

## Mineral Resources of Mongolia as a Driving Force of the Country

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**Abstract:** *This article covers the concept of mineral resources, the definition of scientists as a factor in the development of the country, the use of natural resources in developed countries, as well as the focus on human development, the historical development of Mongolia's mineral sector and the sector. For example, in 2009 the Government of Mongolia signed an agreement with the Canadian company "Ivanhoe Mines" to develop the "Oyu Tolgoi" copper and gold deposit, a list of strategically important mineral deposits announced by the Government of Mongolia, and mineral resources. The contribution of the sector to the social and economic development of Mongolia, the rapid development of countries with low mineral resources such as Southeast Korea, Taiwan, Hong Kong and Singapore, the geographical and climatic, foreign and domestic "Mongolia has a vision for sustainable development In order to achieve the goals set out in the "Mongolia 2030" and "VISION 2050" long-term vision of Mongolia's development, it is necessary to implement development policies and planning tailored to its specific needs.*

**Keywords:** *Mongolia, development, mineral resources, Oyu Tolgoi deposit, "Mongolia's sustainable development concept 2030", "Mongolia's long-term development concept "ISION -2050" .*

Until the 19th century, natural resources were considered as key driver of economic growth. Natural resources include land available for agriculture and animal husbandry, pastures, forests, underground resources, or precious metals, minerals,

coal, oil, natural gas, and iron ore. In other words, natural resources are non-renewable and cannot be created by human activities. Some scientists believe that natural resources, like human resources, do not evolve depending on the amount of

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money spent on them, nor are they created by human activity. In some countries, per capita income tends to increase depending on natural resources. For example, in Saudi Arabia, the United Arab Emirates, and Kuwait, etc.

However, in some countries, interdependence of income and natural resources is relatively small. For example, the development concept of the economies of Belgium, Japan, South Korea, and Switzerland are not heavily relied on natural resources rather their economies are building capacities for human development and industrialization by processing imported raw materials and exporting processed and value-added products.

In the 1990s, Jeffrey D. Sachs developed the theory of geographical location in his study "Natural Resources and Economic Growth" and he proved that a country that has developed human resources would have reached through the country that has long used its natural resources by economic growth. He said climate conditions, natural resources, the nearest location to major markets, and its access with them were key to a country's economic growth.

While the developed countries of the world have become richer by using their natural resources and developing their human resource through good governance and proper management, there are countries that their exports dominated by raw materials and having inefficient utilization of revenue and their economy become more vulnerable and un-resilient. The concept of governance includes the process of appointing, monitoring for results, and renewing the cabinet structure, their ability to formulate and implement development policies and planning, ensuring participation for policy making,

coordinating and synergizing economic and social relations and impacts, enabling quality and accessibility of public services, and ensuring fairness and transparency.

Almost all elements of the Mendeleev Periodic Table are found and registered through Mongolian land, which clearly indicates that our country is rich in mineral resources. To date, there are 1,830 deposits and more than 8,000 occurrences with more than 80 types of minerals.

Since 1990, Mongolia's mineral sector has been developing on a market basis, with some deposits being transferred to public enterprises and private ownership. As a result of the government efforts to create a stable and reliable legal environment for developing mineral sector, to ensure the independence of mining companies, to create favorable conditions for attracting domestic and foreign investments, and to intensify oil and uranium ore exploration and mining, Mineral resources have become the most important sector of our economy. For example, since 2000, foreign and domestic investments in the sector has increased rapidly, and in recent years the contribution of the mining sector to social and economic development has increased substantively. Exports of products in this sector are growing year by year. Previously, only copper concentrate and coal were dominant in mineral products exported, however, nowadays the composition of products enriched with gold, iron ore, oil, fluorspar and zinc concentrate. An important milestone for expanding mineral exports was the long-term investment agreement made which was signed on September 6, 2009, with the Ivanhoe Mines of Canada for the development of the Oyu Tolgoi copper and gold deposit. It can be considered that it

has made an important contribution to the social and economic development of our country, eliminated foreign trade deficit which was persistent for many years, and played a critical role in increasing foreign exchange reserves.

The parliamentary resolution was approved in 2007 with list of the strategically important mineral deposits. The list includes Tavan Tolgoi, Nariin Sukhait, Baganuur, Shivee-Ovoo, Mardai, Dornod, Gurvanbulag, Tumurtei, Oyu Tolgoi, Tsagaan Suvarga, Erdenet, Burenkhaan, Boroo, Tumurtein-Ovoo, and Asgat<sup>1</sup>. Most of the 15 strategic deposits are located in the Central and Khangai regions and are owned by foreign and domestic companies. All deposits except uranium and phosphorite are operated and extracted in these regions in some extent.

