

# China's Involvement in Mongolian Mining Sector and Contributions to the Local Economy

B. Indra, Senior Researcher, B. Ariunzul Researcher, Ts. Enkh-Uyanga, Researcher  
The Institute for Strategic Studies, National Security Council of Mongolia

## Introduction

To date, a significant amount of Chinese investment made in Mongolia. Due to increasing energy consumption internally, the PRC has started to develop cooperation with other countries by implementing a foreign market-oriented strategy, acquiring and investing in rich mineral deposits. With the abundant natural resources including coal, copper and oil, Mongolia has attracted a considerable amount of Chinese investment over the past few years. As a result, Mongolia became one of the top-20 destinations of China's investment.

This article describes the results of research regarding the impacts of Chinese investments in Mongolia by analyzing three aspects of current Chinese investment: sales and tax of the Chinese invested companies and their corporate social responsibilities (CSR).

## 1. China's Participation in Mongolia's Mining Sector

During President Hu Jintao's official visit to Mongolia in May, 2003, two sides identified that mining and mineral sector would be a priority of the future bilateral cooperation. Since then, Chinese investments, which were mostly concentrated in the construction and public catering, has been shifting into the mining business. As a result, nowadays, the Chinese investment in Mongolia is mainly concentrated in the mining and mineral sector.

### 1.1 Chinese Investment in Mongolia's Mining Sector

During the period 1990-2011, Mongolia's total inward foreign direct investment (FDI) accounted for \$9.8 billion, whereas Chinese investment was \$3.48 billion accounting for 35 percent of total. As of 2010, 50<sup>1</sup> percent of total foreign investment made in Mongolia was solely from China. Therefore, it was decided to include in the National Security Concept of Mongolia, which revised by the Parliament in 2010, a provision stating that "the investments of any foreign country shall not exceed one third of the overall foreign investment in Mongolia".

In 2011, Chinese investment in Mongolia dropped to 35 percent, due to the fact of that the investments made in the mining sector increased 5-fold from the previous year and reached \$4.9 billion. Most of these investments made from the Netherlands accounting for \$1.8 and followed by those of China equaling to \$1.0 billion.

According to the statistics released by the Chinese authority, 90.8 percent of total outward foreign investment made by China was concentrated in 20 countries. The

**Table 1 Cumulative Amount of China's Outward FDI**  
2011年末中国对外直接投资存量前二十位的国家(地区)  
*Top 20 countries/regions (As of 2011)*

No	Host Country /region	Investment Amount, \$ billion	Share of total, %
1	/Chinese/ Hong Kong	261.5	61.6
2	British Virgin Islands	29.1	6.9
3	Cayman Islands	21.6	5.1
4	Australia	11.0	2.6
5	Singapore	10.6	2.5
6	USA	8.9	2.1
7	Luxemburg	7.0	1.7
8	South Africa	4.0	1.0
9	Russia	3.7	0.9
10	Canada	3.7	0.9
11	France	3.7	0.9
12	Kazakhstan	2.8	0.7
13	/Chinese/ Macau	2.6	0.6
14	UK	2.5	0.6
15	Germany	2.4	0.5
16	Burma	2.1	0.5
17	Pakistan	2.1	0.5
<b>18</b>	<b>Mongolia</b>	<b>1.8</b>	<b>0.4</b>
19	Cambodia	1.7	0.4
20	Indonesia	1.6	0.4
	Total	288.8	90.8

Source: *2011 年度中国对外直接投资统计公报*

cumulative amount of China's FDI in Mongolia accounted for \$1.8 billion or 4 percent of total ranking Mongolia the 18th among the top 20 countries.<sup>2</sup> (Table 1) Therefore, it can be assumed that China's interest in Mongolia is growing.

In 2012, Chinese investment in Mongolia reached \$3.6 billion according to the Mongolian statistics, and it is likely to increase in the forthcoming years.

