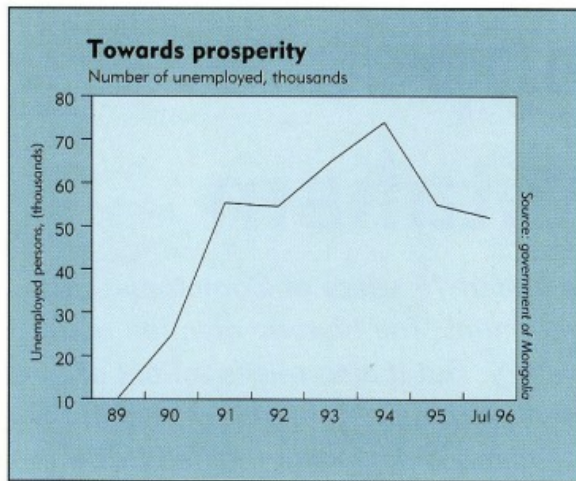
Enkhsaikhan: We have already embarked on a restructuring exercise of the government sector. Also on the agenda, as I have just mentioned, is price liberalisation as well as large-scale privatisation. Although the previous administration carried out the privatisation of some state assets initially, this process has stagnated over



Prime Minister Enkhsaikhan:
"We want to have the private sector playing the dominant role in the economy"



Mongolia



the last few years. Our publicly stated aim is to privatise 60% of all existing state assets including housing. We will also set up the legal framework which will enable privatisation of land. Other areas we will concentrate on include major reforms of the budget methodology. At the same time, we will pursue an active foreign policy. In one month's time, we plan to submit the detailed government programme to parliament.

EMI: And longer term?

Enkhsaikhan: On a longer-term basis, the government is looking to transform Mongolia into a country which can support itself economically using its own domestic savings. So far, our development has largely been financed by foreign aid. In future, we want to reduce state controls and have the private sector playing the dominant role in the economy.

EMI: What do you believe are the biggest challenges facing your new administration?

Enkhsaikhan: We are starting our reform programme with the most difficult issues, beginning with a review of the government sector and government agencies. We will also carry out price liberalisation.

These are particularly sensitive issues that will encounter a lot of resistance from public sector employees and from Mongolian society in general.

EMI: The former government earned high marks from the IMF for its efforts to reform the country's moribund economy. Will you be able to continue to earn their respect?

Enkhsaikhan: Our previous government worked actively with the IMF on a number of fronts, but they also received IMF assistance, perhaps in order to delay the necessary reform measures. This will not be our approach. We

will carry out the reform measures ourselves. As far as our relationship with the IMF is concerned, we do not have any policies which conflict with the IMF and we hope to continue to cooperate with them.

EMI: A number of independent observers have voiced concern over the relative youth of government ministers and their lack of experience. Do you believe that this will act as a constraint on your administration of the country?

Enkhsaikhan: It is true that most of the new government members are young. But their lack of experience will be compensated for by their deeper knowledge of market economic principles as well as their strength and commitment to accomplish the goals set out by this administration. Above all, they have vision and political courage.

EMI: In 1993, the former government published a new foreign investment law. Are there any other ways in which you plan to improve the investment climate?

Enkhsaikhan: Our policy is not to give special treatment to foreign investors, but to treat foreign and domestic investors equally. From a legal point of view, we are committed to providing all the necessary guarantees and levels of protection for all forms of private ownership and especially for ownership of private property. We are

also planning to establish a one-stop investment agency that will assist foreign investors who are interested in setting up in Mongolia.

EMI: Will you be offering any additional incentives to foreign investors, either through exemptions or tax breaks?

Enkhsaikhan: There may be some items that will be exempted from sales and customs taxes. But as far as other areas are concerned, our policy is that both Mongolia's domestic and foreign investors will be regarded on an equal basis in accordance with the country's laws and regulations.

EMI: Nowadays, emerging markets investors can take their pick from a wide range of business activities in a number of countries around the world. What do you believe are Mongolia's biggest attractions?

Enkhsaikhan: Mongolia appears to have significant oil reserves and we already have two US companies who are undertaking exploration work in various parts of the country. SOCO is carrying out drilling tests in the east of Mongolia. They have now produced their first sample of oil, so this is quite promising. Mongolia is also rich in mineral resources like copper and coal as well as gold and zinc. If you look at this country's agricultural sector, you will also find considerable potential. Then there is the tourist industry, which offers considerable growth prospects, especially in winter. I should add that the service area is also promising.

EMI: Many people see your toughest task as reducing unemployment and improving the lot of the 22% of the population who remain under the poverty line. How will you go about achieving that?

