



Foreign Direct Investment Inflow in Mongolia

Economic Research Institute &

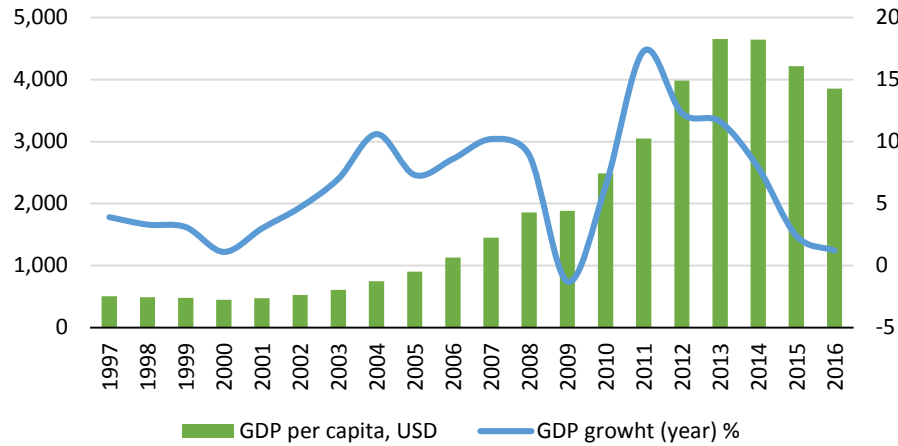
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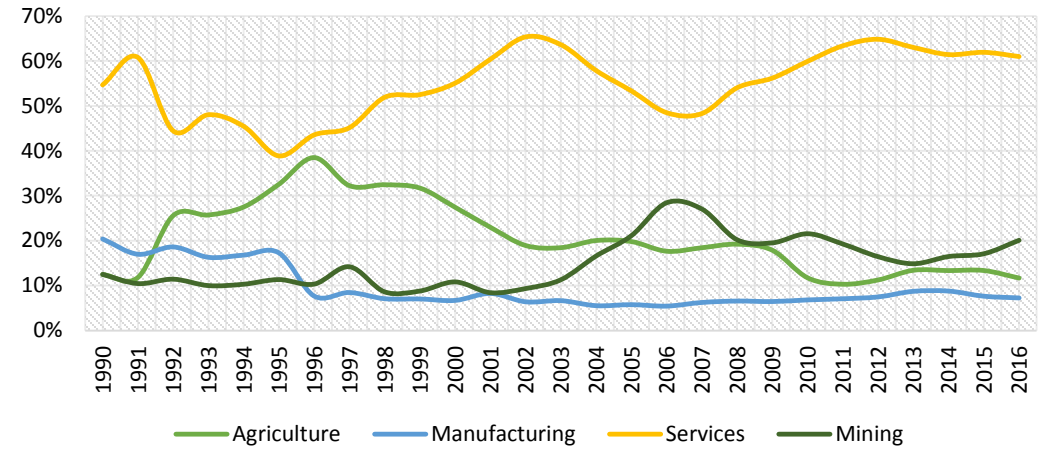
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Introduction

