

Travel Report

Ulaanbaatar

3 – 5 May 2017

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Background

Mongolia — the country crammed between Russia and China, founded by Genghis Khan (referred to as Chinggis Khan by the Mongolians) — is one of the least populated countries in the world with about 3 million people spread out on 1 566 000 km² (three times the size of Sweden). The capital of Mongolia is Ulaanbaatar, which with its 1.4 million inhabitants accounts for almost half the population. The rest of the population lives on small villages on the countryside, or as nomads. As the only big city, Ulaanbaatar is the political and administrative centre in Mongolia.

Mongolia was a communist country with close connections to Russia until it went through a peaceful revolution and became democratic in 1990. This marked the start of a development process where democracy, education and living standards have developed considerably during the past 25 years. However, the country suffers a great deal from corruption, as bribes and “money on the side” seem to be more habit than exception in many governmental institutions.

Mongolia is rich on natural resources, mostly in the form of minerals. Yet, the big scale mining industry is rather new. In 2006-2007 a vast number of international companies arrived in Mongolia with the hope to take part in the huge mining expansion which was expected to happen. Several mines were initiated, among them Oyu Tolgoi — a copper-gold mine in southern Mongolia — which now has become one of the largest mining projects in the world. The economy boosted and as of 2010, 46% of GNP came from these minerals. Sadly, a combination of political and global economic factors caused the economy to crash in 2012, and ever since the development has been standing still and most mining projects were set on hold. However, as the mining potential is huge, most companies focus on surviving to keep their position when the growth starts again.

Three Swedish companies are represented in Mongolia: Sandvik and Atlas Copco in mining, and Oriflame in cosmetic. Apart from these, several brands with Swedish origin are present through local distributors.

Purpose and Goal

No visits from CITO have previously been made in Mongolia. A visit to Ulaanbaatar therefore served several purposes: (1) to establish contact between CITO and the Swedish companies present in Mongolia, (2) to spread awareness of CITO, Chalmers and Sweden among the visited organizations and companies, (3) to spread knowledge about Mongolia’s development and business culture, as well as opportunities offered in Mongolia, to current and previous students and staff at Chalmers, and (4) to educate the CITO

representatives about the history and culture of Mongolia, as Mongolia is a rather anonymous country which seldom appears in either education or media.

The goal for the trip would therefore be to meet representatives from both Swedish and local companies, to get a deeper understanding of what the business culture looks like in Mongolia, the current and future development of Mongolia's economy and business environment, and the role the Swedish companies have in Mongolia. Furthermore, another goal is to explore the culture and history of Ulaanbaatar to share with the rest of CITO as well as Chalmers students.

Visits

Sandvik, Afternoon May 3rd

After a minor adventure to find the facilities (street names are not used in Mongolia, instead locations are referred to as "Monfresh Building, the big blue building on the road towards the airport, the one next to the big wheel"), we were greeted by Mr. Odgerel Margad-Erdene who welcomed us to Sandvik. After having introduced the safety regulations for the workshop as well as emergency procedures, Business Controller Mr. Peter Wong and Sales Representative Gantulga Ragchaa joined the group and gave a brief introduction to Sandvik.

Sandvik was founded in Sandviken, Sweden, in 1862 by Göran Fredrik Göransson. Today it is a global company with about 46 000 employees operating in more than 150 countries. Starting with steel production, the products and services offered have widened to include the three business areas Machining Solutions, Mining and Rock Technology (which includes construction), and Materials Technology. The office in Mongolia focuses only on the mining and construction parts.

Sandvik came to Mongolia in 2006, as a part of the big wave of foreign investors in mining. From the beginning, it was a subsidiary office to Sandvik Finland, but in 2007 Sandvik Mongolia LLC was established to facilitate local trading. Today, the biggest business comes from drilling and transportation in underground mining, which has made Rio Tinto, the company behind the Oyu Tolgoi mine, an important customer. The future focus lies within automation, both to improve productivity, but also to improve the safety and work environment for mining workers.

After the introduction, we spoke about some of the challenges of operating in Mongolia. The mining industry has developed faster than the infrastructure, which makes distribution a challenge. So far only Oyu Tolgoi has an airport, all

other mines must be reached by truck on sometimes rough roads, as nationwide railroad systems are yet to be built. This leads to easy deliveries, mostly by airplane, from Sandvik's regional distribution centre in Singapore to Ulaanbaatar; followed by lengthy truck deliveries, sometimes up to 24 hours' drive, to the local mines.