*Chinese investment in the mining sector:* According to the statistics released by the Foreign Investment Regulations and Registration Department (FIRR), 71.8 percent or \$2.5 billion of total accumulated up to date Chinese investment made in Mongolia was in the mining sector. There are 5,756 Chinese companies currently

<sup>1</sup> FIRR <http://www.investmongolia.com/fifanew/images/PDF/Publication/Statistics/Statistic%202010FIFTA.pdf>

<sup>2</sup> Statistics of Chinese FDI, page 16: <http://www.mofcom.gov.cn/article/tongjiziliao/dgz/201208/20120808315019.shtml>

working in Mongolia. Out of them, 136 companies are in mining sector and most of them or remaining 4,072 companies are registered to operate in trade and public catering sectors. From 2007 to 2011, 121 Chinese mining companies (including newly established and re-organized companies) were registered to operate in the mining sector. Out of them, 85 companies were 100 percent Chinese invested, and 36 companies were joint ventures.<sup>3</sup> Out of those 36 joint ventures, 24 companies had Chinese investors, who held 51% shares of the company ownership.

*Chinese holdings of special licenses:* To date, 4,121 mining special licenses have been issued covering 16.5 percent of Mongolian territory equaling to 25.8 million hectare.<sup>4</sup> Of them, 3,048 are exploration licenses and 1,073 are exploitation licenses. The areas under the exploitation licenses cover 6.6 percent of Mongolian entire territory.<sup>5</sup>

The Chinese companies are holding 119 exploitation licenses, including 23 of fluorspar, 22 of coal, 17 of iron ore, 17 of gold, 6 of zinc ore, 2 of molybdenum, 3 of tungsten, 2 of composite metals and 27 of building materials deposits.<sup>6</sup> Except the building material licenses, Chinese companies are operating at 92 deposits with exploitation licenses that account for 10 percent of total exploitation licenses issued.

## 1.2 Chinese participations in the mineral deposits of strategic importance

In 2006, the Parliament of Mongolia passed a law registering 15 mineral deposits into the list of strategic importance. Currently, three of them are owned by the Chinese companies, while another two are under active consideration of investing and another two have been considered for investing and later withdrawn.

Chinese participations in Mongolian mineral deposits of strategic importance can be classified as follows:

A) *The operational mines:* A Chinese invested company Tsairt Mineral LLC owns 100% of Tumurtei Ovoo zinc and lead deposit, while Mongolia-Chinese Joint Venture Qinhua-MAK-Nariin Sukhait owns 50% percent of Nariin Sukhait coal deposit and both are operational mines. They are contributing to the local economy by providing employment and paying taxes. Both of them have concluded the "Stability Agreement" with the Ministry of Finance of Mongolia.

B) *Mining to be started:* In 2009, China National Nuclear Corporation which is a state owned company bought Gurvanbulag uranium deposit located in Dornod aimag with \$25 million, and the mining activities have not started yet.

C) *Mines stopped activities:* At the governmental level, two countries started negotiation regarding the Chinese significant amount of investment in Shivee Ovoo located in Dornogobi aimag. However, it was suspended

due to the issue of license ownership. Also, exploitation activities at Tumurtei iron ore deposit located in Selenge aimag have been stopped as it was labeled as a strategically important deposit.

D) *The mineral deposits interested of investing by the Chinese companies:* China is greatly interested in Tavantolgoi and Oyutolgoi deposits. In April, 2012, China's Chalco Corporation bought shares of Winsway LLC, who is dominating Mongolian coking coal exports to China, with \$300 million. Moreover, Chalco has offered \$1 billion of bid to buy shares of South Gobi Sands from Ivanhoe Mines;<sup>7</sup> however, it was cancelled because Chalco was not able to get approvals from the Mongolian government.

## 2. Contributions of the Chinese Invested Companies to the Mongolia's economy

### 2.1 Taxes Paid by the Chinese Invested Companies

As of 2011, total taxes paid by all the mining companies in Mongolia reached MNT 1.37 trillion.

As of 2011, three out of the Top-10 taxpayers were the Chinese invested companies: Tsairt Mineral LLC, Qinhua-MAK-Nariin Sukhait LLC and Bold Tumur Eruu Gol LLC.

The taxes paid by the top 10 taxpayers accounted for 93.44 percent of total taxes paid by all the mining companies, whereas total taxes paid by the Top-7 taxpayers accounted for 89.31 percent: namely, Erdenet Mining Company LLC-35.35 percent, Oyu Tolgoi LLC- 18.06 percent, Tavan Tolgoi LLC-12.40 percent, MAK LLC-11.28 percent, Energy Resource LLC-5.72 percent. Total sales amount of the mining companies and those of the Chinese invested mining companies are illustrated in Figure 1, 2 & 3.

