

Adrianople Group  
*Excellence is Standard.*

C O R T E X

# SPECIAL JURISDICTIONS PRIMER

JANUARY 2021



# GENERAL DISCLAIMER

Cortex does and seeks to do business with companies covered in published reports. As a result, the firm may have a conflict of interest that could affect the objectivity of this report.

This material is based on current information that we consider reliable, but we do not represent it as accurate or complete, and it should not be relied on as such.

This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

Clients should consider whether any advice or recommendation in our research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

# WHAT IS A SPECIAL JURISDICTION?

A territory governed by a special set of rules, which enable people and businesses to thrive. Can be a government initiative, private initiative, or public-private partnership.

**FREE TRADE ZONES**

**SPECIAL ECONOMIC ZONES**

**CHARTER “SMART” CITIES**



# WHY CREATE SPECIAL JURISDICTIONS?

*To create commercial and residential communities that ...*

... are environmentally sustainable

... are built on fair and efficient laws and governance systems

... build and maintain effective infrastructure

... facilitate efficient and optimal resource allocation

... provide useful and accessible education

	COMMERCIAL	RESIDENTIAL	BENEFITS
FREE TRADE ZONE	✓	X	<ul style="list-style-type: none"> <li>• Special import/export regimes</li> </ul>
SPECIAL ECONOMIC ZONES	✓	✓ / X	<p>+</p> <ul style="list-style-type: none"> <li>• Tax benefits</li> <li>• Special legal frameworks</li> <li>• Special administrative systems</li> </ul>
CHARTER "SMART" CITIES	✓	✓	<p>+</p> <ul style="list-style-type: none"> <li>• Special defense/security systems</li> <li>• Dispute resolution systems</li> </ul>

# INVESTING IN SPECIAL JURISDICTIONS: OPTIONS



## Promoter investments

Investments in the company which creates and operates the special jurisdiction, which is responsible for:

- Creating a special jurisdiction
- Negotiating public-private partnerships
- Securing land for the development
- Attracting developers, businesses, and residents
- Operating the jurisdiction



## Infrastructure investments

Investments in infrastructure projects, including:

- Roads/railways
- Ports
- Airports
- Internet/telecommunications
- Waste/water management
- Security
- Power plants



## Real estate investments

Investments in real estate projects, including:

- Land investments
- Residential and commercial developments
- Real estate management companies



## Business investments

Investments in businesses setting up and operating in the jurisdiction, including:

- Venture capital investments
- Private equity/debt investments
- Public equity/debt investments

# INVESTING IN SPECIAL JURISDICTIONS: RISKS



## Sovereign risk

- Asset expropriation risk
- Regime change risk
- Corruption risk
- Political destabilization risk



