Mongolian-American Trade Council

"Global Action Plan for the Success of Democracy"

Action Plan to Achieve Sustainable Economic Growth in Mongolia

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Keys to Foreign Investment:

A principal tenant of any successful business model is to eliminate, as best as possible, any and all uncertainty - so as to ensure a stable and consistent operating environment. Without such stability, long-term decisions cannot be made with any degree of certainty. It is instability that deters private investment.

The key to social and political stability is infrastructure: Physical infrastructure (transportation, food & clean water, reliable power); social infrastructure (a working government, education, communication, healthcare, housing); and cultural infrastructure (arts, community, culture, athletics). Societies that do not enjoy such infrastructure are inherently unstable, and unstable societies are unlikely to attract the private investment required to create the infrastructure that will stabilize their society. This "Chicken & Egg" paradox has continually plagued developing countries.

The "old paradigm" prescribed governmental intervention to short-circuit the investment gap. The proposed "new paradigm" for the creation of infrastructure calls for private investment with public support. While this is not a new concept, the rubric to accomplish the goal must be rewritten, as the existing model obviously does not work as well as it could. The proposal for a new paradigm is, therefore, not reinvention but redefinition of the existing paradigm.

The application and installation of a new paradigm to promote foreign investment is ideally suited to Mongolia because: Mongolia is a democratic state that presents a friendly environment for foreign investment; and Mongolia is essentially a "clean slate", where things do not have to be undone in order to be redone.

It must be noted that foreign investment, in and of itself, is not the goal, but a means to the true goal – the preservation of an emerging democracy; and the improvement of the quality of life for a stronger and better Mongolia for Mongolians

A New Paradigm for Sustainable Economic Growth in Mongolia:

Vast untapped resources exist in underdeveloped areas of Mongolia. These resources, both natural and human, remain untapped due to the lack of stable operating environments in these areas - resulting in the inability of potential investors to reliably predict long-term returns. Since capitalizing on these resources requires substantial investment to bear fruit, the prudent investor is reluctant to dedicate long-term resources due to the unstable environment. Once again, the lack of physical infrastructure results in instability and the instability prohibits the creation of the required infrastructure. This is particularly true of agrarian and natural resource oriented economies where a physical infrastructure is a key component for economic success.

A rational solution to this quandary allows the investor to make a long-term commitment while still achieving its short-term return goals. The long-term investment must have the promise of superior returns to compensate the investor for the risk associated with the unstable environment, while addressing the investor's short-term goals - as market conditions require quarterly financial achievements. A conventional solution to this problem called for governmental intervention in the form of guarantees and grants. Since the investor's long-term returns are only in question due to the inherent instability, and the instability is a result of the lack of infrastructure, the investor can cure the instability ill by making the investment - solving the long-term quandary by its own commitment. But what of the short-term - where is the short-term incentive.

In a truly free market, equilibrium would ultimately be achieved to capitalize on these underutilized natural and human resources. But even the most libertarian government influences every market with which it interacts. Since the governmental influence cannot be eliminated to achieve the ideal of a free market, the savvy investor must capitalize on the intervention of the government. In this case, the government of the investor's home nation (the nation in which the investor pays the bulk of its taxes) can provide a short-term incentive for the investor to make the required long-term investment. The investor can be offered tax incentives for investments in rural infrastructure in developing economies. Such tax incentives would provide the investor with current period tax relief in return for the long-term investment. And while the taxing body in the investor's home nation would lose the short-term tax revenue, the repatriated profits that result from the long-term investment would yield a greater future value for the investor and, consequently, the taxing body in the form of greater revenue in future periods.

Tax incentives, obviously, are only one example of the types of government intervention programs that can be effective incentives to attract foreign investment. And an overall plan for reform must include a selection of incentive programs.

This may seem on its face as a very simplistic view of the dynamics of international investment and fiscal policy. Doubtless, the details of such a program would require extensive study prior to implementation in order to refine and enhance the viability of such a simple solution. Upon concluding that such a solution is viable, the following is an outline of the methodology to implement the program, and initiatives required for its success.

Success is a relative measure as well. Given unlimited resources, almost any rational plan will prove "successful" if the measure of success is merely an improvement in condition. Relative success must be measured in relationship to its cost – not just economic cost, but moral and sociological costs. Foreign investment is not the goal – it is merely a means to the true goal, a stronger and more fruitful Mongolia. Consequently, any government initiated incentives to promote foreign investment must be tailored over time to provide for the short-term incentive required to attract the initial investment as well as the long-term stipulations that the foreign investment in commerce translate to investment in the communities in which the commerce has flourished.

The final component to the new paradigm for achieving the goal of sustainable growth is the application of a talent pool to augment the domestic. A team consisting of the best and the brightest, independent and devoid of any political or commercial agenda outside of the goal at hand, must be assembled and dispatched to initiate the process.

