

# **FOREIGN DIRECT INVESTMENT INFLOW – COMPARATIVE STUDY**

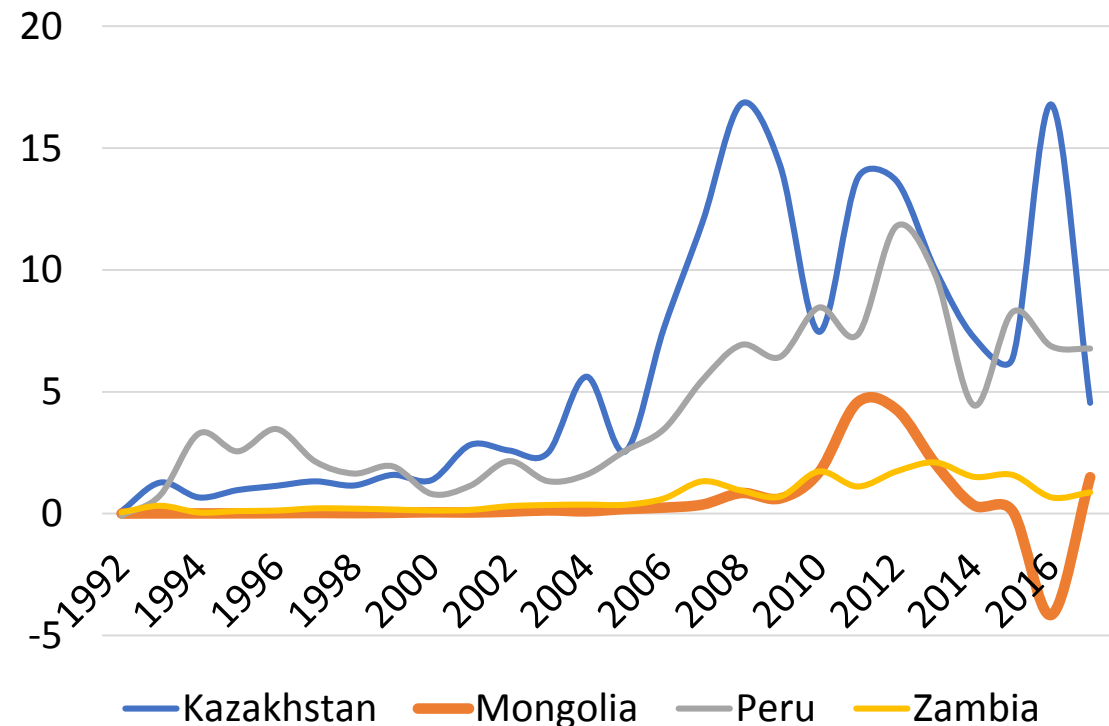
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# Introduction

- Mongolia
  - Main trading partners are Russia and China
  - Mining sector dependent – copper and coal
- Kazakhstan
  - Largest landlocked country
  - External demand from China and Russia
- Peru
  - Leading producer of copper
  - Recent economic growth supported by mining FDI
- Zambia
  - Landlocked
  - Economy dependent on copper prices

