ECONOMIC POLICY AND COMPETITIVENESS RESEARCH CENTER

ЭДИЙН ЗАСГИЙН БОДЛОГО, ӨРСӨЛДӨХ ЧАДВАРЫН СУДАЛГААНЫ ТӨВ

Session 1

Planning for the Future: Four Alternative Scenarios

Scenarios for Mongolia: Building a Positive Future

Friday, June 28, 2013

Why do we need to plan for the future?

- "*By failing to prepare, you are preparing to fail*",
  Benjamin Franklin

- "*Plans are of little importance, but planning is essential*",
  Winston Churchill

- "*Invest in the future because that is where you are going to spend the rest of your life*",
  Habeeb Akande

Why do we need to plan for the future?

- **We make decisions every day:**
  - What will we eat?
  - What will we wear to work?

- **Family planning:**
  - Where will we live?
  - Will be do more study?

- **Farmers:**
  - How will they manage their farm?
  - How many livestock will they have?
  - What will happen if the weather is bad?

- **Business people:**
  - What will we produce?
  - How much will we produce? At what price?

Why do we need to plan for the future?

- But what happens if the situation changes?
  - **Personal:** What happens if I lose my job?
  - **Farmer:** What happens if it does not rain?
  - **Business:** What happens if a competitor starts a business next door?

- The future is not pre-determined or predicable, complete information about the future is never available.

- We must understand the future to deal with uncertainty.

Why do we need to plan for the future?

Strategic Planning Cycle

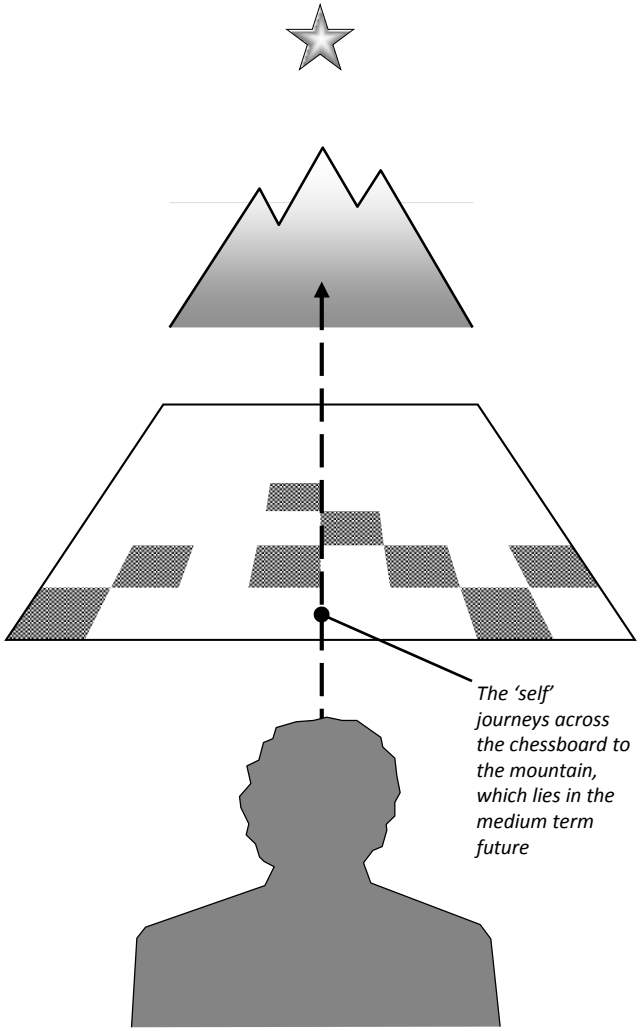
How do we plan for the future?

'The Star'—
Our enduring and guiding role

'The Mountain'—
What we hope to achieve

'The Chessboard'—
Issues and challenges we are likely to face

'The Self'—
Our values and attributes as a strategic player



The main strategic goal:
- A "future-focused role image"
- Not completed or "used up"

