



"One Belt One Road and its implications to Mongolia"

Chinese President Xi Jinping said that Mongolia is welcome to actively participate in construction of the Belt and Road on May 12, 2017.

That is very positive news for Mongolia given the size of the initiative and the potential impacts to Mongolian economy.

However, we are still not sure if this will lead to immediate actions by the Chinese side particularly. So, we want to wait and see until the concrete actions are taken by China.

Below are the reasons why we should not be too bullish on the prospects all at a sudden.

#206, Elite Complex B,
Chinggis Avenue 14, 1st khoroo
Sukhbaatar district
Ulaanbaatar,
Mongolia

Any inquiries for more information, any feedback, suggestions or comments that you would like share with us are welcomed as always. Please contact us at:

Email: staff@frontier.mn
(T) 976-7011-9999
(F) 976-7011-1991

For further information and key updates please logon to:

www.frontier.mn

www.frontier-conference.com

One Belt One Road and its implications to Mongolia

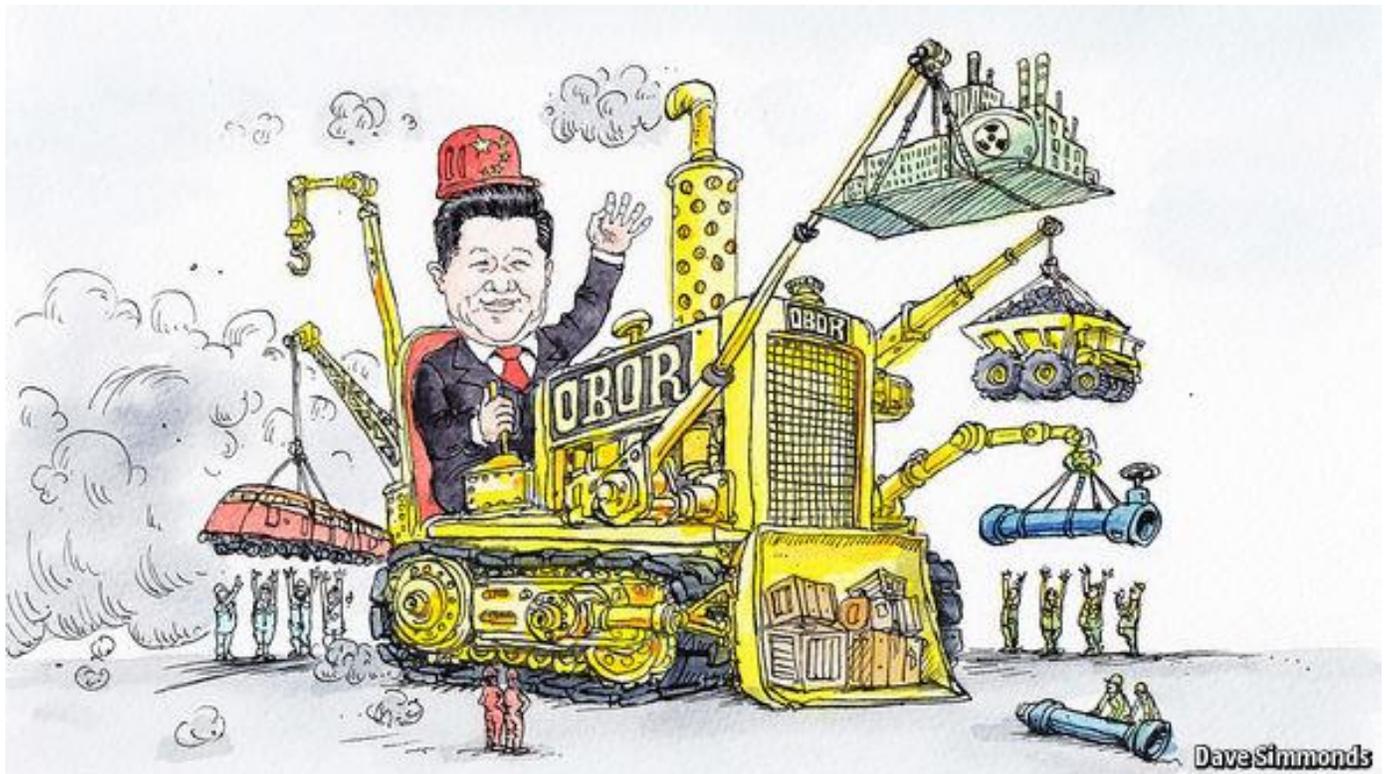
Chinese President Xi Jinping said that Mongolia is welcome to actively participate in construction of the Belt and Road on May 12, 2017.