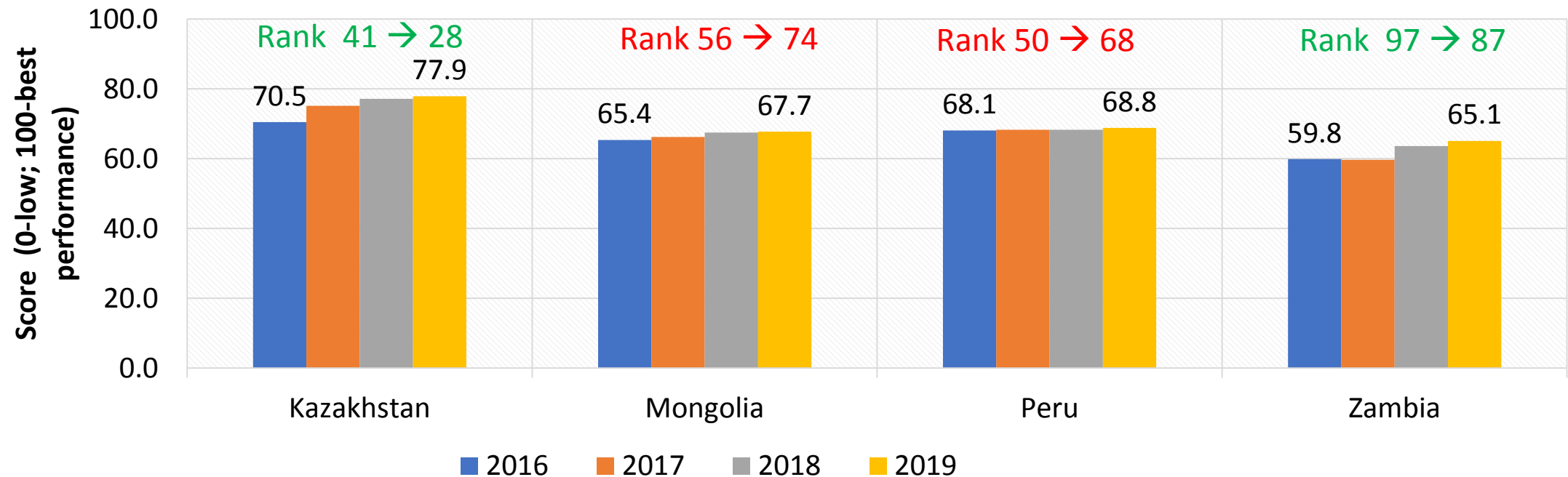
**FDI net inflow, BoP current billion USD, 1992-2017**



Source: UNCTAD

# Doing Business 2019

*Ease of Doing Business 2019*



Source: World Bank

- From 2016 to 2019, score index of Mongolia and Peru increased but their rank declined

# Corruption Perception Index

## *Corruption Perception Index*

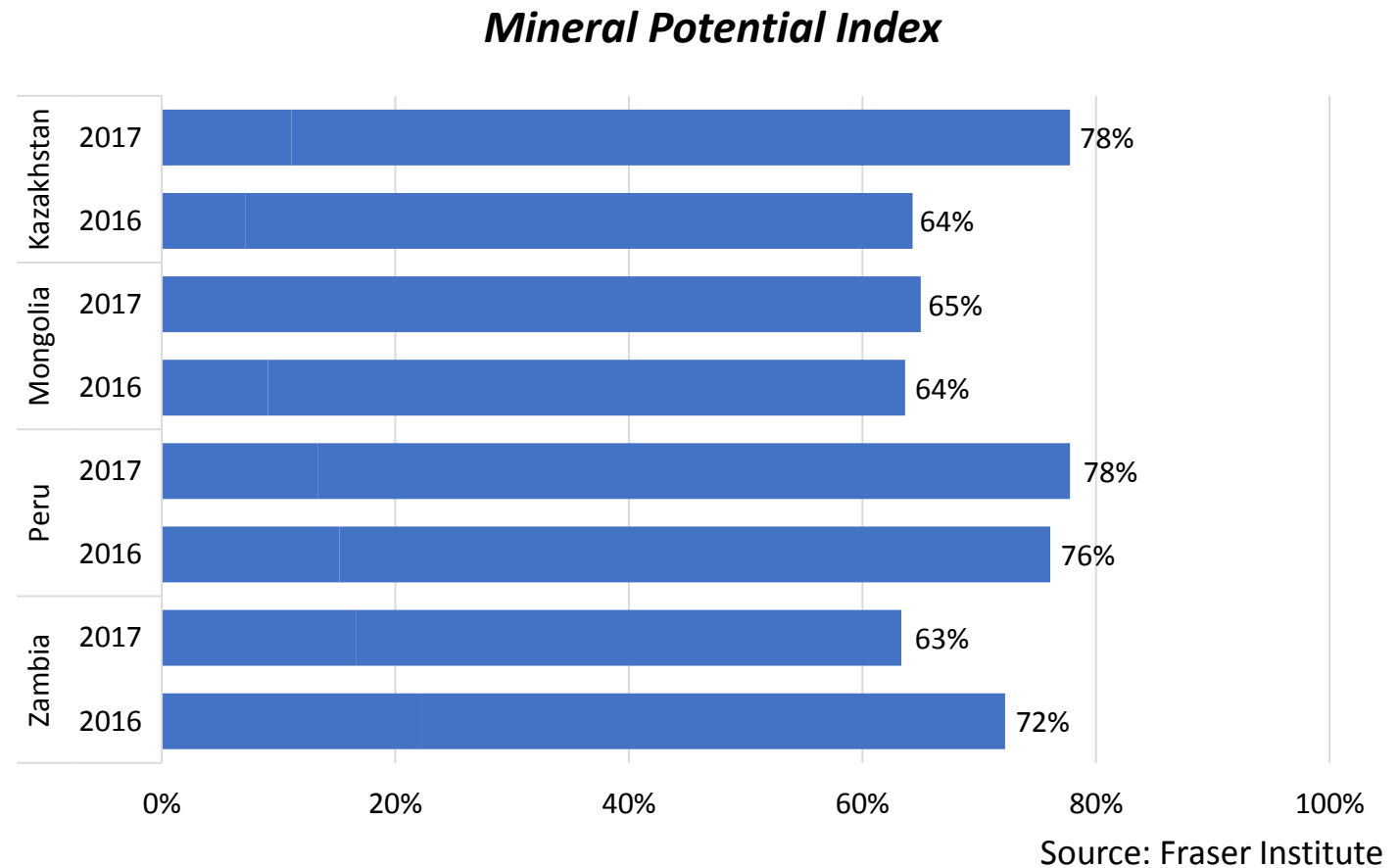
		Kazakhstan	Mongolia	Peru	Zambia
Rank	2018 (out of 180)	124	<b>93</b>	105	105
	2017 (out of 180)	122	<b>103</b>	96	96
	2016 (out of 176)	131	<b>87</b>	101	87
Score	2018	31	<b>37</b>	35	35
	2017	31	<b>36</b>	37	37
	2016	29	<b>38</b>	35	38