## Socioeconomic risk

- Unemployment risk
- Social disruption risk
- Media/propaganda risk



## Project risk

- Technology risk
- Engineering risk
- Management risk



## Financial risk

- Currency risk
- Financing risk
- Interest rate risk

# SPECIAL JURISDICTIONS: GROWTH DRIVERS



**Population Growth**



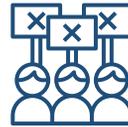
**Climate Change**



**Urbanization**



**COVID-19,  
Remote Working**

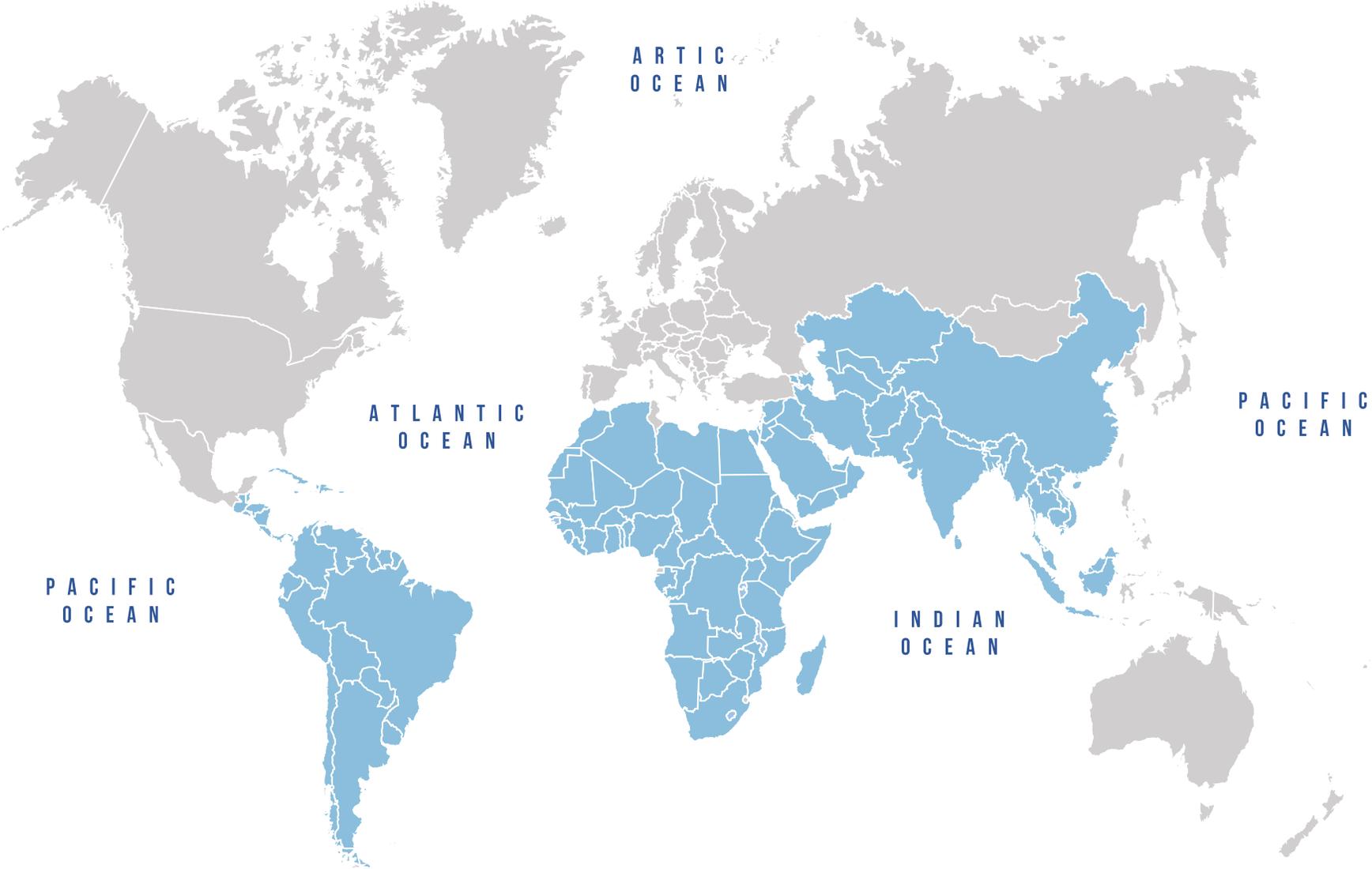


**Geopolitical  
Instability**



**Decentralization of  
Governance**

# SPECIAL JURISDICTIONS: ANTICIPATED GROWTH MARKETS





**| SELECTED CHARTER “SMART” CITIES**



# KING ABDULLAH ECONOMIC CITY

## SAUDI ARABIA

**Promoter:** Emaar the Economic City (“EEC”)

**Motivation:** diversify the Saudi economy from oil exports, create youth employment opportunities, and make Saudi Arabia one of the top 10 competitive investment destinations in the world

**Governance:** KAEC was granted privileged regulations by the Saudi Government, including:

- Foreign asset ownership, foreign employee sponsorship
- Women are not required to wear cloak-like abayas
- 20% corporate tax rate, no VAT, land, property, or personal income tax
- Double taxation and bilateral trade agreements with key countries

**Components:** industrial valley, seaport, central business district, residential district, resort area, educational zone

**Financing:** the cost has risen to \$100+ Bn. EEC listed 30% of its equity in a 2006 IPO, raising \$600m+, and the Saudi government pledged to loan SAR 5 Bn to the project.

**Status:** KAEC is about 40% complete, with completion expected 2029. Inhabited by ~10,000 residents, expected to expand to 2 million. EEC has signed MOUs with several corporations and developers, including Ericsson, Cisco, Mars, Siemens, and Pfizer.



# GURGAON CITY INDIA

**Promoter:** not centrally planned (result of local state lifting restrictions on land acquisition, liberalization of key industries, and delegation of governance functions)

**Governance:** different areas are under control of the Municipal Corporation of Gurgaon (MCG), the Haryana Urban Development Authority (HUDA), and private developers. Outside of a small area (35 km<sup>2</sup>) under control of the MCG, there is no clear authority or coordination between different areas of the city. Gurgaon is located in the Noida Special Economic Zone, which provides specific incentives for attracting investment into the zone, including exclusion from import/export taxes, minimum alternate tax, and state sales taxes.

**Components:** Gurgaon City was developed by several private real estate companies, the largest of which is Delhi Lease and Financing (DLF). Individual business parks were developed to the specifications of large international corporations, such as General Electric, Honda, and American Express. Each business park contains its own energy supply, security personnel, parking lots, cafeterias. Given the lack of centralized governance, very little centralized infrastructure exists. Water, sewage and waste disposal, electricity, fire safety, roads, and security are developed by the private sector on an ad hoc basis and are often unreliable and expensive.

**Status:** despite its infrastructure and governance issues, Gurgaon is today considered a leading financial center in India behind Mumbai and Chennai. The city has local offices for more than 250 Fortune 500 companies and has the highest Human Development Index of India.



