LONDON TO MONGOLIA: REFLECTIONS OF A CANADIAN CAPITALIST IN POST-SOVIE T ASIA

by Chris MacDougall

The emerging economies of post-Soviet states have presented foreign investors with both huge potential and high risk over the two last decades. In this article, Chris MacDougall recounts his pioneering experience in investment banking in Mongolia and sees a promising outlook for the future. The country’s untapped resources, strengthening legislative and political environments, and increasing transparency are all contributing to the country’s potential, he argues.

Mongolia is unapologetically picturesque, harsh, and difficult to navigate. This is true both in terms of its rugged terrain and its challenging corporate environment. For those that call Mongolia home, the challenge is no doubt part of the allure. Succeeding in Mongolia, much like the rest of Central and Northeast Asia, is a badge of honor. It suggests that you can succeed and solve problems anywhere. Like many of my peers, this allure, and the promise of great opportunity influenced my decision to move to Mongolia. Arriving in Ulaanbaatar, I knew very little about the country, its politics, or its recent history.

Wedged between Russia and China, Mongolia shares more with its Central Asian and European cousins than it does with any other nation in the world. Since Lieutenant General Baron Urgern first led his troops into Mongolia in 1920, the country has been a site of geopolitical struggles between China, the Soviet Union, pro-Tsarist rebels, Japan and the Mongolian people. Not surprisingly, these struggles have resulted in a depth of cultural and social influence. Modern day Mongolian food, drink, politics, and corporate hierarchies act as every day reminders of Mongolia’s past.

Of the many actors that have influenced Mongolia’s recent history, the Soviet’s were by far the most impactful. In addition to a 70-year presence, their technological and commercial advancements helped shape modern day Mongolia. Soviet architecture, urban planning, and commerce are still present in the nation’s capital. Similarly, the Mongolian economy that exists today has been largely shaped by the Socialist regime that ruled between 1921 and 1992. While capitalist, the numerous transitions that have taken place over the past century have provided the foundation for Mongolian industry and commerce.

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During the Soviet occupation, Mongolia experienced three distinct periods of change: the ‘General Democratic Transformation’ (1921-1939), the ‘Construction of Foundation of Socialism’ (1940-1960), and the “Completion of Construction of Material & Technical Basis of Socialism” (1960-1992). Specific tactics and ideals underpinned each period. Most notable were the development of an agrarian economy, the expansion into natural resources and economic decentralization, and the modernization of Mongolian industry and agriculture, respectively across each period.

Mongolia’s Democratic Revolution took place in 1990 and brought the first true reforms to the country. Changes to the constitution, the introduction of multi-party elections, and a reduced military presence by the USSR all contributed to a new constitution being adopted in 1992. This would lay the groundwork for Mongolia’s economic reform, the expansion of industry, and the attraction of foreign investment.
Between 1992 and 2009, contrary to the rest of the former Soviet Union, Mongolia enjoyed free and open democratic elections. Legislation was introduced that supported the attraction of foreign investment and the development of key sectors, which led to an inflow of foreign capital and skilled professionals.

On October 6, 2009 Mongolia signed an investment agreement with Rio Tinto for the development of the Oyu Tolgoi copper and gold mine. The cost of development reached US $10 billion by 2013, making it the largest investment in Mongolian history. This agreement, along with the acknowledgement of a large international corporation that Mongolia was a place to do business, saw further foreign capital and talent flock to Ulaanbaatar.

Rio Tinto’s interest and the widespread migration of skilled professionals was the result of Mongolia’s expected mineral resource wealth. Oyu Tolgoi, while the largest investment in the country’s history, is expected to be the first of many large-scale mineral investments. Mongolia is rich in deposits of coal, copper, gold, fluorspar, and tungsten. According to the IMF, Mongolia’s mineral endowment is expected to be between US $1-3 trillion, making it one of the wealthiest nations in the world in terms of mineral resources.

Despite such developments, however, Mongolia is still the poorest of the open economies in East Asia, falling behind its more developed neighbors: China, Hong Kong, Japan, Korea, and Macau. When broadening the scope to include Central Asia, Mongolia’s position does strengthen, ahead of Uzbekistan, Kyrgyzstan, Tajikistan, and Afghanistan. However, given the economic promise of the last five years, this hardly reflects an achievement for the country.