Source: Transparency International

- Kazakhstan: stricter criminal code put into effect January 2015
- Mongolia: new criminal code put into effect July 2017 and active investigations by IAAC
- Peru: in 2016, former president was arrested for corruption
- Zambia: progress is being made to fight corruption; however, perception of corruption remains high

# Investment Attractiveness Index

- Region's geology and its mineral potential only determines 60 percent of investment decision
- The remaining 40 percent is determined by policy factors



# Investment Attractiveness Index

- Kazakhstan: improved legal system, decreased uncertainty regarding administration, interpretation, or enforcement of existing regulations and security
- Mongolia: decreased concerns over geological database, availability of labor and skills and uncertainty concerning protected areas
- Peru: decreased concern over availability of labor and skills, improved socioeconomic agreements and community development conditions and labor regulations and employment agreements
- Zambia: increased concern over taxation regime, geological database and political stability

## *Policy Perception and Investment Attractiveness Indices*

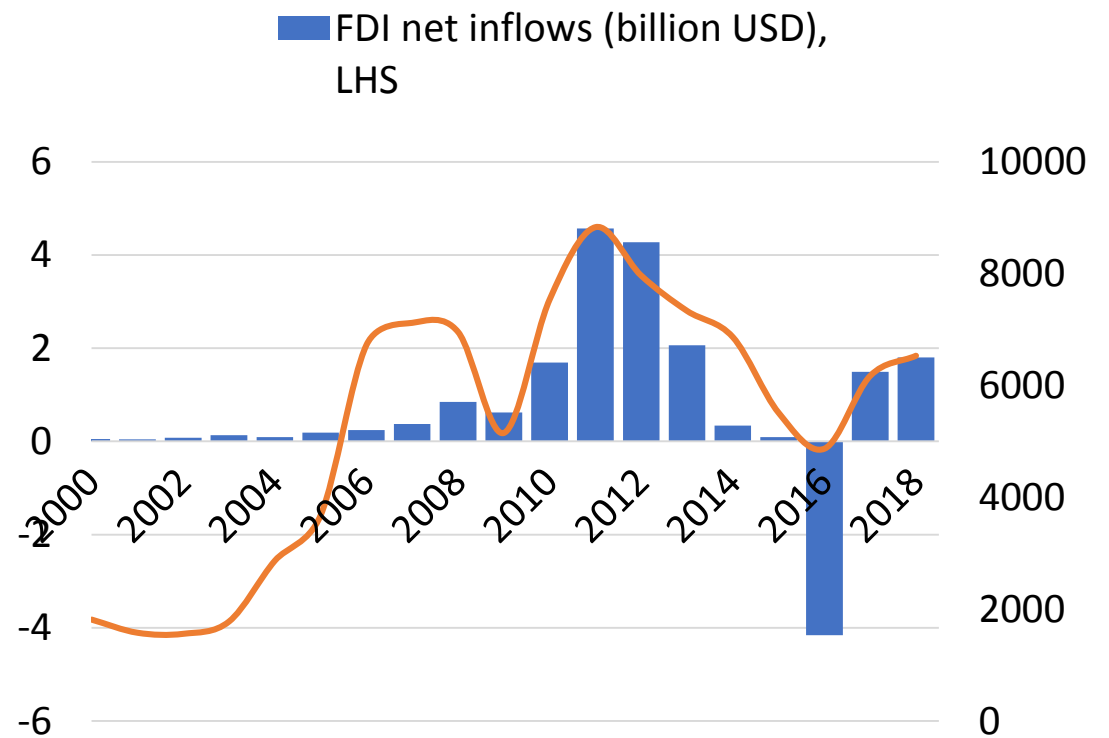
			Kazakhstan	Mongolia	Peru	Zambia
<b>Policy Perception Index</b>	Rank	2017 (out of 91)	59	<b>70</b>	43	71
		2016 (out of 104)	90	<b>101</b>	54	43
	Score	2017	60.91	<b>54.23</b>	68.99	53.34
		2016	38.77	<b>28.08</b>	69.54	73.61
<b>Investment Attractiveness Index</b>	Rank	2017 (out of 91)	24	<b>53</b>	19	58
		2016 (out of 104)	73	<b>81</b>	28	30
	Score	2017	71.03	<b>60.69</b>	74.26	59.34
		2016	54.08	<b>49.42</b>	73.47	72.78

