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## **"I've Seen All Sorts of Horrific Things in My Time. But None as Detrimental to the Country as This." U.S. conservatives are about to run a dangerous economic experiment in Honduras**

By [Danielle Marie Mackey](#)

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It's lunchtime at Maritza Grande's oceanside restaurant in the Fonseca Gulf of Honduras. She scurries from the kitchen, where she is frying fish and plantains and chopping lettuce, to the bar, where she pries caps off soda bottles. Teenage boys sit at the restaurant's picnic tables, drinking cokes and listening to *reggaeton* on their cell phones while on their work break: They ferry tourists in thin motorboats from the Honduran mainland to their island municipality of Amapala in the Pacific Ocean.

At 11:30, Maritza's husband Raul Garcia arrives. He's on a work break, too—from his first-grade classroom at a local public school. Of the nearly 13,000 municipal residents, Raul is one of 300 who have formal employment, according to the mayor's estimate. The majority are self-employed fishermen who make 3,500 – 7,000 Lempiras (about \$167-334.00) per month. Amapala, like many Honduran communities, relies on remittances from Amapalans who leave and work abroad.

Raul slides into a barstool beside Maritza. They talk about the Honduran government's newest development plan, an idea from New York University economist Paul Romer: Charter cities. In 2013, the Honduran government passed a law based on many aspects of Romer's idea, which is to create autonomous free-trade zones that are governed by corporations, instead of the countries in which they exist. The first Special Economic Development Zones (ZEDE, for its name in Spanish) is being conceived in Honduras, financed by \$40 million from the South Korean government. It will likely be located in Amapala.

Maritza is unsure what to think about the ZEDEs. "I don't know how much this project will really benefit us," she says.

Raul shakes his head. “We need this,” he says. “Sure, it could have a dark side, but the truth is that in countries like ours—third world countries—that’s a necessary evil if we want development.”

Like Raul, many Hondurans hope the ZEDEs will bring jobs. But many fear the “dark side” will outweigh potential benefits. Even economist Romer cut his ties with the ZEDE project in 2012 when the government abruptly signed with an investor group led by American libertarian activist Michael Strong—a move Romer [called](#) “an overt act of deception.” Strong’s project later disappeared, but nine Americans remain key players in the ZEDEs—six of whom served in the administration of former President Reagan.

According to Romer’s vision, the charter city should be established in abandoned territory because it is far more complicated to change an existing town—like Amapala—than to create a new one. Doing so would imply a “frontal attack on those who depend on the current system,” former Reagan speechwriter Mark Klugman has [argued](#).

Romer isn’t the only one with doubts. Like Maritza, many wonder if charter cities will bring development to average citizens or only enrich wealthy investors. Many believe the project will allow multinationals to violate labor and environmental rights, and some argue that it’s unconstitutional and violates national sovereignty. According to the charter city law, Honduras will sell territory to investors; that territory becomes an autonomous region no longer governed by Honduran laws or police. “This is nothing more than a plan to get rid of the national debt by auctioning off the country,” ex-president Manuel Zelaya, overthrown in a 2009 coup, told me at a rally on the coup’s fifth anniversary.

In a post-coup Honduras gripped by violence, many fear the ZEDEs will become a tool for organized crime to strengthen its hold on the country. “What’s attractive to some about the ZEDE is the extreme extent to which it takes freedom,” said Eugenio Sosa, a sociologist at the country’s public university, the Autonomous National University of Honduras (UNAH). “But that’s the same part that will let in illicit groups and mafias.”

Sandra Maribel Sanchez has been a journalist in Honduras for 30 years. “I’ve seen all sorts of horrific things in my time,” she says. “But none as detrimental to the country as this.”

Octavio Sanchez is one reason charter cities came to Honduras. Harvard-educated and dimpled, Sanchez is young but powerful. As the chief of staff to ex-President Pepe Lobo, he searched for privatized solutions to national problems: impunity, poverty and violence.