During the 2008 financial crisis, sales income of Chinese invested companies currently working in Mongolia has declined. However, the sales income has revived in 2009 and considerably grew in 2011. Total sales income grew by 43 percent in 2010 compared with the previous year. In 2011, it reached MNT 776.72 billion by increasing

**Table 2 Total tax paid by entities in mining sector (As of 2011)<sup>8</sup>**

Types of tax		Amount / MNT, millions/
Total tax paid		1,373,407.3
Of which:	Royalty	469,290.0
	Corporate income tax	315,607.0
	VAT on imported goods and products	186,382.0
	Customs duty	86,045.9
	VAT	83,836.4

Source: General Department of Taxation and the Ministry of Finance, Mongolia

<sup>3</sup> Data released by the Foreign Investment Regulations and Registration Department

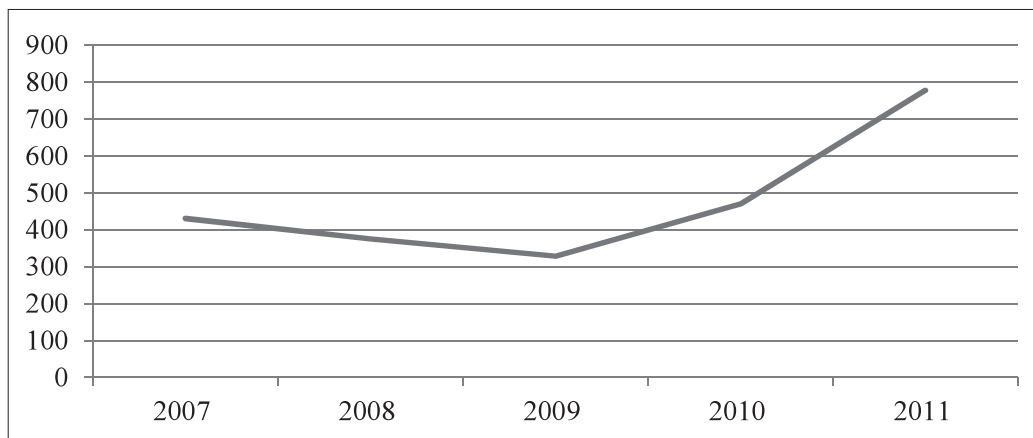
<sup>4</sup> L.Davaatsogt, Director, Mining and Cadastre Division of the Mineral Resources Authority of Mongolia: Reduction of the Areas under Licences to 16% of Total is the Lowest Figure in the Past 8 Years, <http://economics.gogo.mn/news/79759>

<sup>5</sup> <http://vip76.mn/batsuuriig/xevleld-ogson-yarilclaga/29321-jbatsuuri-xeregjix-bolomjgui-xuuliar-57-ix-nayad-togrogiiig-luivarchdad-ogoxgui.html>

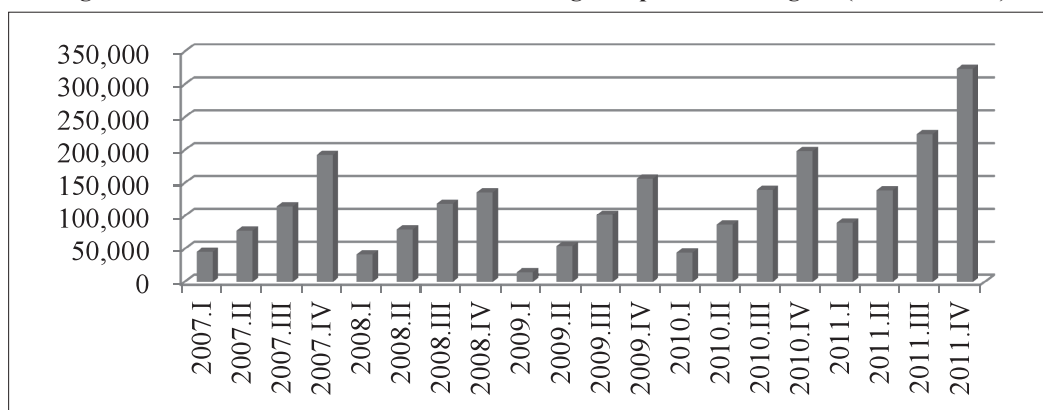
<sup>6</sup> Summary based on data provided by the Mineral Resource Authority of Mongolia

