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FDI INFLOW IN MONGOLIA

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FDI INFLOW TO MONGOLIA:

COMPARATIVE ANALYSIS OF INVESTMENT ENVIRONMENTS

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Abstract

In resource-rich countries, specifically developing ones, the main determinants of foreign direct investment (FDI) inflows are the availability of minerals for exploitation and the investment climate. As the availability of minerals is an unchangeable factor, countries try to improve their investment climate to attract foreign investors.

The aim of this study is to analyze the investment environments of other comparable countries to develop a set of recommendations which could be implemented in Mongolia based on the best practices of these countries. The countries chosen for comparison are Mongolia, Kazakhstan, Peru and Zambia. These three countries share a number of common aspects with Mongolia. First, they are all considered middle-income countries. Second, the economies are heavily reliant upon the mining and extractive industries. Third, the emergence and development of their mining sectors only began within the past 2-3 decades. Kazakhstan and Peru tend to be well regarded for investments as noted by their rankings on international indices such as Doing Business, Corruption Perception and Investment Attractiveness. Thus, a look at how these countries are able to overcome similar obstacles could provide available insight for Mongolia in improving its investment climate.

Key words: investment climate, institutional analysis, foreign direct investment, mining, natural resources, Mongolia, Kazakhstan, Peru, Zambia

JEL classification: O13, P45, N50, F18, O17

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List of Abbreviations

AIFC	Astana International Financial Center
BoP	Balance of payments
BSAC	British South Africa Company
FDI	Foreign direct investment
FHF	Future Heritage Fund
FSF	Fiscal Stability Funs
GDP	Gross domestic product
IMF	International Monetary Fund
MCA	Millennium Challenge Account
MCC	Mongolia Copper Corporation
MRPAM	Mineral Resource and Petroleum Authority of Mongolia
NGO	Non-governmental organization
NPV	Net present value
NRGI	Natural Resource Governance Institute
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
PSDRP	Private Sector Development Reform Program
SOE	State-owned enterprise
SWF	Sovereign wealth fund
UNCTAD	United Nations Conference on Trade and Development
USD	United States dollar
WTO	World Trade Organization
ZDA	Zambia Development Agency

Introduction

The base "Foreign Direct Investment Inflow into Mongolia" study was first completed in 2017 (Economic Research Institute, 2017). In that study, the research team estimated the impact of FDI on the Mongolian economy, identified the main factors influencing FDI, and how to attract more. A follow-up study was conducted in 2018, in which, indices were updated and the terms of trade of Mongolia and Chile were compared (Economic Research Institute, 2018). The main conclusions from these series of studies were that the economy is heavily dependent upon mineral commodity prices for FDI and low perception of Mongolian policies hinders attraction of investments[1]. Overall, the institutional and investment environment of Mongolia remains significantly underdeveloped compared to Chile.

In this second follow-up study, the investment environments of other comparative countries were analyzed to develop a set of recommendations which could be implemented in Mongolia based on the best practices of these countries. As mentioned in the previous follow-up, the mining sector of Chile has been around for several decades while the Mongolian mining industry is still relatively new. In Chile, investment into the copper industry started to boom in the 1900s (Schmitz, 1986) Additionally, Chile is regarded as a high-income country by the World Bank while Mongolia is categorized as lower middle income (World Bank, 2018). Thus, Chile is an example of the mining industry and economy Mongolia should strive to achieve in the long-term. However, in the short-term, Mongolia should analyze the mining sector and economy of similar countries such as Kazakhstan, Peru and Zambia to understand the policies and measures to adopt as well as to avoid in attracting foreign investment in the short and medium term.

These three countries were chosen for this comparative study as they shared a number of common features with Mongolia. First of all, they are all considered middle income countries. Secondly, their economies are strongly dependent upon the mining and extractive industries. Third, the emergence and development of their mining sectors began within the past 2-3 decades.

Kazakhstan and Peru tend to be well regarded for investments as noted by their rankings on international indices such as Doing Business, Corruption Perception and Investment Attractiveness. Thus, a look at how these countries are able to overcame similar obstacles could provide available insight for Mongolia which can then be applied to improve the institutional and investment environment of Mongolia.

[1] Both studies are available on the Economic Research Institute website (www.eri.mn).

1. Investment Climate

In resource-rich developing countries, the main determinant of foreign direct investment inflows, besides availability of mineral for exploitation, is the investment climate. The investment climate is determined by regulatory and institutional factors such as strategies, programs and legislations pertaining to foreign direct investment, competitiveness, trade barriers, corruption and so on. However, something to keep in mind is that each respective country's history has a significant impact on the country's attitude towards foreign investors, exploitation of natural resources and development of the country's regulatory framework. The foundation of the legal system and regulations are strongly influenced by past forms of government (monarchy, communism, dictatorship, etc.).

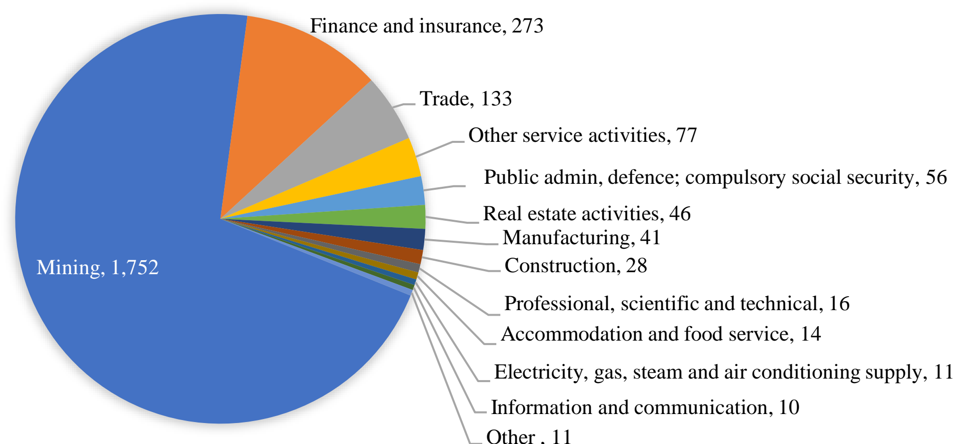
1.1. Mongolia

After achieving independence from the Qing Dynasty in early 20th century, Mongolia came under strong Russian and Soviet influence such that Mongolian politics began to follow the same patterns as the Soviet politics of the time. Upon the collapse of the Soviet Union, Mongolia experienced a Democratic Revolution in early 1990, which led to a new constitution in 1992 and a rough transition to a market economy. However, inertial effects of the socialist era has been widely observed in the political and social spheres in the country.

For the last three decades, Mongolia has tried to reform independently its legal and institutional systems with assistance from developed countries and international organizations. The government has been actively attempting to implement measures to improve the regulatory environment for foreign investment and diversify its trade. Landlocked between Russia and China, export destinations are limited by access and trading channels are dominated by these two power countries. The exports of its mining sector are especially sensitive to Chinese demand and over 90 percent of Mongolia's petroleum imports are from Russia due to an absence of domestic refining capacity.

The Mongolian government is aware that its economy is heavily dependent on the mining sector and have proposed plans and strategies to diversify the economy by attracting investment into other sectors such as tourism, agribusiness and e-commerce. However, some of the main impediments to these projects are ineffective implementation and lack of financing.

Figure 1. Foreign direct investment inflows by economic sector in 2018, million USD



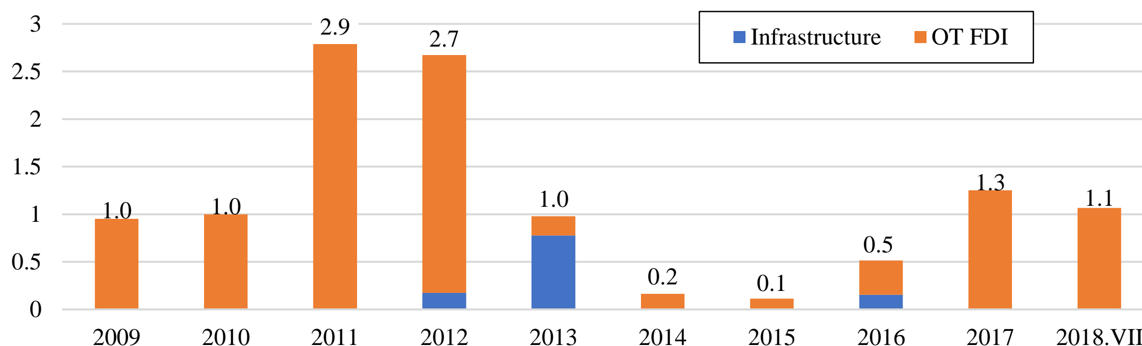
Source: NSO

For instance, in 2018, 71 percent (USD 1.8 billion) of USD 2.5 billion of foreign direct investment inflows into Mongolia were sourced to the mining sector. Within the foreign direct investment into the mining sector, a large portion of it is towards the Oyu Tolgoi project as evidenced below.

