Mongolia’s Railway Development Strategy in Connection with the Establishment of the East Asia Railway Community (EARC)

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I. Understanding of the Project

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01 Project Overview and Scope

**Project Name:** Mongolia’s Railway Development Strategy in Connection with the Establishment of the East Asia Railway Community (EARC)

**Project Location**
- Direct Influence Area (Mongolia): Indirect Influence Area (China, Russia, North Korea, South Korea, Japan)

**Project Duration**
- Base Year: 2021
- Target Year: 2050

**Work Scope**
- Improving the transportation capacities by upgrading and modernizing the existing railway of Mongolia (TMGR) with a view to an efficient transportation of mineral resources of the country (both at home and abroad)
- Developing railways in the eastern and western regions of Mongolia to transport mineral resources of the country in connection with the establishment of EARC
- Developing mineral resources of Mongolia and an effective business model associated with construction of transportation infrastructure
- Helping Mongolia establish an efficient, systematic national policy through their capacity building and cooperation with South Korea

Setting the project implementation strategy based on a full understanding of the project.
# Project Background and Objectives

## Project Background

- Since the establishment of the railway development strategy for Mongolia (2010), railway projects have scarcely been implemented.
  - Need to enhance the implementing power, considering condition changes both at home and abroad
- EARC was established
  - Need to diversify export routes of mineral resources by utilizing EARC
- The Mongolian Government (Ministry of Road Transport and Ministry of Finance) requested ODA
  - EARC-based railway development strategy and feasibility studies on railways in the eastern and western regions

## Project Objectives

1. **To complete the setup of a national rail network in Mongolia by modernizing the existing railway and establishing eastern and western rail networks**
2. **To diversify export routes of mineral resources of Mongolia considering the establishment of EARC and to contribute to logistic vitalization**
3. **To strengthen the cooperative system between Mongolia and South Korea through the New Northern Policy and EARC**

"To establish a railway development strategy for Mongolia to diversify exports of mineral resources of Mongolia and to secure national competitiveness"

Contributing to the economic growth of Mongolia and laying the foundation for national economic cooperation
Establishing a railway development strategy considering Mongolia’s current economic, industrial, transportation infrastructure conditions.
Pursuing Mongolia’s economic growth by establishing an EARC-based railway development strategy

04 Project Implementation Strategy

1. Understanding of the Project

- Pursuing localization
  - Localization-oriented project implementation
    - Establishing a close cooperation system with Mongolian government agencies (Ministry of Road Transport and Ministry of Mining and Heavy Industries) and gathering and incorporating their opinions
    - Presenting ways of developing mineral resources compatible with Mongolia’s policies and ways of establishing a railway network

- Expanding the international market
  - Diversifying the exporting routes utilizing EARC
    - Strengthening the cooperation system with the EARC member countries
    - Seeking diverse export routes utilizing the opportunities of EARC

- Modernizing Mongolia railway
  - Developing and modernizing railways in Mongolia & Establishing an efficient transportation system
    - Improving the carrying capacities by modernizing the TMGR
    - Enhancing accessibility by building a rail network in the eastern and western regions of Mongolia and establishing a transportation system for mineral resources

- Strengthening the executive power
  - Securing funds and improving the system
    - Devising realistic ways of funding, both public (ODA/EDCF) and private
    - Presenting funding methods by developing a business model based on a package of minerals and transportation

- Capacity building
  - Developing and implementing a customized capacity building program
    - Effective transfer of South Korea’s policies related to minerals and transport and advanced technologies in different disciplines
    - Developing a customized capacity building program in different disciplines for the public officials of Mongolia

Producing the optimal study outcomes by linking Mongolia’s national upper-level plans and EARC’s policies
II. Characteristics and Strengths of the Project Consortium

01 The optimal consortium with expertise in different disciplines
02 Customized Capabilities to Implement the Project
The optimal consortium with expertise in different disciplines

Optimal composition of private and public agencies

KOREA TRANSPORT INSTITUTE

- The only research institute of South Korea on socioeconomic and transportation policies, so the studies are reliable.
- Has abundant domestic and foreign study experiences on transportation, has established an international cooperation system with overseas agencies, and has know-how.

