



City building

Hong Kong in Honduras

Also in this section

67 Realising a libertarian dream

An ambitious development project aims to pull a Central American country out of its economic misery. Can it work?

TRUJILLO is a sleepy backwater, but one with a lot of history. The beautiful bay surrounded by lagoons and mountains on the northern coast of Honduras was where Christopher Columbus set foot on the American continent during his fourth voyage in 1502. But in a few decades, it might be known for something entirely different: being the Hong Kong of the West. Scores of skyscrapers and millions of people could one day surround the natural harbour. The new city could dominate Honduras, today one of the poorest and most crime-ridden countries in Central America, becoming a magnet for most of the region's migrants.

The prospect may sound fantastic, but this is the goal of an ambitious development project that Honduras is about to embark upon. In a nutshell, the Honduran government wants to create what amounts to internal start-ups—quasi-independent city-states that begin with a clean slate and are then overseen by outside experts. They will have their own government, write their own laws, manage their own currency and, eventually, hold their own elections.

This year the Honduran legislature has taken the first big steps towards the creation of what it called "special development regions". It has passed a constitution-

al amendment making them possible and approved a "constitutional statute" that creates their autonomous legal framework. Mauritius has just announced that it will allow its supreme court to hear cases from the new entities (beyond that, in a relic of colonialism, is Britain's Privy Council, to which the decisions of the island state's supreme court can be appealed). And on December 6th Porfirio Lobo, the Honduran president, appointed the first members of the "transparency commission", the body that will oversee the new entities' integrity.

Finding new worlds

The road to a Honduran Hong Kong will be long and rough. Forming the transparency commission proved more difficult than expected. It has taken longer to find candidates with the right skills. Then Honduran officials seemed to have second thoughts about the commission. But for enthusiasts, the progress so far is still thrilling. The development regions, they say, will allow policies to be tested on a small scale. If their laws and institutions make them an attractive place to live and do business, people will move there. They could also provide healthy competition for the government and spur reform.

The Honduran regions are modelled on a concept called "charter cities" developed

by Paul Romer, an economics professor at New York University. The principle is simple: take a piece of uninhabited land big enough for a city of several million, govern it by well-trying rules and let those who like the idea move there. The aim is to replicate the success of such places as Hong Kong, not as colonial outposts but as models of development.

Mr Romer is best known for his insights about technology, not as a constitutional theorist. But the project stems naturally from his research, chiefly the "new growth theory" that he helped develop in the 1990s. This adds ideas—particularly technological know-how—to the inputs of land, labour and capital that in traditional economic theory are needed for growth. More recently he has focused on the rules of open science and governance systems, which help people to deal with each other and think up ideas.

Today his main interest is "meta-rules": how to move from bad rules, which keep people in poverty, to the sort that lets them thrive. These, he reckons, matter just as much as the better-studied questions around technological change. "What types of mechanisms will allow developing countries to copy the rules that work well in the rest of the world?" he asks.

Changing such bad rules singly is hard

• enough. But insider interests and institutional inertia make reforming an entire country at best excruciatingly slow. Coercion offers a tempting shortcut, but it usually backfires. Outside help, whether in the form of cash, advice or "nation-building" efforts, has a generally poor record too.

The idea of setting up a charter city echoes the way that big companies adapt to change. They often set up new divisions unencumbered by old rules. These can be dramatic successes. Target, America's second-largest discount retailer, began life as an internal start-up but eventually took over its parent company, Dayton Hudson.

A clean slate allows government authorities to experiment with laws and governance or copy those that have worked elsewhere, says Mr Romer. A further spin-off, potentially of great interest to rich countries such as America struggling with illegal migration, is that the new entity's open door gives the huddled masses an alternative: instead of risking their lives on perilous journeys to cross borders illegally, they can move legally to a charter city.

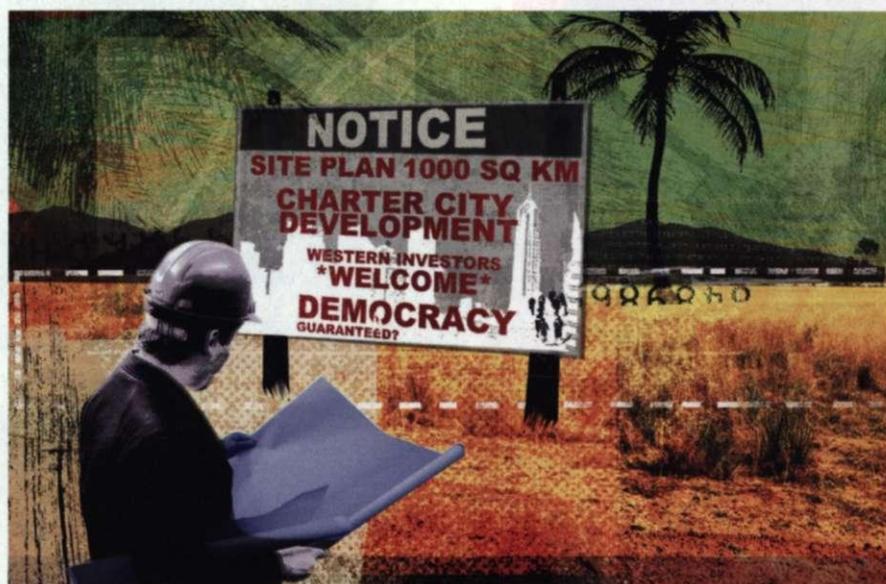
Boots not ballots

More fundamentally, Mr Romer argues, when people vote with their feet to come and live in a charter city, they opt in to its rules, in a way that makes possible a new form of governance: neither authoritarian nor (at least initially) fully democratic. Migration to Britain gives the legal system there legitimacy in the eyes of those who move there, even if they cannot vote. If the English legal system were enforced on the same person in his home country, Mr Romer notes, that would be colonial rule.

