

Mongolia at a Crossroads: Avoiding the Resource Curse

July 30, 2007—In the geopolitics of the 13th century, Mongolia was the center of the world. At the height of the Mongol Empire, its territory spanned from Asia's Yellow Sea to Europe's Danube River. On today's map, that would account for 3 billion people—half of the world's population.

Today's Mongolia, is in many ways, different, but some things appear to be the same as before.

To nature enthusiasts, Mongolia's natural beauty and eco-heritage is renowned. It is home to some of the world's rarest species: Przewalski's Horse, Snow Leopard, Gobi Bear, and the Two-Humped Camel. Many of the 2.7 million Mongolians remain nomadic herders moving from place to place with their Gers—indigenous, round shaped, felt huts that have changed little from the 13th century version.

What is different today, though, is the high urbanization. More than 57 percent of Mongolians now live in urban areas and some 37 percent in the capital city, Ulan Bataar.

Nevertheless, landlocked and wedged between China and Russia, this country—that is five times the size of France—is also the most dispersed nation in the world, with fewer than two people per square mile.



The panel discussion at InfoShop: Arsyad Sayed, Country Manager for Mongolia; Jim Adams, EAPVP; Dr. Joong-Kyung Choi, ED for Mongolia; the Mongolian Ambassador to the US; and State Secretary for Finance of Mongolia, Mr. Khurelbaatar



Mongolia's vast landscape

How to Assist Mongolia

At a recent event, where an overflow crowd joined to discuss the Bank's future strategy, the Executive Director for Mongolia, Joong-Kyung Choi said, "Unfortunately our formula for providing grant assistance to the country is unable to reflect the unique challenge of Mongolia—that of having to provide services to such a dispersed population that is often on the move, over such a vast land area."

In the last 16 years, the country began its march toward a market economy. It has made remarkable progress in establishing market

institutions, a functioning democracy, and taking the first steps to integrate itself into the world economy.

However, the State Secretary for Finance of Mongolia, Mr. Khurelbaatar reminded the audience that even today, "Thirty percent of the population still lives in poverty, and there is lack of basic services such as electricity...without electricity one cannot talk of better schools or hospitals." Another striking example of the lack of connectivity is that only 1 of every 10 roads is paved.

Wealth Underneath the Ground

Triggered by the 2001 discovery of one of the world's largest deposits of copper and gold in Oyu Tolgoi in Mongolia's Gobi desert, exploration has soared in the last five years. The Oyu Tolgoi site alone is estimated to be worth \$38 billion, several times the entire country's gross domestic product.

Is this good news? Like diamonds in Africa or oil in the Middle East, precious metals offer Mongolia a mixed blessing—a gift that can deliver either prosperity or new troubles. In Mongolia's case, this challenge is even more pronounced.

How can the country preserve its social, cultural, and environmental heritage—which should be considered a world heritage—while making sure that mining becomes an engine of prosperity and the proceeds benefit its people?

“Knowing the history of other countries that have had similar natural resource-based booms, there is need for caution and good counsel in both getting the minerals out in ways that do not create environmental and social damage, and in making sure that the benefits from the increased revenues help to improve the lives of the Mongolian people,” said Arshad Sayed, Bank country manager for Mongolia.



The World Bank Mongolia Country Team

“And it is for this reason that the Bank and other multilaterals need to share with the government the experience of other countries and support the government in building its capacity to address these challenges,” he added.

Already, local civil society groups are pushing for laws to prevent corruption and ensure that today's windfalls become a springboard for education and broad-based growth. One of these groups, the Open Society Institute Mongolia, received World Bank Direct Grant Facility funding to promote the [Extractive Industries Transparency Initiative \(EITI\)](#).

Preserving the environment is becoming a flashpoint. Causes like the Onggi River movement have now reached world stage, with award of the 2007 Goldman Environmental Prize this year to its leader, Tsetsegee Munkhbayar, who successfully worked with government and grassroots organizations to shut down destructive mining operations along Mongolia's scarce waterways.

Communities and Small-Scale Mining (CASM), a global program housed at the World Bank's Oil, Gas and Mining department, is organizing from September 8-12 its [Seventh Annual CASM Conference](#) in Ulaanbaatar, Mongolia. This will be an opportunity to assess how small-scale mining in Mongolia can have a positive contribution to the country's sustainable development strategy.

Avoiding the Resource Curse

The overarching question in everyone's mind is: How can Mongolia avoid the "resource curse?" Supporting the government's effort to look for sustainable options going forward is a key component of the Bank's analytical work in Mongolia.

The determining factor will be how well the country manages its macroeconomic and fiscal situation, and its tax and administrative systems, in order to manage the revenues and rents, diversify its economy, obtain the political will to prevent corruption and wasteful spending, and develop its human and social capital.

Jim Adams, vice-president of East Asia and Pacific Region, said, "...like Chinggis Khaan, who lowered taxes to foster business during his times, the current government has streamlined and reduced taxes—an apt case of lessons learned, and a good way to bridge the past to the present.



Modern technology alongside tradition

The World Bank country team, with its professional staff both local and worldwide, is ready to support the government as it goes through what is likely to be another historic transition."

While pondering Mongolia's historic accomplishment, everyone is hoping that, going forward, the mineral riches will be a blessing for Mongolia, and not a curse.