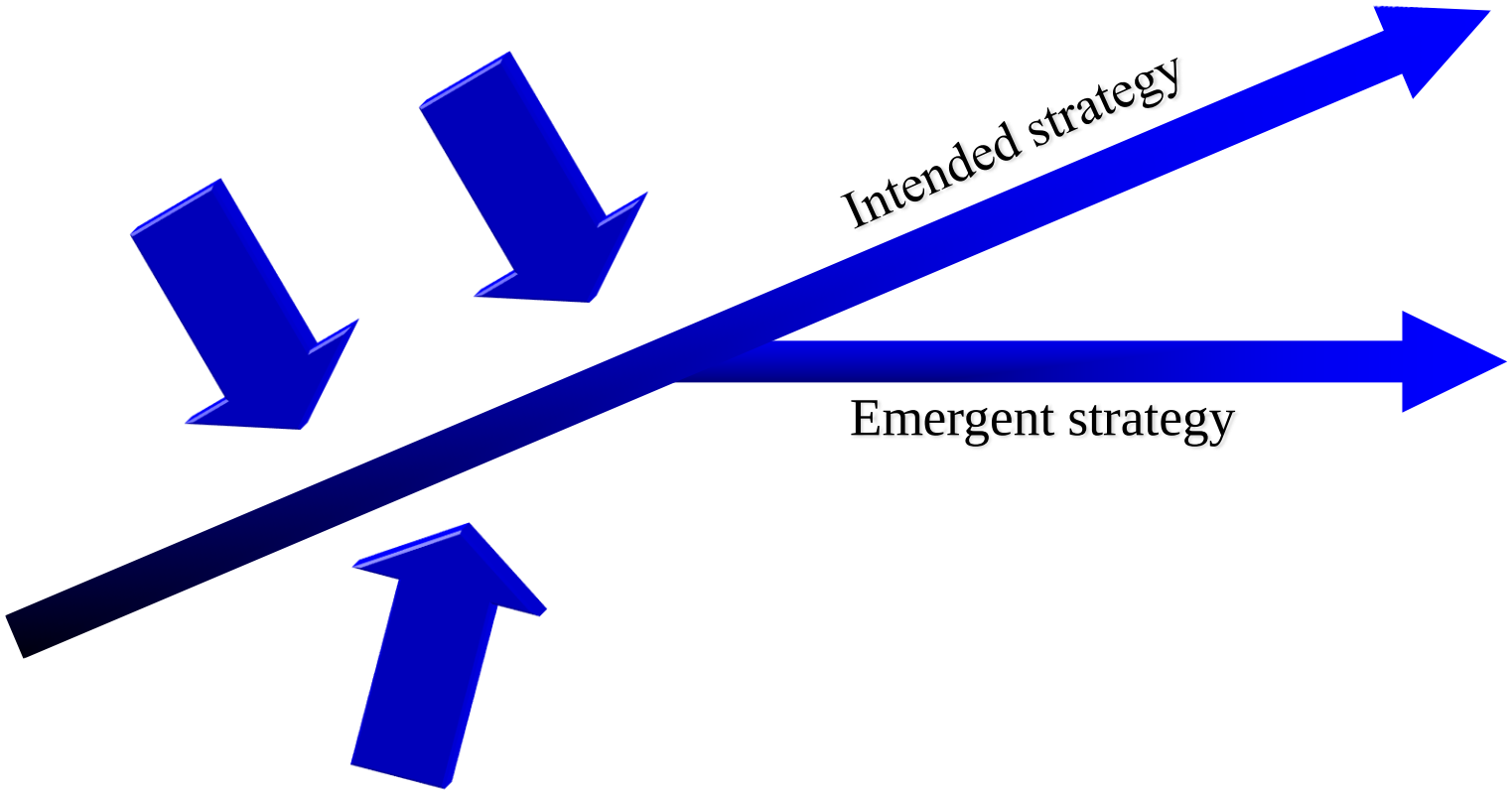
The strategic objective:
- A compelling, relevant future
- BHAG—"Big Hairy Audacious Goal"
- A concrete, specific goal
- A challenge, but achievable

The strategic environment:
- Strategic implementation and tactics
- Threats and opportunities
- Actions of other strategic actors
- Driving forces
- Mapped and understood using scenarios

Strategic identity:
- Current reality
- Self-knowledge
- Strengths and weaknesses
- Values
- Preferences and experience

How do we plan for the future?

Business environment forces



What are Scenarios?

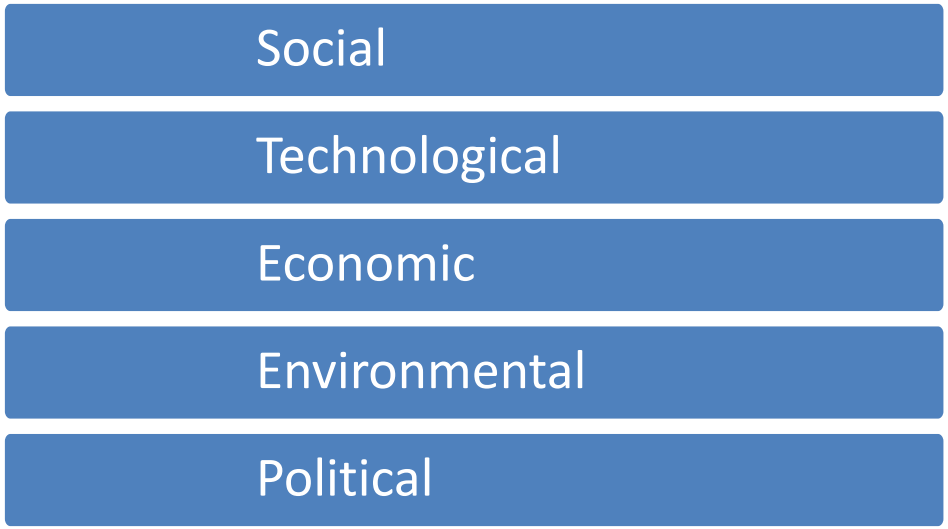
- Scenarios are:
  - **Stories** built around a methodically constructed plot
  - **A tool** for identifying strategic options in the face of long-range uncertainty
  - **A framework and a vocabulary** for an on-going strategic conversation

- A good set of scenarios are:
  - **Plausible** stories
  - **Relevant** to the question at hand
  - **Divergent** from one another
  - **Challenging** to our assumptions about how the future will play out

What are Scenarios?

- **Scenario planning:**

1. Looks very broadly at the wide range of forces that could influence a decision, focusing on STEEP factors:



2. Considers a range of possible futures (not just one "best guess" projection).

So you can be prepared for a wide range of potential changes!