Box. Oyu Tolgoi

Oyu Tolgoi is the largest mine in operation and the main source of investment into Mongolia. Between 2010 and 2015, Oyu Tolgoi spent more than USD 5.4 billion in Mongolia in the forms of salaries, payments to Mongolian suppliers, taxes and other payments to the government.

Figure 2. Foreign direct investment into Oyu Tolgoi, billion USD

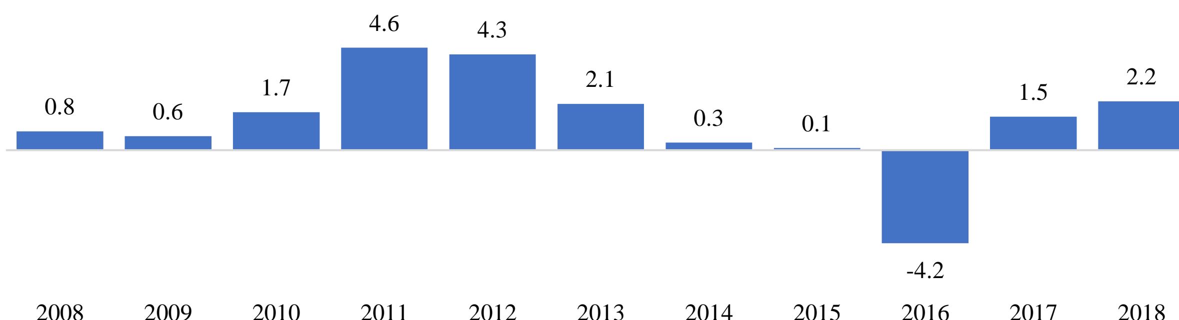


Source: Oyu Tolgoi, Consolidated State Budget 2019

In 2015, USD 4.4 billion financing package was agreed upon for the development of the underground mine. The lender ranged from commercial banks to international financial institutions such as BNP Paribas and Export Development Canada.

FDI inflows to Mongolia have illustrated a boom-to-bust trend during the last decade. FDI inflows increased drastically following the expansion of the mining sector and, in particular, the development of the Oyu Tolgoi surface mine. After 2011, however, weak commodity prices along with deteriorating investors' sentiment in Mongolia led to the ultimate drop in FDI inflows.

Figure 3. Mongolian FDI inflow, 2008-2018, billion USD



Source: Bank of Mongolia

The continuous decline in FDI since 2011 was reversed in 2017 when it reached USD 1.5 billion. This improvement was due to higher commodity prices, a clear indication that commodity prices heavily influence investment into Mongolia. The negative FDI inflow in 2016 of USD 4.2 billion was mainly due to reclassification of USD 3.8 billion of investment into Oyu Tolgoi. The GoM's 34 percent stake in the Oyu Tolgoi project was registered as FDI on the balance of payment at the time of initial agreement in 2009. However, in 2016, the 34 percent stake was reclassified as a foreign loan as the stake is financed by the profits the GoM receives in the future. With improvements in the macroeconomic situation, mineral prices are projected to rise and the expansion of the Oyu Tolgoi mine is expected to further increase FDI inflows into Mongolia.

Although Mongolia's tax rate has been declining steadily from 2006 to 2016, the rising sentiment in favor of resource nationalism and allegations of tax avoidance will likely prompt the government to negotiate higher royalties and tax rates from new mining concessions. On 10 November 2017, the Mongolian Parliament approved several amendments to the General Taxation Law and other relevant legislations as part of the 2018 Fiscal Budget. One of these changes, which became effective from 1 January 2018, was the tax treatment of 'indirect transfer' for the sale of an entity owning land rights or exploration and mining licenses which has been identified as a tax avoidance concern for many years. The amendments are notable in that they are the first attempts to embody a rule that seeks to tax beneficial owners rather than immediate holders, thus eliminating an historical narrow view on the sale of rights. These amendments will affect companies operating across all industries that hold land rights and mineral licenses.

The lack of expertise in commercial law and market experiences have translated into weakened contract enforcement in Mongolia. Additionally, judicial corruption is perceived to be common. Despite these factors, Mongolia performs relatively well in contract enforcement and dispute resolution relative to its peers. According to World Bank estimate, the time required to resolve a standardized commercial dispute through a local first-instance court is 374 days and costs around 23 percent of the claim value (World Bank, 2019). These indicators all far better than the regional averages of 581 days and 47 percent of claim value, respectively.

In August 2016, Mongolia established a cabinet-level investor protection council which was designed to receive investor feedback concerning difficulties in undertaking investments and settling investment disputes through negotiations. The 2013 Investment Law provides guarantees for investors against illegal confiscation, citing that private properties can only be expropriated by due process and with full compensation according to prevailing market rates. Additionally, the 44 bilateral investment treaties signed by Mongolia with other countries provides extensive investment protections, stating that foreign investments will be treated equally and fairly, without discrimination relative to domestic investment. These treaties also provide guarantee against arbitrary expropriation, requiring such actions to be compensated according to international law. One of the instances of state expropriation of private investment was the suspension of uranium licenses owned by Khan Resources, a Canadian company. As it had no breached Mongolian law, the private investor has won at the international arbitration and the Government of Mongolia had to pay a large amount of payment to the investor.

Based on the expressed sentiments of investors and indices measuring the attractiveness of countries for foreign investment, concerns about the volatility of the economy based on mineral prices, political and legislative instability, lack of transparency and corruption remain deterrents to inflow of investment.

1.2. Kazakhstan

Strategically located between Europe and Asia, Kazakhstan is the largest landlocked country. Under Soviet rule since 1920, collectivization policies were implemented which forced individual farms to form large collective farms, and private businesses were nationalized. Like other socialist countries, the Soviet law became an instrument for the implementation of party policies and national economic planning. Kazakhstan declared independence in 1991, at which point, Nursultan Nazarbayev became president. Despite the fact that Kazakhstan is a presidential republic, Nazarbayev has been the president for the past 29 years and his leadership has been described as increasingly authoritarian.

Kazakhstan moved from lower-middle-income to upper-middle-income in less than two decades. Despite the recent fast-paced growth, its economy is highly vulnerable to external shocks, which has hampered stable and sustainable development. External demand from China and Russia, Kazakhstan's main trading partners, as well as global oil demand and prices continue to impact economic

performance. With 30 billion barrels of proven oil reserves and 85 trillion cubic feet of gas reserves, Kazakhstan is one of the top 15 global gas producers in the world.

The Kazakh government is aware that the economy is overly reliant upon the oil and extractive industries to drive the economy and as such, has been attempting to diversify its economy. To wane economic dependence on natural resources, the government has implemented a number of structural and institutional reforms aimed at promoting non-oil sectors and foreign direct investment. In May 2015, President Nazarbayev announced the "100 Concrete Steps," structured around four major pillars: professionalizing public administration; enforcing the rule of law; increasing state transparency and accountability; and fostering economic diversification and growth[2]. The program is aimed to help achieve the national goal of becoming one of the top 30 developed countries by 2050.

Additionally, Kazakhstan's trade barriers will likely decrease further with Kazakhstan's accession into the World Trade Organization (WTO) in 2015. Kazakhstan was in negotiations for 20 years before officially accessioning into the WTO. One of the reforms implemented following the accession was simplification of the procedure for hiring foreigners.

An issue faced by foreign investors was the domination of state-owned enterprises (SOEs) and the existence of monopoly sectors in Kazakhstan's economy (OECD, 2017). To address this, the government plans on reducing the government's share in the economy to 15 percent by selling more than 800 companies and some of Samruk-Kazyna[3] assets as part of its privatization program, which is outlined in the Comprehensive Privatization Plan for 2016-2020 (Samruk Kazyna, 2018).

