LAW ON SPECIAL ECONOMIC ZONES
DRAFT REVISED VERSION
DETAILED EXPLANATORY NOTE

The Constitution of Mongolia provides for the functions of the State to regulate the economy in coordination with development policy and to formulate and implement the principal directions of economic and social development, the State budget, and financial plans.

By Resolution No. 87 of 1995, the State Great Khural approved the “Concept for Establishing Free Economic Zones in Mongolia,” thereby laying the policy foundation for the development of free zones with the objectives of increasing export-oriented production, developing the manufacture of import-substitution products, attracting foreign investment, introducing modern technologies and methods of trade and management, and increasing employment and foreign currency reserves.

Since the Law on Free Zones was enacted in 2015, significant changes have occurred in Mongolia’s development policy, economic structure and investment environment, as well as in international trade and technological trends. The “Vision-2050” Long-Term Development Policy of Mongolia, the Regional Development Policy, the Five-Year Development Guidelines of Mongolia for 2026–2030, and the Government Action Program for 2024–2028 include objectives to establish specialized development centers based on free and special zones, border ports, logistics, industry, high technology, innovation, tourism, financial services, and information technology.

An assessment of the consequences of implementing the Law on Free Zones and a study of practical conditions concluded that the existing legal framework is insufficient to fully achieve the above policy objectives and that special economic zones need to be differentiated and developed in alignment with international development trends and Mongolia’s regional development policy.

One. Need and Rationale for Drafting the Law

The Law on Free Zones and other legislation currently in force use, in parallel, such terms as “free zone,” “free economic zone,” “special economic zone,” “special zone,” “free trade zone,” and “international financial center.” However, the legal distinctions among, and interrelationship between, these concepts are unclear, creating uncertainty in the application of the law.

In addition, the Law on Free Zones subjects zones established for different purposes, including trade, industry, technology, logistics and tourism, to a single general regulatory framework. As a result, there is insufficient differentiated policy tailored to the location, economic orientation, and investment needs of each zone.

The technical, economic, infrastructure, environmental, and economic-efficiency criteria for deciding on the establishment, modification, or dissolution of a zone, or the determination or alteration of its boundaries, are insufficiently clear. This creates a risk that zones may be established without adequate studies and calculations and may consequently fail to achieve their intended purposes or operate efficiently.

The existing tax, customs, land-use, and labor-related incentives and special conditions are not sufficiently linked to the amount of investment, employment created, export performance, technological level, or sector-specific characteristics. They have therefore failed to operate as performance-based incentive mechanisms capable of attracting large-scale investment in high-technology and high-value-added activities.

Furthermore, the existing regulation of land-use terms, extensions of rights, investment protection, cadastral matters, valuation, and transparency does not fully meet investors' long-term needs. Although one-stop services are provided for by law, the legislation does not clearly specify which authority must provide each type of service, within what period, or how public authorities are to exchange information, which prevents full implementation of such services in practice.

No integrated database has been established for zone-related registration, permits, land, tax, customs, and other information, and the rules governing interoperability with other government databases, as well as the authority and responsibilities of the entities responsible for data management and information security, remain unclear.

In addition, zone governance involves multiple layers of decision-making, overlapping functions among public authorities, and insufficient authority and financial autonomy of zone administrations. These factors limit the ability to respond promptly to investor needs and to manage zones in line with changes in market conditions.

There is also a need to improve the framework for protecting intellectual property and trade secrets, preventing goods that infringe intellectual property rights from crossing the customs border, and resolving civil, commercial, administrative, tax, and investment disputes arising between investors and zone participants through prompt and clear procedures.

Accordingly, the Draft Law has been prepared as a revised version of the Law on Free Zones, reformulating it around a comprehensive policy framework for the development of special economic zones and changing its title to the "Law on Special Economic Zones."

Two. Purpose and Significance of the Draft Law

The principal purpose of the Draft Law is to renew the legal basis for establishing and developing special economic zones within the territory of Mongolia; differentiate zones according to their economic functions, location, and development characteristics; attract investment; increase export-oriented production and the manufacture of import-substitution products; create employment; promote innovation and technology transfer; accelerate regional development; and make public services more efficient and transparent.

