



## Under New Management

**The coast of Honduras could be the site of a radical experiment: one in which foreign investors bankroll a quasi-sovereign city. Backers say it will lift the region out of poverty -- but residents are anything but convinced.**

By Maya Kroth  
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**AMAPALA, Honduras** — In a cinder-block building at the end of a narrow, washed-out dirt road, Alberto Cruz, the mayor of Amapala, wipes the sweat from under his white baseball cap. The July heat is oppressive, and beads of moisture form as Cruz faces the insistent stares of hundreds of his constituents, gathered for a town-hall meeting. People fill the small room before him and spill out into an adjacent, dusty lot, peering in through metal window screens. They are eager to pepper him with questions about a provocative new law that could change their lives permanently.

"I'm not here to defend or condemn a law that I didn't make or a project that I don't know about," Cruz tells the crowd. "But we need to be open to investment."

"This law was passed without consulting anyone here," protests one man in the crowd.

"We're only fishermen and farmers," says another, rising from his chair and stabbing the air with an angry finger. "We won't stand for the invasion of these model cities created for the benefit of the rich!"

The room erupts in applause.

Here, in a poor corner of one of the poorest countries in the Americas, a radical economic and political experiment may soon be underway. In May, the Supreme Court of Honduras ruled in support of a constitutional amendment and attendant statute that allow for the creation of "zones for economic development and employment" (ZEDEs). Sometimes called "charter cities" or "model cities," these zones would be quasi-sovereign entities built on Honduran soil with backing from foreign investors. Unlike the world's thousands of "special economic zones," such as Shenzhen in China, which attract foreign direct investment through tax breaks and other flexible economic policy measures, ZEDEs would operate with "functional and administrative autonomy that includes the functions, powers, and duties" of ordinary cities, according to the

constitutional amendment. They could enact their own laws, set up their own courts, even establish their own police forces.

The first zone may be built on southern Honduras's picturesque Gulf of Fonseca, specifically in the small province of Valle (home to some 176,000 people, according to a recent estimate). The Honduran government has mentioned Amapala, which comprises several islands, as a potential charter-city site, and it is among the Valle municipalities that the Korea International Cooperation Agency (KOICA), South Korea's bilateral aid bureau, is analyzing in a \$4 million feasibility study.

ZEDE supporters -- both in Honduras and around the world, including famous free market champions in the United States -- cheer what they see as a way to bring investment, jobs, and the rule of law to parts of Honduras, a notoriously unstable country. And admittedly, with the world's highest murder rate, rampant legal impunity and poverty, and tens of thousands of people fleeing across its borders, it's hard not to look at Honduras and think that something drastic needs to be done.

But are charter cities *too* drastic? Countless questions about how they would operate remain unanswered because the government enacted the ZEDEs legislation with minimal transparency and has offered little information since. Critics worry that evidence to date -- the government's opaque approach, the ZEDEs' undemocratic features, the cast of characters backing the scheme, and the vulnerabilities of people likely to be affected by development -- indicate that charter cities would be little more than predatory, privatized utopias, with far-reaching, negative implications for Honduran sovereignty and the well-being of poor communities. Diminishing confidence further, the recent Supreme Court decision is mired in controversy and allegations of corruption.

In the town-hall meeting, people's anxiety is palpable. Some want more honest talk from the government about what ZEDEs would mean for them. Others, however, insist they will never allow charter cities in their backyards.

"This is the most dangerous thing I've read in my life," says one woman, holding up a well-worn photocopy of the ZEDEs legislation. "The whole law is a deception."

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**In 2009, far from Honduras**, respected economist Paul Romer, then of Stanford University, appeared at a TED conference in the United Kingdom to unveil a big idea. Against the backdrop of a satellite image of the Korean Peninsula at night, Romer compared the North's blackness with the South, which glowed with electricity and economic activity. Causing the stark contrast, Romer argued, were the Hermit Kingdom's bad or impractical regulations. Similar problems existed throughout the developing world. Romer's plan? Sign over a large tract of "uninhabited" land in a struggling country to a developed guarantor nation, which would create and oversee an investment zone free from the host country's fickle politics and troublesome rules. Enter the charter city.