Source: Fraser Institute

# Mongolia

- In 2018, 90% of FDI was concentrated in mega mining projects, such as OT
- Sale of mineral licenses are now subject to 30% tax
  - Taxable base is calculated using indirect methods
  - NPV method implies 30% of a project's NPV may be subject to a 30% gross tax

**Mongolia FDI relative to copper prices**

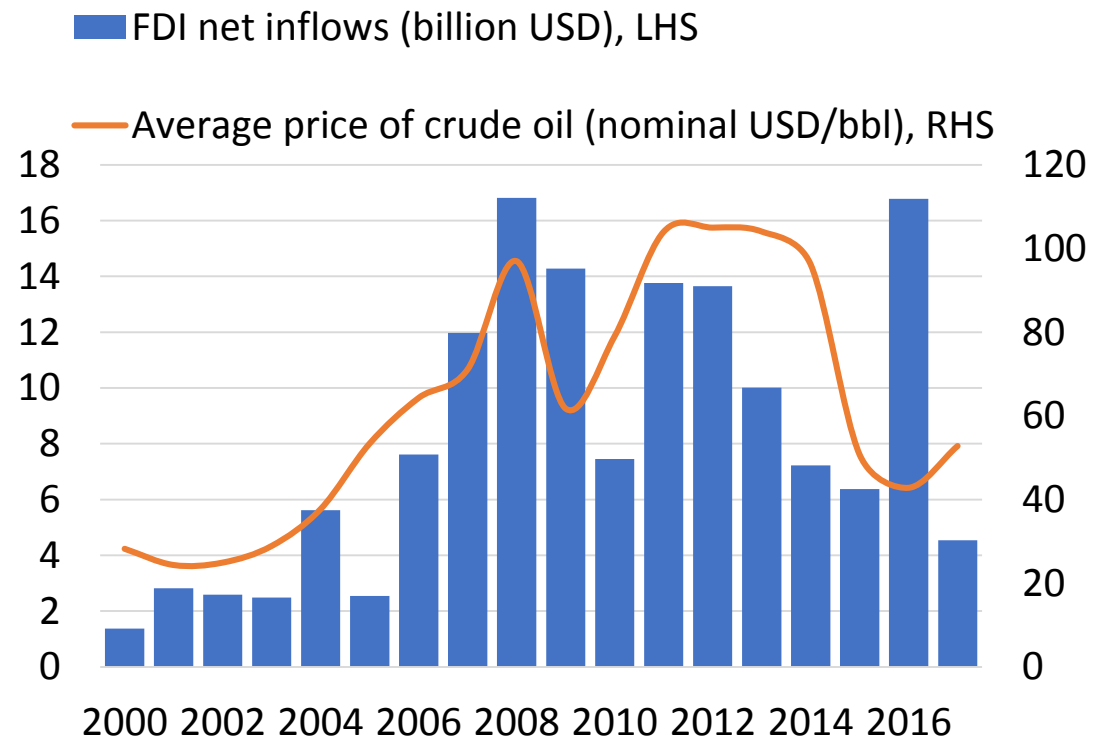


Source: UNCTAD and World Bank

# Kazakhstan

- 2016 FDI is due to \$36.8 billion investment for the Tengiz field expansion by Chevron and others
- New Mining Code went into effect on June 2018 is aimed at attracting foreign investment by offering simplified licensing procedures
- Lifting of suspension on issuance of new subsoil licenses and removal of “local content requirement” from investment contracts