# PHU MY HUNG VIETNAM

**Promoter:** Phu My Hung Corporation

**Motivation:** to provide ample and affordable public goods and urban services to earn huge profits

**Governance:** incentives for business include 0% VAT, duty-free import machinery, equipment, and raw materials, and export of products, and no remittance tax for profits repatriated

**Components:**

- New city center: residential, financial, medical, entertainment, and trade centers (409 ha)
- University place: schools, parks, civic uses and support facilities (95 ha)
- High-tech center: setting for life and work, technology enterprises (46 ha)
- Suburban merchandise centers: warehousing, distribution, and port functions

**Financing:** Than Thuan Corporation estimates that \$1.7 Bn+ total has been invested

- 1993: PHMC formed as \$60m JV between a Vietnamese PPP and a Taiwanese corporation
- 2007: HSBC provided a \$21m loan to PMHC
- 2020: PMHC sold \$75m in 8.17% corporate bonds maturing in 2026 to the IFC

**Status:** Phu My Hung is the most developed area of Ho Chi Minh City and touted as a rare success case of urban planning in Vietnam, with a population of 30,000+ (50%+ non-Vietnamese). By 2015, Phu My Hung had contributed more than \$700 million to Ho Chi Minh City's budget.

*Sources: International Journal of Sustainable Built Environment, Tuoi Tre News, Finance Asia, Asia Pulse, Vietnam Investment Review, IFC*



# SONGDO SOUTH KOREA

**Promoter:** Gale International

**Motivation:** to promote green and low-carbon growth and decrease South Korea's reliance on export-oriented manufacturing

**Governance:** Songdo IBD is located within the Incheon Free Economic Zone, which includes reduced corporate taxes and tariffs, eased labor regulations, and simplified administration

**Components:** (1) North East Asia Trade Tower, (2) Songdo Convention Center, (3) Songdo International School, (4) Jack Nicklaus Golf Club, (5) Songdo Central Park, (6) Arts Center Incheon, (7) Songdo Lottemall, (8) Posco Office Building, (9) Canal walk, (10) Business Facilities, (11) Hotel, and (12) G-TOWER.

**Financing:**

- joint venture between Gale International (which invested \$100m for 70%) and Posco
- 2005: Morgan Stanley invested \$15m for 9% equity, and \$350m from its real estate funds
- a consortium including ABN-Amro, Kookmin Bank, and Woori Bank invest \$1+ Bn
- 2009: Japanese private equity firm Vana World signed an LOI to invest \$3 billion

**Status:** today, Songdo is less than 25% occupied with a population of 70,000 people.

In 2019, Gale filed for arbitration against the Republic of Korea seeking \$2 billion in damages for the expropriation of investment, real estate, and development rights.

*Sources: BBJ, Korea Joongang Daily, Yonhap News, KJD, South China Morning Post, PR Newswire*



# SUZHOU INDUSTRIAL PARK CHINA

**Promoter:** China-Singapore Suzhou Industrial Park Development Co., Ltd. (“CSSIP”)

**Motivation:** SIP was developed between Chinese and Singaporean heads of state with the idea of bringing Singaporean governance and urban development experience to China

**Governance:** SIP is part of a special economic zone (CS-SIP) and export processing zone, with a one-time subsidy of 1-3% of invested capital, reduced corporate tax rate (15%), local income tax, VAT, and tariff exemptions

**Components:** (1) Education and Innovation Zone, (2) Central Business District, (3) Sino-Singapore Eco-technical City, (4) Comprehensive Bonded Zone, (5) Hi-tech Industrial Zone, (6) Eco-tourism and Holiday Zone

## Financing:

- 1994: CSSIP formed through a joint venture of 24 government-linked Singapore companies (\$67m for 65%) and 11 Chinese state-owned enterprises (\$44m for 35%)
- 1999: the Singapore government reduced stake (65% to 35%)
- 2019: CSSIP raised \$194m in an IPO to fund infrastructure renovation

**Status:** SIP has received foreign investment of \$31.5+ bn and created over \$115 bn in tax revenue over the past 25 years. Nearly 5,000 foreign-funded enterprises from 70+ countries have registered and operated in SIP, which currently has a population of more than 2 million

# ADDITIONAL RESOURCES

Charter Cities Institute: [www.chartercitiesinstitute.org](http://www.chartercitiesinstitute.org)

Free Private Cities: <https://www.freeprivatecities.com>

Startup Societies Foundation: <https://www.startupsocieties.org>

FEMOZA: <https://femoza.org>

World Free Zones Organization: <https://www.worldfzo.org/>

WEPZA: <http://www.wepza.org/>

## ABOUT CORTEX

Cortex is a global financial services company with investment banking, investment management, and strategy consulting businesses.

Cortex Advisors, LLC is a US SEC-registered broker-dealer and member of FINRA/SIPC.

**Contact:** [contact@cortex-advisors.com](mailto:contact@cortex-advisors.com)

**C O R T E X**

## ABOUT ADRIANOUPLE GROUP

The Adrianople Group is a business advisory and marketing firm specialized in economic zones.

The Adrianople Group has experience working with a variety of organizations around the world.

**Contact:** [contact@adrianoplegroup.com](mailto:contact@adrianoplegroup.com)

**Adrianople Group**  
*Excellence is Standard.*