Examples of scenario analysis

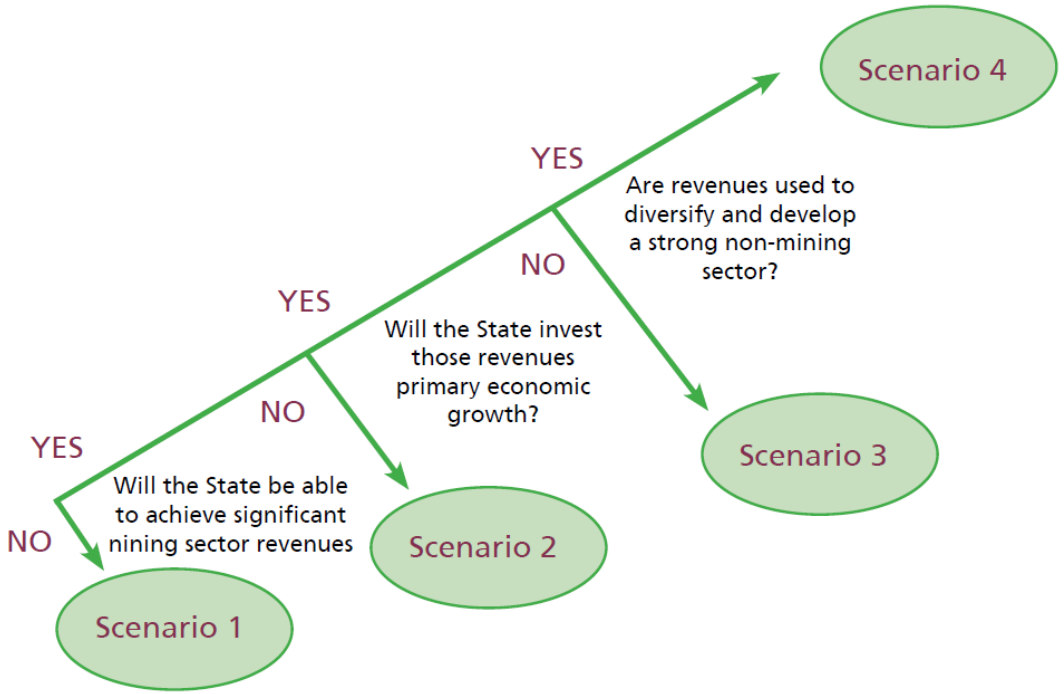
Shell scenarios

- Shell has been using scenarios since the early 1970s to allow generations of leaders make better business decisions. Over time, the Shell Scenarios have gained a global following among governments, academia and other businesses. They have helped deepen understanding of how the world might appear decades ahead.
- In an industry often defined by uncertainty and volatility, Shell is stronger thanks to the forward planning capacity that scenarios bring.

Examples of scenario analysis in Mongolia

Four Destiny of Zaya

- Mongolia has vast mineral resources.
- How the country will spend its revenue from extracting industries?
- The Open Society Forum developed scenarios “Mongolia in 2021: Four Destiny of Zaya”.



Scenarios for the Future of Mongolia

- In early 2012, a group of business, social and political leaders gathered in Ulaanbaatar to discuss the future of Mongolia.

- The group discussed the range of uncertainties affecting Mongolia, including economic uncertainties, technological developments, social concerns, environmental issues and political programs and policies.

- Based on this work, they developed four alternative futures Mongolia based the most important external influence and the most important decisions.

- During their second meeting, the group identified the lessons of the scenarios and listed steps leading toward a more positive future.

Heminge & Condell

Major decisions and external influences

- The future we may face depends on external influences and choices we make.

What will happen to the global demand for commodities?

What will guide the actions of Mongolian leaders?

Major decisions and external influences

What will happen to the global demand for commodities?

Moderate / Stable ⟷ ***High / Volatile***

Will there be stable or uncertain economic growth in China ?
Will economic recovery strengthen in the developed world?
Will global stability be compromised by political or economic events?
Will innovation lead to a shift in commodity demand (or supply)?
Will governments impose limits on commodity supplies?

What will guide the actions of Mongolian leaders?

Short-term Opportunities ⟷ ***Long-term Investments***

Will political, economic and social stability prevail?
Will fiscal and monetary policy be guided by public welfare?
Will political leaders maintain a commitment to reform?
Will corruption be addressed – and the rule of law enforced?
Will financial markets be strong, secure and transparent?

