

Mining hordes invade Mongolia, the 'Kuwait of Central Asia'

If there was a competition to find the ugliest city on Earth, then the Mongolian capital of Ulan Bator would be the leading contender for the title. The combination of grim, Soviet-style concrete high-rises, rambling slum-shanties and towering coal-fired power plants belching out smoke over the city reeks of the depression and decay that was a legacy of decades of communist rule.

By Peter Foster in Ulan Bator

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But look more closely and it is clear that change is afoot in this **mineral-rich former Soviet acolyte** (<http://www.telegraph.co.uk/news/worldnews/asia/mongolia/7488202/Death-stalks-the-frozen-land-of-Genghis-Khan.html>) which is on the cusp of a mining boom that has led investors to describe Mongolia as the "Kuwait of Central Asia". The augurs of new wealth are already visible on Ulan Bator's dowdy streets – luxury brands such as Louis Vuitton and Armani have opened branches in the past year, catering to customers in **Range Rovers** (<http://www.telegraph.co.uk/finance/newsbysector/transport/7557188/Land-Rover-sets-record-after-selling-11000-vehicles-in-a-month.html>) and Porsche Cayennes. And in the city's Grand Khaan Irish Pub the vanguard of the coming investment boom can be found quaffing pints and discussing deals – suited diplomats and investment bankers rubbing shoulders with rough-necked mining engineers and their suspiciously pretty local "girlfriends".



Mineral-rich Ulan Bator is on the cusp of a mining boom that has led investors to describe Mongolia as the 'Kuwait of Central Asia' Photo: AP

For decades the global resources industry has had its eye on Mongolia's huge mineral deposits – it has world-class reserves of **gold** (<http://www.telegraph.co.uk/finance/personalfinance/investing/gold/7571225/Gold-priced-in-sterling-hits-all-time-high.html>), copper, coal, fluor spar, silver, uranium and tungsten – but has been deterred by a combination of corruption and political instability.

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That all changed last year, however, with the election of a pro-business Democratic Party government that is now, albeit cautiously, welcoming foreign investors to partake in a boom that the government hopes will triple the nation's GDP in the next decade.

The catalyst for investors was a decision last August by Mongolia's new president, Elbegdorj Tsakhia, to scrap a punitive 68pc windfall tax on copper and gold profits imposed in 2005 by the previous communist-leaning government. Within months the government had also finalised a deal with the Canadian-listed Ivanhoe Mines to develop the \$5bn (£3.3bn) Oyu Tolgoi (OT) copper and gold reserve, a Manhattan-sized deposit which will take 60 years to exhaust.

The scale of Mongolia's mineral reserves is mind-boggling, with 15 more OT-sized strategic reserves, according to a research note by Eurasia Capital Management.

The rapid conclusion of the OT deal, which had dragged on for six years under previous governments, has provoked a flurry of activity from both private equity and Chinese, Russian and Singaporean sovereign wealth funds. Mongolia wants to attract \$25bn in investment over the next five years to build the roads, railways and new towns needed to exploit its natural wealth.

Market momentum gathered further force this January when Canadian-listed SouthGobi Energy Resources, which mines coal in Mongolia just across the border with China, raised \$394m in a secondary listing in Hong Kong. The company had already attracted a \$500m investment from China's sovereign wealth fund, the China Investment Corporation (CIC), which itself put \$700m into Iron Mining International, a Hong Kong-based mining company with interests in Mongolia.

Masa Igata, CEO of Frontier Securities, which advises Mongolian businesses seeking to raise funds on the international markets, says he expects at least "three or four" Mongolian-based businesses to follow SouthGobi's lead in the next 12 months.

Such headline-grabbing, public investments are only the tip of the iceberg, according to Matthew Totty, managing director of Redwood Capital, which specialises in bringing Chinese firms to the international markets. Mr Totty is among those who see Mongolia as the next big opportunity or, as he puts it "the last major untapped frontier" for mineral exploration, with the lure of a resource-hungry China on its doorstep.

Mr Totty said investing attitudes towards Mongolia had been transformed over the last year. "Since they sorted out the windfall tax and settled with Ivanhoe, the floodgates have opened. I've seen a 180-degree turnaround in Hong Kong; private equity firms that wouldn't touch Mongolia a year ago are now actively focusing on the country."

Such confidence in the "new" Mongolia is not universally shared, however, particularly after the government announced this year that it was cancelling its auction for a 49pc stake in the world's largest undeveloped coal field, the \$2bn Tavan Tolgoi (TT) deposit. Having invited bids from heavyweights including BHP Billiton, Vale SA, and US miner Peabody, Sukhbaatar Batbold, Mongolia's prime minister, announced last month the government had decided it preferred complete state control, adding that other projects would be decided "on a case-by-case basis."

Such uncertainty was seen by some as a disturbing throwback to the last decade, as was the passage of a 2009 Nuclear Energy Law which appropriated 51pc of all state-discovered uranium deposits to the government for no fee, effectively halting all uranium projects in Mongolia.

Worries also persist over the impact of strategic squabbles between Russia, which still exerts political influence over Mongolia, and China, the natural customer for its mineral resources. Tensions between the two are being blamed for the failure to agree a deal to build a planned railway linking the OT and TT mines to China, a move described as a "no-brainer" commercially, but unacceptable politically to Russia and sections of the Mongolian public who fear China's growing influence.

And yet, notwithstanding these political risks, the potential rewards continue to lure investors like Mr Totty. "This is the last virgin frontier for minerals exploitation, but you have to accept that there are strategic aspects the government will seek to control. Much of the elite is savvy, Ivy League-educated and understands international business culture. In the end, Mongolia

desperately needs the foreign investment and the know-how. If they screw over a big public company they're done for, and they know it."

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