

My Comments for Session 1

Thank you for the opportunity to participate in this important dialogue. As our Chargé d'Affaires, Mr. Hill, just noted, Mongolia hosts this event at the most opportune time.

By way of introduction, I work on economic policy, trade policy, and U.S.-Mongolia commercial advocacy at the U.S. Embassy. As the panelists' presentations demonstrated, these are exciting times to be in Mongolia and, more broadly, in Northeast Asia. The fascinating mix of rapid economic growth, social development, and regional integration and collaboration captures the imaginations of both businesspeople and policy wonks round the world, and I consider myself fortunate to be here as both observer and participant of these times.

To that end, it's no surprise that your first session is on Mining and Mineral Development in Northeast Asia. Clearly, nobody here needs explanation why mining matters to Mongolia or to Northeast Asia in general. We certainly count ourselves among the many that see how mining will transform both Mongolia's economic landscape but its long-term social landscape. That said, many who follow the situation closely realize that the great opportunities come with equally great challenges: Challenges that many other countries with similar mineral resources have faced with decidedly mixed results.

More to the point of this Forum, it is striking to see participants in this session representing China, Russia, Korea, and other "third neighbors" (counting myself among that latter group). The development of Mongolia's mining sector will of course be driven in large part by Mongolia's own domestic decisions, but regional and international issues will be a critical part of the equation.

From my perspective, regional and international issues related to mining here have two primary aspects. First is creating a sound commercial climate not merely to attract foreign investors but to retain them once they have probed the market; and second is thinking strategically about the market for Mongolia's mineral resources, be they in raw form or at a higher processed state.

On the first point, mining is obviously a high-intensity, high-skill, technology-driven industry. Even in the most developed countries, mining is an international business, with firms from many different countries having unique expertise both up- and down-stream, from exploration to extraction to processing to marketing. I think Keith's presentation on Oyu Tolgoi and the partnership of Rio Tinto, Ivanhoe, and the government of Mongolia provides a perfect example of the importance of partnership.

As Mongolia continues to reach out to and attract more and more foreign investors, creating a welcoming commercial climate becomes a critical objective. U.S. and other foreign investors seek much more than simple data projecting a return on their investment. Getting investors to take a peek at Mongolia is no challenge. Asia's growth has fundamentally changed the market for commodities such as Mongolia produces; and so, no explorer, miner, or investor will not at the very least come to Mongolia for a look. That's the easy part. Getting them to stay and invest, well, that's much harder.

Before they invest in a country, they need to be confident that their business will be protected by a clear, sound, and stable rule of law; that a country has the human resources to staff a project or company (or the capacity to develop that resource); and that disputes, if and when they do arise, can be resolved quickly and fairly.

The overall rise of the Northeast Asia's economy in general, and Mongolia's in particular, over the past decade or more tells us that the region is full of successes. But it remains incumbent upon all of us -- business leaders, academics, and representatives of government, like myself, who are sent abroad to ensure that our countries' interests are respected and protected.

On the second point, Northeast Asia has the welcome dilemma of being both a source *and* destination for vast mineral resources. That brings challenges for local leaders. One key issue in Mongolia, (and I am sure elsewhere), is determining how much "value" of the mineral resource can be kept in country. Debates continue over questions such as the need for a copper smelter versus direct export of raw minerals; producing power in country for export; and building large industrial hubs driven by local mineral resources.

Those key sectoral development decisions, in turn, drive the "back end" decision making process; that is, developing a marketing plan for copper concentrate differs from developing one for copper wires and pipes. And in the case of Mongolia, such plans require important regional collaboration from day one, as the planners must understand the needs of their potential markets before deciding what sort of mine, labor needs, infrastructure, supply chain to develop.

That leads to my final point: Regional and international issues surround and permeate Mongolia's commercial climate in general and the development of the mineral sector specifically. This condition is and will likely remain a constant policy challenge. But while political considerations will always be part of any investment discussion, we would argue that, ultimately, economic considerations must drive the process. At its heart, any nation's sovereignty is a direct extension of its ability to impose its laws within its territory; and what is more emblematic of that principle is a state asserting that its rules of commerce and business in its own territory trump domestic and external political concerns.

Before I continue, let me say that I include social welfare and the overall development of society as a whole as part of economic considerations. Much of the conversation here in Mongolia -- and I would imagine elsewhere in Northeast Asia -- has focused on ensuring that all citizens benefit from the country's mineral wealth. That means making sound economic decisions across the board -- not just in selecting domestic, foreign, and regional partners; setting the rules by which they will play; and determining the path for developing industry; but just as importantly in developing and implementing sound fiscal, financial, regulatory, and social policies to manage wealth.

Politics often comes into play as these decisions are made, but in the end we believe that there must always be a sound economic justification for making development and commercial decisions, especially those that will have generational impact such as Oyu Tolgoi and other mining deals.

We hope Mongolia continues to support economic and market-based decision making. Here in Mongolia, and I am sure elsewhere, the global economic crisis placed a lot of pressure on the government to manage its resources during a decidedly down time, and the government was up to the challenge. It took tough

steps to limit budget expenditures, address financial sector deficiencies, and strengthen social programs.

Of course with copper edging up, it might tempt one to relax the disciplines but, moving forward, staying the course on these issues and broader commercial decisions will determine not just growth over the next five years but for generations to come. Today's decisions lead to tomorrow's human and physical infrastructures; and so, "getting it right" now becomes even more important as Mongolia -- and the broader region -- approaches a new era of economic growth.

As I noted, I am personally delighted to share these ongoing and important discussions, and equally glad that such a forum where we can robustly exchange ideas exists. Thank you for taking the time to listen to my thoughts, and I look forward to any discussion, either at this session or during the break.

Thank you.