

## Some researches on Chinese enterprises who invest in Mongolia

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**Abstract:** Chinese enterprises in Mongolia did a lot of benefits to Mongolian people but broadcasting through local media is not enough. How to spread good news timely and to learn to connect with local news media is the vital purpose of Chinese enterprises. The branch office of the Bank of China in Ulaanbaatar city established “Chinese Mongolian Education and Culture Fund” and “Chinese Mongolian Social Development Fund” and they have done a lot of good deeds for Mongolian people such as giving stipends to students who are poor. Thus, they transferred positive energy to local people and formed the good image of Chinese enterprises in Mongolia.

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### One. The advantages

Chinese Mongolian economic and trade cooperation has the following advantages: 1. both countries have geographical advantage. 2. Economical complementarity 3. Mongolia is rich in its mineral resources and the mineral resource industry is one of the important pillar industries of Mongolia. Mongolian some reserves are at the top position of international market. 4. Mongolia has natural pastures and it has plenty of grasslands. Now there are 209800 herdsman families and 285500 of them are herdsman. The animal husbandry production covers 80% of total agricultural production and 10% of export income.

### Two. Main problems

#### 1. Problems of Mongolia

I. The continuous of the government investment policy is poor. The political system of Mongolia is constitutional republic and it is semi-presidential and Mongolia is a democratic country. The Parliament is the highest authority organization of the country and it has legislative power and the Parliament discuss any internal and external issues. The power term of head of Parliament, vice head, prime minister and president is for 4 years and the government members are appointed by the parliament. New members of each government re-discuss unimplemented issues again. Therefore it increases the risk of Chinese enterprises who invest in Mongolia. This is a big problem for investors in Mongolia.

II. The infrastructure is poor. The investor who comes to invest in mining and construction field of Mongolia needs to resolve the infrastructure issues including road, water, electricity and

telecommunication etc. himself. So the investors should consider the investment cost.

III. There are some non-economic factors in Mongolia. For example, some officials' corruption problem, some people do not trust Chinese people and low effectiveness etc. Investors should consider these difficulties, too.

IV. Mongolians do not want to export raw materials as pure, they desire to process the raw materials and export value added products. Therefore Mongolia needs foreign investors' technical support.

#### 2. Problems in China

I. Some Chinese enterprises are not familiar with Mongolian investment laws, regulations and related policies. The awareness of engaging business activity according to the law needs to be improved. The pre-economic feasibility study is insufficient and risk prevention is not enough. Some enterprises have no experience of engaging business activity in a foreign country.

II. Chinese enterprises face with disorderly competition, vicious price and irregular operation in Mongolia and these factors bring negative impact for bilateral economic and trade cooperation.

III. Mongolian people's expression about Chinese enterprises and people still need to be improved. Chinese enterprises need to do good deeds for Mongolian people and broadcast through media.

#### 3. Other factors

Mongolia's market is very competitive on international platform. Russia is Mongolia's largest importer and Russia supplies above 95% of refined oil

of Mongolia. The electricity supply of western provinces of Mongolia entirely relies on Russia. And besides, Mongolia's rich mineral resource attracts interest of many countries such as Russia, Korea, Japan, Australia, America and Canada etc. These countries are implementing mineral resource projects and other kind of projects with Mongolia. Therefore the opportunities and challenges of Chinese Mongolian economic and trade cooperation co-exist and the opportunities are more than challenges.

Some advices for Chinese enterprises who invest in Mongolia.

In recent ten years, China is still Mongolia's largest trade partner and is one of the largest investor countries. In order to make investment successfully the following advices should be given.

#### 1. Be familiar with laws and regulations

Chinese investors who come to Mongolia should be aware that Mongolian legal environment is complicated and instable. They should consider that Mongolian laws are revised frequently and therefore Chinese enterprises who invest in Mongolia must consider the legal environment problems and they should deeply study and evaluate Mongolia's entire investment condition, laws and regulation of other related fields very well. And besides, Chinese investors should be aware the law changes of Mongolia accurately and make adjustment timely. Chinese investors should hire a local lawyer who works as the company legal advisor to resolve any legal matters. The company leaders should be familiar with Mongolian investment law, tax law, and environment protection law. If they invest in mineral resource field, should be aware of mineral law and other relevant laws. They should pay taxes and engage business activity in accordance with the laws and regulations. Now the three tax rate including value added tax, enterprise income tax and individual income tax is 10% and customs tax is 5%.

#### 2. Avoid risk and focus on quality

Chinese Mongolian economic and trade cooperation should be transferred from quantity into quality.

We should send company leaders and employees to foreign countries for training and any enterprises must train a group of managers who meet standard of international investment, international cooperation and international trade. Thus, Chinese enterprises can overcome the increasingly tough competition of international economic and trade cooperation. As we can strengthen the training of labor force and improve their ability and skills we can make a strong labor force team who meet the standard of international labor market. When we implement a project we must

meet the international standard and we can build a brand name and influence a region. Moreover we can get praise of our partner and establish Chinese invested company and set up a good image of our country.