<sup>7</sup> 財經 “蒙古對中國資本欲迎還拒”，2012年5月2日 <http://finance.sina.com.hk/news/33807/2/1/4831630/1.html>

<sup>8</sup> Summarized by the authors;

**Figure 1 Total Sales of the Mining Companies (2007-2011, MNT billions)**

Source: General Department of Taxation, Mongolia

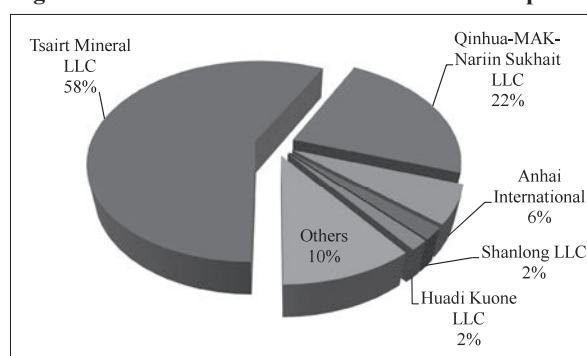
**Figure 2 Sales Income of Chinese Invested Mining Companies in Mongolia (MNT millions)**

Source: General Department of Taxation, Mongolia

**Table 3 Taxes Paid by the Mining Sector (Top-10 taxpayers) in 2011**

No	Company name	Products	Exports, kg	Total tax paid (MNT millions)
1	Erdenet Mining Corporation LLC	Copper ore, concentrate	569,433,421.0	485,527.2
2	Oyutolgoi LLC	Copper ore, concentrate	2,096.5	248,050.9
3	Tavantolgoi LLC	Coal	955,439,240.0	170,303.8
4	Mongolyn Alt (MAK) LLC	Coal	10.0	154,946.0
5	Energy Resource LLC	Coking coal	4,596,725,256.4	78,598.2
6	South Gobi Sands LLC	Coal	3,056,740,275.0	50,009.9
7	<b>Bold Tumor Eruu Gol LLC</b>	Iron ore, concentrate	3,062,363,425.9	36,625.5
8	<b>Tsairt Mineral LLC</b>	Zinc	23.3	21,634.4 20,900.7*
9	Altain Khuder LLC	Iron ore, concentrate	1,258,614,937.5	21,400.0
10	<b>Qinhua-MAK-Nariin Sukhait LLC</b>	Coal	1,766,949,560.0	16,143.9 9,904.2*

Source: General Department of Taxation and the Ministry of Finance, Mongolia

**Figure 3 Sales Share of the Chinese Invested Companies<sup>9</sup>**

Source: General Department of Taxation, Mongolia

65 percent compared a year ago.

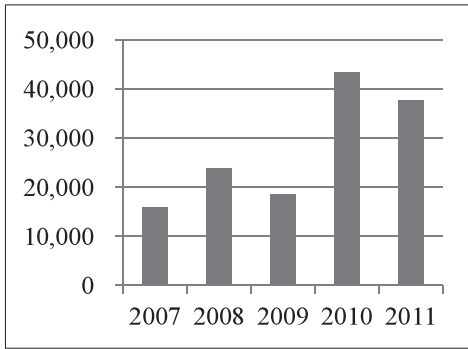
Although the corporate sales income increased in 2011, the taxes they paid have declined. In 2010, taxes paid by the Chinese invested mining companies increased by 57 percent to MNT 43.36 billion compared to those in 2009. But, in 2011, the paid tax decreased by 15 percent to MNT 37.71 billion than in 2010. As illustrated in Figure 5, total monthly taxes paid by the Chinese invested companies

<sup>9</sup> Summarized by the authors

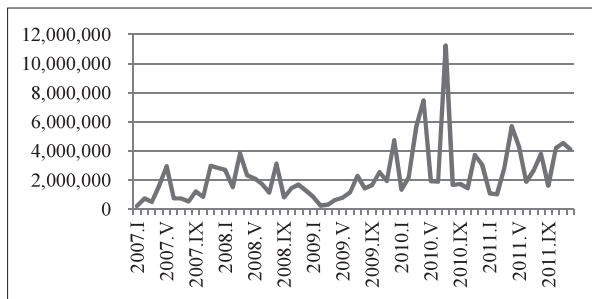
peaked at MNT 11.23 billion in July, 2010, while was at the lowest level in January 2009 (Figure 4 & 5).

