

Honduras Says Yes to LEAP Zones **Proposed investment-friendly jurisdictions could** **jump-start investment and bring stability.**

By John Fund
July 28, 2014

It seems that everyone has an unrealistic approach to the border crisis.

Time magazine reports that President Obama is mulling an executive order that would give work authorizations to perhaps several million illegal aliens. That would shred the rule of law, be grossly unfair to those waiting in line to enter the U.S. legally, and entice more people to head for the U.S.

Meanwhile, immigration hawks want to seal the border, something law-enforcement officials privately admit can't be done absent a legal-guest-worker program that would allow the Border Patrol to focus on real criminals rather than gardeners.

Guatemalan president Otto Perez Molina says Central America needs at least \$2 billion in aid "to attack the root of the problem" — meaning poverty. His Honduran counterpart, Juan Hernandez, has called for a "mini Marshall Plan" of aid for the region. Such calls are likely to fall on deaf ears in Congress, which is weary of foreign-aid schemes that don't help the intended beneficiaries and are often graft-ridden.

But there is one new idea worth trying. Last year, Honduras enacted constitutional reforms, which won overwhelming support from all parties in its parliament, that would allow semi-autonomous zones with distinct legal, economic, administrative, and political (LEAP) protections for job creators. Honduras's supreme court has approved the law.

The idea for LEAP zones comes from observing how Hong Kong, Singapore, and Dubai "leapfrogged" other jurisdictions in economic gains by giving special protections to investors. In these states, for instance, final judicial appeals were lodged with distinguished foreign judges from countries such as Britain or international arbitration panels.

The zones wouldn't involve transferring populations to foreign control. The locations for the first zones have not yet been proposed for Honduras, but they are expected to be small and sparsely populated. Significantly, Hondurans would be free not just to work in the zones but also to live there.

The South Korean government is donating a \$4 million feasibility study and a master plan for a new zone near the Gulf of Fonseca. Favorable investment rules and new road and seaport infrastructure could bring explosive growth in what is now a very poor region. China's special economic zone of Shenzhen began with 30,000 people in the 1990s and now has 11 million who call it home and earn middle-class incomes.

Mark Klugmann, a former speechwriter to President Reagan and the first President Bush who's now co-chairman of the permanent commission for the Honduran jurisdictions, sees a huge opportunity to jump-start economic growth in Central American countries that have poor rankings on rule of law, transparency, and personal security.

At this month's libertarian Freedom Fest in Las Vegas, Klugmann explained to me that LEAP zones are distinct from the 3,000 Special Economic Zones that dot the world. The difference is that the new Honduran special zones will be about more than reduced regulations and lower tax rates. "Zones that only address economic policies are a chair with one leg, the economic," Klugmann says, referring to pro-investment taxes and regulations. "But we provide a sturdy four-legged chair that can provide a complete competitive advantage for creating jobs and attracting investment," he says.

A skeptical BBC interviewer recently accused Klugmann of trying to "outsource" Honduras's legal system to foreigners. Klugmann, who has lived in Latin America for two decades and now lives in Honduras, replies: "Right now you have Central Americans risking death and spending thousands of dollars to get to the U.S., where they will reside illegally and have no political rights. Let's focus on what people need now to stay in their own country with their families."

The Honduran law establishes a 21-person board of international notables that will have the power to hire the zone's executive, veto official acts, and propose judicial nominees.

Among those on the board, confirmed by the Honduran congress, are Kakha Bendukidze, a former minister of reform from Georgia; Grover Norquist of Americans for Tax Reform; former Honduran president Ricardo Maduro; Barbara Kolm of the Austrian Economics Center; Richard Rahn of the Cato Institute; and Michael Reagan, President Reagan's son. Every member of the board is committed to upholding the sound economic, political, and security principles that have led to economic growth.

The CAFTA free-trade area between Central America and the U.S., passed in the mid 2000s, has enormous potential to create jobs if coupled with LEAP zones to create far more jobs and ultimately reverse the migration of illegal aliens to the United States. In fact, the presidents of Honduras, El Salvador, and Nicaragua met in April to discuss cooperation in creating special zones around the shared waterway of the Gulf of Fonseca.

But Klugmann thinks the United States can do more, and he hopes the current border crisis will produce some action. "One of the largest sources of employment in Central America is apparel production, yet Washington has given less favorable trade conditions to clothing exporters from Honduras than to Vietnam," he says. "It is a strange form of U.S. protectionism that sends jobs to Hanoi, and then displaced Hondurans and their kids head to Houston and Phoenix."

Right now, implementation of the LEAP-zone concept has been slowed down by the migration crisis that has gripped Honduras. But Klugmann predicts the concept will take hold in Honduras because it has worked in places with few natural resources, such as Hong Kong and Singapore. Measures that promote economic stability have also worked in Panama: The economy there is booming because the U.S. dollar is the national currency and its internationally respected Panama Canal Zone authority is completely protected from political interference.

Right now the money that Honduran citizens living in the U.S. send back to their native land account for 20 percent of Honduras's GDP. It's politically impossible for U.S. lawmakers to carry out large-scale deportations of Hondurans, and previous Marshall Plan-style programs have proven to be a bust.

So maybe it's time for Congress to push through measures that encourage "institutional leap-frogging" as a long-term solution to border instability. It can't be any more unrealistic than what we're doing now.