**Kazakhstan FDI relative to crude oil price**

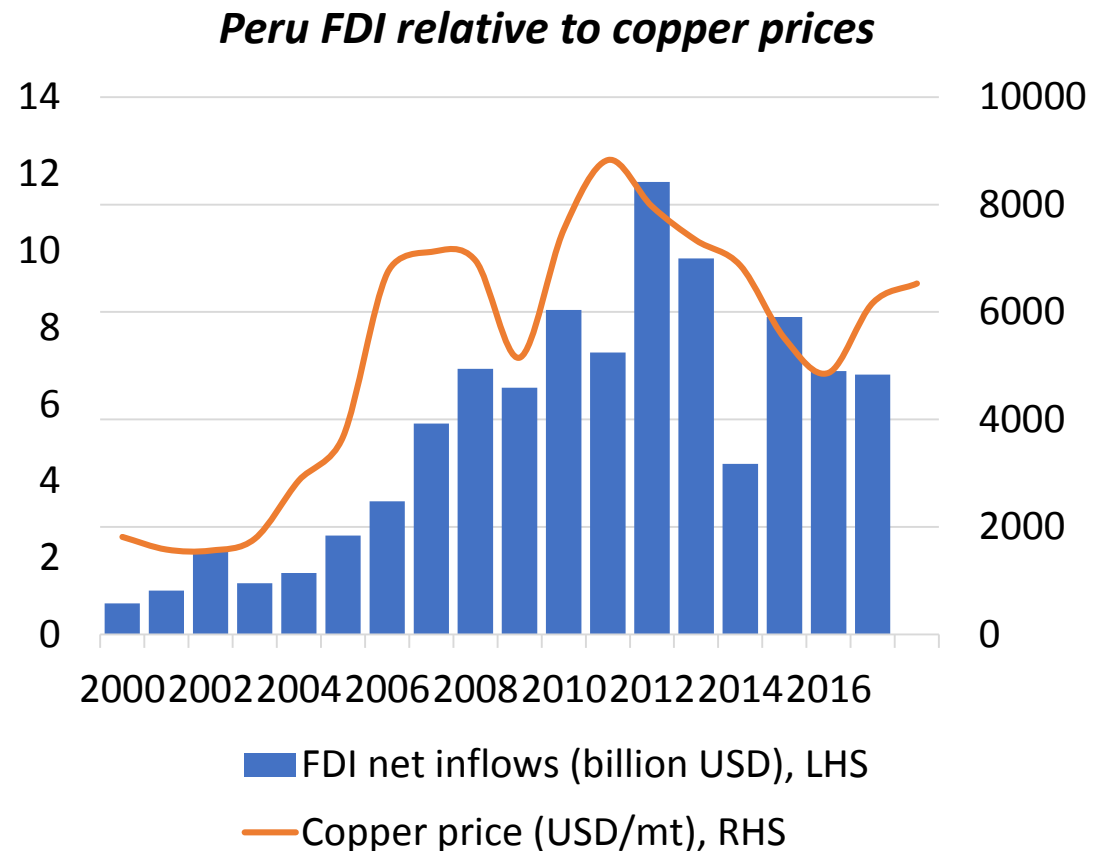


Source: UNCTAD and World Bank



# Peru

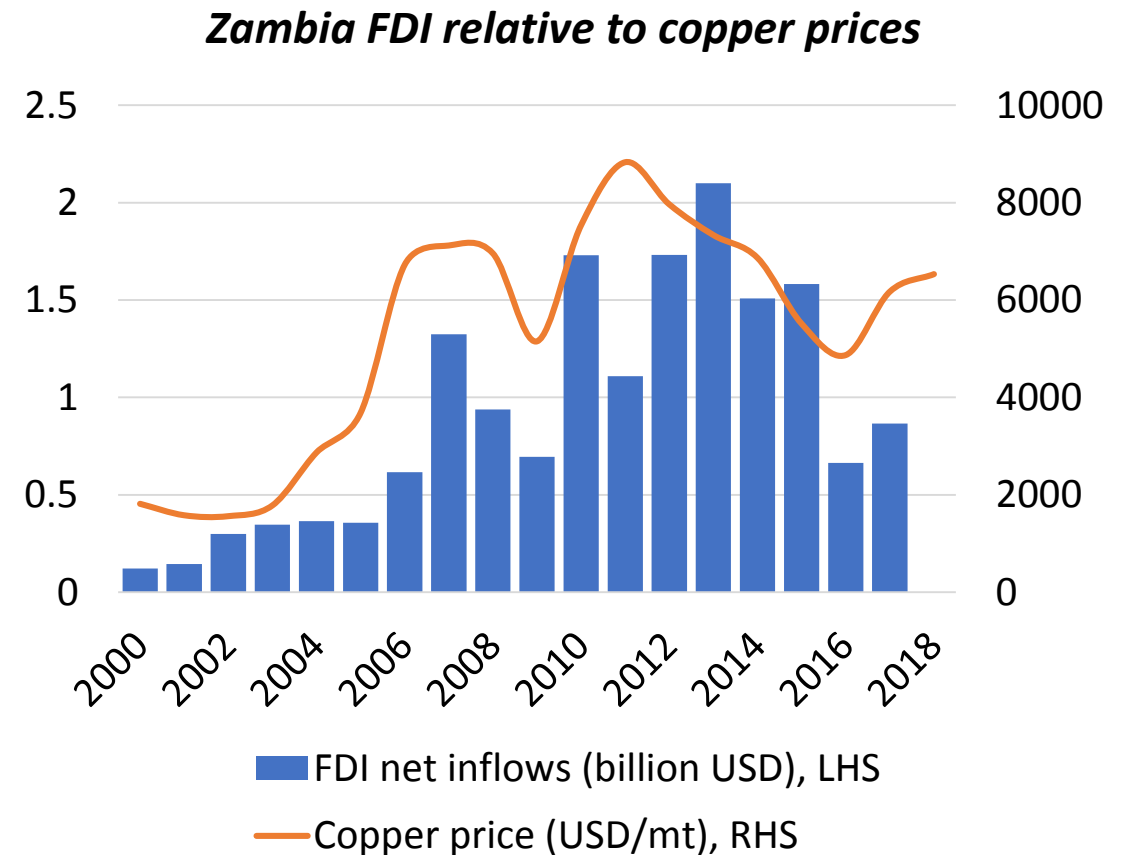
- Mining sector contributes to exports; however, is not a major creator of jobs
  - New mining projects tend to provoke strong opposition on environmental and nationalistic grounds
  - Foreign-owned extractive projects are often source of social unrest
  - Civil protest can cause suspension and cancellation of large investments



Source: UNCTAD and World Bank

# Zambia

- Several revisions to the Mineral Royalty Tax regime has been made since 2014 in response to global commodity prices
- The most recent mineral royalty changes were:
  - 6% if copper prices are less than 4500 USD/ton
  - 7% if prices are 4500-6000 USD/ton
  - 8% if prices are 6000-7500 USD/ton
  - 10% if prices are greater than 7500 USD/ton



Source: UNCTAD and World Bank

# Recommendations

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- Diversification
  - Priority sector: agriculture, such as cashmere and meat industry
  - Identify other sectors which have greatest potential in attracting FDI
- “One stop shop”
  - Provide assistance and help streamline licensing procedures for starting business for foreigners for all sectors, not just mining
  - Accessible online and in-person
- Stable environment
  - Institutional and business environment should be stable, meaning regulations and laws are not frequently changed → investors prefer certainty
  - Implementation of stabilization clauses for long-terms in investment contracts
- Transparency
  - Make all major investment agreements publicly available (currently only OT agreement is available along with a couple of LLAs)
  - Inclusion of local communities and public in discussions during negotiations

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Thank you