On the question regarding whether the "Swedishness" shines through, the answer was a clear "yes". Both Peter and Gantulga spoke about the influence of Sweden, such as focus on safety and environmental sustainability, but also about differences in managing style. At Sandvik the power distance between managers and subordinates is small, and everyone is both free and encouraged to take initiatives, and come with suggestions; as opposed to the Mongolian tradition where employers are expected to highly respect their boss and follow given instructions. Peter and Gantulga both appreciate this freedom and expressed a very positive attitude to their employer.

The visit ended with a guided tour by Gantulga through the facilities. We were shown the office spaces, as well as the warehouse and the workshop where broken equipment which couldn't be repaired on site was repaired. We left with a greater knowledge about both Sandvik and the mining industry, and would like to express a Thank You to Odgerel, Peter and Gantulga who set aside time for our visit and shared their experiences.



EY, Morning May 4th

The second visit was at EY, where Ms. Munkhjin Batbayar, or Muki, kindly invited us for a talk. The hours flew by as topics ranged from development in Financial Technology, Mongolian politics and economy, personality traits of the Mongolian people and the mining industry; but it started with a brief introduction to EY.

EY is one of “the Big Four”, the four leading global accounting firms. Arthur Andersen came to Mongolia in 1999 as the first of the big international accounting firms. When they went bankrupt in 2001, EY bought what was left. They were the only international accounting firm for many years, but since then the other big four (Deloitte, PwC, and KPMG) have arrived. At one point, EY considered to withdraw from Mongolia. However, the government and the local banks convinced them to stay as they were dependent on having internationally approved firms who could make financial audits, otherwise international trading and financing would be considerably more difficult due to the wide spread corruption. Today, EY’s major focus in Mongolia is auditing and tax advising. They are also helping foreign investors with trustworthy economical background about local firms in investment situations.

Muki moved abroad, as many Mongolians, to pursue her degree. After graduating in the US, she stayed and started to work for EY. In 2011, international newspapers wrote about the booming economy in Mongolia, which made many Mongolian expats return to their home country, and Muki was one of them. She continued to work at EY but in Ulaanbaatar, and found that the business culture was the same as in the US. Procedures, culture, way of thinking were all the same which made the transition easy. This is something EY has strived for as one way to facilitate knowledge transfer through personnel exchange between offices and countries.

We spoke about future trends of Mongolia. One trend is Financial Technology, or FinTech. Being a developing country, Mongolia surprisingly has well developed FinTech systems. All banks offer online solutions, and cash has in many situations been replaced by electronic payments. Apart from most stores and restaurants accepting card payment, the Bank of Mongolia has supported a system which allows instant money transfer between bank accounts. Consequently, it is not uncommon for people to only bring their cell phone to stores, as cash or cards are not required. Foreign investors have also shown interest in the growing FinTech industry and invested in a number of startups, although it still counts as an emerging market.

Another topic which came up was Mongolian personality traits. As the first king of the largest kingdom in history, Genghis Khan is a national hero. Many still say “we are ancestors of the great Genghis Khan” (which, on the other hand, holds true for about 0,5% of all men across the world), and focus more on his

achievements than to achieve something today. Mongolians can therefore be described as “proud but lazy”. The pride causes some problems in collaborations, as admitting faults clashes with pride. However, most people are very straightforward in their communication, which makes communication easy and misunderstandings less likely.

The visit at EY and meeting with Muki provided with insights in a wide range of areas, and we left more enlightened. We would therefore want to thank Muki for sharing so freely, both about information and experiences.



UL Equipment Co. (Scania distributor), Afternoon May 4th

Our afternoon meeting of Thursday was with UL Equipment Co (ULE), and it was a very interesting and rewarding conversation. We were picked up by ULE driver at 2 p.m. at our hotel in Ulaanbaatar. The traffic situation in Ulaanbaatar is horrible, and only after one and a half hour had we travelled the 15km to the ULE facility.

ULE is a family business founded in 2007 by Mr. Gerelt-od “Jerry” Rinchin and Ms. Achiimaa Jamsrandavaa after they had returned to Mongolia from US, where they both received their degrees and worked for a couple of years. To start the company, they bought a piece of land outside Ulaanbaatar city. When they arrived, no infrastructure was in place apart from the road that passed by, so they had to start with digging up several kilometres to connect their property to the power grid, water and sewer infrastructure closer to the city. As the infrastructure was in place, they could build the workshop and office which is now on the property. The facilities we visited were very modern and professional-looking, and could have belonged to any high standard company in Sweden. The initiation of ULE facilities contributed to the development of the area, and now 10 years later, a smaller industry park has grown up around their facilities.