Methodology for Implementing the New Paradigm for Sustainable Economic Growth in Mongolia:

Privatization:

Privatization is the key to the success of this new paradigm. But privatization alone is not a panacea. Privatization of critical infrastructure eliminates the corruption and inefficiency that often plagues public sector operations. But private sector operation of these same critical systems does not always ensure the long-term achievement of social goals due to the financial mandates of the private sector that may skew agendas. The privatization must be based on a moral initiative that excludes companies that do not display the social and environmental conscience required by the moral initiative. Additionally, the privatization must be implemented in such a way as to ensure the independence and viability of the governing body.

As a byproduct, the privatization of certain commercial aspect of a government also serves to free up resources for the enhancement or establishment of a working government. Proceeds from the privatization could be utilized to strengthen judicial and law enforcement aspects of the government to further stabilize both the economic and social environments.

Furthermore, the infusion of established companies into such an environment serves to flatten the learning curve for the developing economy - eliminating the trial and error process that many regions have encountered when moving toward privatization.

Formation of Cooperatives:

Scale is a major consideration for such a program. While consolidating investment in a single entity will ordinarily yield economies-of-scale (resulting in superior efficiencies), the commitment required by a single investor in such a case may be too great to rationalize in the short-term. The new paradigm proposes the establishment of cooperatives that would have purview over industry segment, but would be composed of a number of companies - each making a portion of the investment required, and yielding commensurate returns.

Initiatives Required to Achieve Sustainable Economic Growth in Mongolia:

Education:

Education is the primary vehicle that drives economic success and social harmony, and the most effective tool in the effort to develop a sustainable economy. By investing in the education of the indigenous population, the community will eventually become self-sufficient. With proper education and the application of readily available technologies, rural communities can transform their economies from agrarian only, to a more balanced mix. Societies with high literacy rates and multi-lingual workers are highly sought by international service-oriented companies that pay high wages and provide career training to foreign workforces.

Education must be considered from both an academic standpoint, and from a sociological one. A mission must be adopted to not only teach life and job skills, but to promote a universally accepted moral initiative. By doing so, this and future generations can protect themselves from influence of immoral agendas that all too effectively poison their minds and hearts.

And since a stimulated mind is a productive one, the long-term effect of a diverse and enriching education will be the creation of future generations of self-sufficient, self-governing, and successful global neighbors.

Communication Systems:

By establishing a sound communications infrastructure, each community can be linked with each other and with the rest of the world - becoming a working part of the global economy, and breaking the cycle of ignorance, disease, and social disorder. With the wireless technology currently available, the required communications infrastructure can be readily instituted without the lead-time traditionally required for such a commitment.

Transportation Systems:

By planning and building a quality system of roads, individual communities can import the resources required to improve their market base. This transportation infrastructure would also allow for specialization based on geography since trade between the communities would be more easily facilitated.

Along with a useful system of roads, more comprehensive systems of intermodal transport can be addressed. As the economies and societies develop, mass transit systems could be constructed to facilitate the rapid and efficient movement of the workforce in an environmentally conscience manner.

Environmental Preservation:

As the economy develops, waste management and environmental issues will become of more critical importance. Infrastructure related to water and sewer systems combined with an effective waste management plan will not only preserve the natural resources of the community, but serve to control disease and improve the overall health of the community. Short-term solutions include portable water purification systems and local sewer treatment facilities. Clean water and sanitary conditions not only serve to attract outside investment, but also further eliminate primary factors for social disharmony.

Responsible use of natural resources is a lesson that developed economies had to learn by failure and near disaster. By providing developing regions with the philosophy and techniques for environmentally responsible development, we eliminate a potentially devastating learning curve, and enhance the safety and longevity of the global community.

Energy Systems:

A reliable source of power is key to the success of any growing society. Until large-scale power plants can be constructed to support the economic growth, technologies exist to provide reliable and economical portable solar power to individual communities. Reliable power is the backbone of a strong social and physical infrastructure. Without it, outside investment is unlikely and the potential for social anarchy is significantly enhance. Once again, development in this area must be environmentally responsible and conscious of its potential impact on global neighbors.

Housing:

As the infrastructure takes shape and the economy develops, the prosperity of the community will demand improved housing. With transportation, energy, and utility systems in place, a dynamic building program would be facilitated.

Financial Liquidity:

In order for business to make the investment decision for Mongolia, it must not only be assured of stability (which promotes long-term success), and the ability to achieve short-term goals (achieved through government incentive programs), but business must be assured that the profits garnished can be repatriated. Consequently, Mongolia must adopt policies that provide for the liquidity of its currency in international markets. Such programs include providing for the ready access to domestic funds by foreign investors as well as a stable currency.

Current Market Conditions Create a Unique Opportunity:

The current state of geopolitical affairs has created a unique opportunity for Mongolia. In the past, the US represented the largest single market for the vast pools of investment capital around the world. With global tensions such as they are, certain cash rich nations are searching for new trading partners and new areas for foreign investment. A great deal of this newly available investment capital has been redirected to Eurasia. Given the geography and the ability to efficiently transport natural resources from Mongolia throughout Eurasia, the likelihood of investment by other Eurasian countries in Mongolia has increased dramatically.

Furthermore, if the actions outlined in this brief are enacted, Mongolia will be poised to attract direct investment from the very same sources that are currently flooding other nations with this newly redirected investment capital.