The Draft Law is also intended to establish a stable and predictable long-term legal environment for investors, introduce incentives and special tax regimes linked to actual investment outcomes, strengthen the security of land-use rights, protect intellectual property, and establish effective dispute-resolution mechanisms.

Three. Principal New Regulatory Provisions Included in the Draft Law

1. Revised Definition and Classification of Special Economic Zones

The Draft Law defines the “special economic zone” as the general or overarching concept and systematizes the existing “free zone” as one form within that broader framework.

Accordingly, rather than subjecting zones with different purposes and activities to a single regulatory regime, the Draft Law enables zones to be differentiated and developed as trade and export-oriented, industrial, technology and innovation, logistics and transport, and tourism special zones, taking into account their principal economic functions, location, and infrastructure characteristics.

This classification makes it possible to establish an appropriate legal framework for each type of zone, including zones based on border ports and trade flows, zones focused on export-oriented production, industrial zones with shared infrastructure, technology zones based on research, innovation and the digital economy, and logistics zones located around transport hubs.

2. Clarification of Rules on the Establishment, Modification and Dissolution of Zones

The Draft Law requires decisions to establish a special economic zone to be based on objective criteria, including the actual needs of the relevant territory, development policy, technical and economic feasibility, efficiency calculations, environmental assessment, and infrastructure readiness.

The Draft Law establishes the grounds and decision-making procedures for changing the location or boundaries of a zone and for dissolving a zone, including circumstances in which the zone no longer fulfills the purpose for which it was established or has become economically inefficient.

It also clarifies the respective levels of authority competent to decide on the establishment, modification, or dissolution of a zone, depending on the scale of the matter and its economic and social impact.

3. More Detailed Regulation of Incentives and Exemptions

The Draft Law moves away from granting identical incentives to all investors and establishes a legal basis for differentiated regimes linked to the amount of investment, employment created, export performance, technological level, sector-specific characteristics, and the priority areas of the relevant zone.

This includes linking customs, tax, registration, labor, visa, land-use, and other regulatory incentives to the actual economic benefits generated by the relevant investment.

By linking incentives to the investor’s obligations, construction and development timelines, and compliance with minimum investment and employment requirements, the Draft Law is intended to reduce the risk of land and other privileges being retained for extended periods without being put to productive use.

4. Improvement of the Special Regime for Land Relations

Taking into account the long-term nature of industrial, technological, and infrastructure investments in special economic zones, the Draft Law provides for greater flexibility in investors' land-use rights depending on the type of special economic zone.

The Draft Law provides for the introduction of a special-zone land certificate system to secure land rights, an electronic cadastral registration system, land-use agreements, and mechanisms to improve transparency of land-related information.

It also provides a legal basis for the use of market-based valuation methodologies for land valuation, including the sales comparison approach, income capitalization approach, and cost approach.

5. Effective Implementation of the One-Stop Public Service System

The Draft Law establishes a legal basis for investors operating in special economic zones to obtain public services relating to permits, registration, tax, customs, land, construction, labor, and other matters through the zone administration on a one-stop basis, rather than having to apply separately to multiple public authorities.

By specifying which authority is responsible for each service, the applicable processing period, the manner in which information is to be exchanged electronically, and the respective functions and responsibilities of the zone administration and other public authorities, the Draft Law is intended to reduce administrative steps in the provision of public services.

6. Establishment of an Integrated Database

The Draft Law provides for an integrated database consolidating registration, permits, land, customs, tax, and other relevant information relating to special economic zones and establishes the legal basis for interoperability and information exchange with other government information systems.

The integrated database is intended not only as a system for internal administrative use, but also, to the extent provided by law, as a source of information accessible to the public. The Draft Law also clarifies requirements concerning data accuracy, access rights, protection of personal data, information security, and liability for violations.

7. Reform of the Governance System for Special Economic Zones

The Draft Law provides for the establishment of a National Council framework to ensure integrated coordination of special economic zone development policy, sustainable development, and inter-agency cooperation.

To enable the day-to-day management of zones to respond promptly to market needs, the Draft Law clarifies the authority, autonomy, financing, and performance criteria of zone administrations and creates a legal basis, where necessary, for the use of a management model involving participation by a company.