Romer's idea captured headlines in the *Atlantic* and the *New York Times*. Many international development advocates criticized it for its blatantly neocolonialist features, but it found supporters too. Proponents invariably pointed to Hong Kong, China's "special administrative region" that operates under different rules than the mainland, as a shining example of the results that autonomy can yield. And charter cities almost got off the ground in Madagascar, where Romer found a receptive partner in President Marc Ravalomanana. Malagasy charter cities went down the drain, however, when Ravalomanana was forced to resign, partly because of fierce opposition to his willingness to hand over land to foreigners. (He had negotiated a plan to lease more than 1.2 million hectares to South Korea's Daewoo, to grow corn and palm-oil exports.)

Around the same time, in Honduras, President Manuel Zelaya was ousted in a coup and replaced by the more conservative Porfirio Lobo Sosa. The new president faced a dire national situation: 60 percent of Honduras's citizens lived in poverty, its murder rate was climbing (from 50 homicides per 100,000 people in 2007, to 70.7 in 2009), and immigration to the United States was rising so fast that a domestic manufacturing association launched a campaign beseeching workers, "Stay With Us." While looking for ways to kick-start investment in the country, a Lobo aide named Octavio Sánchez discovered Romer's TED talk. It echoed similar ideas being proposed by Mark Klugmann, an American political consultant and former speechwriter for President Ronald Reagan who had worked on Lobo's campaign. Romer and Sánchez set up a meeting and began working on a plan to build charter cities in Honduras. "My sense was that it was worth putting some of my time and effort into doing something that might help," says Romer, now a professor at New York University's Stern School of Business.

In early 2011, the Honduran National Congress passed a constitutional amendment allowing for special development regions (REDs), which were like charter cities but without Romer's guarantor nation. They would have investors and be overseen by a government-appointed Transparency Commission -- Romer says he was to be a part of it -- which would select a Honduran governor for each RED. The regions would set their own regulations and jurisdictions; only when it had been determined that they had developed the necessary institutions and populations to hold their own elections would regions transition to democratic control.

The legislation provoked a raft of legal challenges and protests from critics who saw it as a threat to sovereignty and human rights, particularly when it was revealed that the government was considering northern indigenous areas as possible development sites. (Land disputes between indigenous people and both the Honduran government and developers have a long, bloody history.) People also resented that there was little public discussion about REDs. When the government signed a memorandum of understanding with a group of investors without consulting Romer, even he distanced himself from the project, citing poor transparency.

Opponents rejoiced when, in October 2012, the Supreme Court's constitutional chamber ruled REDs unconstitutional in a 4-to-1 vote. Two months later, however, the four justices who voted against the regions were dismissed from their posts by the National Congress, which was controlled by Lobo's National Party. Officials in Tegucigalpa

rejected claims that the firings were related to the ruling. Then-leader of the National Congress, Juan Orlando Hernández -- now Honduras's president -- swore in replacement magistrates. The only justice to vote in favor of REDs, Óscar Chinchilla, is now the country's attorney general.

In January 2013, ZEDEs surfaced in new legislation, bearing striking resemblance to REDs but with a few notable -- and, to some people, worrying -- tweaks. Opposition rekindled and more than 50 NGOs appealed the constitutionality of the zones, but the newly composed Supreme Court unanimously rejected their arguments this summer. This has left critics more worried than ever that charter cities and their backers are poised to wreak havoc.

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**Every morning in Tegucigalpa**, economist Fernando García buys at least three of the capital's four daily newspapers, clipping stories and filing them in binders organized by subject. His ZEDEs binder is fat with more than 100 pages of stories and legal documents, including a copy of *La Gaceta*, the official state paper, from Feb. 11, 2014 -- the day the names of the 21 members of the Committee for the Adoption of Best Practices (CAMP) were published. Under the new charter-city law, the CAMP is the successor to the Transparency Commission; its functions include approving regulations and recommending judges in a ZEDE, and setting aside areas for a zone's future expansion, in accordance with an undefined set of "international best practices."

"I had an expectation that they would be people with great international renown and importance, but when you investigate," García says, that isn't the case.