Major decisions and external influences

Four scenarios for the Future of Mongolia

Long-term Investments

Future Promise

Scenar
Moderate commo
Long-term inv

Nine White Banners

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investments

Moderate / Stable — ***Commodity*** — ***Demand*** — ***High / Volatile***

Focus of Mongolian Leaders

Disappointed Dreams

Scenar
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Storm of Gobi

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Short-term Opportunities

Scenario 1: Future Promise

Moderate commodity demand / Long-term investments

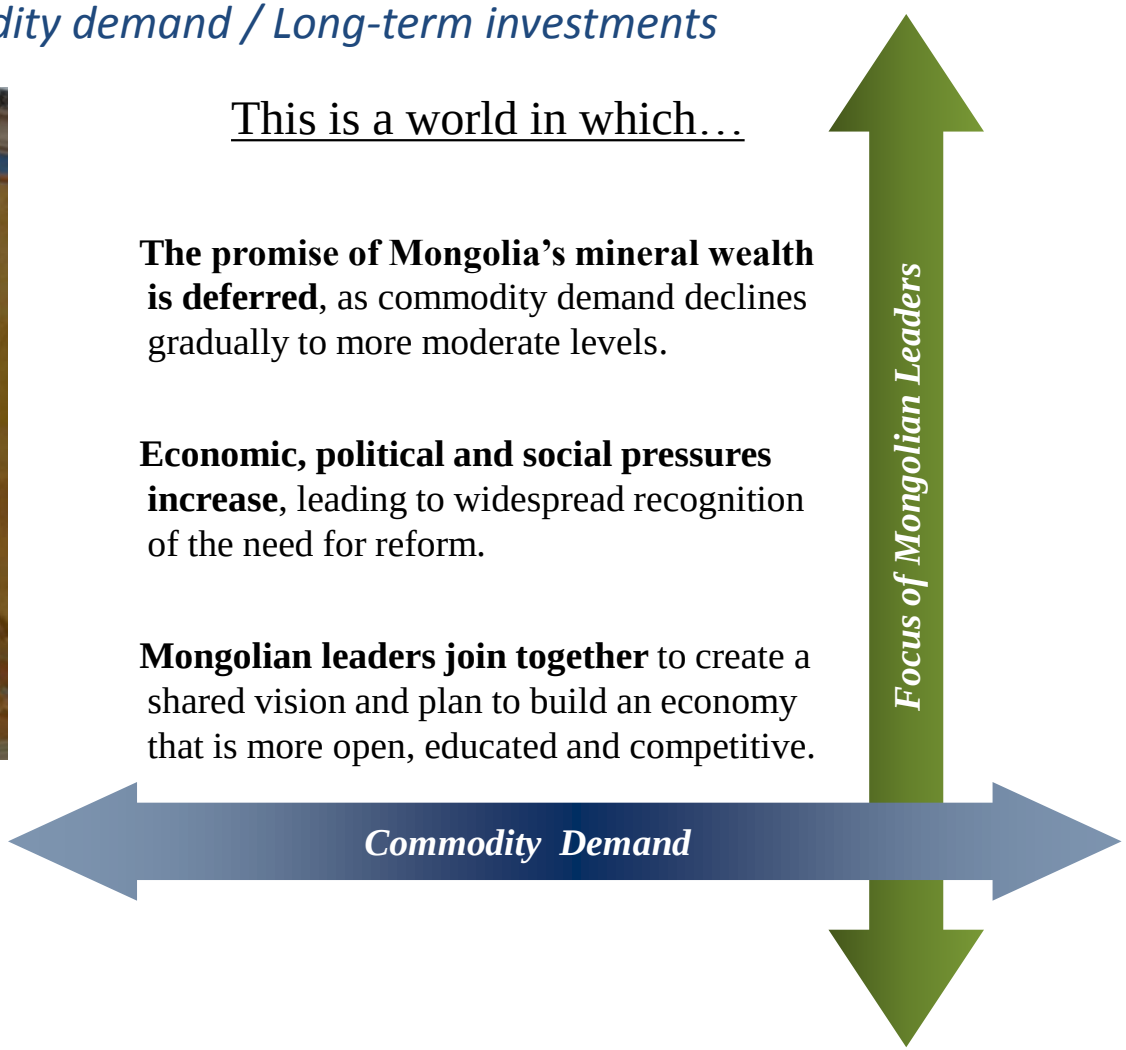
Partial image from "Track" (1968)
DONDOG. Sumiyajav (1935-1996)
Honored Art Worker of Mongolia
Mongolian National Modern Art Gallery

This is a world in which…

The promise of Mongolia's mineral wealth is deferred, as commodity demand declines gradually to more moderate levels.

Economic, political and social pressures increase, leading to widespread recognition of the need for reform.

Mongolian leaders join together to create a shared vision and plan to build an economy that is more open, educated and competitive.



Scenario 1: Future Promise

2025

Mongolia attracts global investment on the basis of its stability and strategic plans for development.

A new Parliament of technocrats is elected with a mandate for targeted reforms – begin with judicial reform, sovereign wealth fund and plans for enabling infrastructure / railway.

2016

Government budget crisis, high-profile corruption cases and continued poverty/unemployment lead to widespread calls for reform.

China's economic growth slows; copper and coal prices decline gradually from their peak.

2013

Focus of Mongolian Leaders

Commodity Demand

Lessons of the Scenario: Future Promise

To build a positive future, Mongolia cannot rely solely on the mining sector, but also must establish a shared vision and strong leadership.

Elements of a Shared Vision

- **Be practical – focus the development strategy where it is most effective:**
  - ✓ Stability / transparency;
  - ✓ Competitive advantages;
  - ✓ Value-added products;
  - ✓ Knowledge-based services and technology;
  - ✓ Decentralization;
  - ✓ Enabling infrastructure;
  - ✓ Leveraged investments;
  - ✓ Results.
- **Be patient – establish and implement long-term plans**
  - ✓ Prioritize and sequence policies and investments;
  - ✓ Develop shared spirit and values for motivated nation;
  - ✓ Save for the future.

Barriers to Overcome

- Vested political interests;
- Limited civic engagement;
- Lack of technical skills;
- Language barriers.