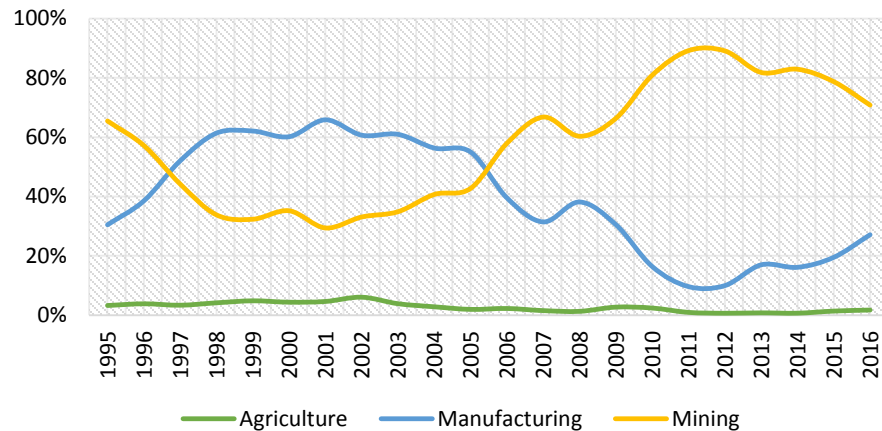
GDP per Capita



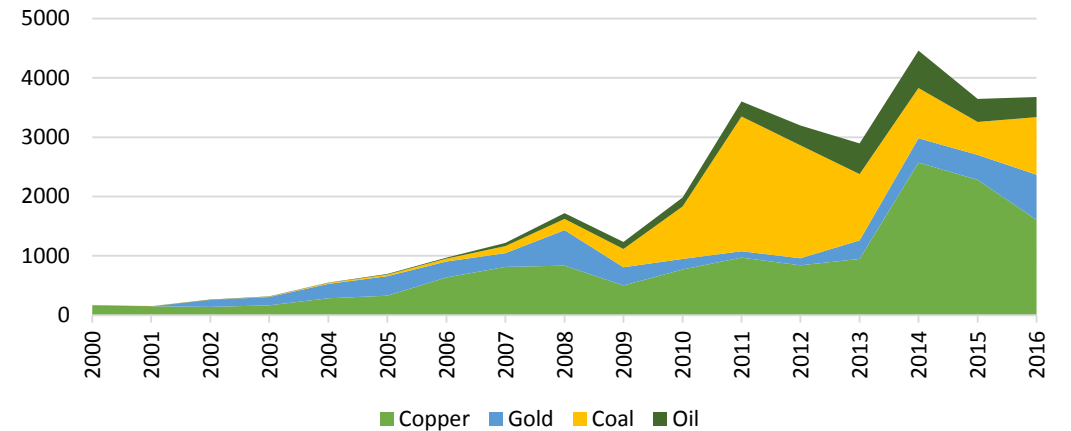
GDP by Sector



Export by Sector

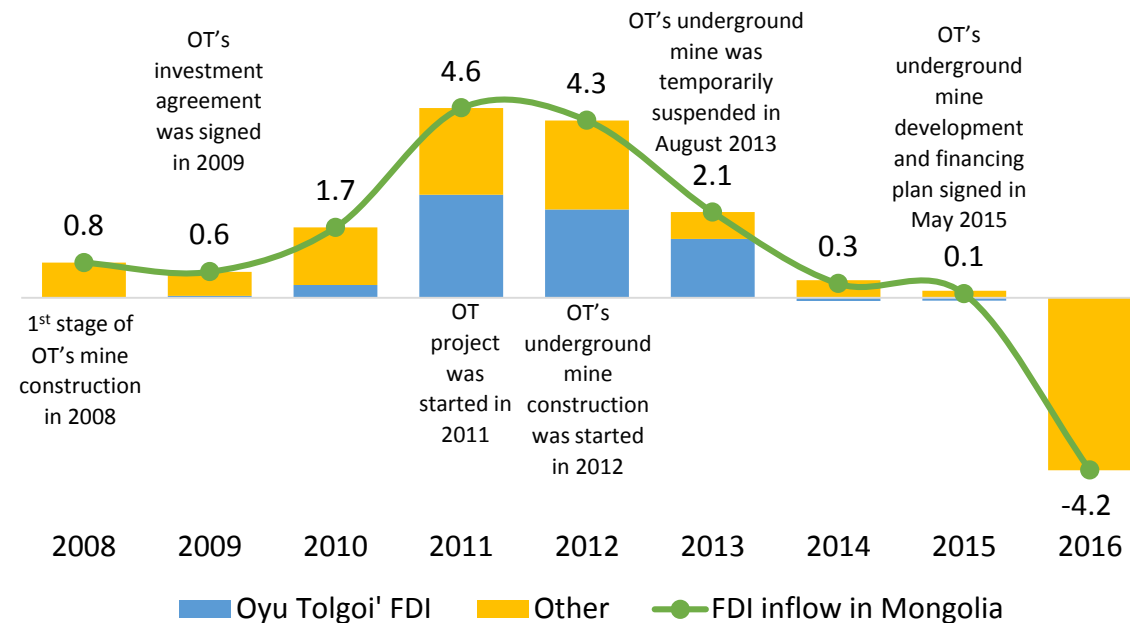


Mining Exports, mln USD



FDI Inflows

- In 1993, Mongolia initiated the “Foreign Direct Investment Policy”
 - Annual FDI inflow did not reach \$1 billion until 2010
- In 2011, FDI inflows peaked at \$4.6 billion