Enkhsaikhan: There are various statistics on the level of poverty and unemployment. According to the World Bank, 36% of the Mongolian population live below the poverty line. We also have 70,000 unemployed people. To resolve these vital issues, the immediate priority will be to implement



Mongolia

proper economic policy measures. These will include both the development of small-scale enterprises and the provision of training to teach these people to carry out business activities.

EMI: Another major obstacle to Mongolia's development is the lack of modern infrastructure. With a vast country and a small population, how can you fund it?

Enkhsaikhan: This is one of the very difficult issues we are facing. Our first task will be to develop the urban road network and communications. To do so, we could raise funds by increasing the road fees and other taxes. We will also devote special attention to mobilising greater foreign assistance to develop our infrastructure needs.

EMI: But for the time being, won't the lack of infrastructure adversely affect the cost of extracting and transporting the country's mineral resources over vast distances?

Enkhsaikhan: Of course, there are certain difficulties, but these will be resolved with the development of the proper infrastructure. I believe there are ways in which the exploration of minerals can be profitable.

EMI: What is the potential for tourism and how will you go about exploiting it?

Enkhsaikhan: This is one of the areas to which we should devote great attention. Mongolia has already drawn up a masterplan to develop the tourist industry. The plan highlights a number of historic places and attractions as well as listing guest houses and other facilities. We will work in accordance with this plan. The peak of the tourist season is in summer, but we will encourage tourists to come to Mongolia throughout the year.

EMI: Since 1991, privatisation has been a cornerstone of government policy. Yet, despite some successes, many large enterprises remain in state hands. Does your government have the resolve to change this?

Enkhsaikhan: We are working on a comprehensive privatisation plan. In the past, the policy was only to privatise loss-making enterprises. Now we will privatise both loss-making and profitable enterprises. Indeed, we will privatise extremely profitable enterprises. Our ultimate goal will be to elevate the government from its improper functions. Business activities should be run by private entrepreneurs and businessmen, not by the government.

EMI: What plans do you have to enlarge the local capital market and boost domestic savings?

Enkhsaikhan: In the near future, we are planning to issue government bonds and we will also advertise these bonds especially to bank depositors. We are also exploring ways to sell government bonds through the stock exchange. Our aim is to issue bonds to the value of 15 billion tugrug. High up on our agenda is our plan to sell government stakes in some joint stock companies through the stock exchange. In the longer term, we will raise funds by making land available for economic activities.

EMI: Are you considering any new measures to encourage institutional investors to purchase shares through the Mongolian Stock Exchange?

Enkhsaikhan: The stock exchange is already open to foreign investors. Anybody can invest in Mongolian securities. How long it will take before institutional investors come here is likely to depend on when the economy strengthens and when privatisation takes place. I hope this will happen in the near future.

EMI: In the past, Mongolia has traditionally relied on Russia and China for trade. In future, will you be looking to promote new trade partners?

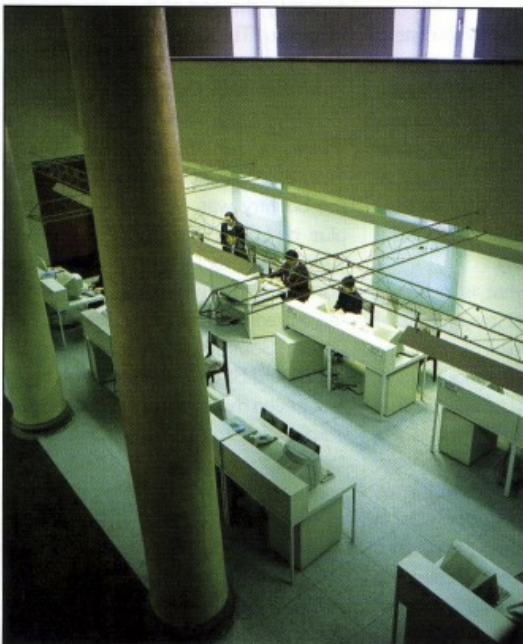
Enkhsaikhan: It's up to the market to diversify trade. Our policy will be to make sure that the two big attractive markets that are our neighbours are open to Mongolian businessmen.

EMI: How long will it take for your economic reforms to bear fruit?

Enkhsaikhan: My term of office is four years, so I am just focusing on that framework.

EMI: Finally, as prime minister of Mongolia, what would you like to be remembered for 10 years from now?

A: I am not particularly interested in what sort of person I will be remembered as 10 years from now. But I very much hope that Mongolia will be a strong economy by then. ■



Mongolian Stock Exchange: open for business to foreign investors