The CAMP is stacked with free-marketeers, mostly non-Honduran: Barbara Kolm, the libertarian president of Austria's Hayek Institute; Cato Institute senior fellow Richard Rahn; Ronald Reagan's son Michael; Mark Skousen, producer of the libertarian FreedomFest conference; U.S. anti-tax crusader Grover Norquist; and even a member of the Habsburg family. A subset of this committee, a five-member permanent commission, will handle the finer details of zone oversight. A technical secretary, approved by the CAMP, will run each zone day to day. Critically, unlike with REDs, there is no legal provision outlining how a local population would ultimately gain control of a ZEDE.

García and other critics worry that the backing of free-marketeers and the lack of democratic safeguards indicate that charter cities will cater to their corporate benefactors. "They may establish any rules and regulations that its governing panel determines are right, without submitting them to the entire population for approval," Russell Sheptak and Rosemary Joyce of the University of California, Berkeley, and co-authors of the *Honduras Culture and Politics* blog, wrote in an email. Even some vocal supporters of charter cities as a general concept are worried about what might take shape. Romer, for one, says he is "concerned that the far-reaching delegation of what really are powers of government to private entities and foreign, private individuals is taking place without sufficient debate" between the government and critics of ZEDEs.

Klugmann, who is one of the permanent commission's co-chairs and lives in Tegucigalpa, argues that dissenters who don't propose better ideas are just defenders of the status quo. "What if we say, 'OK, done'? Everybody on this committee resigns; the government repeals the law," he says. "Then where are we?"

A plebiscite is technically required for a charter city to be created. There are exemptions, however, for areas with low population density, including some along Honduras's coasts -- places that are "too empty to fight over," Klugmann says.

Currently, there is strong momentum for a charter city in Valle province, which includes exempted areas. In no small part this is because South Korea's KOICA is conducting the feasibility study, due out in September, and creating a master plan for a potential ZEDE there. In June, a delegation of Honduran officials, including Mayor Cruz and other local leaders, traveled to Seoul, where, among other things, they heard a presentation on how to work with investors. "They also talked about the complex issue of financing and the efforts that the Honduran government must make" to find investment partners, says José Alfredo Saavedra, a Valle congressman. "They were clear that they have an interest in Valle because Honduras is the center of Central America and Valle is the path from the Pacific to the Atlantic."

For now, precise details on what a charter city in Valle might look like are hard to come by. An initial survey conducted by KOICA in March mostly analyzes the area's development potential in general terms: for instance, cost of land, population density, and monthly rainfall. Kim Dae-hwan, director of the Latin America team at KOICA, says Valle's capital, Nacaome, is being considered as the heart of a prospective charter city; it could play host to a logistical center and be connected to a port on the nearby gulf coast. KOICA and the Honduran government, he adds, plan to start recruiting investors next spring. Officials in Tegucigalpa, meanwhile, are tight-lipped; Ebal Díaz, a government official and a member of the permanent commission for ZEDEs, declined to provide specifics about the future, citing a confidentiality agreement between KOICA and the Honduran government.

The lack of clarity has left people on the ground scrambling, wondering whether a ZEDE would bring economic bounty or strip away what little they have now. In many Valle communities, including Amapala, that's no small question.

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**The oft-contested borders** of Honduras, Nicaragua, and El Salvador meet somewhere in the placid waters of the Gulf of Fonseca. Under a vast dome of sky, the gulf's largest island is El Tigre ("The Tiger"), formed from a conical, extinct volcano that is commemorated on the back of Honduras's 2 lempira note. On the front is a portrait of former President Marco Aurelio Soto, sporting muttonchops; Soto briefly made the island the country's capital in 1876. Today, El Tigre forms the bulk of Amapala.

The island was once Honduras's most important port, but lacking a bridge to the mainland, its economic prospects eventually disintegrated: In 1979, the port was moved

to the mainland. This plunged Amapala into a depressed state that persists today. Most residents are poor, many living in mud-walled shacks with dirt floors. On some of the municipality's smaller satellite islands, people lack regular access to fresh water and electric power.

Economist Miguel Cálix has fond memories of growing up in Amapala, where as a boy he was the best student in his class despite not being able to afford shoes. He recalls spending days at the port helping inventory boxes of goods. Today, Cálix, a former presidential advisor and retired economic consultant at the Central Bank of Honduras, would like nothing more than to see his hometown and the region in which it sits make a comeback -- and he believes charter cities could make that happen. "To lift up the south, we have to make these model cities," says Cálix, who now lives near Tegucigalpa.