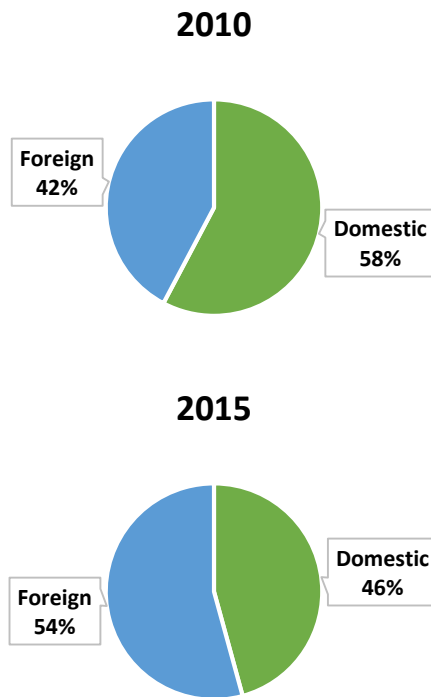
Literature Review

- FDI encourages social development (technological advancements, management practices, etc.)
- International:
 - FDI is crucial to economic growth (Hansen & Rand, 2006)
 - Growth in Pakistan influenced by FDI and trade (Iqbal & Shaikh 2010)
 - Correlation between FDI and economic growth (Almfraji, Almsafir, & Uao, 2014)
- Mongolia:
 - Anand (2011): FDI supports economic growth directly and indirectly (OLS)
 - Munkhtsetseg & Gantumur (2015): FDI encourages increased economic growth and trade flows (Leontief Inverse Matrix)

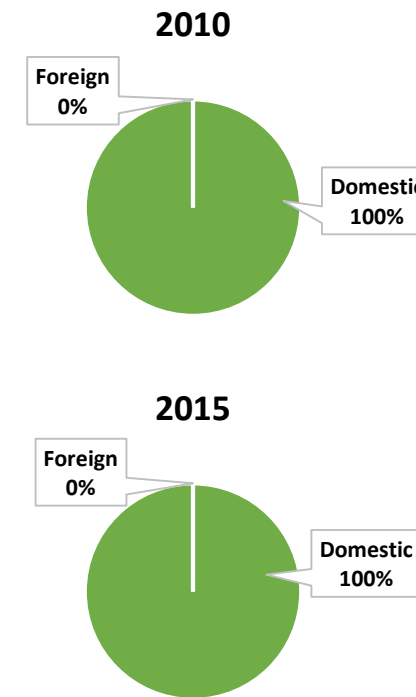
Impact of FDI

Utilizing 2010 and 2015 IOT tables, investment multipliers are calculated

- Simulation 1:

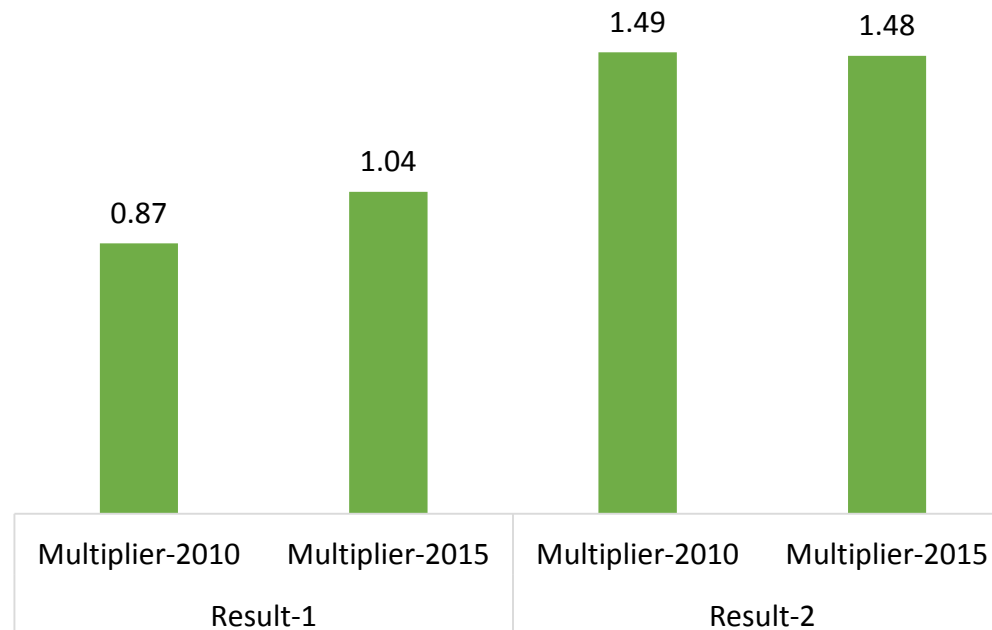


- Simulation 2:



FDI Multiplier

- Depending on the percentage of foreign direct investment absorbed by the domestic market, the investment multiplier varies





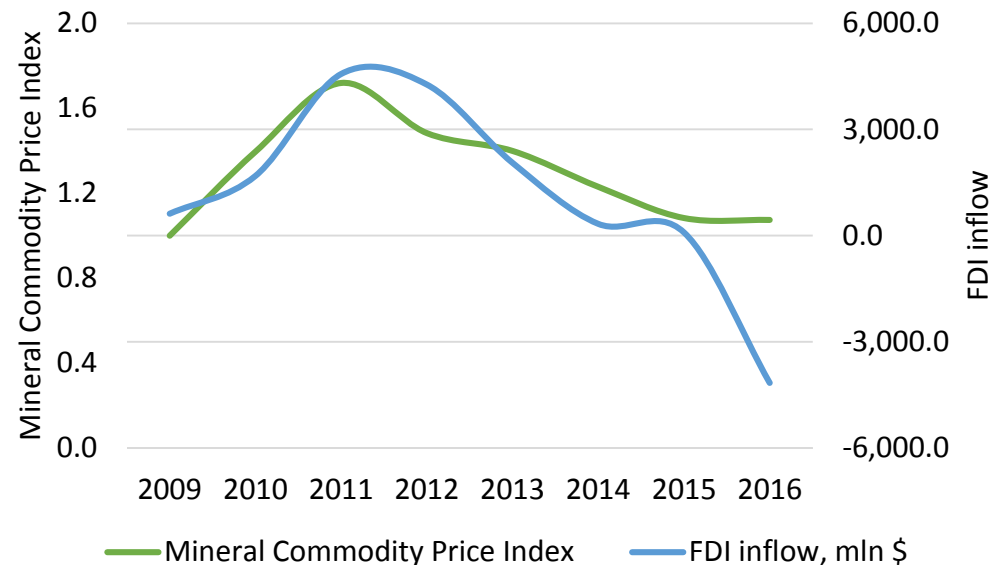
Factors Influencing FDI: Mongolia Case Study

Literature Review

- FDI inflow affects **exogenous** and **endogenous** factors
- **Exogenous** factor is changes in mineral commodity prices
 - (Kose, 2002; Céspedes & Velasco, 2012; Fornero, Kirchner, & Yany, 2016)
- **Endogenous** factor is the investment climate
 - (Skousen, 1996; Tan, 1999; The Economist Intelligence Unit, 2014; U.S. Department of State, 2014).
- NRG I (2015): Sharp decline in FDI into Mongolia
 - Decline in mineral commodity prices
 - Disputes with foreign investors
 - Ill-conceived policy decisions

Exogenous Factor: Price

- Mineral commodity price index
 - Base year: 2009
 - Weighted by percentage of exports of respective commodity
- There is a positive correlation between the commodity price index and FDI inflow



Endogenous Factor: Investment Climate

- Fraser Institute (2016): Survey conducted among mining and exploration companies around the world to determine what influenced their decisions to invest
 - Investment attractiveness (policy environment + mineral potential)

	2012	2013	2014	2015	2016
Mongolia					
Investment Attractiveness Rank	31/96	80/112	93/122	85/109	81/104
Policy Perception rank	78/96	95/112	116/122	94/109	101/104
Mineral Potential Rank	1/96	51/112	52/122	59/109	50/104
Chile					
Investment Attractiveness Rank	11/96	4/112	9/122	11/109	39/104
Policy Perception rank	18/96	21/112	22/122	26/109	35/104
Mineral Potential Rank	8/96	4/112	6/122	11/109	49/104