Incentives

Kazakhstan's Entrepreneurial Code also contains some investment incentives for customs duties, taxes, and non-taxes benefits for certain sectors. The presidential decree, in August 2014, established priority sectors for priority investment projects. Six priority areas, divided into 14 priority sectors were defined. Generous tax incentives are provided based on the type of investment, location or activity. Tax and non-tax incentives related to the so-called special investment projects, priority investment projects or strategic investment projects are discretionary as investors must enter into negotiations with the responsible state agency in order to be granted preferences.

Facilitation

In 2015, Kazakhstan piloted a one-stop-shop for investors implementing priority investment projects. Upon the success of the pilot, the one-stop-shop service was extended to all investors in 2016 and now is working on implementing the service across all regions. The objectives of the one-stop-shop for investors is to provide: consultation on public services; assistance in preparation and processing of documents necessary for obtaining public services; assistance in the obtaining of electronic digital signature, online applications and other documents; and accompanying of investors in obttaining these services through the respective authorities. These services are all conducted in accordance with the procedure established by the Entrepreneurial Code of Kazakhstan as well as the Rules for the Organization of the "One-stop-shop" for investors, approved in 2015.

Dispute resolution

[2] Step 74 of the "100 Steps" program specifically targeted increasing the transparency of the extractive industry which is often criticized for corruption and lack of transparency.

[3] Samruk-Kazyna JSC was founded in 2008 by a presidential decree with the government of Kazakhstan as its sole shareholder. Samruk-Kazyna manages several national companies operating in key economic sectors, such as oil and gas, transportation and logistics, chemical and nuclear industry, mining and metallurgy, energy and real estate.

With the opening of the Astana International Financial Center (AIFC) in January 2018, which incorporates a special court intended especially for foreign investors based on English law, the stigma of courts favoring governments over private businesses may decrease. The AIFC special court is intended to increase the transparency and predictability of the judiciary, which is an expressed concern of business representatives and investors. Additionally, Kazakh authorities have been trying to improve the attractiveness of arbitration or mediation for dispute resolutions. These dispute resolution mechanisms are anticipated to streamline the court system by decreasing caseloads handled by Kazakh courts.

1.3. Peru

From the 16th to 19th century, modern day Peru was a Spanish colony. While other Spanish colonies struggled for independence during 1810s, Peru remained loyal. Ultimately, Peru's independence was achieved primarily by outsiders. The transition from a colonial dependency to a modern state was difficult and riddled with a number of changes in rules. From 1930 on, Peru went from a democracy to a dictatorship and back to an elected government and back to military rule before finally becoming a unitary presidential republic with a multi-party system. Peru's political history of military coupes and changes in constitution has adversely impacted its economic development over the years until recently.

Agriculture has historically been the main driver of Peruvian economy, providing the bulk of employment and output. However, the economy has been diversifying in the past two decades. Peru is one of the world's leading producers of copper, silver, lead, zinc, gold, iron ore, natural gas and so on. As such, the mining and service sectors have increasingly become a key economic sector. Recent economic growth has been supported by increased investment, particularly in the mining sector.

The WTO published a Trade Policy Review on Peru in 2013, in which, it was commented that foreign investors generally receives the same legal treatment as local investors; however there are some restrictions in maritime services, air transport and broadcasting (World Trade Organization, 2013). It was also noted that the Peruvian government promotes public-private partnerships to build infrastructure, with tax exemptions and low-cost financing available for domestic and foreign investors alike.

Peru offers both domestic and foreign investors legal and tax stability agreements to stimulate private investment. These agreements guarantee that the legal and tax regimes in effect at the time of the investment contract will remain unchanged for that investment for 10 years. In order to qualify for this stabilized investment agreement, the investment must exceed USD 10 million in the mining and hydrocarbons sector and USD 5 million in other sectors. An agreement to acquire more than 50 percent of a company's shares in the privatization process may also qualify for this type of agreement, provided that the added investment will expand the installed capacity of the company or enhance its technological development.

The Peruvian government initiated an extensive privatization program in 1991, which is not yet complete. Multi-year concessions were promoted to attract investment in major projects; however, the concession process remains difficult for international companies interested in bidding on these projects (U.S. Department of State, 2018). ProInversion, the government agency in charge of promoting private investments, have come under considerable criticism in recent years over its bidding process, deadlines, and unrealistic timetables. As such, most international investors have limited interest in these concession projects.

Peruvian legal framework supports international investment, especially as it continues to sign bilateral investment treaties and free-trade agreements (UNCTAD, 2018). The legal system favors contract stability and encourages both domestic and international investment. However, similar to most developing countries, the enforcement of contracts or judicial verdicts is slightly problematic as

corruption is widespread. Judicial reforms are likely to continue being the prevailing topic in the short to medium term, especially after unsuccessful efforts to reform the system by several administrations.

Former president Pedro Kuczynski had promised to crackdown on corruption; however, he himself was forced to resign over corruption claims. Thus, under President Martin Vizcarra, Peru will need to undertake substantial measures and reforms to appease the public and investors. Another major concern affecting foreign investors is the inconsistent enforcement of legislation and its implementation (U.S. Department of State, 2018).

1.4. Zambia

In 1964, Zambia became independent of the United Kingdom. Zambia's initial constitution was abandoned in 1973 when it became a one-party state; however, in response to riots and an attempted coup, the constitution was changed back in 1991 to a multiparty system.

Currently, Zambia is recovering from an economic crisis from 2015-2016 brought on by significant declines in copper prices, electricity shortages from the mismanagement of the hydroelectric generation facilities and a weak local currency. The economy experienced a slight boost in 2017 following a surge in copper prices. Zambia's dependence on copper exports is strongly influenced by its past when the British South Africa Company exploited the country for copper. As such, the main drivers of the economy and inflow of foreign direct investment continues to be the mining sector.

Zambia has undertaken several institutional reforms aimed at improving the attractiveness of the country through the Private Sector Development Reform Program (PSDRP) and the Millennium Challenge Account (MCA), which address issues related to cost of doing business, transparency and governance. Despite years of reform, Zambia has a mixed record on upholding contracts due to inefficient and lengthy processes. The Zambian judicial process can be slow, with a large backlog of cases. According to the 2019 Doing Business report, the process of enforcing contract takes around 611 days. Government have cancelled or renegotiated a number of contracts signed under former administrations in mining, telecommunications and banking sectors. Some investors believe that the state is attempting to nationalize; however, former president Michael Sata have denied that nationalization was on the policy agenda. Frequent government announcements such as plans to evaluate tax and royalty increases on mines, limit private sector land leases, or limit certain crop exports create uncertainty for foreign investors.

The Zambia Development Agency (ZDA) Act provides a number of investment incentives for foreign and domestic investors. Under the Income Tax Act or the Customs and Excise Act, investors who invest a minimum of USD 500,000 in a Multi-Facility Economic Zone, an industry park, a priority sector or a rural enterprise under the ZDA Act, are entitled to the following fiscal incentives:

- A corporate tax rate of 0 percent for 5 years from commencement of operations;
- Taxation on only 50 percent of profits in year 6 through 8 from commencement of operations and only 75 percent for years 9 and 10;
- 5-year exemption on dividend taxes following the first year of declaration;
- 5-year customs duties exemption on imported machinery and equipment; and
- Improvement allowance of 100 percent of capital expenditure on improvements or upgrading of infrastructure.

For investments of a minimum of USD 250,000 in any sector or product, the investor, in addition to the incentives above, is entitled to investment guarantees and protection against state nationalization along with free facilitation for application of immigration permits, secondary license, land acquisition, and utilities. As for major investment of a minimum of USD 10 million, the Minister of Finance may specify additional incentives.