Omar Guillén, a government commissioner focused on development in the gulf region, agrees. An enhanced port in a Valle ZEDE, he suggests, could potentially be connected to another charter city near the Caribbean port of Castilla. (The government recently signed a memo of understanding with a Chinese firm for a proposed \$20 billion interoceanic railway between the two locations.) "I am imagining ... a zone that sells all the Japanese, Chinese, and Korean products, that generates employment, business, buildings, schools," Guillén says. "[This] is a depressed zone, but it's beautiful. In the future, it could be like the southern coast of France."

Others, however, are less sure that unelected administrators and investors could do -- or would want to do -- much to improve the lives of gulf residents. About a 10-minute speedboat ride away from El Tigre, on the tiny island of Inglesera, it's harder to imagine a container ship sailing into port than it is to picture developers salivating over the chance to erect a five-star resort among swaying palms and gently breaking waves. Rodolfo Núñez Pacheco, a fisherman whose family has lived here for six generations, worries about being evicted. About two years ago, "money men," as he calls them, started showing up -- lawyers and people with guns who told him the island had been sold and his family could be jailed for illegally squatting.

According to Father Roger Rudery Galo of Amapala's Santa Cruz Church, "The majority of the inhabitants ... don't have papers" for their land. This leaves people like Núñez vulnerable to dispossession, which Galo worries a ZEDE might exploit. He also opposes charter cities because he doubts their overseers will keep promises pertaining to employment. The ZEDEs law stipulates that Hondurans must comprise 90 percent of a zone's workforce and receive 85 percent of all wages. "We don't have enough trained people for it to be 90 percent Honduran," Galo argues. "These poor people, what can they offer to the ZEDE? Here there are no architects; there are no engineers. The people here are illiterate." He also worries that there will be weak legal protections for workers.

Ebal Díaz points to maquilas -- assembly plants, often run by foreign companies -- as proof that local people could get jobs in a ZEDE. "They made the same criticism when they installed the maquilas in Honduras ... and it turns out that they are one of the most important sectors for job creation in the country," Díaz says. Hondurans "didn't know [how to do the required jobs] when the maquilas arrived, but they learned."

The maquila sector employs around 120,000 Hondurans, who earn salaries about 60 percent higher than the minimum wage. But, as it happens, Korean-owned maquilas have been investigated for allegedly violating labor laws.

Back on his island, Núñez pulls in a length of empty fishing net after a fruitless morning on the water. With little to sustain his household, he says he welcomes investment that could bring jobs. Yet he doesn't know much about charter cities or how one might affect his family. "We live poor," Núñez says, crinkling his eyes as he looks out over the gulf, "but we live happy."

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**At the broad level of the ZEDEs debate**, Fernando García, the economist, argues that charter cities simply should not exist. "When a state says that it requires a special authority to legislate, to prosecute crimes, that it requires special police," he says, "it declares itself not only a degraded state, but a failed one." Romer, however, cautions against throwing charter cities out with the proverbial bath water. "The harm that could come from some bad zones is relatively small compared to the benefit that could come from the good zones," he says.

A similar dispute plays out in Amapala's town-hall meeting. The room's energy escalates as one resident after another stands up to denounce ZEDEs. When Mayor Cruz speaks, some in the audience roll their eyes and laugh cynically, while others -- perhaps the cautiously hopeful -- listen quietly. After the event, Liana Corea, a local environmental activist, describes "the politicians of Honduras" as "thinking more like businessmen than like governors." She points to the relatively more robust economies of Costa Rica and Panama. "They haven't needed ZEDEs," Corea says. "More than model cities, we need a model Supreme Court, a model Congress, and a model government."

Cruz, however, is on the fence. Troubled that his municipality might not directly benefit from taxes collected in a charter city (they would go to ZEDE-controlled trusts), he wishes he had learned about the zones sooner (national officials alerted him earlier this year). But he is committed to Amapala's welfare and says there is still much to learn about ZEDEs. For now, he's placing trust in pledges from Tegucigalpa that he and other locals will be consulted about their future and that the government will do what's best for them.

"I have faith in the president's word," Cruz says. "The president has said, 'Mayors, if municipality X is not in agreement, we are going to respect the decision of the people.'"

*Melissa Elizabeth Andino contributed to this article.*