That is very positive news for Mongolia given the size of the initiative and the potential impacts to Mongolian economy.

However, we are still not sure if this will lead to immediate actions by the Chinese side particularly.

So, we want to wait and see until the concrete actions are taken by China.

Below are the reasons why we should not be too bullish on the prospects all at a sudden.



No one doubts about the potentiality of OBOR and the possible huge impacts to Mongolia in a future.

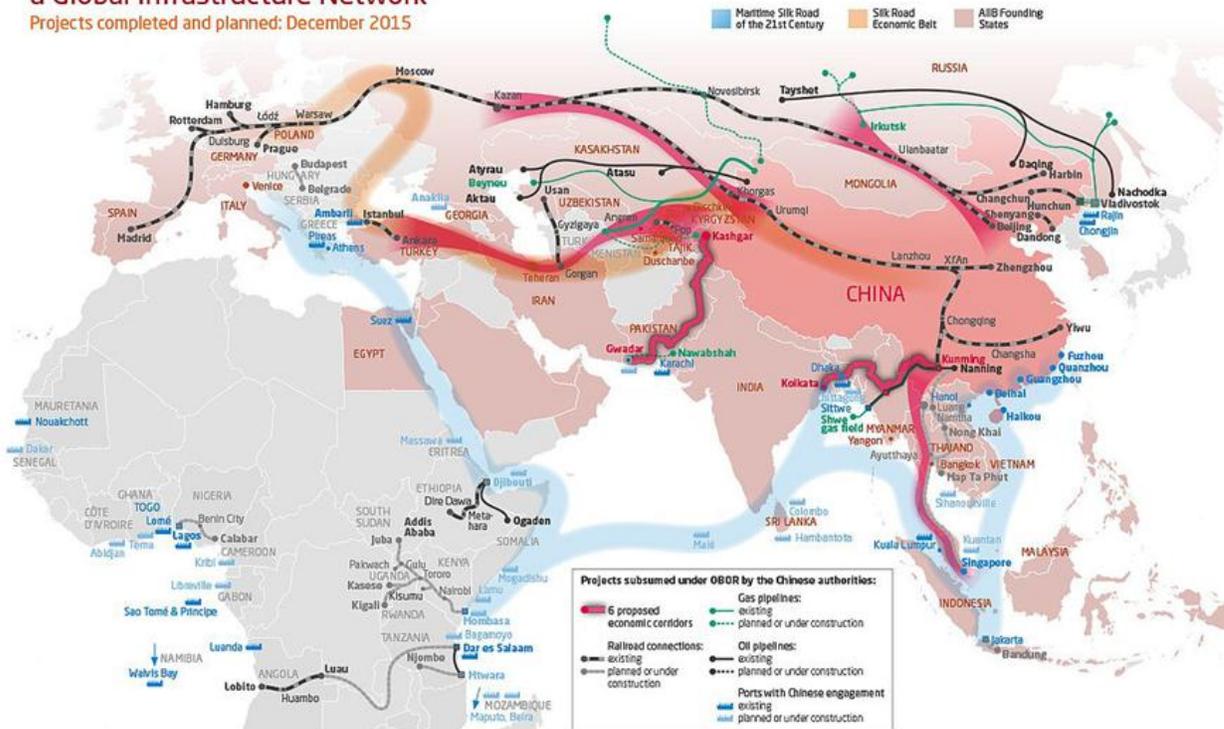




Firstly, China has won \$135 billion in construction projects and invested \$86 billion in One Belt, One Road (OBOR) countries from 2014 to 2016. That is why world leaders (see above photo which Mongolian Prime Minister also has attended) have assembled to Beijing a few days ago to discuss one belt, one road' connects to the world. These are notable sums, but we should also remember that the OBOR faces a number of limitations.