In the beginning ULE was trading with Chinese equipment, but due to collaboration problems (faulty products, deliveries running late, etc.) they decided to quit the collaborations and move on to western suppliers. Now they are general agents for several well-known brands in the mining industry, such as JBC, RIMEX, Donaldson, Nokia tires, Milton and Foam fill. They are also dealers for generators from the Swedish company Scania. ULE has specialized in tires and tire repairs and is the only company in Mongolia that foam-fill tires. Their customers include mine sites and a few road constructions.

We talked about differences in doing business in Mongolia and abroad, as well as differences between mining sites operated by locals and sites operated by international mining companies. Western mining companies keep high safety standards and have enough money to invest in proper equipment. They are also in general better at planning ahead and doing thorough research before buying equipment, hence they can order equipment with long delivery times. Mongolian mines and companies have more restricted budgets. It is also more common that equipment is needed “now, or even better yesterday”, due to their lower ability of planning. While the international companies more often plan ahead and take delivery times into account; local companies look at what is currently in stock and buy the, at the moment, most suitable piece of equipment. ULE therefore needs to keep a basic stock of generators, tubes, etc., but also be ready to order specific products, to satisfy both customer groups.

There are also differences in how to deal with the suppliers. Achiimaa thought Australians were the easiest to deal with. They have the same straightforward communication as the Mongolians, are very good at keeping promises, and deliver high quality solutions. "If they say they will solve it, they will solve it", Jerry agreed, and that it is in general harder to deal with European companies, since their answers more often are provided hidden in a larger body of text. In addition, many times not one single solution/answer is given, but several suggestions - once again integrated in bodies of text.

In the end of the meeting, we spoke about the views on sustainability and environmental considerations. In general, environmental regulations are not strict in Mongolia and very few people consider sustainability to be an important area. At ULE they follow the official regulations (e.g., to protect the soil when working with oil, and sanitize the ground if oil has been spilled), but they also extended it a little bit further by arranging activities for their employees to help clean up the surroundings, sorting recyclables from the workshop, and sending old tires to be used for cushioning ground coating at playgrounds and arenas.

We would like to thank Achiimaa and Jerry for sharing their time and experience, giving us new knowledge about Mongolian mining, construction and corporate relations.

Internship:

ULE has an internship possibility available! In Mongolia, the education system focuses on educating specialists, not generalists. This makes it hard to recruit people with the ability to consider multiple factors when making decisions, such as considering a temperature difference closer to 100 degrees Celsius between summer and winter, heavy rains, load requirements and financial factors, while constructing a foundation. ULE is planning a new workshop and offers an internship in construction to receive help with this. An independent person, late in their final years of education is required, as that person would be among the most knowledgeable within the field. For more information contact CITO.



Atlas Copco, Morning May 5th

At Atlas Copco, we met Mr. Anders Berglund who has worked in Mongolia since 2012, and within Atlas Copco, mostly in the Nordic region but also in the Middle East, for 25 years. Talking to a Swede who could relate to and compare with Sweden was very rewarding.

Atlas Copco is a Swedish company founded in 1873, which today is active in 180 countries around the world with 42 000 employees. It consists of five business areas: Compressor Technique, Vacuum Technique, Industrial Technique, Mining and Rock Excavation Technique, and Construction Technique. Atlas Copco established in Mongolia in 2005 in the beginning of the big mining boom, with the focus on Mining and Rock Excavation.

In January 2017, Atlas Copco made an announcement that they would split in two parts, where the mining and construction-equipment business would transfer to a newly founded company, which just a few days prior to our visit was given the name Epiroc. Although the details of the division were not yet set, Anders reasoned about some of the upcoming challenges; such as changing name of a well-known brand without losing the recognition. Luckily, the mining industry consists of few, but big players, which makes it easier for Atlas Copco to communicate the organizational changes to their customers without losing the recognition. Another strategy for not losing the recognition factor will be to keep the old product names to not cause confusion, as the names are used in daily speech within the operations.

In the yearly ranking of world corruption 2016, the organizational Transparency International only gave Mongolia 38/100 points in cleanness (as compared with 89/100 for Sweden). The corruption does not only affect the government, it also deeply affects how private companies, such as Atlas Copco, traditionally does business. As the acceptance towards corruption and expensive gifts is very high in the Mongolian society, Anders spent much time during his first years as a manager to discuss the issue, and how to set up a framework to be a company free from corruption. Although Atlas Copco managed to find ways to operate without corruption since 2005, it still contributes to frustrations. To combat societal problem with corruption, Atlas Copco together with Transparency International started a new working group within the Mongolian Business council to fight corruption, and enforce guidelines on what kind of gifts could be acceptable to give and receive. The response for the initiative was very positive, and several international and local companies have now joined the cause and try to follow and develop these guidelines.