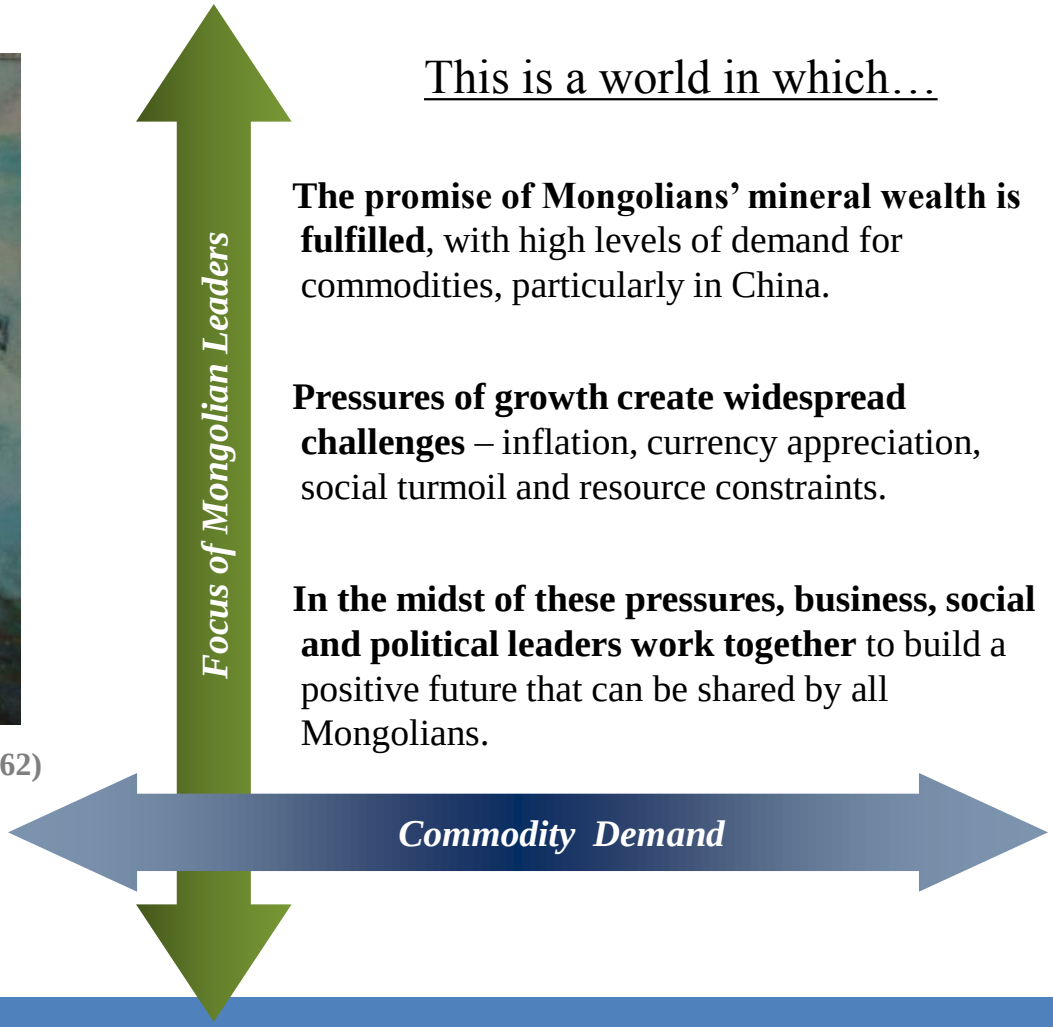
Key Actions to Take

- **Institute targeted reforms with checks and balances – model for frontier democracies:**
  - ✓ Establish accountability and transparency;
  - ✓ Improve legal and regulatory frameworks;
  - ✓ Encourage civic education and participation.
- **Establish long-term plans for key development areas;**
- **Strengthen capital markets to attract investment;**
- **Develop high value products:**
  - ✓ Animals and agriculture;
  - ✓ Rare earths, uranium, gold.
- **Invest in human resources:**
  - ✓ Education – technology, engineering, languages;
  - ✓ Healthcare.

Scenario 2: Nine White Banners

High commodity demand / Long-term investments

Partial image from "Beginning of Horse Race" (1962)
ADIYABAZAR. Nyam (1954)
Prize of the Union of Mongolian Artists
Mongolian National Modern Art Gallery



This is a world in which…

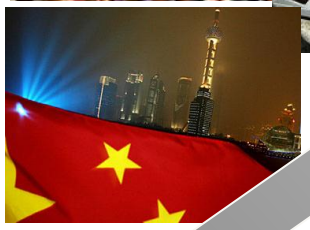
The promise of Mongolians' mineral wealth is fulfilled, with high levels of demand for commodities, particularly in China.

Pressures of growth create widespread challenges – inflation, currency appreciation, social turmoil and resource constraints.

In the midst of these pressures, business, social and political leaders work together to build a positive future that can be shared by all Mongolians.

Scenario 2: Nine White Banners

Focus of Mongolian Leaders



2025

Mongolians manage growth to become global leaders in mining and a model for resource-driven development.

Growth brings both opportunities and challenges – economic development; political power; social change; environmental vulnerability and pressures to control resources.

2016

Leaders fight special interests and join with technical experts to build competitiveness –sovereign wealth fund; free trade agreements; and productive investments in education, healthcare and infrastructure.

Mongolian mining surges – severe case of Dutch disease takes hold, with growing wealth, need for skilled workforce and clear evidence of failed national leadership.

China achieves strong growth and political stability – smooth transfer of power, as controlled expansion extends across Chinese provinces (including inner Mongolia).

2013

Commodity Demand

Lessons of the Scenario: Nine White Banners

To build a positive and sustainable future, the private sector and government must work together to foster global competitiveness of mining and other industries.

Elements of a Shared Vision

- **Develop a strategy and plan to foster global competitiveness:**
  - ✓ Encourage competitiveness through strict regulations for quality and protection;
  - ✓ Strengthen capital markets and relationships to attract investment.
- **Create a stable environment for business and investment:**
  - ✓ Establish good governance and stable/plural democracy;
  - ✓ Secure financial discipline;
  - ✓ Build political consensus for core economic issues;
  - ✓ Encourage development of Mongolian middle class;
  - ✓ Balance growth and education across regions;
  - ✓ Participate in regional and international organizations.

Barriers to Overcome

- **Systemic nature of the pressures requires a large, well-coordinated effort:**
  - ✓ Short-sighted political system.
- **Asymmetry of information and lack of transparency:**
  - ✓ Lack of civic education at secondary level.
- **Rivalry of competing political-business groups.**
  - ✓ Corruption is a problem at the top (not bottom);
  - ✓ Stop emergence of government billionaires

Key Actions to Take

- **Build a political culture (in the parties) to support stability:**
  - ✓ Take away government procurement power;
  - ✓ Civic education;
  - ✓ Responsible journalism.
- **Strengthen competition and corruption agencies:**
  - ✓ Separate business and political interests.
- **Use the law to promote and enforce effective policies:**
  - ✓ Regional development;
  - ✓ Green environment / cities.
- **Improve competitiveness:**
  - ✓ Efficient banking sector;
  - ✓ Knowledge workers;
  - ✓ Eco-friendly technologies;
  - ✓ Phased infrastructure plan.

Scenario 3: Storm of Gobi

High commodity demand / Short-term opportunities

Partial image from "Night of Gobi" (1991)
TUGS-OYUN. Sodnum
Prize of the Union of Mongolian Artists
Mongolian National Modern Art Gallery

Commodity Demand

Focus of Mongolian Leaders

This is a world in which…

The promise of Mongolia's mineral wealth is supported by high yet volatile demand for commodities.

A global battle for control of resources leads to expanded corruption and exploitation by forces both inside and outside Mongolia.