1. Chinese companies have acted primarily as OBOR contractors. The temporary nature of the construction contracts limits geopolitical gains China can reap from OBOR.
2. Moreover, the construction focuses heavily on energy and transportation. Once Chinese contractors leave, if a host country is unable to perform the considerable maintenance on such projects, the facilities and their benefits will deteriorate. This would limit the benefit for the host.
3. Finally, financing OBOR is becoming a heavier burden for China, in light of rapid increases in domestic debt and sharp drop in once-inexhaustible stock of foreign exchange. The larger figures thrown around for OBOR's ultimate size are nowhere in sight.

One Belt, One Road: With the Silk Road Initiative, China Aims to Build a Global Infrastructure Network
 Projects completed and planned: December 2015



Secondly, although there is still a room for the silk road going through Mongolia as you see above map, there is increasing possibility that the road will go through the southern route going through Xinjiang and Kazakhstan instead of Mongolia.

If this will be the main scenario as we expect, the potential benefits for Mongolia will be limited.



With all these potential limitations, it was encouraging to hear that Chinese President Xi Jinping a few days ago told Mongolian Prime Minister Jargaltulga Erdenebat that the two countries should cooperate on areas including trade and investment, connectivity, agriculture and animal breeding, industrial capacity, and energy, so that the Belt and Road Initiative and Mongolia's Prairie Road development initiative can be effectively dovetailed and called for facilitating the study of a free trade zone and cross-border economic cooperation, and promoting cooperation on major mineral industry programs and infrastructure connectivity.

But, we should also bear in mind that the similar promises have been made by China during the ASEM last year. And yet, almost nothing have been materialized so far.

In fact, the Chinese Premier and Mongolian Prime Minister together witnessed the signing of 15 documents for bilateral cooperation in trade, economic technology, infrastructure construction, broadcast television and other areas during the ASEM. However, as far as I remember, nothing has been materialized so far.

There are potentially several problems that prolonged the process in a past.

There include AIIB's delay of the start of the organization and the slow pace of Mongolian politics as they had to focus more on IMF issues in a past and etc

Disclaimer

Information in this report does not constitute invitation or application or investment advice or service provision for sale and purchase of any stock, future, option or other financial product by Frontier Securities and its related company. This report is not the recommendation to make a specific trade and guarantee for a specific product whether it is appropriate or adequate for buyers. Also, although this presentation is prepared from the various information sources we deem reliable, we shall not guarantee their accuracies and rightness. Moreover, past performances do not suggest or guarantee for the future results. Thus, the Company shall not take responsibility for the loss out of the decision based on its content. When making a contract on trades using the information in this presentation, please consult with your business advisor, lawyer, tax & accounting advisor about investment product prices, compatibility, value or other items beforehand. Information and services in this presentation and its provision or usage shall not contradict to the applied laws and work guidelines or regulations of self regulating organization or shall not be provided in the legal frame which does not admit such information and its provision; in the legal frame natural person or legal body shall not use those information and service. Some of the products and services in this presentation may not be applied for all the legal frames or not all customers may not use. Also, the Company may change or delete information or other items in this presentation without previous notice.

FRONTIER Securities

#206, Elite Complex B,
Chinggis Avenue 14, 1st khoroo
Sukhbaatar district
Ulaanbaatar,
Mongolia

Tel: +976 7011 9999

Fax: +976 7011 1991

Email: staff@frontier.mn

Web site: www.frontier.mn