8. Specific Provisions on the Protection of Intellectual Property

In order to create conditions for attracting technology, innovation, research, and high-value-added production to special economic zones, the Draft Law includes specific provisions on the protection of patents, trademarks, copyright, trade secrets, and other intellectual property rights.

It also clarifies the legal basis for applying customs controls to goods that infringe intellectual property rights, for information exchange among the relevant authorities, and for incorporating intellectual-property protection requirements into contractual relationships.

9. Improvement of the Dispute-Resolution Framework

The Draft Law seeks to clarify the jurisdiction and mechanisms for resolving civil, commercial, administrative, tax, and investment disputes arising among participants in special economic zones.

It is intended to enable an appropriate combination of arbitration, mediation, and judicial mechanisms, including opportunities to mediate disputes before court proceedings are commenced.

Where a state-owned company participates in the management of a special economic zone, the Draft Law also provides for clearer legal safeguards allowing the parties to a contract with a foreign investor, on a voluntary basis, to choose international arbitration and for arbitral awards to be recognized and enforced in accordance with Mongolia's international treaties and applicable legislation.

Four. Structure and Scope of the Draft Law

The Draft Law regulates relations concerning the establishment, modification and dissolution of special economic zones; the conduct of activities by zone participants; investment; land use; permits and registration; taxation and customs; employment; infrastructure; public services; databases; intellectual property; governance; and dispute resolution.

The Draft Law contains provisions on general matters; types of special economic zones; establishment, modification and dissolution of zones; activities permitted within zones; special regimes; tax exemptions and incentives; intellectual-property protection; land relations; infrastructure; one-stop services; the integrated database; governance; security and protection; dispute resolution; and transitional arrangements.

The Draft Law applies to domestic and foreign investors, legal entities, individuals, central and local government authorities, zone administrations, state-owned companies, and other private-sector participants.

Five. Expected Consequences of Adoption of the Draft Law

Upon adoption of the Draft Law, a comprehensive legal framework will be established for the differentiated development of special economic zones in alignment with Mongolia's regional development policy and priority economic sectors.

By establishing special regimes linked to the amount of investment and actual performance, the Draft Law is expected to increase opportunities to attract large-scale investment in high technology, innovation, high-value-added production, and export-oriented activities, while creating conditions for increased employment and local job creation.

The Draft Law also provides for the development of production and services in special economic zones to manufacture goods and products that are not produced domestically, or for which domestic production is insufficient to meet demand, with priority given to supplying the domestic market on stable and competitive terms.

By shifting public services to one-stop and electronic formats and establishing a legal basis for information exchange among public authorities, the Draft Law is expected to reduce administrative steps and processing times and improve operational transparency.

Clarifying land rights, investment protection, intellectual-property protection, and the dispute-resolution framework is expected to enhance the stability and predictability of the legal environment for investors.

At the same time, transitional measures will need to be implemented in stages to migrate existing free zones to the new system, align previously granted land rights, permits, tax and customs conditions with the new framework, and introduce the new governance structure, integrated database, and one-stop service system.

Accordingly, the Draft Law and its implementing regulations define the conditions for continuation of existing rights, permits and contracts; the procedure for transition to the new classifications; the criteria and periods applicable to tax and other incentives; and mechanisms for monitoring and evaluating implementation.

Six. Harmonization with Other Legislation

In connection with the Draft Law, it is necessary to ensure consistency among legislation relating to special economic zone terminology and governance, taxation, customs, land, investment, permits, registration, labor, information, intellectual property, and dispute resolution.

For this purpose, accompanying draft amendments have been prepared to legislation concerning the Government; development policy and planning and regional development administration; the budget; state and local property; public-private partnerships; permits; state registration of legal entities; land; cadastre; urban development; construction; customs; taxation; investment; employment; personal data; public information; cybersecurity; electronic signatures; intellectual property; arbitration; mediation; courts; and enforcement of court decisions.

This will create the conditions for developing special economic zones as an independent economic-policy instrument supporting investment, production, exports, technology, innovation, logistics, and regional development, while providing investors with a stable, transparent, and efficient legal environment.

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