The gap between rich and poor widens, and competitiveness falters as oligarchs and foreign influences use political and economic power for personal gain.

Scenario 3: Storm of Gobi

Commodity Demand

Focus of Mongolian Leaders

2013

Global economic recovery and continued growth of China increase demand for copper.

Mongolian politics are dominated by a fight for control, with widespread corruption and a blurring of business and political power.

2016

Growing income disparity as the resource curse takes hold – politicians continue spending.

Economy is controlled by oligarchs and dominated by mining and government.

Exploitation by foreign interests is clear, with fight for control of resources.

2025

Lessons of the Scenario: Storm of Gobi

To build a positive future, and to guarantee Mongolian sovereignty, transparency, democracy and open capital markets are crucial for stopping the exploitation of oligarchs and foreign interests.

Elements of a Shared Vision

- **Free market competition and global trade:**
  - ✓ Anti-monopoly laws;
  - ✓ Strong and transparent domestic capital markets;
  - ✓ Trade agreements, free trade zones, transit corridor with Russia / China.
- **Protections against corruption and exploitation:**
  - ✓ Sovereign wealth fund;
  - ✓ Foreign investment review board;
  - ✓ Civic education and study / work abroad;
  - ✓ Mongolian middle class.
- **Globalized capital market:**
  - ✓ Independent central bank;
  - ✓ International banks in MN;
  - ✓ Improved functioning of the stock exchange.

Barriers to Overcome

- **Vested political interests;**
- **High level corruption;**
- **Government failure to implement recent reforms;**
- **Lack of civic engagement;**
- **Foreign powers with a need for Mongolian resources;**
- **Once established, this level of exploitation is difficult to stop.**

Key Actions to Take

- **Strengthen democracy and Mongolian sovereignty – NOW:**
  - ✓ Educate voters and establish referenda on key issues;
  - ✓ Professionalize ministries;
  - ✓ Support an independent press and judiciary;
  - ✓ Try to align the interests of oligarchs with the nation.
- **Support market capitalism:**
  - ✓ Promote trade / transportation;
  - ✓ Encourage diversification;
  - ✓ Improve energy security;
  - ✓ Stop government intervention.
- **Seek help from the international community:**
  - ✓ International NGOs and investors;
  - ✓ Third neighbors.

Scenario 4: Disappointed Dreams

Moderate commodity demand / Short-term opportunities

Gavrosh (MUNKHJARGAL, U.)
MIAT Inflight Magazine, April 2012

Commodity Demand

Focus of Mongolian Leaders

This is a world in which…

The promise of Mongolia's mineral wealth is cut short by an economic slowdown in China, resulting in only moderate demand for commodities.

Governments and companies around the world are under populist pressure from the economic dislocation.

An ultranationalist party comes to power as international support falters and antipathy increases toward government and private enterprise.

Scenario 4: Disappointed Dreams

Commodity Demand

Focus of Mongolian Leaders

2013

Global economic collapse due to European financial crisis and an economic slowdown in China.

Lower commodity revenue in Mongolia leads to increased deficits, unemployment, poverty, and instability.

2016

Rise of ultranationalist party with promises to end the rule of oligarchs and support populist causes.

Amidst worsening finances, government begins active intervention in the economy, renegotiating contracts and prompting concern by private investors.

Mongolian economy and civil society show clear decline as the stock exchange is closed, free speech is curtailed, and environmental problems become acute – Mongolian lifestyle is worse than Inner Mongolia.

2025

Lessons of the Scenario: Disappointed Dreams

To build a positive future, Mongolia must protect against the abuses of Power that could lead to isolationist and totalitarian policies.

Elements of a Shared Vision

- **The short-term pain of reform is outweighed by long-term benefits:**
  - ✓ Judicial and constitutional reform;
  - ✓ Anti-corruption and conflict of interest laws.
- **Populist pressures can be reduced by taking clear steps to address social problems:**
  - ✓ Stronger administrative institutions;
  - ✓ Education and healthcare;
  - ✓ Poverty and unemployment, especially in ger districts.

