

# Mongolian Harvard Elites Aim for Wealth Without ‘Dutch Disease’

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By Michael Forsythe

Feb. 16 (Bloomberg) -- Mongolia's billions of dollars worth of copper, gold, uranium and coal reserves promise the greatest influx of wealth for the country since Genghis Khan conquered much of the known world in the 13th century.

They also may spawn a crisis. Sudden prosperity can overwhelm an economy, exposing it to commodity-price swings. Mongolia's leaders, some educated at Harvard and Cambridge, say they are determined to avoid this syndrome, known as "Dutch Disease" - a sudden surge in wealth that ultimately hampers expansion.

Working with the Washington-based World Bank, they are dispatching officials to nations such as Chile, which successfully harnessed its copper resources to help drive growth. They are also leveraging their democratic system to build support for policies including greater investment in transportation and a new budget law aimed at curbing the impact of volatile metals prices.

"If you go to most developing countries, they'll tell you, 'We're saved; we've found uranium,'" said Hernando de Soto, a Peruvian free-market economist. Mongolia has "a president who says, 'We are in grave danger because we have discovered we have a lot of natural resources.'" The fact that "they are forewarned gives you hope."

De Soto was interviewed in Ulan Bator, the capital, where he met last week with President Tsakhia Elbegdorj and Prime Minister Sukhbaatar Batbold. Elbegdorj graduated from Harvard's Kennedy School of Government in Cambridge, Massachusetts, and helped translate de Soto's 2000 book, "The Mystery of Capital," into Mongolian.

## Income Surge

"Dutch Disease" was first applied to a surge in income from new natural-gas fields in the Netherlands during the 1960s, which caused the currency to appreciate, making exports less competitive and reducing manufacturing companies' profitability.

Last year Mongolia reached an agreement with Vancouver-based Ivanhoe Mines Ltd. and London's Rio Tinto Group to develop the Oyu Tolgoi copper and gold mine, which the government estimates will produce \$30 billion in revenue. The government is talking to companies including St. Louis-based Peabody Energy Corp. about mining the \$2 billion Tavan Tolgoi coal deposit, among 15 strategic mineral deposits it seeks to develop.

Batbold told reporters Feb. 9 the new wealth will cause gross domestic product to rise “several fold in a fairly quick period of time.” GDP was \$5.3 billion in 2008, the World Bank estimated.

### Sudden Prosperity

Sudden prosperity may not improve living standards. Nigeria, Africa’s biggest oil exporter, has seen almost no growth in real GDP per capita in three decades. Venezuela, South America’s biggest oil exporter, had a higher GDP per person in 1977 than in 2008, according to the World Bank.

To beat the resource curse, Mongolia’s government has proposed a law based on a Chilean measure that will save surplus revenue from mineral royalties when prices are high to stabilize the budget when they fall. In 2009, it set up a Human Development Fund modeled on an Alaskan program that distributes some royalties to citizens.

The country is overhauling its social-welfare system to target aid only to the poor. It also plans to improve roads and railroads, creating access to new mines and helping herders bring cattle and sheep to market.

Mongolia is the world’s least densely populated country, with 2.6 million people spread across an area the size of western Europe, two-fifths in rural areas on windswept steppes. Twenty-two percent lived on \$1.25 a day or less in 2005, and 29 percent were undernourished, according to the latest United Nations data.

### Freely Criticize

Mongolia’s leaders say democracy will help smooth the adjustment to new wealth. Sandwiched between China and Russia, which have dominated the country in the past, Mongolians freely criticize their government, as evidenced at a Feb. 8-9 Mongolian Economic Forum. Activists, journalists and parliamentarians complained officials aren’t doing enough to alleviate poverty and unemployment.

“We are trying to build a bridge and a mechanism between the government and public and private sector so that we hear each other,” Batbold said in a Feb. 8 interview in Ulan Bator. One initiative is a push to make mining contracts available on the government’s Web site to help spur public debate, he said.

If he and other leaders don’t keep their promises on openness and transparency, “that will be a big problem” and “they may lose” the next parliamentary election in 2012, said Dambadarjaa Jargalsaikhan, an economist who helped organize the forum and founder of the advocacy group Mongolians for Fair Taxes, Wise Spending.

### Income Gaps

Mongolia's income gaps are visible in Ulan Bator, where a statue of Genghis Khan looks south from the steps of parliament at newly opened Louis Vuitton and Ermenegildo Zegna stores. Meanwhile, the most severe winter in three decades is killing livestock in western Mongolia, where the UN says people may face starvation.

Sanjaasuren Oyun, a 12-year parliamentary veteran with a doctorate in earth sciences from Cambridge University in the U.K., said she is pushing the government to avoid politically popular cash dividends for citizens and focus on infrastructure improvements and job growth.

"Because poverty and unemployment are still the most pressing issues in this country, it is easy to win the vote by promising cash," Oyun said in an interview. "But members of both parties in parliament are saying that in the future, these promises should not be made."

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