- Project management, railway policies, and ridership forecast
- Economic assessment and provision of project implementation directions

Korea Institute of Geoscience and Mineral Resources

- South Korea’s only and best specialized research institute on development of mineral resources
- Has wide-range study experiences encompassing the exploration and development of domestic and foreign, particularly, Mongolian, mineral resources and ore dressing and refining.

- Mineral resources development policies and demand forecast
- Strategic–mine development and business model development

Yooshin

- Has the greatest experience in railway engineering and supervision in South Korea.
- Has abundant experiences in railways and transportation infrastructure.
- Provides total engineering services through multilateral analyses on rails, roads, urban planning and water resources.

KOREA RAILROAD

- Railway system and train operation planning
- Railway system project cost and operating cost analysis and estimation

South Korea’s representative public enterprise that has the longest experience (126 years) in railway operation and capabilities to maintain the facilities.
- Has train operation know-how for all types of rail including high-speed rails, arterial rails, and metro.

Securing reliability of the ODA project

The optimal consortium

Drawing the optimal outcome of ODA from the specialized consortium fit for features of the project
02 Customized Capabilities to Implement the Project

✔ A comprehensive cooperation system has been established as a result of an agreement on foundation and operation of an international forum for EARC.
  - Agreed by KOTI + KORAIL + KRR + KNR
  - Experienced in projects similar in terms of overseas railway development policies and in mineral resources development.
    - Master-planning for establishment of transportation infrastructure in connection with the development of mineral resources in Mongolia (2016, KOTI).
    - A feasibility study on modernization of the Mandalay–Mylitkyina railway of Myanmar (2016, KOTI / Yooshin)
    - Development of mineral resources in Mongolia and mineral exploration in South Gobi (2019, KIGAM)

✔ A cooperation system has been established with the Organization for Cooperation of Railways (OSJD) and China / Russia / KORAIL.
  - KORAIL signed up for membership of OSJD (June 2018)
    - It is as good as having individual agreements with the 28 member countries.
    - It makes it easier for the railways on the Korean Peninsula to advance into the continent and enhances the Korean railways’ status in the global community.
  - An MOU for mutual cooperation was signed with Chinese and Russian railway corporations.
    - An MOU between KORAIL and RZD (KORAIL’s Russian counterpart).
    - An MOU between KORAIL and CR (KORAIL’s Chinese counterpart)

✔ An MOU was signed for cooperation with Mongolian government agencies and relevant agencies.

A highway for project implementation has been opened due to the establishment of a reliable cooperation system with the Mongolian Government.
III. Work Execution Strategies

[Eight Actions Proposed for a Successful Implementation of the Project]
Eight Actions Proposed for a Successful Implementation of the Project

**Strategies**

**Pursuing localization**
- Action 1. Incorporate opinions of Mongolian government agencies and of South Korean and international experts
- Action 2. Establish a mineral resources development strategy incorporating the local condition

**Expanding the international market**
- Action 3. Expand exporting routes of mineral resources in multilateral ways utilizing the opportunities of EARC

**Modernizing Mongolia railway**
- Action 4. Improve the transporting capacities by modernizing the existing TMGR
- Action 5. Perform a feasibility study on eastern and western rail networks for transportation of mineral resources

**Strengthening the executive power**
- Action 6. Develop a business model of mineral-transport package type
- Action 7. Present ways of improving the institution system

**Capacity building**
- Action 8. Provide a capacity building program tailored to the local situation

The eight actions compatible with the project directions will ensure a successful implementation of the project
Incorporate opinions of Mongolian government agencies and of South Korean and international experts

- Establishing an advisory system with South Korean and international specialized agencies in different disciplines experienced in similar projects and having expertise.
- Drawing the optimal study outcomes by incorporating the advice of the specialized agencies in different disciplines and by cooperating with the local business partner.

**South Korean advisory agencies**

- **Korea Railroad Research Institute (KRRI)**
  - Technical advice on double-track gauge (broad gauge, standard gauge) interface operation among the East Asian countries.
  - Specialized educational advice on railways and transportation for Korea National Univ. of Transport (KNUT).