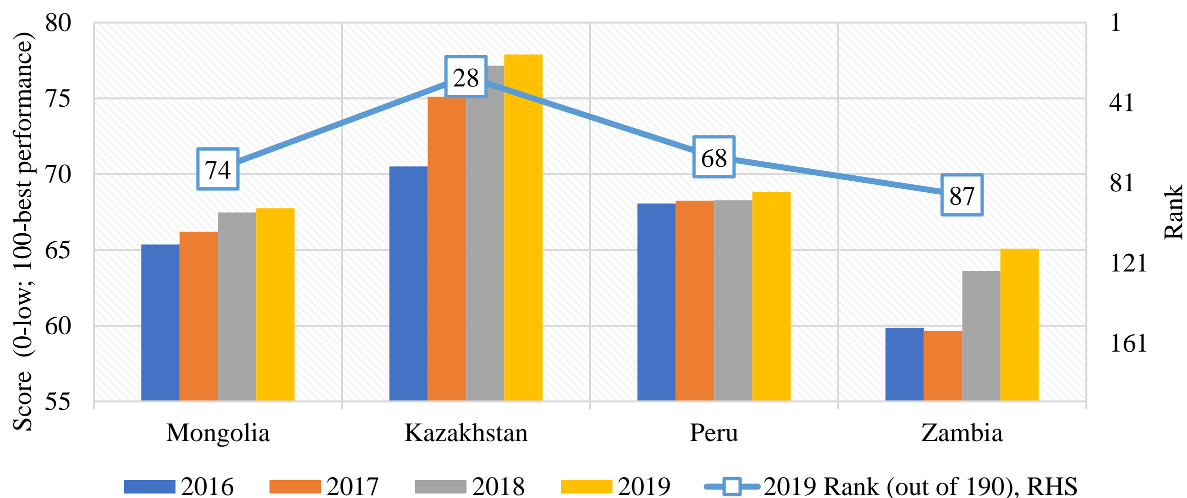
The Minister of Finance, during the presentation of 2018 national budget, proposed discontinuing the 5-year income tax holiday and instead proposed granting accelerated depreciation for capital expenditures. The proposal was intended to safeguard government revenues which were eroded through tax holidays. However, this proposal was met with criticism from foreign investors and even deterred some investors from putting additional investment in the country. The proposal has not been enacted yet; but will likely hurt FDI inflows if implemented.

1.5. Doing Business 2019

World Bank's Doing Business survey measures regulations affecting 11 areas of business. In this year's ranking on the ease of doing business, 10 of these areas were include, which were: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Measure of labor market regulation was not included in this year's ranking.

Mongolia's Doing Business ranking deteriorated to 74th from 62nd. Mongolia's Doing Business score improved slightly as enforcement of contracts was made easier with the reduction in the fees that are advanced by the plaintiff to enforce a judgment. Despite the enforcing contract reform, Mongolia's rank fell as 128 economies introduced substantial regulatory improvements with a record 314 regulatory reforms captured between 2 June 2017 and 1 May 2018.

Figure 4. Ease of Doing Business 2019



Source: World Bank

Kazakhstan jumped from 36th last year to 28th out of 190 countries in the 2019 World Bank Doing Business Report. The 8-place increase in ranks was due to improvements in three areas: enforcing contract, starting businesses and trading across borders. In making enforcement of contracts easier, Kazakhstan made decisions rendered in commercial cases publicly available and published performance measurement reports on local commercial courts. Kazakhstan also made starting a business easier by reducing the time required for value added tax registration. Trading across borders improved as Kazakhstan introduce an electronic customs declaration system, ASTANA-1 IS and reduced customs administrative fees in the past year.

Peru's rank deteriorated from 58th last year to 68th currently. However, its score observed a slight improvement which implies that the downgrade in ranking is due to more regulatory improvements in other economies. The two areas of improvement were starting a business and dealing with construction permits. The time required to obtain the municipal license and building safety technical inspection from

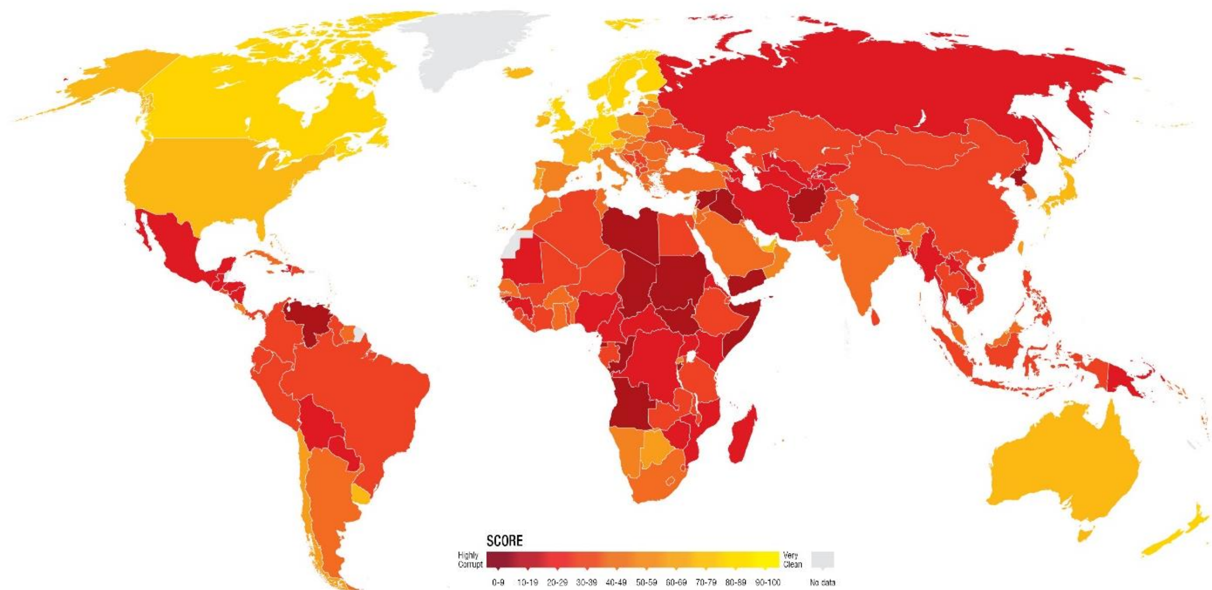
the district council was reduced which led to an improvement in the starting business score. Peru was also able to strengthen construction quality control by imposing stricter qualification requirements for professional in charge of technical inspections.

Similar to Mongolia and Peru, Zambia observed a slight decline in its rank from 85th last year to 87th this year despite improvements in one of the 10 areas analyzed in the Doing Business report. Zambia made enforcing contracts easier this year by making judgments rendered in commercial matters at the appellate and supreme court levels available to the general public online.

1.6. Corruption Perception Index

It was noted in the 2018 Corruption Perception Index press release that a majority of countries have made little to no progress in ending corruption with more than two-thirds of countries scoring below 50.

Figure 5. Corruption Perceptions Index 2018 Map



Source: Transparency International

In 2018, Mongolia's Corruption Perceptions rank improved from 103rd to 93rd. The law provides criminal penalties for corruption by officials; however, implementation is not very effective and thus, corruption persists at all levels. Mongolia put into effect a new criminal code on 1 July 2017 which introduced stricter liability for corruption and corruption-related offenses for public servants and government officials (also extending to immediate families of government officials).

Additionally, in March 2017, the government developed a three-year action plan to implement the National Program Combatting Corruption which was adopted in November 2016. The Anti-Corruption Law has been amended several times over the years; however, there is still no legislation which protects NGOs and other organizations investigating and reporting government corruption. Another measure implemented by the government since July 2017 aims to reduce the use of offshore bank accounts by government officials to combat corruption. In relation to this, the Independent Authority Against Corruption announced in early 2018 that several current and former public officials associated with offshore bank accounts were being subject to active investigation.

Similar to other countries, corruption is widespread in Kazakhstan. Kazakhstan's 2018 Corruption Perceptions Index score was 31 out of 100, ranking 124 out of 180 countries. 31 is relatively a weak

score but relative its score in 2017, Kazakhstan's score remained the same while its rank decline slightly. Kazakhstan's rank and score remains below that of the other three countries being compared. Corruption remains a serious challenge for Kazakhstan and a continued concern among foreign investors. On 26 December 2014, President Nazarbayev signed into law the 2015-2025 anti-corruption strategy which focused on measures to prevent the conditions fostering corruption. In 2015, the "On Countering Corruption" law was signed as part of President Nazarbayev's Five Institutional Reforms program, which introduced broader definitions of corruption, corruption policy and risk, anti-corruption monitoring and analysis, and stronger financial accountability.