Another challenge for Anders and Atlas Copco is to recruit skilled employees. Anders thought that it is not difficult to find technically skilled people; the challenge is to find people with more analytical skills, who can see a broader picture and take own initiatives. This problem leads back to Mongolia's

education system which only educates specialists, but also to a culture where managers traditionally give instructions and subordinates follow them. Therefore, mistakes easily go unnoticed as employees have problem to, by themselves, judge if a result is reasonable or not. However, Anders puts much effort into personal development of his employees, and both trains them to estimate plausibility and encourages attempts to take initiative and responsibility, and slowly but surely, he says, his work pays off.

Our meeting with Atlas Copco gave us new insight about Mongolia, and we would like to thank Anders for taking his time and sharing his experiences as a Swedish expat in Mongolia.

German-Mongolian Institute for Resources and Technology, Afternoon May 5th

The last visit was at Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), where we met Ms. Shinebayar Chimedtseren and Ms. Oyun-Erdene Bat-Erdene to discuss the project German-Mongolian Institute for Resources and Technology (GMIT). It was an interesting meeting and we learnt a lot about the Mongolian education system.

When Angela Merkel, Chancellor of Germany, and Tsakhiagiin Elbegdorj, President of Mongolia, met in 2011, Mongolia asked Germany for help to start an internationally recognized university. Together they started a new university where the Mongolia government stands for financial support and German government (through GIZ) for structure, curriculum, international assurance, and social support. GMIT will be a model for the higher education reform in Mongolia.

The business for higher education in Mongolia increased significantly after the democratization in 1990. During the communist era, focus in universities was science, but after the democratization the interest for social sciences increased and many universities teaching social science opened. In general, the number of universities grew rapidly, and after 10 to 15 years the number of universities was almost 200. This made it very hard to attract students, and as the tuition fees are what brings money to the universities, the consequence was that many of the schools focused more on attracting students just to be able to pay their bills than actually teaching them. Education standards were low and it was easy to get a degree. However, the degree was worthless due to the lack of quality. With harder regulations, several universities have now disappeared, and today, the number is down to 117 universities for Mongolia's 3 million inhabitants. GMIT is one of very few that gives an internationally recognized degree.

So, what is GIZ? GIZ is a German governmental aid agency which is specialized in technical development. They operate with more than 17.000 employees in 130 countries, where they support governmental and private organizations in sustainable development from a social, economic and ecological perspective. In Mongolia, they are active within the fields of biodiversity, energy efficiency, sustainable mining and resource management, and sustainable education. GMIT is therefore not only a project to improve the higher education in Mongolia, but also a project to advice the government how to sustainably support schools. One explanation to the large number of universities in Mongolia is that it is too easy to start a school. However, the support system from the government is too weak, so the only way to make the school economically sustainable is to have many students. Many students/graduates have therefore been more important than offering high quality education. To battle this, and other problems related to

the education system, GIZ offers counseling to the Mongolian government to develop laws and guidelines.

The program at GMIT is designed based on the German education in combination with needs identified in a market analysis in Mongolia. Apart from normal education, the program also includes 20 weeks of internship; 6 weeks in the Basic Engineering Program and/or in the first two years of the program and 14 weeks in the 3rd year. The internships are done at GMIT's partner companies; ranging from suppliers and sales offices, to on site mining. The students are offered a supervisor (who have gone through a supervision training at GMIT) to ensure they are involved in the daily activities at the company to both allow learning and contribution. The response from the industry has so far been very positive. Especially, the interest for the supervision training has been high, where even companies from outside the mining sector, such as the food industry, has shown interest. Currently, GMIT has collaborations with 42 companies.

Another need identified in the market analysis, and something that makes GMIT unique in Mongolia, is their focus on soft skills. Every student has mandatory courses with themes such as leadership, how to take initiatives, accountability, and responsibility. Shinebayar told us proudly that these courses start to give results: during the first years the students were passive, but now, after two years, the students have started to form clubs and arranged events on their own initiative.

Finally, we would like to thank Shinebayar and Oyun-Erdene for sharing their time with us, and giving us new insight and knowledge about the Mongolian education system and how they are working to improve the education.