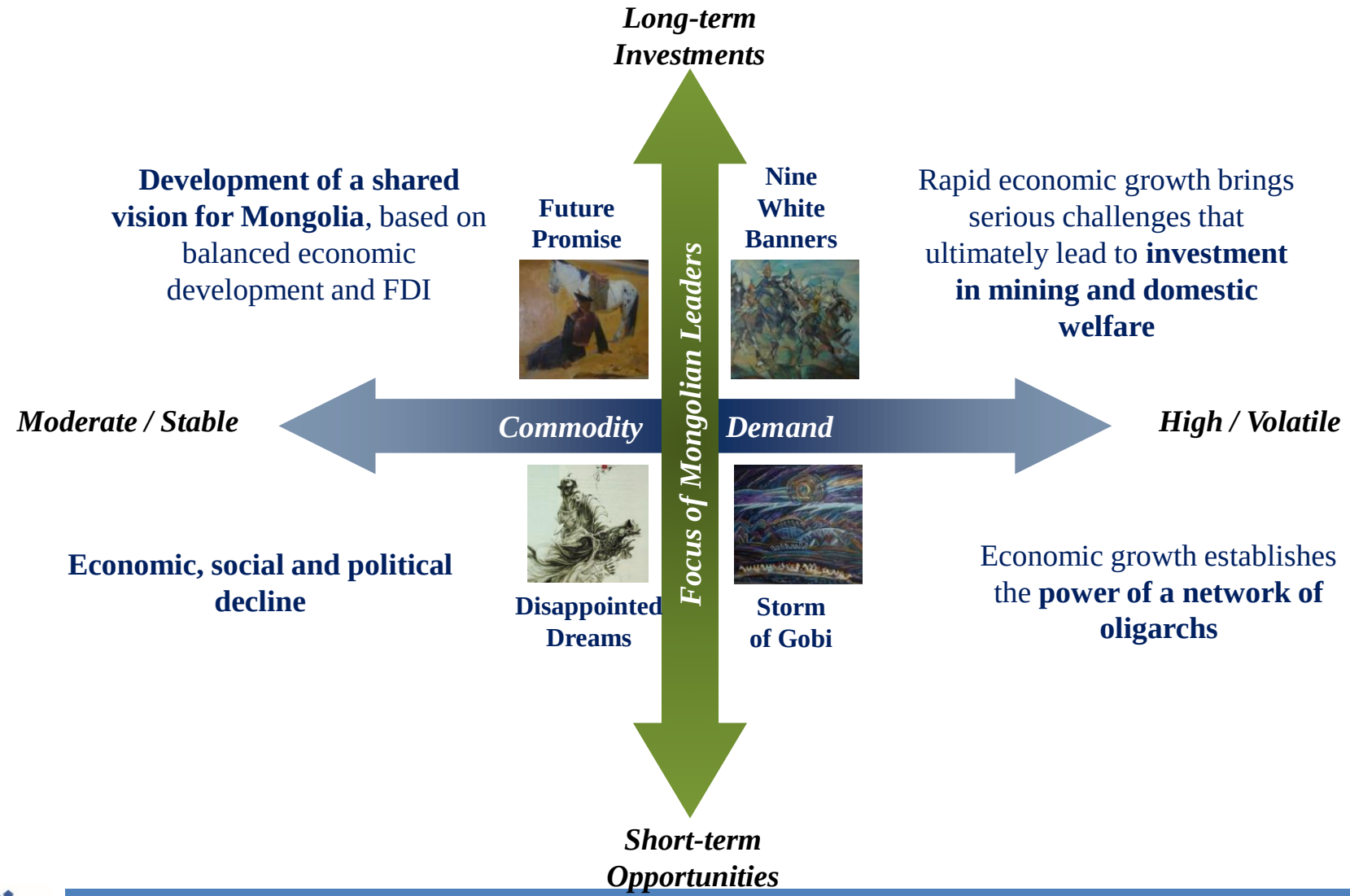
Barriers to Overcome

- **Global economic decline;**
- **Reduced capital investment;**
- **Corruption;**
- **Brain drain / wealth drain;**
- **Limited civic engagement;**
- **Crime;**
- **Poverty.**

Key Actions to Take

- **Control government spending:**
  - ✓ Establish sovereign wealth fund (offshore);
  - ✓ Shift public services to the private sector.
- **Limit the abuse of power:**
  - ✓ Establish a property registration system.
  - ✓ Expand civic education;
  - ✓ Develop relationships with international investors and humanitarian agencies;
  - ✓ Align the private sector.
- **Protect environmental assets:**
  - ✓ Increase water prices to protect reserves;
  - ✓ Maintain herding but introduce new technology.
  - ✓ Improve marketing of cashmere and meat.

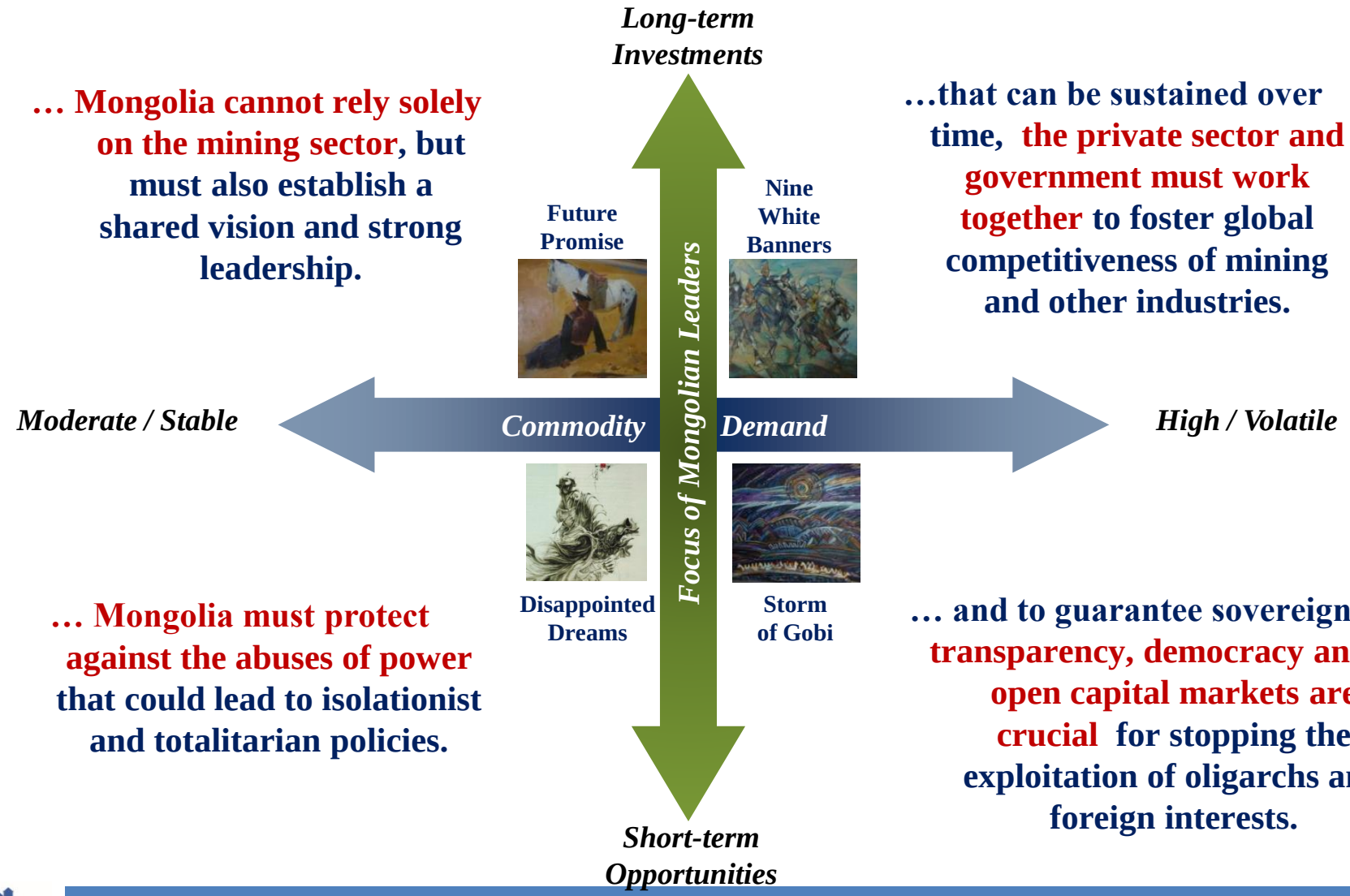
Four very different scenarios for the Future of Mongolia