In addition to the strategy and program, a new Criminal Code was put into effect on 1 January 2015, to toughen criminal liability and punishment for corruption. Under the new code, probation was no longer allowed for corruption crimes and a new penalty of a life ban on employment in the civil service was introduced with mandatory forfeiture of title, rank, grade and state awards. Despite these institutional and regulatory reforms, corruption still poses a significant obstacle to foreign investment for Kazakhstan.

Table 1. Corruption Perceptions Index 2018

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

Source: Transparency International

The issue of corruption remains a critical obstacle in FDI inflow into middle to low-income developing countries. Peru's ranking on the Corruption Perceptions Index in 2018 decline slightly relative to the previous year, a nine-place decrease in rank. One of the largest cases concerning corruption began in December 2016 when Brazilian company Odebrecht admitted in a settlement with the United States, Brazil and Switzerland that it had paid USD 29 million in bribes to Peru between 2004 and 2015 (U.S. Department of State, 2018). This led to the arrest of former President Alejandra Toledo on 9 February 2016 when it was alleged that Toledo received USD 20 million in bribes from Odebrecht in exchange for facilitating their winning bid to build the Inter-Oceanic Highway. A number of high-ranking officials from within the last four Peruvian administrations have been linked to this scandal. An emergency decree was issued in 2017 restricting the sale of Odebrecht assets to ensure payment of corruption-related reparations.

It is illegal in Peru, similar to Mongolia, for a public official or employee to accept any type of outside remuneration for the performance of his or her official duties, with the law extending to family members of the officials and to political parties. Futher regulations on these matters were published in March 2017 with the aim to limit these conflicts of interests.

Zambia's score on the Corruption Perceptions Index fell by two points to drop its rank from 96th in 2017 to 105th in 2017, same ranking as Peru. Zambia has made some progress in fighting against corruption in the last decade; however, in recent years, the perception of corruption has increased as highlighted by the 18-place drop on the Corruption Perceptions Index within the last two years. Efforts have been made to reduce red tape and streamline bureaucratic procedures and investigate and prosecute corruption cases, including those involving high-ranking officials; however, these cases are still awaiting trials while the officials continue residing in their positions. The Zambian government also encourages private companies to establish internal codes of conduct which prohibit bribery of public officials.

2. FDI into Extractive Industries

The extractive industry plays a key role in driving economic growth and foreign direct investment in Mongolia, Kazakhstan, Peru and Zambia. In this section, each respective country's facilitation and promotion of foreign direct investment into the extractive industries will be briefly analyzed.

2.1. Mongolia

As mentioned in the previous section, the main source of FDI inflows into Mongolia is the mining sector, specifically the Oyu Tolgoi project. Other sectors are able to benefit from the spillovers of the FDI into mining through means of indirect investment into infrastructure and/or increased business activities.

In 2018, 90 percent of FDI was concentrated in mega mining projects such as Oyu Tolgoi (Byambasuren, 2019). As of December 2018, FDI in Mongolia was USD 1.8 billon, an increase of USD 422 million relative to the same period in 2017 (Bank of Mongolia, 2018). The Ministry of Finance expects 2019 investment in Oyu Tolgoi to be USD 1.3 billion.

In the section above, it was mentioned that the General Taxation Law was amended. Some of these amendments are expected to have a sizable impact on the mining sector – in particular, the tax of indirect transfers. The following changes were made to the tax concerning transfer of land rights and exploration and mining licenses (the Rights):

- A new tax provision clarified that the transfer of land rights, including land possession or usage rights and mineral licenses, including exploration or mining rights, are subject to 30 percent withholding tax on a gross basis;
- Introduction of new tax rules to re-characterize (or deem) all or part of a transaction involving the transfer of the Rights as a direct transfer and tax the beneficial owner, resulting in a 30 percent tax on the determined taxable base;
- Introduction of comprehensive methodologies to determine the taxable base for the Rights transferred, giving the tax authority a right to compare and adjust the transaction value with alternative approach;
- New administrative obligation for companies holding the Rights to disclose and register their beneficial owners with the Legal Entity Registration Office and tax authority no later than 1 June 2018;
- Taxable legal persons should notify and register the Rights with relevant authorities for any change in beneficial ownership;
- Put forward sanctions that could terminate the Rights by government agencies for failing to comply with the new rules.

A direct transfer involves the disposition of a direct ownership interest in land and mineral rights. Historically, there were uncertainties about whether the sale of land right or a mineral license fell under the category of "sale of rights" for tax purposes as the definition was unclear. However, now with the amendment, it is treated as a "sale of right" and subject to 30 percent tax on the gross transfer value. The term "beneficial owner" is broadly defined as a legal person who participates directly or indirectly in control, management of assets of the Rights and who:

- Has greatest percentage of voting rights in the Right Holder;
- Has greatest percentage of shares or owns the largest share of the company value in the Right Holder; and/or:
- Is in any other similar circumstances in a similar nature to those indicated above.

The section of the new tax amendments of most interest to investors are concerning those of exploration license and mining licenses, thus, the following paragraphs will discuss the relevant amendments in detail as well as their potential impacts. Taxable base for transferring an exploration license is in reference to the contract price agreed between buyer and seller on an arm's length basis. However, this price may be disregarded and replaced with a value determined by a certain indirect assessment method if the contract value is less, by 20 percent or more, than the lower of the values determined using the two indirect methods. In that case, the taxable base is the lower value of the two indirect methods used, which is either the comparable benchmark or cost-based method.

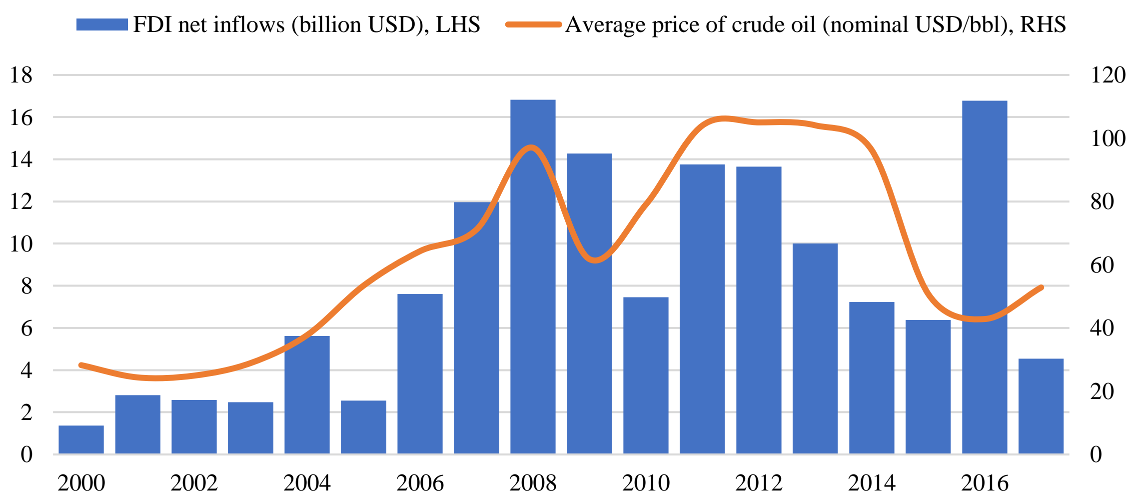
Determination of taxable base for transferring a mining license is similar to that of the exploration license, except one of the indirect assessment methods used is different. The other method that is utilized is the net present value (NPV) based method. The NPV of the particular mining project is sourced from the Feasibility Study submitted to the Mineral Resource and Petroleum Authority of Mongolia (MRPAM).

In the case of mining license transfers, the use of the NPV based method to determine the taxable base may put at the risk the entire NPV value of mining project at a risk of 30 percent gross tax, which can be seen by investors as an unreasonably high tax cost. The tax rate of 30 percent may harm foreign investors more than addressing the tax avoidance concerns. Favorable tax environments and benefits are viewed as one of the main incentives for foreign investors. Also, of note is that Oyu Tolgoi would exempt from this tax amendment due to the stabilization clause included in its 2009 Investment Agreement.

2.2. Kazakhstan

Following independence after the collapse of the Soviet Union, the oil sector has been the main recipient of foreign direct investment. As observed in the figure below, the volume of foreign direct investment inflows in Kazakhstan correlate to the average crude oil price movements. The surge of FDI in 2016 during a fall in oil prices is due to the $36.8 billion investment made into the Tengiz field expansion, the Future Growth Project – Wellhead Pressure Management Project, by Chevron and partners. The Tengiz field is one of the world's largest and accounts for more than a third of Kazakhstan's total crude output. The expansion was the biggest investment decision made in 2016, one of the three major projects in recent years, the other two being Statoil's Johan Sverdrup and Shell's Appomatox.