The share of the mineral sector in GDP has doubled from 10.2 percent in 1994 to 24.5 percent in 2018. The share of mining products to the total exports reached almost 90 percent.

Mongolia has almost all kinds of mineral resources, and the mineral and mining sectors have become the leading sectors of the economy in the country. Due to the growing demand for mineral resources in the world market, Mongolia's mineral resources has been attracting the attention of foreign investors, and the world's leading companies are investing in the mineral sector and it contributes to the development of the economy and society country.

Nonetheless, its being evident that Mongolians are not sufficiently benefiting from utilization of these natural resources that we are exploiting from

the 15 strategic deposits identified by the government. The rationale of this situation can be explained as that most of these deposits are owned by foreign companies. According to the current assessment of Mongolia's mineral resources, the country can be considered the richest in the world in terms of per capita mineral resources. However, Mongolia is not rich in total resources comparing other countries rather we have limited resources in gold, silver, and crude oil.

In another word, the the country has only 30-40 years potential for exporting of some resources, such as gold, copper, and iron ore. Therefore, it is important Mongolia to prioritize mineral resources for operation to ensure effective utilization and benefits for Mongolian citizens. In particular, I would like to highlight in restricting gold exports.

During last 30 years, economy has been growing rapidly in natural resources scarcity counties in south-east asia such as Korea, Taiwan, Hong Kong and Singapore in contrary, their economy was lagging behind in those oi-rich countries such as Mexico, Niger and Venezuela. The natural resources of these countries becomes more harmful consequences rather than contributing to their economies, and it leads to mass protests and riots, corruption.

Therefore, Mongolia will be able benefit by reducing transit transportation costs, enhancing manufacturing sector by processing raw materials; promoting exports and substituting imports only if to sustain political stability and having sustainable long-term innovative economic policies for industrialization.

However, Mongolian economy is more negatively affected by weak governance

<sup>1</sup> Proceedings of the Scientific Conference on "International Law and Challenges in the Mining Sector", 2013

and political obstacles rather than external factors such as vast territory with poor infrastructure development, vulnerabilities from external markets, nature disasters. There is a lack of capacity in the Government to formulate and implement development policies, the lack of quality of public services, lack of transparency, unfair treatments, corruption, bureaucracy in civil services. There is a perception that government regulation puts more pressure on businesses than support, that the government pursues policies that are only in the interests of political and business oligarchic groups, uneven distribution of wealth.

Unexpected increases in commodity prices impacts in national currency appreciation and lead to cheaper imports of luxury goods. The cheap flood imports makes domestic producers, especially small and medium-sized enterprises, uncompetitive. As a result, many manufacturers go bankrupt and pushes up unemployment. At the same time, if the country earn more from increase of commodity prices, increase in FDI and ODA, especially if lack of good governance, government tend to have politicized unethical behaves, leads to the corruption. Eventually, economy will have in balances in financial resources and leads to economic crisis. Furthermore, when raw materials are depleted and decrease in commodity prices, the country's economy collapses, leads to debt burden and budget deficits, and the country becomes completely dependent on foreign aid.

Inefficient utilization of foreign reserves leads to economic downturn, unemployment rises, increase poverty and income equality. Economy of such

countries become vulnerable and not resilient fluctuates from external shocks.

In Mongolia, our economy is vulnerable and has limited capacity in expanding industrial sectors, livestock and food sectors are underdeveloped, the share of imports in GDP is high, foreign trade has a permanent deficit, most of consumer goods are imported, and the costs are high, and our economy became consumer economy. For example, even in absence of sound economic policy interventions, there are still potential for earning higher income due to commodity price increase as the economy is heavily relied and dominated by the extractive sector. Though, the government is not investing such potential revenues into processing industries, infrastructure and education, health and science sectors in contrary prefer to distribute revenues in cash to the citizens. During the era of Millennium Development Goals during 2007-2015, the country had foresight in economic growth to be reached to an average of 14 percent per year, per capita GDP reached to \$ 5,000, and an average growth to be reached to 12 percent per year during 2016-2021. In addition, it was planned to keep the minimum salary at least \$ 12,000 per capita and reach the level of a middle-class developed country, however, we lost the golden opportunity that had increase in commodity prices in the world market during 2010-2011.<sup>2</sup>

Mongolia's Sustainable Development Vision- 2030 adopted in 2016, emphasized that "gross national income per capita will reach \$17500, to become one of the leading middle-income countries in terms of per capita income<sup>3</sup>."

