

The "state policy on railway transportation" of mongolia

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In 2010, the Parliament of Mongolia adopted the “ State Policy on Railway Transportation”. The document not only defined the railway policy, but it also included the idea of Sainshand Industrial Complex. According to the policy “ Sainshand industrial complex shall ensure the intensive development of Mongolia through increasing the gross domestic products and manufacturing value-added products which can compete at international markets upon bringing the mineral deposits into economic circulation and processing mineral raw materials”. To building an industrial park, developing the economy by value-added mineral products seems sensible policy.

However, since the policy adopted, plenty of researchers have been criticizing the idea of building Sainshand Industrial Complex because it is not possible to build the industrial complex there. For instance, political scientist D. Gankhuyag (Dashzeweg, 2014) once wrote that the Sainshand Industrial complex is the worst idea of industrialization. Because the Sainshand cannot address the very first and necessary criteria which is water resource. All industries projected to build in Sainshand would consume a huge amount of waters, but Sainshand area has not enough water to keep operations regularly, even if industries built.

Moreover, he pointed out that even if the industries built in Sainshand, if Mongolia would start producing iron and steel products, they cannot be as competitive as products made in either China or Russia. Because the cold climate and geographic location of Mongolia would make the production cost much higher than the production cost in China. However, the parliament of Mongolia decided to build the horizontal route of the railway from the Tavan Tolgoi deposit to the Sainshand where the industrial park projected to build.

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More specifically, the railway routes are projected to build in the first phase are:

- Dalanzadgad - Tavan Tolgoi - Tsagaan Suvarga - Zuunbayan,
- Sainshand - Baruun-Urt,
- Baruun-Urt - Khuut,
- Khuut - Choibalsan.

In other words, the routes projected to build in the first phase is not towards to the border, instead, the plan is to connect deposits to the cities, and then reach to the Sainshand where the industrial complex supposed to be built.

In 2012, the National Security Council of Mongolia issued the recommendation number 07/05. The National Security Council is a highest state consultative body coordinating and elaboration and implementation of the integral state policy. The Council consists of three members, the President, the Speaker of the Parliament, and the Prime Minister. Since the council is the consultative body, the form of a decision made by the council is the recommendation which means non-binding. The recommendation 07/05 suggested Government to start the first and second phase of the state policy on railway transportation in build-operate-transfer concession agreement with a private company in the first half of year 2012.

In May 2012, Government of Mongolia issued resolution number 161, to allow to establish concession agreement with Energy Resources. Later on, the Government of Mongolia has signed the Concession Agreement with Energy Resources LLC to build and operate the railway base infrastructure between Ukhaa Khudag coal mine and Gashuun Sukhat border checkpoint.

In November 2012, the Government revoked the Concession Agreement between Government of Mongolia and Energy Resources LLC. Because, Government recognized the socio-economic importance of the phase one and phase two of the New Railway Project, and therefore resolved to consolidate them into unified railway project to be managed and implemented under Government authority and financing with the participation of domestic and international investors. In 2013, the Government granted the build-operate-transfer concession right for the New Railway Project to Mongolian Railway state-owned company, a 100% state-owned company established in 2008.

Later, in 2013, New Railway Special Purpose Vehicle was established under the structure of Mongolian Railway state-owned shareholding company. Mongolia wanted to have Mongolian-controlled railway company that will give it access to major markets. And the plan was to have a strategic investor take 49 percent of a SPV, and the 51 percent owned by Mongolian Railway which is 100 percent state-owned. Mongolian Railway will in turn finance 40 percent of the SPV, which itself will be approximately 60 percent backed by debt investors. Control would remain in the government, but the majority of the estimated USD 5bn in financing would come from overseas. The Mongolian Railway signed with the Japanese consulting firm Nippon Koei Group, that has been selected as the technical assistant company for a new railway project on March 2013. (Batsaikhan, 2013). Moreover, in 2013, Deutsche Bahn International was selected as the monitoring consultant and Samsung C&T was chosen to build the railway line from Ukhaakhudag to Gashuun Sukhait (see picture 7).

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Although, it has already been 3 years since the establishment of the State Policy on Railway Transportation, finally in May 2013, the construction work has officially started. According to P. Bat-Erdene, the former vice executive director of Mongolian Railway State-Owned company, Government of Mongolia decided to finance the project USD 400 million, of USD 1.5 billion which Government raised through the Chinggis Bond on the international market. However, in 2013, only USD 212 million transferred from Development Bank of Mongolia to the account of Mongolian Railway. As of February 2015, more than 90 percent of the railway line's earthworks were completed. (Bat-Erdene, 2015). Since that time, the construction work has stopped, because of the government has not transferred the necessary money to the Mongolian Railway.