To build a positive future…

… Mongolia cannot rely solely on the mining sector, but must also establish a shared vision and strong leadership.

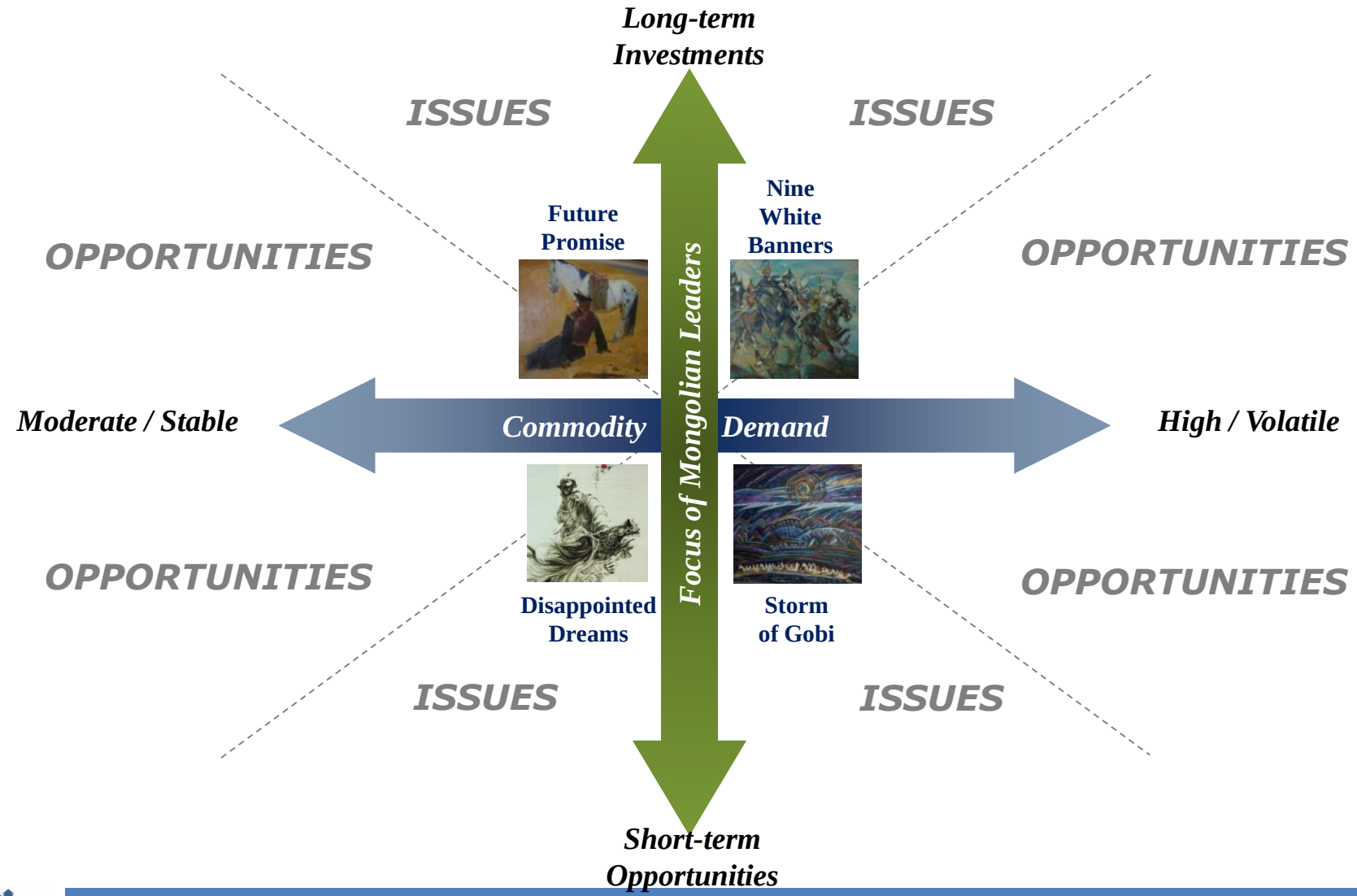
…that can be sustained over time, the private sector and government must work together to foster global competitiveness of mining and other industries.



… Mongolia must protect against the abuses of power that could lead to isolationist and totalitarian policies.

… and to guarantee sovereignty, transparency, democracy and open capital markets are crucial for stopping the exploitation of oligarchs and foreign interests.

Identifying Issues and Opportunities



Identifying Issues and Opportunities

Please use the templates provided in your individual group to discuss about the:

- **Issues** and
- **Opportunities** for each of the scenarios.

Each group should identify:

- **2 most important issues** and
- **2 most important opportunities** for each of the scenarios and write them on the report out sheets.