According to the "VISION-2050",

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<sup>2</sup> 5 chapters of the Comprehensive National Development Policy "Economic growth and development policy" approved by 12 resolutions of the Parliament on January 31, 2008

the long-term development strategy of Mongolia approved by the Parliament in 2020, elaborated that the GDP of Mongolia will reach 32.1 billion USD at 2018 price during 2020-2030, and the GDP per capita will reach to 8299 USD. By 2050, GDP is projected to reach \$77.7 billion at 2018 price, and GDP per capita will increase to \$15000. In addition, the long-term development vision emphasized that “sustainable economic growth will be benefitted to every citizen, stratification will prevailed, poverty will be drastically reduced, economic development policy to be on self-sufficiency, exports will be intensified, investment and savings will be increased, and multi-pillar economy to be built<sup>4</sup>.” In order to achieve this goal, the government needs to ensure macroeconomic balance, to increase risk tolerance, to have import-substitution, to develop export-oriented heavy and light industries, and

to develop stock market infrastructure, to increase number of investors, and to promote digital technologies, ensuring fully employment, low-inflation macroeconomic environment, enabling middle class dominant society, prioritizing industrial development.

In order to achieve these strategic goals, it is essential to shift from party-centered to citizen-centered governance in order to develop and implement a sustainable, efficient and effective medium- and long-term policies that reflects the core national interests. From the best practices, the success can be achieved if not blindly replicating any foreign theories, methods and doctrines, especially the neoliberal concept, rather by taking a pragmatic approach concerning Mongolian context. It depends on how well the new model of economic development is defined.

## Conclusion

As natural resources are not renewable, efficient use of natural resources, equal distribution of revenue, diversification of economy by developing non-mining sectors, and infrastructure of the economy, transformation into investment, timely rehabilitation of natural resources and ensuring ecological balance is extremely important.

It witnessed that the natural resource-based development model is disturbs the ecological balance, increases water, soil, vegetation and air pollutions, desertification, increases income inequality, unemployment, poverty, and

increases dependence on foreign market.

Therefore, there is a need to develop a sustainable development model aimed at improving the living conditions of Mongolians through the rationale use of natural resources, ensuring and maintaining ecological balance. This sustainable development model is based on the enhanced development of science and technology with high human development.

Same as Mongolia, natural resource-dependent countries such as Chile, Australia, Canada, and New Zealand have benefited from increased commodity

<sup>3</sup> “Mongolia's Sustainable Development Concept-2030” approved by the Annex to the 19th Resolution of the Parliament of Mongolia, 2016

<sup>4</sup> The long-term concept of Mongolia's development approved by the Parliament in 2020 “VISION -2050”, Ulaanbaatar, 2020, 34,18 pp.

prices, primarily invested into human development (education, science, health), the development of the manufacturing industry, and the diversification of their economies. There is an experience of cooling the hot money spent on balancing and preventing the economy from the Dutch disease. These countries have the following experience in preventing Dutch disease and reducing the negative effects of hot money. These include:

- Slowing down revenues from natural resource exports. Allocating the revenue into a special fund abroad and bring it in little by little; This may be difficult for developing countries, which need resources to fight unemployment and poverty;
- Implement tight monetary policy and reduce government spending to slow the appreciation of the national currency;
- Save revenue from the growth and retain them for future generations; For examples, the Australian Future Government Fund, the Norwegian Development Fund, the Russian Stabilization Fund, and the Azerbaijan Petroleum Fund;
- Support by increasing subsidies to improve the competitiveness of the underdeveloped industrial and agricultural sectors;
- Establish a memorandum of understanding between the political parties in endorsement of the country's long-term development policy, confirm their commitments for implementing it through their election platforms and the government's action plans;
- The Law on Civil Servant provides legal bases for strengthening of civil services in Mongolia and improving Government capacity by recruiting qualified and experienced people, its stable operation, and its independence from politics;
- Establish a specialized institution-Think Tank for analyzing development policy planning, which to provide analytical supports to the Government in policy analysis and researches and the Think Tank should leverage resources from universities, academics, and professionals in various fields.

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