During the period of 2007-2011, Chinese invested companies contributed MNT 139.35 billion of tax revenues

**Figure 4 Total Tax Paid by the Chinese Invested Mining Companies, annual /2007-2011, MNT millions/**



**Figure 5 Tax Paid by Petroleum and Mining Companies with China's Investment (2007-2011, monthly, MNT thousands)**



Source: General Department of Taxation and the Ministry of Finance, Mongolia

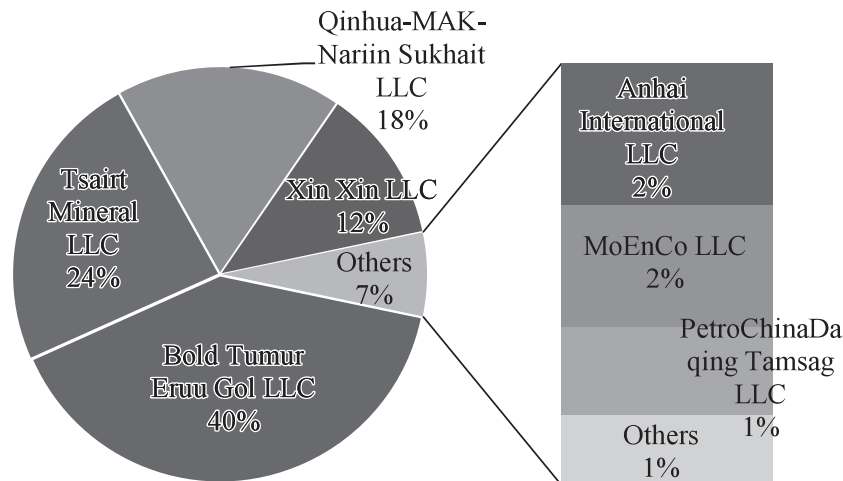
to the state budget, whereas Tsairt Mineral LLC provided 70 percent, while Qinhua-MAK-Nariin Sukhait LLC's contribution was 18 percent of total. All taxes paid by the Top-5 taxpayers accounted for 94 percent of total (Figure 6).

Out of Chinese invested enterprises engaged in oil and mining, Tsairt Mineral LLC, Qinhua-MAK-Nariin Sukhait LLC, Xin Xin LLC, Anhai International LLC, MoEnCo LLC and PetroChina Daqing Tamsag LLC are the top taxpayers, and the combined taxes paid by the Chinese invested companies account for more than 90 percent of the taxes provided by all mining companies in Mongolia. Furthermore, Chinese companies' operations are relatively well-diversified. For instance, Tsairt Mineral LLC produces zinc and silver concentrate, Xin Xin LLC produces lead ore and concentrate, and Anhai International LLC produces iron ore concentrate, whereas MoEnCo operates coal and coking coal deposit, PetroChina Daqing Tamsag LLC extracts crude oil. At the same, it was observable that the large-sized companies have entered the Mongolian market without competing with each other.

All mining companies in Mongolia paid MNT 1,373.41 billion of taxes in total. However, the taxes paid by Chinese invested companies totaled MNT 91.50 billion accounting for just 7 percent.<sup>10</sup>

The large-sized Chinese enterprises have higher sales income and taxes paid to Mongolia, whereas small-sized companies are unable to do so. Also, their productivity level is low in comparison with the large-sized companies. Therefore, in order to ensure responsible practices in the mining sector, it is important to set higher requirements for potential investors in the mining sector.

**Figure 6 Tax Share of Chinese invested companies in 2011 (percentage)**



Source: General Department of Taxation and the Ministry of Finance, Mongolia

<sup>10</sup> Here, the combined taxes are based on the data released by the Ministry of Finance, while the taxes paid by Chinese invested companies are estimated on the data by the General Department of Taxation. As the two data were different, corporate income tax was estimated on the data released by the Ministry of Finance and the remaining data was estimated on the data provided by the General Department of Taxation. So, the estimations may have errors and data gap.