- **Korea Resources Corp. (KORES), Mine Reclamation Corp. (MIRECO)**
  - Are experienced in projects for development of mineral resources in Mongolia (in terms of policies, etc.) and provide data.

- **Korea International Cooperation Agency (KOICA), Korea Export-Import Bank (K-EXIM)**
  - Discuss follow-up development projects under supervision of ODA.

**International advisory agencies**

- **MDB (WB, ADB, AIIB, etc.)**
  - A business model of mineral development – rail infrastructure package type
  - Similar cases, pending issues, funding methods, etc.

- **Far-east Transport Univ. (Russia), Yanbian Univ. (China), etc.**
  - Advice on transport linkage between Mongolian and Chinese and Russian rail networks.

- **South 32 (Singapore), Ausenco (Canada)**
  - Assessment on mineral development and resources development.

**Local cooperation agencies**

- **Ministry of Finance of Mongolia (MoF)**
  - Budgeting and spending status

- **Ministry of Mining and Heavy Industries of Mongolia (MoMII)**
  - Mining industrial policies, development, refinery, sales, export situations.

- **Mongolian Univ. of Science & Technology (MUST)**
  - Provides basic data on local civil engineering technology, geotechnics, and mining.
  - Utilizes industrial-academic interface R&D technologies and academic networks.

**Local business partner**

- **Company name: Optimal Project LLC**
  - Experienced in a lot of rail projects in Mongolia.
    1) A pre-FS on a new railway between Tavan Tolgoi and Choybalsan
    2) A pre-FS on a new railway between Arts and Erdenet
    3) A FS on a Mongolian train control center
    4) A study on a rail linkage for the logistics center of the Choir Free Economic Zone, and 8 other studies

  *This local firm will perform local surveys (traffic volumes, land surveying, geotechnical) and basic data researches and analyses.*

The project will be local-specific through cooperation with Korean and other relevant agencies.
Establish a mineral resources development strategy incorporating the local condition

- Needed to establish railway infrastructure considering semi- and strategic mine locations and mineral deposits.
- Taking account of the logistics and export routes with the surrounding countries, centering on the hub for the high-end mineral value chain.
- Performing various analyses on movements of mineral resources to/from the surrounding countries, the cost, and mineral resources export systems.

Analysis on the current situation and demand of mineral resources of the target countries of EARC

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolia</td>
<td>A world top 10 resource-rich country having poor infrastructure.</td>
</tr>
<tr>
<td></td>
<td>Accelerate mineral resources development in connection with transportation infrastructure.</td>
</tr>
<tr>
<td>China</td>
<td>The world’s no.1 mineral consumer, and its demand will continue to grow in the future.</td>
</tr>
<tr>
<td>Korea</td>
<td>The world’s no.3 mineral importer, and high mineral demands for 4th industrial revolution.</td>
</tr>
<tr>
<td>Japan</td>
<td>The world’s no.2 mineral importer.</td>
</tr>
<tr>
<td>North Korea</td>
<td>Need to procure the stable supply for rare earth elements (REE) due to trade war with China.</td>
</tr>
<tr>
<td>Russia</td>
<td>Coal, magnesite, iron ore, zinc enriched, and high economic dependence on mineral export.</td>
</tr>
<tr>
<td></td>
<td>A world top 10 mineral importer, and large mineral deposits.</td>
</tr>
</tbody>
</table>

Execution Plan and Methodology
- Data collection and analysis
  - Statistics on mining industry, export and import situations, policies, and laws
- Consultation with relevant agencies
  - Cooperation with government mining agencies and private companies to explore the current issues and to plan the future directions
- In-situ field audit
  - investigating the current status of mining operation and mineral transportation

Methodologies
- SWOT Analysis
- Statistical Analysis
- Matrix Analysis

Outcomes
- Find a potential mineral logistics volume
- Prioritize regions and mineral types
- Find the optimal strategy based on the EARC

