



## Honduras Ends Its Experiment With Charter Cities

Brian Doherty

April 27, 2022

Honduras had been a pioneer in experimenting with what were called ZEDEs—"Zones for Employment and Economic Development" in English translation. But last week, in a depressingly unanimous vote, Honduras' congress reversed the enabling law and constitutional amendment that made ZEDEs possible.

The ZEDE program was beloved by those in what's known as the "charter cities" space—those who try to propagate unique set-aside spaces with different rules, ideally ones more friendly to economic growth or liberty or both. (Those in the field tend to see the two as buttressing each other.) The theory behind ZEDEs had roots in the work of Nobel-winning development economist Paul Romer, on how institutions and laws were vital to sustainable economic growth.

The ZEDE program was a long time coming, and faced many roadblocks and detours along the way. As Ian Vasquez, director of the Center for Global Liberty and Prosperity at the Cato Institute, tells *Reason*, Latin America has seen a resurgent socialist radicalism lately that has had ZEDEs in their sights.

Socialists "are fairly effective when they see something they don't like, doing every thing they can to destroy it, by any means possible," says Vasquez, including spreading false claims that ZEDEs would "destroy the livelihoods of people."

According to Guillermo Pena, a principle in an existing ZEDE called Zede Orquidea, the declining reputation of the former Honduran president most associated with pushing through the ZEDE idea, Juan Orlando Hernandez, bears a lot of the blame.

No one wants to expend political capital on defending an always controversial idea linked so closely to the disgraced ex-leader who was extradited to the U.S. last week to face drug and gun charges. The new ruling party LIBRE, and new president Xiomara Castro, were always opposed to ZEDEs; and they succeeded in turning Hernandez's National Party against the concept entirely now as well.

**Are Existing ZEDEs Dead?**

But what does that mean for ZEDES that already launched, with what they thought were airtight contractual relations with the Honduran government? Prospera was the first ZEDE to seal a deal with Honduras, and has operated since 2020 on the Honduran island of Roatan. Its CEO Erick Brimen was interviewed in *Reason's* January issue, explaining how his organization intended "to attract international entrepreneurs and investors and become a financial center for the country and region."

In a statement, initially issued the day before the cancellation of the ZEDE program, the Prospera folks were confident they could continue as they were; indeed, that they had airtight legal agreements that ensure it.

"The ZEDE framework was built to last and specifically tailored to serve as a rule of law oasis of economic freedom and legal stability in Honduras for decades to come," Prospera said, after insisting the project is protected by "a Fifty (50) year legal stability agreement" and that "in case of repeal or amendment of the ZEDE framework, Article 45 of the ZEDE Organic Law nevertheless states that the rights and privileges of ZEDE investors will stay in place for the duration of their stability agreements."

Prospera's future is further secured, the statement said, by the fact that "Honduras Próspera, Inc., the Promoter & Organizer of Prospera ZEDE, is a U.S. company with rights under the Central American Free Trade Agreement (CAFTA-DR) and the U.S.-HN Bilateral Investment Treaty, which extend to investments made in Próspera ZEDE the highest degree of legal protection in Honduras."

Prospera was not the only functioning ZEDE in Honduras; another is Ciudad Morazan. That is a 24-hectare project which describes itself as "a complete community located at the outskirts of Choloma, Honduras, the third largest city and the center of its vibrant manufacturing region."

A third is the aforementioned Zede Orquidea, which is not trying to build a city with residents. It is a 1,000-hectare zone in rural Honduras, not near a coast, operating since June 2021 and dedicated to agricultural production, processing, and sale (to the U.S. market) of mostly green peppers. Pena says this ZEDE he works with has already been harmed by the change because of one of the laws, which allowed Honduran nationals to sell to the ZEDE without the imposition of a sales tax, that was repealed last week. That change is likely to represent an unexpected million-dollar hit to his operation, Pena says.

Still, Pena hopes the ZEDE will be able to stay in business. Zede Orquidea merely went a few steps beyond the already (and still) existing Free Zones, which have trade liberalization benefits without the wider range of independence a ZEDE has. The fact his ZEDE took that approach rather than going for something more experimental and dealing with financial regulations and managing a population, Pena thinks, will make it easier for it to stay the course regardless of Honduras' new hostility to ZEDES.

Not everyone in the space is as optimistic that Honduras will honor its agreements to the existing ZEDES and worry that the very governing style that made it a country needing ZEDES might make them less secure in their rights and prerogatives than they should be. International

investors, which the existing ZEDEs need, might be made nervous by the government's current hostility to the very idea. Vasquez, for one, worries more broadly that it's all too common in Latin America for laws, agreements, and even constitutional limits to be evaded by a powerful leader, especially if he feels he has popular support.

### **How Did ZEDEs Become So Politically Vulnerable?**

Jeffrey Mason of the Charter Cities Institute this week wrote an insightful [essay at CCI's site](#) that sums up the Honduras ZEDE story so far, detailing elements of its history that made it politically vulnerable. One such aspect was that "the new [ZEDE] law was found constitutional by a new Supreme Court comprised of members appointed by the party which passed the law *and* ousted the judges that had previously voted against the law." To Mason, aspects of how the Hondurans treated the project over the years made ZEDEs seem "clearly more of an ideological exercise than a practical exercise to generate development."

As far as the fate of the existing ZEDEs, Mason acknowledges the legal protections Prospera itself detailed above, and concludes that although "these legal mechanisms exist, we don't really know what will happen next....it's possible that some kind of compromise off-ramp arrangement is reached with the government, especially since the government would almost certainly lose any cases that go to international arbitration."

"From the ZEDEs' point of view, an agreement which gives them relatively long-term legal stability to continue pursuing their project while the government takes a public victory lap for 'ending' the ZEDEs might be the best case scenario," he concludes.

"All indications so far is that the Castro administration does NOT intend to go back on her word to the USG, nor violate the existing strong legal protections," Brimen wrote to me last week. "Further, it would make no logical sense... the financial liabilities alone of violating the agreements would be staggering, and the blow to the credibility of the administration substantial."

Though Honduras may be a setting sun for the concept of free cities, [Zambia](#) is a country where some in the free cities space believe interesting steps toward their dream may happen in the near future.