Figure 6. Kazakhstan FDI inflows relative to crude oil price, 2000-2017



Source: World Bank and UNCTAD

As seen in the list of priority investment sectors, the extractive industry continues to be the main recipient of foreign investment. Within the reforms in the overall Khazastan legal framework, some provisions are specifically drafted for the extractive industries. Article 30 of the Kazakh Law of Subsurface and Subsurface Use (Subsurface Law) from 2010 provides investors in the extractive industries protection to their rights and states that changes and additions to legislation which adversely affect entrepreneurial activity do not apply to contracts entered into prior to making these changes and additions. Though, the government is currently preparing a new Subsurface Use Code (later renamed to Mining Code) to replace the Subsurface Law.

The new Mining Code, which went into effect on June 2018, is aimed at attracting foreign investment by offering simplified licensing procedures. According to official data, only about 15 percent of Kazakhstan's vast proven metal deposits are being extracted. The underutilization of their natural resources is due to inadequate legal framework and excessive government bureaucracy that complicate the approval of mining projects. The lifting of the suspension on the issuance of new subsoil license is part of the government's attempt to promote the mining sector. One stark concern for mining companies is the provision in the law on the use of subsoil resources, which allows the state to revise any mining contract due to environmental reasons, tax evasion or if it deems a particular deposit of strategic importance.

The ongoing diversification efforts are still reliant on the extractive industry. A number of Kazakhstan's investment contracts in the extract industry contain "local content requirements," which obligates the investors to use local laborers or products. However, this local content policy inflicts significant administrative burden on a company's operation and to the cost of doing business in Kazakhstan. Thus, since the accession to the WTO, the country has started to adopt new legislation and regulation aimed at altering or phasing out some existing requirements.

Previously, subsurface users were required to use "equipment, materials and finished products manufactured in Kazakhstan, provided they meet the requirements of competition and the laws of the Republic of Kazakhstan." Now, the requirement on mandatory use of equipment, materials and finished products manufactured in Kazakhstan, as well as mandatory acquisition of Kazakhstan manufacturers' goods are no longer included in contracts.

2.3. Peru

The sectors that attract the most FDI are mining, communication, finances and energy. The main attractive qualities of Peru for foreign investors are low cost of wages and non-restrictive policy on dividends. However, there are still some trade barriers and issues concerning efficiency of public institutions and rule of law.

The mining sector contributes a significant amount to exports; however, is not a sizable creator of jobs. As a result, new mining projects tend to provoke strong opposition on environmental and nationalistic ground. Protests, sometimes those which were violent, have taken place in or near communities with extractive industry operations. Environmental concerns were often the cited reason.

Foreign-owned extractive projects are often the source of social unrest. For instance, in August 2017, indigenous communities in Loreto region seized facilities from a Canada-based oil company, claiming lack of consultation with local communities over changes to operations and in March 2017, union workers at the Freeport McMoran's Cerro Verde mine initiated a strike over pay and working conditions.

In many cases, protestors turn to NGOs to incite their protests. These organizers, in one instance, formed groups which blocked roads and an airport in 2014 to protest extractive industry operations; hydroelectric projects; restrictions on informal gold mining, gas exports, and the government's coca

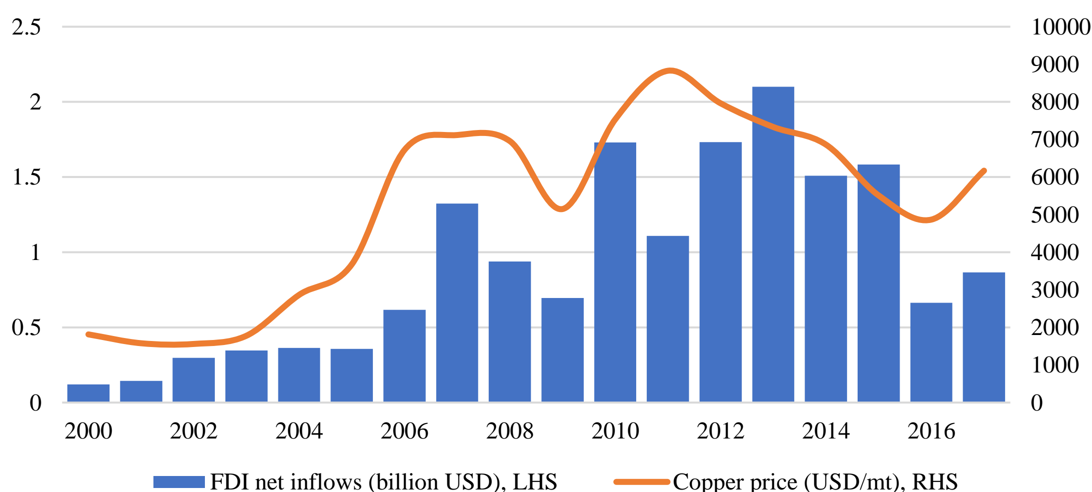
eradication policies. In several of these protests, police and civilians were injured or killed. As of March 2018, the Human Rights Ombudsman's Office reported 136 active social conflicts in Peru, 68 percent of which involve socio-environmental grounds related to the extractive sector.

Civil protest, especially against extractive companies, can cause suspension or even cancellation of large investments. For example, in 2015, protestors in Arequipa delayed Mexican-owned Southern Cooper's planned USD 1.4 billion Tia Maria copper mine. To address this, the government plans to provide education, infrastructure, and health care services in areas where extractive industry projects are planned or under development using the Social Progress Fund. The hope of this measure is to increase government presence and reduce potential for conflict in areas that are historically underserved and often remote.

2.4. Zambia

Similar to other resource-rich countries, Zambia was able to benefit from elevated commodity prices, especially copper. Between 2002 and 2008, the Zambian economy was able to receive a boost from the upcycle in commodity prices.

Figure 7. Zambia FDI Relative to Copper Prices, 2000-2017



Source: UNCTAD and World Bank

Several revisions have been made to the Mineral Royalty Tax regime since 2014 in response to global declines in commodity prices. The frequency of amendments to the mineral royalties and other proposed taxes have conveyed policy instability. In January 2015, a revised tax regime replaced corporate income tax with the increased mineral royalties which was widely criticized. Royalties were then reduced to 9 percent in April 2015, followed by an amendment to 9 percent (open-cast) and 6 percent (underground) in June 2015. Then the government approved further changes to mineral royalties in May 2016 to include a 4-6 percent tiered royalty tax for the mining sector despite drop in copper prices and other operational challenges, such as domestic power shortages.

The recent royalty changes announced in the 2019 national budget to hike mineral royalty taxes by 2 percent across the board including a new 10 percent top tier and to impose a 5 percent tariff on imported copper and cobalt concentrations[4] have highlighted the inconsistent implementation of policies. Thus, mineral royalties will be:

[4] Currently, copper imports feed large scale smelt and refinery operations in the Zambian economy.

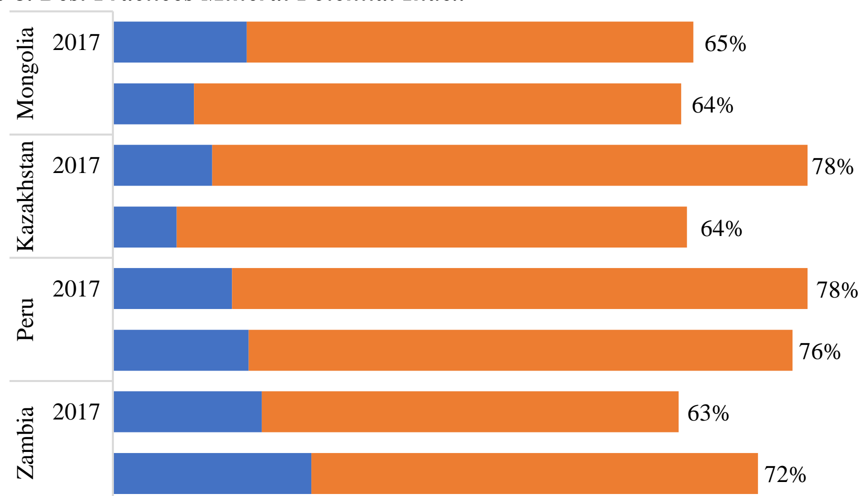
Mineral royalty (percent)	Copper price (USD per tonne)
6	< 4,500
7	4,500 - 6,000
8	> 6,000
10	> 7,500

The constant change and increase in mineral royalties are part of the Zambian government's attempt to cover its growing external debt. Moreover, in February 2013, the Zambian government cancelled, with immediate effect, three small-scale mining licenses for the Chinese-run Collum Coal Mine. The cited reason for the decision was the mine's alleged "history of poor safety, health and environmental compliance." In April 2015, it was reported that Collum Coal Mine's licenses had been reinstated.