Comparison of Investment Climate: Mongolia and Chile

- The role of the mining sector in Chile is comparable to Mongolia's
 - FDI inflows in Mongolia and Chile are highly dependent upon the mining sector
- Main challenges in attracting FDI is corruption and process for obtaining permit (U.S. Department of State, 2014)
- In the case of Mongolia, these challenges are very difficult to address

Indices	Rank	
	Mongolia	Chile
Corruption Perception Index (CPI)	87/176	24/176
WB-Doing Business Index (DBI)	64/190	57/190

Investment Climate: Without Natural Resources

- The investment climate is crucial to attracting FDI for countries without natural resources (UNCTAD, 2017):
 - Singapore: FDI inflow was \$61.6 billion in 2016, ranking second after China in Asia
 - Switzerland: FDI inflow was \$70.4 billion in 2015, ranking third in Europe
 - Hong Kong: world's second-largest recipient of FDI after the United States

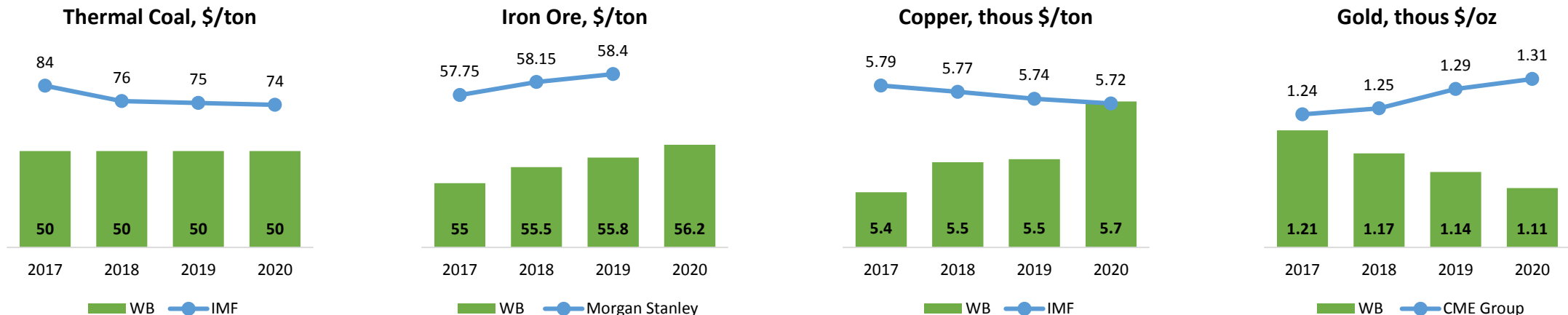
Indices	Rank		
	Singapore	Switzerland	Hong Kong
CPI	7 of 176	5 of 176	15 of 176
EFI	2 of 180	4 of 180	1 of 180
DBI	2 of 190	31 of 190	4 of 190
GII	7 of 127	1 of 127	16 of 127

FDI Outlook

- Government of Mongolia's Action Program 2016-2020:
 - 4 projects in the mining sector – oil refinery factory
 - 5 projects in the energy sector – Tavan Tolgoi coal power plant
 - 5 projects in the transportation sector – Oyu Tolgoi → Gashuunsukhait, Hoot → Bichigt, Tavan Tolgoi → Sekhe, Zuunbayan → Khangai, Erdenet → Ovoot
- Mongolian Sustainable Development Vision 2030 (*2016-2020, 2021-2025, 2026-2030*):
 - 3 projects in the mining sector
 - 21 projects in the energy and transportation sector
- These projects will likely be financed by the public sector with assistance from attracted FDI

FDI Outlook

- In the near future, Mongolia's investment climate cannot explain or influence FDI inflows
- Therefore, mineral commodity price forecasts and the US policy rate will determine the future FDI inflows of developing countries, such as Mongolia



Conclusion

- Mongolia has limited control over FDI inflows
 - FDI movements have largely been explained by mineral commodity prices, which is expected to be relatively stable in the near future. Stable prices will likely have a positive impact on FDI.
- Mongolia's investment climate is unable to attract FDI
 - Investment climate is a key driver of FDI inflows. Singapore, Switzerland, Hong Kong
- Currently, Mongolia's FDI outlook trend is not positive
 - Successful implementation of the Government Action Program 2016-2020 and the Sustainable Development Vision 2030 is highly dependent on FDI inflows