**Table 4 Tax Paid by the Top-20 Mining Companies with China's Investments**

(MNT millions)

№	Company name	2007	2008	2009	2010	2011	Total
1	Bold Tumor Eruu Gol LLC					36,625.5	
2	Tsairt Mineral LLC	13,881.4	17,730.6	11,659.3	32,947.4	21,634.4	97,853.1
3	Qinhua-MAK-Nariin Sukhait LLC	820.1	2,692.1	2,868.2	5,729.7	16,143.9	28,254.1
4	Xin Xin LLC					11,136.2	
5	Anhai LLC	467.6	1,269.8	1,861.8	1,207.3	2,023.9	4,860.0
6	MoEnCo LLC	20.1	477.9	768.3	1,562.1	1,748.7	3,043.4
7	PetroChina Daqing Tamsag LLC					1,245.3	
8	Shanlong LLC	91.0	377.4	41.0	304.0	793.7	1,607.1
9	Bayan-Erch LLC	2.1	525.5	565.4	272.6	154.2	1,519.8
10	Huadi Kuone LLC	-	0.4	128.9	250.9	908.2	288.4
11	Bogda Holding LLC	231.8	167.7	37.1	52.0	7.8	496.4
12	Central Asian Cement LLC	161.2	27.7	40.9	22.1	106.3	358.2
13	Hunan Jin Leng LLC	45.0	95.9	3.0	172.6	7.3	323.8
14	Beren Mining LLC	20.6	31.8	27.8	30.4	177.4	288.0
15	Tanlong LLC	28.2	25.6	123.1	57.3	21.1	255.3
16	Da Di Ji Yuan LLC	-	0.2	0.2	18.0	217.0	235.4
17	Orchlon Ord LLC	-	-	-	0.3	220.1	220.4
18	Chamin-Alt LLC	-	0.2	57.1	107.7	9.8	174.8
19	MCTT LLC	4.8	13.8	39.1	67.5	37.6	162.7
20	Hunghua LLC	21.1	47.7	28.1	27.1	23.7	147.6

Source: General Department of Taxation and the Ministry of Finance, Mongolia

## 2.2 Corporate Social Responsibility (CSR) of the Chinese Invested Companies

In order to shed some light on whether the Chinese invested companies are socially responsible, the cases of Qinhua-MAK-Nariin Sukhait LLC and Tsairt Mineral LLC are presented here.

### *Contributions to the local community development:*

During the period of 2003-2011, Mongolia-Chinese 50:50 invested Joint Venture Qinhua-MAK-Nariin Sukhait LLC that owns a deposit located in Gurvantes soum, Umnugobi aimag produced 10.1 tonnes of coal and exported to China and paid to the Mongolian government MNT 18.3 billion in taxes, whereas MNT 14.3 billion were contributed to the state budget, MNT 3.4 billion to the aimag budget, MNT 643 million to Gurvantes soum budget. Also, MNT 3.6 billion was contributed to the local development projects.<sup>11</sup>

Various infrastructural development projects were carried out by the joint venture. It constructed 93 km of power transmission line from coal mine to the Mongolian border port and a substation, 55.02 km of paved road from the coal mine to the Mongolian border. Also, the company invested in construction of the new building for the Sports and Cultural Center at the Gurvantes soum center. Local

employees account for 39 percent of its workforce totaling 144.

Tsairt Mineral LLC it is one of the Chinese top investors in Mongolia. It is also one of the top taxpayers accounting for around 2 percent of the state budget revenues. The company constructed 180 household-apartment complex and a paved road from the mining site to the aimag center. As the mine became fully operational, Sukhbaatar aimag stopped to be a subsidy recipient and started to contribute to the state budget. It became the sixth aimag that does not receive funding from the state budget and ranks the 4<sup>th</sup> in the country by its contribution to the state budget revenues following Ulaanbaatar city, Orkhon and Umnugobi aimags.

Moreover, these companies are among the top tax contributors and considered as the leading companies in terms of sales income; thus having growing positive impacts on the local development.