2.5. Investment Attractiveness Index

In most cases, approximately 40 percent of investment decision is determined by policy factors. The Best Practices Mineral Potential Index shows the mineral potential of jurisdictions, assuming policies are based on "best practice" (i.e. world class regulatory environment, highly competitive taxation, no political risk or uncertainty, and a fully stable mining regime). The figure below highlights the Mineral Potential Index of the four countries. The index is based on which region's geology "encourages exploration investment" (in orange) or is "not a deterrent to investment" (in blue), where "not a deterrent" is given half the weight of "encourages" for the index calculations.

Figure 8. Best Practices Mineral Potential Index



Source: Fraser Institute

The mineral potential of Mongolia, Kazakhstan, and Peru all increased from 2016 to 2017. Due to these increases, their respective rankings also upgraded – Kazakhstan's ranking became 15th out of 91 countries in 2017 from 45th out of 104, Mongolia went from 50th to 36th, and Peru went from 17th to 14th. However, Zambia's ranking and mineral potential decline from 27th in 2016 to 39th in 2017.

Despite the significant influence mineral potential has on investment decisions, a region's policy climate has been becoming increasingly important in attracting and winning investments. The Policy Perception Index provides a comprehensive assessment of the attractiveness of mining policies in a jurisdiction.

The 15 policy factors influencing a company's decision to invest used in calculating the Policy Perception Index are:

- Uncertainty concerning the administration, interpretation, or enforcement of existing regulations;
- Uncertainty concerning environmental regulations (stability of regulations, consistency and timeliness of regulatory process, regulations not based on science);
- Regulatory duplication and inconsistencies (include federal/provincial, federal/state, inter-departmental overlap, etc.);
- Legal system (legal processes that are fair, transparent, non-corrupt, timely, efficiently administered, etc.);
- Taxation regime (includes personal, corporate, payroll, capital, and other taxes, and complexity of tax compliance);
- Uncertainty concerning disputed land claims;
- Uncertainty concerning what areas will be protected as wilderness, parks, or archeological sites, etc.;
- Infrastructure (includes access to roads, power availability, etc.);
- Socioeconomic agreements/community development conditions (includes local purchasing or processing requirements, or supplying social infrastructure such as schools or hospitals, etc.);
- Trade barriers (tariff and non-tariff barriers, restrictions on profit repatriation, currency restrictions, etc.);
- Political stability;
- Labor regulations/employment agreements and labor militancy/work disruptions;
- Quality of the geological database (includes quality and scale of amps, ease of access to information, etc.);
- Level of security (includes physical security due to the threat of attack by terrorists, criminals, guerrilla groups, etc.);
- Availability of labor/skills.

Based on these factors, Mongolia and Kazakhstan observed around a 20-point increase from 2016 to 2017. On the other hand, Zambia's score declined by 20 points while Peru's decline was minimal.

Mongolia's rank improved from 101st (out of 104) in 2016 to 70th (out of 91) in 2017 as investors' concerns over geological database, availability of labor and skills and uncertainty concerning protected areas decreased. Kazakhstan increased its rank from 90th (out of 104) in 2016 to 59th (out of 91) in 2017. The policy factors in which ratings improved the most were for the legal system, uncertainty regarding the administration, interpretation, or enforcement of existing regulations and security.

Out of Latin American countries, Peru came in second after Chile for the most attractive jurisdiction in the region for investment, based on policy. Overall, Peru's rank increased from 54th in 2016 to 43rd in 2017. Meanwhile, Zambia saw its Policy Perception Index rank decline from 43rd (among the top 50 countries) in 2016 to 71st in 2017. The decline was due to increased concern over the taxation regime, geological database and political instability.

Table 2. Policy Perception and Investment Attractiveness Indices

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

Source: Fraser Institute

The Investment Attractiveness Index takes both mineral and policy perception into consideration. As such, the 2017 ranks for Mongolia, Kazakhstan, Peru and Zambia were 53rd, 24th, 19th, and 58th, respectively. Of the four countries, only Zambia's score and rank decline from the previous year. Mongolia, Kazakhstan and Peru ranked relatively well based on its investment attractiveness rating; however, these countries continue to struggle on the policy front, which hinders their overall investment attractiveness ratings.

Overall, investment attractiveness fell slightly around the world but that of Mongolia, Kazakhstan and Peru improved, which attests to the positive impact of the regulatory and institutional reforms undertaken over the years. As Kenneth Green, senior director of the Fraser Institute's energy and natural resource studies, noted: "Rich mineral reserves, competitive taxes, efficient permitting procedures and certainty around environmental regulations will still attract significant investment – even with slumping commodity prices."

3. Comparative Analysis

The four countries, Mongolia, Kazakhstan, Peru and Zambia, analyzed in this study face unique and common market challenges and opportunities. The table below outlines each country's strengths and weaknesses briefly. Some of these are analyzed more in-depth below to also include brief, overarching risk assessments.

Table 3. Comparison of Countries' Strengthens and Weaknesses

	MONGOLIA	KAZAKHSTAN	PERU	ZAMBIA
STRENGTHS	• Exploitation of colossal mining resources (coal, copper, gold) • Strategic geographic location between China and Russia • Potential to diversify production, specifically agri-business (dairy products, meat, cashmere) and tourism	• Increased oil production • High levels of FDI • Net creditor position of the State • Strategic location between China and Europe • Increase in working population thanks to a dynamic demography • Relatively high level of training	• Membership of the Pacific Alliance • Mineral, energy, agricultural and fishery resources • Low level of public debt • Central bank independence; strong banking sector • Tourist destination • Young population	• Mineral wealth (copper: leading producer in Africa, cobalt, uranium, gold, diamonds, manganese) • Agricultural wealth (maize, tobacco) • Significant hydroelectric potential • International financial support
WEAKNESSES	• Economy vulnerable to commodity price variations • Highly exposed to Chinese economy • Internal political disputes • Alarming level of corruption and risk associated with rising inequalities due to non-inclusive mining development	• Economy reliant on commodities (oil, gas, uranium, iron) • Fragile banking system • Continuing legal and institutional failings: corruption, administrative delays and obstacles to trade • Inadequate road, port, and electrical infrastructures • Danger of political instability because of lack of clear successor to President Nazarbayev • Landlocked and low population density, particularly in the northern regions	• Dependence on raw materials and demand in China • Exposure to climate shocks; seismic events • Underdevelopment of credit • Inadequate infrastructure, health care, and education systems • Huge informal sector which impedes training and productivity • Regional disparities • Scale of coca growing and cocaine production	• Dependence on copper; poorly diversified economy • High degree of dependency on China, largest client for copper • Landlocked and dependent on communication routes of neighboring countries • Inadequate electricity generation, reliant almost exclusively on hydroelectricity, unreliable transport networks • High levels of inequality; healthcare, education and administrative failings

Source: COFACE

Currently, the economic growth in Mongolia is stimulated by large investments into the mining sector, which in turn boosts the construction sector. However, investment into the mining sector is determined largely by international commodity prices and is limited by demand from China. Despite higher mineral prices and implementation of the International Monetary Fund's (IMF) Extended Fund Facility, the country's financial position remains precarious. As for political stability, it should be relatively stable in the near-term as the current government is favorable towards foreign operations and encourages foreign investments.