Establishing the Development Plan for Mongolia’s High Trade Competitiveness.
Expand exporting routes of mineral resources in multilateral ways utilizing the opportunities of EARC

- [As-Is] Exporting mineral resources to a 3rd country, using ports in China and Russia, considering Mongolia’s geographical features (a landlocked country)
- [To-Be] Exporting mineral resources, considering the linkage of East Asian and Korean Peninsula’s rail networks and the EARC currently being conceived

**Mongolia’s Railway Development Strategy in Connection with the Establishment of the East Asia Railway Community**
Examine ways of upgrading railway facilities and systems for modernization and for improved carrying capacities of the existing TMGR

**Train Speed-up**
- **Horizontal alignment improvement**
  - Expanding the min. curve radius (R=200)
  - Considering straightening up of the alignment
- **Cant adjustment and transition curves**
  - In case of train speed up, lateral forces of the track decrease
  - Riding comfort improves due to cant change rates for each curve

**Track Capacity Increase**
- **Vertical alignment adjustment** ➞ **maximum gradient reduction**
  - Transporting capacities improve due to the increase in the nominal tractive capacity of locomotives
- **Review of CTC upgrade and installation of passing tracks**
  - More frequent operation of trains by reducing the inter-station spacing in the bottleneck sections
- **Examining the idea of converting the track into a double one in the future**
  - Incorporating the future ridership and the rail construction plan for the eastern and western areas

**Track Upgrade**
- Making the main track rails heavier (from 50N to 60KR)
  - Increased track rigidity, longer service life of rails, and higher maintainability
- Making the sleepers heavier and the ballast thicker
  - Enhanced track stability ➞ more speedy running and higher maintainability
- **Considering application of CWRs (Continuously Welded Rails)**
  - Reduced shocks when the train runs on the rail joints ➞ longer service life of track materials
  - Higher maintainability and riding comfort

**Railway Systems and Operation**
- **Signaling**: Review of wireless movable block system (SIRDP-E)
- **Communications**: Enhanced operating efficiency of transmission, train radio, and control systems
- **Power supply**: Reviewing ways of receiving the electricity for a stable power supply
- **Operating systems**: Increased track capacities by modernized facilities
  - Maximized use of the line ➞ Efficient train driving

**Improving the carrying capacities by upgrading the facilities and modernizing the systems for the sake of economy and safety**
Perform a feasibility study on eastern and western rail networks for transportation of mineral resources

- A rail network plan for the eastern and western regions, incorporating the Mongolian Government’s railway development policy (2010) and the China–Mongolia–Russia rail corridor implementation policy
- Linking the Russian / Chinese rail networks for development and export of mineral resources in the eastern and western regions and for the western region development of Mongolia

Railway development at eastern and western regions considering the linkage of Mongolia’s mineral resources to EARN
Develop a business model of mineral-rail transport package type

- Financial analysis on projects of higher priority order and assessment of the potential and feasibility of projects on which private funds are invested
- Proposing a business model in connection with funding from the national treasury, private sector, and aid
- Securing a bridgehead for expansion of future national resources diplomacy and foreign resources development

### Development Process of Mineral–Rail Package Type Business Model

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Case studies</td>
</tr>
<tr>
<td>02</td>
<td>Selection of target projects</td>
</tr>
<tr>
<td>03</td>
<td>Financial analysis</td>
</tr>
<tr>
<td>04</td>
<td>Assessment of the potential for implementing the project as a private sector–invested one</td>
</tr>
<tr>
<td>05</td>
<td>Proposing of a business model</td>
</tr>
<tr>
<td>06</td>
<td>Policy recommendations</td>
</tr>
</tbody>
</table>

### Financial Analysis Process

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop a financial model and review the fund requirements plan</td>
</tr>
<tr>
<td>2</td>
<td>Analyze the repayment potential of invested principal and interest and the project profitability</td>
</tr>
<tr>
<td>3</td>
<td>Review of the overall balance of payment and sensitivity analysis (sensitivity/scenario analysis and feedback)</td>
</tr>
<tr>
<td>4</td>
<td>Review of the funding and repayment plan (principal and interest repayment and risk management plan)</td>
</tr>
</tbody>
</table>

