



POLICY BRIEF: FREE TRADE ZONES

12 April 2004

Issue Background

In response to a request from the Ministry of Industry and Trade (MOIT), EPRC conducted an assessment to:

- Benchmark the legal and regulatory framework of Mongolia's Free Trade Zone (FTZ) Program against current international best practices and lessons learned
- Compare the processes used in Mongolia for the establishment of FTZs against current best practices
- Evaluate the sites selected for the proposed free trade zones (FTZs) of Altanbulag and Zamyn-Uud.

Findings

1. Benchmarking of Mongolia's FTZ Program against current successful international practices shows deficiencies in the legal and regulatory framework as well as in the process being followed to establish FTZs in the country
2. Lack of implementing regulations and procedural definitions encapsulated in Standard Operating Procedures (SOPs) prevents achievement of a minimal transparency and predictability quotient required to operationalize key international best practices
3. A process of due diligence, including a cost-benefit analysis, has not been completed for the proposed Zamyn-Uud FTZ
4. Identifiable funding is not in place to meet off-site infrastructure requirements for the Zamyn-Uud and Altanbulag sites
5. Deviations from international best practices in the process of launching FTZs runs the risk of repeating mistakes made in the past in other countries and may lead to "hidden costs" or the provision of subsidies that the GoM did not foresee or which will have to be granted at the expense of other high priority social needs.

Recommendations

1. The GoM should consider following best current international practices and undertake an economic cost-benefit analysis of the FTZ projects being contemplated.
2. The GoM should consider following best international practices and undertake a full commercial feasibility study for the Zamyn-Uud Free Trade Zone.
3. The GoM should consider revising the legal and regulatory framework of its FTZ Program in accordance with best international practices.
4. The GoM should explore a leisure development concession in Zamyn-Uud in response to the identified market niche opportunity and potential investors' interest provided by its proximity to Erlian City in China.
5. The GoM should consider postponement of the tender for the Zamyn-Uud FTZ until completion of a due diligence process that demonstrates tangible benefits for the country is completed according to international practices.

Sources

See EPRC's Technical Report: "Assessment of Mongolia's Free Trade Zone Program and Site Evaluation." EPRC: Ulaanbaatar, Mongolia. March 2004.