When registering a company you must be very careful. However the registration procedure is relatively simple but liquidation of company is very complicated. First of all, the investor should make the economic feasibility study on the project very well and then make a decision. When the investor starts a company he or she should go to the State Registration office of Mongolia to register the company. You don't need to find an accountancy or intermediary company for registration of the company. It is for avoiding any disputes. And besides, you should calculate the expenses for engaging business activity very well. However several taxes rates in Mongolia are lower and it seems that the investment profit is high but because of the working cycle of Mongolian government organization is long and the efficiency is low and the cost is high.

The most important problem is: today Mongolia has not formed national system standard and the government organizations carry out inspection and supervision according to different standard and norm. Thus, the actual cost of engaging business activity in Mongolia will be very high, especially; reconstruction project such as mineral resource and infrastructure establishment project require higher cost because of climate reason and construction period of every year is short in Mongolia. If the enterprise does not study the actual condition of Mongolian market very well, the enterprise will be in a dilemma.

Chinese Mongolian joint company faces many problems and in case of any dispute it's difficult to resolve. Therefore we remind the Chinese companies or individual who want to establish Chinese Mongolian joint company to be very careful and to protect from any risk.

#### 3. Mutually beneficial cooperation and contribution to people's livelihood

Chinese Mongolian economic and trade cooperation, especially investment on a larger project, Chinese company should prefer mutually beneficial cooperation and should focus on improving Mongolian economic development, promoting industrial development and making contribution to people's livelihood.

As for type of cooperation, we should use many types of cooperation such as to combine mineral resource prospecting with processing industry, to combine investment with trade, and to combine construction contracting with production etc. Chinese enterprises should be open and tolerant. In this way,

Chinese and Mongolian economic and trade cooperation can be expanded from bilateral cooperation to multilateral cooperation.

#### 4. Take care of environmental protection

Mining work is more harmful to ecology and environment. If Chinese enterprises carry out mining work in Mongolia they should put the environmental protection issues in the first place, respect the religious belief and traditional custom of local people. They should guarantee the interests of local residents through making ecological recovery. China and Mongolia are neighbor countries and two countries share ecological environment. While two countries implementing larger project in Mongolia, Chinese enterprises should protect natural environment very well and protect Chinese northern ecological environment, too. Both countries can achieve mutual benefit and mutual victory through successful bilateral and multilateral cooperation. Moreover it will help to promote industrial development, technical progress, improvement of people's living standard and socioeconomic sustainable development of Mongolia.

#### 5. Transfer positive energy

First of all, Chinese enterprises should understand all kinds of conditions of the country. The best and most appropriate way is to get information such as economic policy, related laws and regulations from the country's embassy in China, especially the Economic and Trade Counselor. And it's possible to get related information from the official website of Economic and Trade Counselor of the Embassy. In this way Chinese enterprises can avoid wrong and unreal information.

Chinese enterprises in Mongolia did a lot of benefits to Mongolian people but broadcasting through local media is not enough. How to spread good news timely and to learn to connect with local news media is the vital purpose of Chinese enterprises. The branch office of the Bank of China in Ulaanbaatar city established "Chinese Mongolian Education and Culture Fund" and "Chinese Mongolian Social Development Fund" and they have done a lot of good deeds for Mongolian people such as giving stipends to students who are poor. Thus, they transferred positive energy to local people and formed the good image of Chinese enterprises in Mongolia.

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1. Монголия является близким северным соседом Китая. Две страны имеют общую границу протяженностью 4710 км. Наряду с непрерывным углублением политических отношений в течение последних более 10 лет двустороннее торгово-экономическое сотрудничество получило стабильное развитие. Во время визита в Монголию в 2003 году председатель КНР Ху Цзиньтао утвердил двусторонние партнерские отношения добрососедства и взаимодоверия, что придало сильный импульс укреплению взаимного торгово-экономического сотрудничества. Китай уже 14 лет подряд до 2012 года был крупнейшей страной-инвестором Монголии. В настоящее время в Монголии действуют более 700 предприятий с китайским капиталом, объем их инвестиций составляет половину общего объема зарубежных инвестиций. Предприятия с китайским капиталом, главным образом, работают в таких областях, как нефть, горнорудная промышленность, строительство, переработка животноводческой продукции, индустрия услуг и швейная промышленность. Предприятия с китайским капиталом предоставили более 50 тыс. рабочих мест для местного населения, что составляет 6,25 проц общего числа рабочей силы по всей Монголии.
2. Перспективы сотрудничества между Китаем и Монголией в освоении ресурсов и строительства инфраструктуры очень широки и имеют огромный потенциал. Монголия богата природными ресурсами, однако ее рынок сравнительно мал и страдает от нехватки капиталов и технологий. В будущем Монголии потребуются большие иностранные инвестиции.
3. В сентябре 2014 года Си Цзиньпин заявил, что Китай, Россия и Монголия налаживают тесное взаимодействие, активно реализовывают среднесрочную дорожную карту по трехстороннему сотрудничеству, которое уже дало значительные результаты в торгово-экономической, гуманитарной, транспортной, туристической сферах и в области спорта. Китай удовлетворен

тенденцией трехстороннего сотрудничества. При этом необходимо активно продвигать всестороннее трехстороннее сотрудничество на основе сопряжения строительства китайского проекта "Экономический пояс Шелкового пути", российской стратегии

"Евразийский путь" и монгольской инициативы "Степной путь".

4. Экономический коридор даёт большое возможность инвестором. Поэтому эта статья посвящается для тех кто хочет инвестировать в Монголию.

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