### *Environmental rehabilitation:*

Upon completing the operations, Qinhua-MAK-Nariin Sukhait LLC and Tsairt Mineral LLC carry out environmental rehabilitation activities by planting trees and making biological restorations. Also, they carry out environmental assessments in collaboration with the

<sup>11</sup> Cabinet Office of the Government of Mongolia: Office of the Plenipotentiary Representative. "Annual report 2011" <http://cabinet.gov.mn/files/fileres/12030001.pdf>

Environmental Assessment Consultancy Company "Nature Friendly" LLC": Integrated Development Plan of Oyu Tolgoi Copper, Gold Mining & Processing Project" [http://www.ot.mn/sites/default/files/reports/Detailed\\_EIA\\_Oyu\\_Tolgoi\\_Mining\\_Processing\\_2012\\_MN.pdf](http://www.ot.mn/sites/default/files/reports/Detailed_EIA_Oyu_Tolgoi_Mining_Processing_2012_MN.pdf)



specialized and licensed companies.

However, it is occasionally reported that the Chinese mining companies in Mongolia do not perform the environmental rehabilitation in a good manner. Because of it, public criticisms and oppositions have spurred among the local communities. For instance, PetroChina Daqing Tamsag LLC and Xin Xin LLC did not conduct the environmental rehabilitation in accordance with the applicable environmental standards and laws, and caused serious environmental damages. Thus, local residents have resisted the setting up of mining operations in their areas.

### Conclusion

Most of the foreign investment made in Mongolia from China is generally concentrated in the mining sector. However, 10 percent of the minerals exploitation licenses are held by the Chinese companies and three of 15 mineral deposits of strategic importance are possessed by Chinese entities. So, it can be argued that Chinese direct involvement in the sector is not as high as it is assumed, but there is no doubt that China plays an important role in development of Mongolia's mining sector. Chinese influence is mainly exposed in the foreign trade activities rather than the domestic market. More precisely, Mongolian

mining products are entirely exported to China. In this sense, Mongolia's mining exports are totally dependent on one market.

Chinese companies currently working in Mongolia are engaged in different markets, such as zinc, coal, iron and oil without competing with each other on the same market. Considering this fact, it can be argued that the Chinese companies enter the Mongolian market based on the focused government policy. All the taxes paid by the Chinese invested companies accounted for around five percent of the combined taxes collected by the Government of Mongolia. Large-sized Chinese companies pay the taxes according to the law and are socially responsible enough, while small-sized entities are unable to do so. Therefore, it is required to set higher requirements for potential mining investors to enter the Mongolian mining sector. Furthermore, small-sized Chinese mining companies tend to increase the number of Chinese citizens in Mongolia, violate laws and create negative sentiment within the public. However, despite their sizes, all the mining companies tend to not ensure environmental protection, and not perform environmental restorations due to both of their weak responsibility and insufficient law enforcements by the Mongolian government.

## 中国の対モンゴル鉱業部門への投資と地域経済への関与

モンゴル国家安全保障協議会戦略研究所  
主任研究員 B. インドラ  
研究員 B. アリウンズル  
研究員 Ts. エンフウヤンガ

### (要旨)

今日、モンゴルに対しては中国から巨額の投資が行われている。中国は国内のエネルギー消費量の増加に伴い、海外市場志向型戦略を行い、豊富な鉱床を確保・投資して、各国との協力関係を作り始めている。モンゴルは石炭、銅、石油などの豊富な天然資源によって、過去数年間、多額の中国投資を惹きつけている。その結果、モンゴルは中国の投資相手先の上位20位内に入った。

中国の対モンゴル投資の大部分は、概して鉱業部門に集中している。ただし、中国企業が所有しているのは、鉱物採掘ライセンスの1割と、戦略的に重要な15鉱床のうちの3つである。この部門における中国の直接投資は、想像されているほど多くはないと言えよう。しかし、中国がモンゴルの鉱業部門発展に重要な役割を果たしていることは、疑いようがない。中国の影響は、国内市場よりも、むしろ外国貿易活動に大きく現れている。より具体的には、モンゴルの鉱業製品は、もっぱら中国に輸出されている。この意味では、モンゴルの鉱業輸出は完全に一つの市場に依存している。

本稿では、中国の投資企業の販売、税金並びに企業の社会的責任という中国投資の3つの現状を分析しながら、中国の対モンゴル投資の影響についての調査結果を述べる。

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