### Improving the funding capacity and the project driving power

- Review of internal and external factors for a successful project implementation
- Presenting the need to reform the systems
### Development Process of Mineral–Rail Package Type Business Factors

<table>
<thead>
<tr>
<th>01</th>
<th>Analyze stakeholders’ conflicts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>Current situation of the system</td>
</tr>
<tr>
<td>03</td>
<td>Ways of improving the system</td>
</tr>
<tr>
<td>04</td>
<td>Propose a good governance system</td>
</tr>
</tbody>
</table>

- Select target stakeholders.
- Analyze stakeholders’ conflict factors.
- Set the direction for system improvement.
- Analyze the current status of the Mineral Act, the Foreigner Investment Act, the PPP system, and the like.
- Identify current laws–related problems.
- Devise ways of improving the laws to proceed with the mineral–rail interface business project.
- Ways of improving the organization structure
- Ways of financial support

### Financial Analysis Process

<table>
<thead>
<tr>
<th>Current situation of laws and systems</th>
<th>Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolia’s individual laws</td>
<td>Lack of the concept of rights such as ownership, real rights, and the Mineral Act</td>
</tr>
<tr>
<td>Constitution Law of Mongolia, Land Act, Company Act, other</td>
<td>An unclear system of rights</td>
</tr>
<tr>
<td>Mineral Act, other</td>
<td>Increase of investment uncertainty due to the impact by resource nationalism</td>
</tr>
<tr>
<td></td>
<td>Unclearness of lower-level laws</td>
</tr>
<tr>
<td></td>
<td>Violation of due processes</td>
</tr>
<tr>
<td>Foreigner Investment Act, PPP system</td>
<td>Poor guarantee of risk management caused by unclearness of lower-level laws</td>
</tr>
<tr>
<td></td>
<td>Limitation of investors’ participation in projects</td>
</tr>
</tbody>
</table>

### Improving the Bank up bility by resolving public–private stakeholders’ conflict factors

- Present the current status of the system and propose an improvement plan for an effective project implementation.
- Propose a good governance for the management of development, construction, and operation.
Provide a capacity building program tailored to the local situation

- 1st workshop: 8 working-level persons involved in transport and minerals, to be invited
- 2nd workshop: 6 transport and mineral managers to be invited  

Transportation Policy, Railway Planning and Operation

IRaTCA is a specialized agency for overseas railway training and owns advanced training programs to help the trainees build their technical capabilities

Utilizing KORAIL’s international rail training center (IRaTCA)

A six-modular program for an organic interface of lectures, site visits, practice, and industrial tours

- Module I: Understanding of Korean railways and global trend of railway technology
- Module II: Korea’s railway construction policies and public-private partnership business policy
- Module III: Railway operation policies and systems, railway technology system
- Module IV: Ways of Korea’s technical support, railway maintenance systems
- Module V: Understanding of Korea’s industrial culture
- Module VI: Workshops for closer cooperation for railway knowledge and experience sharing

Mineral Resources Development Policy and Strategy

IS-Geo is Korea’s only specialized training institution for the global people involved in geological resources, and operates world-best training programs and world-famous scholars and experts

Utilizing KIGAM’s international geological manpower development center’s (IS-Geo) programs

IS-Geo’s global courses

- Inviting and training experts from home and abroad for international cooperation and resource diplomacy

Purpose of training

- To establish a resource cooperation network with resource-rich countries in order to lay a bridgehead for resources development

Effects of training

- Promoting international exchanges and mineral-related cooperation projects by bringing up experts at home and abroad and by having communication

Helping Mongolian public officials build their policy-driving capabilities in railways and mineral resources

Mongolia’s Railway Development Strategy in Connection with the Establishment of the East Asia Railway Community
IV. Project Implementation Schedule
Project Implementation Schedule

- Prevent delay in progress through efficient planning of work execution considering project phases, disciplines, and interfaces
- Mobilize study personnel considering the project direction at the project beginning phase and the conclusion drawing at the project completion phase