For this reason he wants rich countries to oversee the administration of charter cities, in particular the judicial system and the police. This would not only protect them from interference by the host nation but avoid a common problem in poor countries: that elected leaders, once in office, abuse their power to entrench their rule and enrich themselves.

Honduras has not adopted Mr Romer's ideas wholesale, although the project as planned still enjoys his strong support. Doing away with new autonomous entities or even changing their framework will require a two-thirds majority in the country's congress and the passage of a referendum by the cities' inhabitants. But the Honduran charter cities will remain legally intertwined with the local judicial system. Although nominated by the cities' governing authorities, judges must be approved by a two-thirds majority in the Honduran legislature. Lawmakers will also need to ratify the region's laws, albeit only by a simple majority to say yes or no.

Perhaps the most important feature of the new venture is the "transparency commission", a kind of board of trustees that appoints the governors, supervises their



actions and is meant to make sure that the entities are beyond reproach, not least when it comes to the corruption (often fuelled by the drugs trade) that plagues the region. "It is easier to create a board of trustees than to give control of part of your territory to a foreign nation," says Octavio Sánchez Barrientos, the presidential chief of staff. A role for foreign government is still an option, but only Mauritius has so far signed on—as part of its push to become a global provider of legal services.

In other areas, Mr Romer's original ideas have prevailed. At least one new region will be big—about the size of Hong Kong (some 1,000 square kilometres). Most revenues will not come from taxes (which are capped at 12% for individuals and 16% for corporations) but from leasing land to investors. And democracy will be introduced gradually. Only when the transparency commission deems that the time is ripe will citizens be able to elect the members of the "normative councils"—in effect, local parliaments.

This aspect of the plan is just one of those attracting heated criticism. Some find the explicit (if temporary) rejection of democracy repellent. Others detect a whiff of neocolonialism: gimmicks dreamed up in rich countries being foisted on poor ones. They believe that the project is especially misplaced in Honduras, a country crippled by weak state machinery and courts that flounder in the face of organised crime. The new entity may suck tax revenues and talent away from the rest of the country, critics fear. Another worry is that the new entities may prove more like Macau than Hong Kong: easy prey for gangsters, money-launderers and other shady characters.

Much will depend on the transparency commission. The first batch of members appointed this week comprise George Akerlof, another economist and Nobel laureate;

Nancy Birdsall, formerly at the Inter-American Development Bank, who now runs the Centre for Global Development, a think-tank; Ong Boon Hwee, a former senior executive at Temasek Holdings and Singapore Power; and Harry Strachan, an investor who used to run INCAE, a leading Latin American business school, with Mr Romer himself in the chair.

The commission's first job is to fill all of its nine seats. Then the hard work will start, first on investigating whether any foul play has already taken place: rumours are circulating that insiders have bought land in or near Trujillo and other potential sites. Next comes helping pick the regions' locations and choosing developers in a way that inspires confidence not suspicion. The Honduran agency for public-private partnerships has already signed several memoranda of understanding with firms including South Korea's Posco and two start-ups with libertarian leanings (see next article).

Wanted: people

Then there is the general population. The regions are supposed to be open to anybody, but the inflow of people may have to be controlled. What is more, success or failure will depend not just on good rules, as in laws, but on the social norms that are established by its first inhabitants, explains Mr Romer. The key, he says, is to begin with a core of people who share certain new norms—rather as when William Penn attracted people to Pennsylvania who were committed to his charter's legal promise of freedom of religion. Once the norms are well established in a community, subsequent immigrants will adapt to them.

Last, but not least, comes security. Private security firms will have to protect the population in the new cities. Honduras is one of the world's more corrupt countries, in 129th place out of 183 in a survey of out- ••

• siders' perceptions by Transparency International, a Berlin-based lobby group. It also has the region's highest murder rate. The local police have a poor reputation. Last month 176 police officers were arrested in a corruption crackdown.

Many uncertainties remain about both the theory and the practice of charter cities, and about whether a small and troubled country like Honduras is the right place to start. Mr Romer's response is that if his ideas can work there, they can work anywhere. Even if no charter city ever rises

in the country, the project has helped to refine and promote his ideas. Other countries have already shown some interest in the concept (among the locations talked about are north Africa and Asia Minor).

It is not just the connection with Columbus that makes Trujillo a suitable site for the first charter city. It was there in 1896 that the pseudonymous American writer O. Henry wrote "Cabbages and Kings", a derisive tale of torpor, in which he coined the term "banana republic". Skyscrapers would be a suitable riposte.

Matéria

Fonte: The Economist, London, v. 401, n. 8763, p. 65-67, 10 a 16 Dec. 2011.