More recently, the introduction of attractive legislation, promising political leadership, and the finalization of key investments have resulted in more investors and professionals being attracted to the country in search of opportunity and fortune. Not surprisingly, few outsiders have succeeded in this pursuit, in part, due to the cyclical and capital-intensive nature of the mineral resources sector, which dominates the economy. Likewise, the poor performance of commodities prices over the past three years, copper and coal in particular, has resulted in both poor performance and a weakening outlook for the fledgling nation.

The Mongolia Stock Exchange’s Top-20, seen as a benchmark for foreign investment into the country, has declined from its all time high on February 25, 2011 of 32,955 to 13,811 on July 31, 2015, a loss of 58% of value. The Mongolian Tugrik, the domestic currency, has also been impacted by the declining economic conditions. On the same date as the MSE Top-20 all
time high, February 25, 2011, the Tugrik was trading at 1.253:1 to the US dollar. Comparatively, on July 31, 2015, the Tugrik traded at 1.982:1 to the US dollar. This 33% depreciation in value of the currency is a clear sign of the economic hardship that the nation has and continues to endure.

In addition to the weakening economic conditions there are other factors that prove challenging for outsiders and foreign investors. Similar to the rest of Northeast and Central Asia close familial business networks, a deep mistrust of foreigners and foreign companies, and culturally accepted business practices that foreign companies are not able or willing to facilitate due to anti-corruption legislation, all make doing business in Mongolia difficult for outsiders.

Many of these issues, are byproducts of the country's history as well as the Soviet influences that permeate societies of many post-Soviet countries. However, these have already begun to dissipate as younger, foreign educated Mongolian’s assume political and commercial leadership. The younger tiers of politics and business, educated overseas and intensely ambitious, demonstrate a strong desire to introduce international standards and greater transparency to their home.
It was one of Mongolia’s internationally educated young people that first brought me to the country in 2011. At the time, working in finance in London, I arrived as a tourist. Mongolia was in the midst of a mining boom. Ulaanbaatar, the country’s capital was filled with foreign investors from all over the world. The energy was intoxicating and the opportunities seemed endless. I returned to London and quickly decided that Ulaanbaatar was better suited to my ambition.

Accepting a position at a domestic family office, I was tasked with supporting the launch of their private equity fund. Like many self-made conglomerates in Mongolia, my host firm had been successful in developing mining projects and had been a pioneer in professional mining services. Following their successes, they began to manage investments both for themselves and for international investors seeking exposure to Mongolia’s double-digit growth.


Where most professionals saw turmoil and loss, my partners and I saw opportunity. We saw increasing demand for professional services, envisioned decreased competition, and a growing number of exploration and mining projects that required foreign capital to advance their objectives.

At the time, investment banking was still a nascent industry and competition was almost non-existent. We acquired underwriting, brokerage, and dealing licenses and brought together a team of young professionals. Partnering with the family office that had first brought me to Mongolia, we launched what has become one of the top investment banks in terms of foreign investment into the country’s resources sector.

The future looks bright, both for Mongolia and the domestic investment banking sector. The country’s untapped resources, strengthening legislative and political environments, and increasing transparency are all contributing to the country’s potential. With a population of only 3 million, future prosperity will be heavily dependent on the continuation of such positive changes in Mongolia’s governance and the further attraction of foreign investment into the economy.

In June 2016, Mongolia will go back to the polls and hold democratic elections for the eighth time in the country’s history. Irrespective of the outcome, both Mongolians and foreigners alike recognize that in order for Mongolia to return to the staggering growth that once
energized the nation, favorable foreign investment legislation and transparent governance is needed. To a large extent, this already exists. But a commitment from the incoming Government to maintain and strengthen these standards is still required. Only then will the concerns of foreign investors be eased. In doing so, foreign capital will return to Mongolia and a new tranche of foreign investors and skilled professionals will hear the call of Ulaanbaatar.

Coal mine in Northern Mongolia  credit: author

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