Investments into Kazakhstan is expected to continue to benefit from the development of public infrastructure such as roads and rails as the Chinese "One Belt, One Road" initiative continues supporting the construction sector. With increased production of the Kashagan oil field, the country

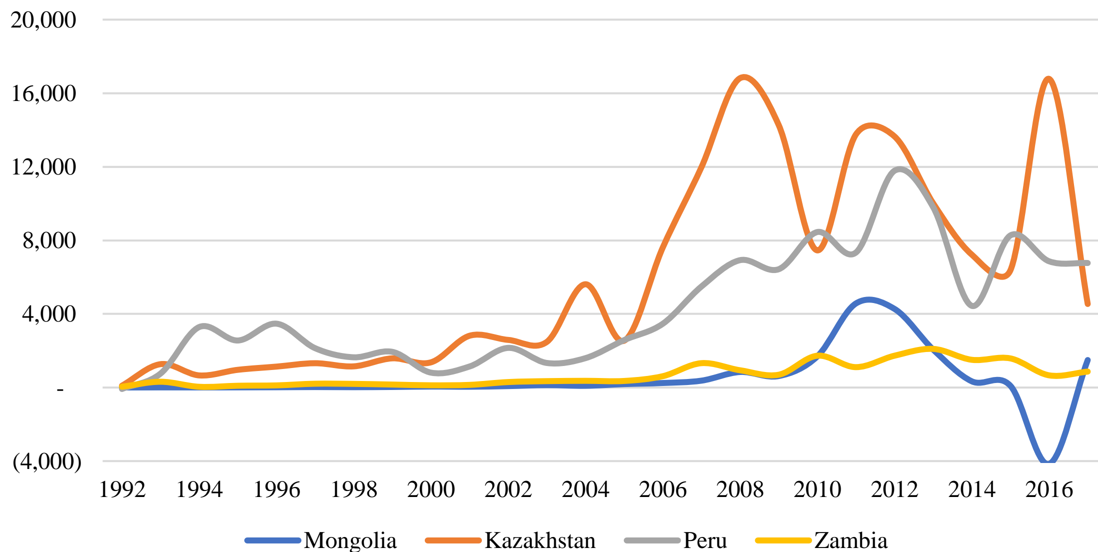
may request a revision of its quota of 1.7 million barrels per day from OPEC. Despite drop in oil revenues and increase in expenditures, bank bailout, and currency depreciation, Kazakhstan's public debt remained low as fund from the SWF was able to stabilize these adverse economic repercussions. There is also some uncertainty around the succession of President Nazarbayev, who is currently 78 years old, as the nomination of his successor could present conflicts among the different political parties.

Peruvian government continued to relax its budget policy in 2018, with particular focus on infrastructure, education, healthcare, access to drinking water and sewage systems. The current account deficit remains at a moderate level which is mainly funded by foreign investments in light of high mineral commodity prices. However, in recent, there is an increase in political uncertainty as cases of corruption arise and legal reforms are facing challenges in implementation and bring about political stability.

In 2018, Zambia experienced accelerate growth due to higher copper prices, which in turn lead to increased investment in the mining sector. The Konkola Copper Mines and Chambishi mine is expected to expand, thus boosting production and encouraging new investment. If Zambia is able to establish a loan agreement with the IMF, it will likely reassure investors of the country's economic policy direction, and thus, prompt greater FDI inflows. As for political stability, the country's performance in terms of government effectiveness and the fight against corruption is poor. The relations with China are also becoming increasingly tense due to rising popular anti-Chinese sentiment. The Zambian 2016 elections were followed by a number of uncertainties after the opposition leader was arrested on ground of treason and fraud, which caused tension between his supporters and the government.

The extractive industry as a key driver of economic growth and attraction for foreign direct investment for the four countries. As observed in the figure below, FDI inflows picked up around the same period for the four countries, in other words, around early 2000s. Depending on their volume of resource reserves and ability to entice major investments, the magnitude of FDI began to differ. However, underlying all these countries, there are several common features.

Figure 9. Foreign direct investment net inflow, BoP current million USD, 1992-2017



Source: UNCTAD

One main concern expressed by all investors in all four countries was the presence of corruption. Corruption of officials was a recurring theme throughout analysis of the investment environments. Most, if not all of the government stated regulatory and legislative reforms to combat corruption. Some even detained officials caught in cases of taking bribes. However, the issue of corruption continues to

be of major concern as it leads to unfair treatment. Although, in Kazakhstan and Mongolia, the levels of perceived corruption have declined, the level is still nowhere near international standards.

Another frequently mentioned problem was lack of effective and efficient enforcement of regulations, legislations and reforms. The countries analyzed in this report all was perceived to be unable to enforce or implement regulations in some way or level. As the common phrase goes: “it’s easier said than done.” This phrase seems to ring true for these countries. The governments are able to say they will crackdown on corruption or will enforce regulations consistently; however, the actual progress on some of these measures are minimal.

Not all the policies implemented are harmful or deterrent to foreign direct investment; for instance, a sovereign wealth fund (SWF) is either established or being planned for all four countries. Zambia plans to launch a SWF following the 2015 incorporation of the Industrial Development Corporation as the parastatal holding company, but has yet to establish. Peru’s Fiscal Stabilization Fund is managed by the Ministry of Economy and Finance and serves to sustain the state fiscal accounts in the event of economic downturns. Mongolia’s Ministry of Finance manages two SWFs, the Fiscal Stability Fund (FSF) and the Future Heritage Fund (FHF), which are both funded by proceeds from the mining sector. The FSF is to minimize the boom and bust cycles caused by fluctuations in commodity prices while the FHF is designed to accumulate mining revenues for future generations. Kazakhstan’s National Fund was established in 2000 and exists to reduce the country’s dependence on fluctuating world oil prices and to accumulate savings to benefit future generations. The Fund is required to retain a minimum balance of no less than 30 percent of GDP. According to NRGI, the Kazakh SWF has one of the best performances in the Eurasian region.

4. Conclusion and Recommendations

Mongolia is relatively open to foreign investment and investors. With its strategic location to access two large markets – China and Russia – and a wealth of high-quality natural resources, there is an extensive amount of opportunities for foreigners to establish partnerships in Mongolia. Large influxes of foreign direct investment can provide assistance to the economic and social development of the economy, through increased funding for government planned projects aimed at diversifying and expanding trade.

As observed during analysis of the investment environments of comparable countries, there are some key features in successfully promoting and facilitating foreign investment. These features all have to do with increasing the certainty of investors; certainty of the safety of their investment, certainty of returns and certainty of contract enforcement. The common actions and measures which instill assurance in investors are transparency, accountability, political stability, effective implementation of current laws and regulations.

As such, investors are partial to inclusion of stabilization clauses in long-term, major investments as it protects their investment from the frequent amendment of legislations observed in developing countries. However, on the other hand, these clauses can be problematic for investors when crucial and necessary amendments are not applicable to these large projects. In some cases, the amendments are made to address loopholes in the legislation as some of these can be disadvantageous and detrimental to the country's economy.

In Mongolia, inept government effectiveness, regulatory quality and rule of law tend to lead to lack of confidence from investors, which can deter or discourage investment. Thus, reforms are necessary in these fields; however, these reforms should also be effective.

Some of the reforms, derived from those of Kazakhstan, Peru and Zambia, could be applied in Mongolia to improve its investment climate. The following are the recommendation the research team has developed for Mongolia to increase its inflow of FDI:

- Diversification through indirect use of mining FDI
  - Provide clear and attainable goals to promote non-mining sectors
  - Provide a list of priority sectors which are non-mining and are provided with tax or legal incentives
  - In addition to diversification of economic sectors, trade partners should extend beyond mainly China and Russia
- Revenue management
  - Tighten guidelines for the FSF and FHF
  - Ensure that reforms will <u>not</u> be implemented or laxed for short-term benefits
- "One stop shop" for investors
  - Should be accessible either online or in person
  - Provide assistance in obtaining the appropriate applications and licenses
  - Streamline the process of starting a business for foreigners
- Stabilization clauses
  - If implemented, place term limits within agreement so as not to lose opportunities to collect upon income which may have otherwise been revenue
  - Not implementing stabilization clauses will likely deter major investments as investors prefer certain levels of certainty
- Corruption
  - Improve government effectiveness in dealing with corruption

- Increase transparency of major investments

- Transparency and accountability
  - Make all major project investment agreements publicly available
  - Inclusion of civil groups during negotiations to ensure the public opinion is voiced
  - Regulations and legislation should not be often amended to favor the government based on the present situation as these frequent reforms cause uncertainty for investors

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