### Project Implementation Schedule

<table>
<thead>
<tr>
<th>Work description</th>
<th>Period</th>
<th>Progress Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Diagnose the general condition of Mongolia and analyze the impact of EARC</td>
<td>1st Year: 7-9</td>
<td>100</td>
</tr>
<tr>
<td>2) Opportunities and challenges of advancing into Mongolia in connection with foundation of EARC</td>
<td>2nd Year: 1-3</td>
<td>80</td>
</tr>
<tr>
<td>3) Establish a mineral resources export strategy by developing a rail network.</td>
<td>3rd Year: 4-6</td>
<td>60</td>
</tr>
<tr>
<td>1) Establish a development strategy for mineral resources.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Develop a rail network for transportation of minerals linked to the EARC rail networks.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernize Mongolian railways</td>
<td>2021: 7-9</td>
<td>100</td>
</tr>
<tr>
<td>3-1. Modernize the existing railways in connection with EARC</td>
<td>2022: 10-12</td>
<td>80</td>
</tr>
<tr>
<td>1) Ridership analysis and forecast for the existing railway</td>
<td>2023: 1-3</td>
<td>60</td>
</tr>
<tr>
<td>2) Technical review, cost estimate, economic analysis</td>
<td>2024: 4-6</td>
<td>40</td>
</tr>
<tr>
<td>3-2. FS on railways in the eastern and western regions in connection with EARC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Railway planning for the eastern and western regions of Mongolia and ridership forecast</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Cost estimate, economic analysis, project implementation plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Propose a business model of linking rails with mineral resources.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) A business model of mineral development – railway package type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Present directions for Mongolian policies to improve the system.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Milestones

- Report submission plan
- Presentations
- Seminars and workshops
- Capacity-building training programs
V. Expected Effects

01 Expected Effects For Mongolia
02 Expected Effects For Republic of Korea
01 Expected Effects For Mongolia

Diversified exports of mineral resources
- Review development of strategic mines and pre-strategic mines based on supply quantities and export demand of major minerals.
- Search various export routes of mineral resources considering linkage transportation with the East Asian rail network.

Stronger power to decide railway policies
- Assist modernizing the existing railways and planning the setup of eastern and western region rail networks.
- The establishment of a railway investment plan considering the priority order will enable the Mongolian Government to establish and operate a systematic, practicable rail network.

Stronger project-driving force
- Induce the private sector’s investment by developing a business model of mineral – railway package type.
- Secure the practicality and self-driving nature of the project by seeking various funding sources.

Higher capacities of public officials in railways and minerals
- Help local public officials build their capabilities in developing mineral resources and railway infrastructure.
- Establish a human network in the rail and mineral fields of the two countries.

Contributing to Mongolia’s economic growth by diversifying the country’s export routes of mineral resources and securing the national competitiveness
01 Expected Effects For Republic of Korea

Advancing into overseas markets in mineral resources and infrastructure
- Korean companies can advance into similar projects of Mongolia, which has a high industrial share of mining and a wide land area.
- Korea’s idle manpower and industrial equipment can advance into the foreign market in the said fields.

Opportunity of Mongolia’s economic growth
- Korea can secure mineral resources stably by diversifying Mongolia’s export routes of mineral resources.
- Korea’s industries and technologies can be revitalized.
- Opportunity of Korean capital to be invested on Mongolia can be expanded.

Securing the capability to develop Mineral resources and infrastructure
- Korean companies can have broader opportunities in participating in projects related to development of mineral resources and transportation infrastructure.
- Korean companies are expected to become more competitive in business fields similar to the project.
- Securing the capability to develop infrastructure in connection with resources development.

Improving Korea – Mongolia relationship
- Contributing to Mongolia’s economic growth by securing rail corridors for the mining industry, which takes up 25% of the country’s GDP, and thereby maximizing the effect of South Korea’s aid for the country.
- Maintaining the two countries’ friendly relationship through a continuous cooperation with government agencies of Mongolia.

Forming a new framework for Northeast Asian economic cooperation, enhancing Republic of Korea’s international status, and strengthening the national competitiveness.
Thank you