When Sanchez looks at his country’s history, he sees that times of peace came in periods where it seemed possible to make a profit at home—even if that profit came by powerful multinational corporations, like the United Fruit Company. He believes that business is the surest way to peace, and a better life for his countrymen. “It’s the way to a police force that works, quality education and health care, and to overcome impunity,” Sanchez says.

Sanchez heard Romer’s argument—that cities are the best, cheapest way to offer people a good life, and therefore building new cities for the world is a smart approach to solving poverty—and

he brought it home. Its Honduran and U.S. promoters compare the ZEDEs to Hong Kong, Singapore, and the Cayman Islands.

According to the ZEDE law, the project will work like this: An investor, either international or local, builds infrastructure—a port, a mine, or a textile factory, for instance. The territory in which they invest becomes an autonomous zone from Honduras, like Hong Kong nominally is to China. The investing company must write the laws that govern the territory, establish the local government, hire a private police force, and even has the right to set the educational system and collect taxes.

For Sanchez, the money that may follow ZEDEs would be a collateral benefit to their true value: the chance to fix impunity. He believes ZEDEs override corruption by allowing foreign investors to set their own laws, essentially importing functioning legal systems. “The theme in Latin America is justice. If we’re able to create a system that works, this will become the most revolutionary process in the history of Latin America,” Sanchez says. “And if we have to bring justice from outside, we will.”

A central ZEDE government, called the Committee for the Application of Best Practices, oversees all of this. These people are responsible for deciding the bottom-line environmental, legal, and labor standards investors must follow. They also appoint one Honduran per ZEDE as on-site local administrators.

There are 21 people on the committee. Three are Honduran. U.S. members include Mark Klugman, speech writer for presidents Reagan and George H.W. Bush, and image consultant to Honduran post-coup president Lobo; Grover Norquist, founder of Americans for Tax Reform and vice president of Polaroid; Richard Rahn, vice president of the Chamber of Commerce during the Reagan administration and senior member of the Cato Institute; Loren A. Smith, federal judge and chief campaign advisor to Reagan in 1976 and 1980; Reagan’s son, Michael; and Mark Skousen, former CIA economic analyst and Forbes columnist. The list also includes a Danish banker, a Peruvian economist, and an Austrian general secretary of the Friedrich Hayek Institute.

That the ZEDE’s central government is stacked with libertarian foreigners causes skeptics to consider the plan yet another instance of neocolonial collaboration between U.S. and Central American elites—one that’s sold as “development,” but only concentrates wealth, says Roberto Ortiz, a lawyer from Tegucigalpa. He cites the United Fruit Company, which [intervened](#) in the early 1900s in Honduran politics to assure its own exorbitant profit, while the majority of Hondurans remained—and still remain—very poor. “There has been strong U.S. intervention in Honduras from the time of the *bananeras* until now,” he says. The ZEDEs “may be development, but only for a small group of Hondurans. And the majority will suffer the consequences.”

Whether the ZEDE project will be good or bad for Honduras isn’t only about whose interpretation of history is right, or whether the economic philosophy works. It’s also about the context that ZEDEs will enter: ubiquitous corruption and violence. This is a concern that even pro-ZEDE factions, like the libertarian magazine [Reason](#), cite as a reason the project may fail.

Exhibit A is the way charter cities went from idea to reality in Honduras.

Oscar Cruz is a silver-haired 64-year-old lawyer in Tegucigalpa. “The coup in 2009 unleashed the voracity of the groups with real power in this country. It gave them free reins to take over everything,” Cruz says. “They started to reform the Constitution and many laws—the ZEDE comes in this context—and they made the Constitution into a tool for them to get rich.”

In 2011, he submitted a claim of unconstitutionality to the Honduran Supreme Court on behalf of civil society groups that balked at the sweeping powers charter cities award to investors.

“We need international investment, yes,” Cruz says. “But why at the cost of our national sovereignty?”

On October 18, 2011, the constitutional chamber of the Supreme Court agreed with Cruz. Four of the five sitting justices ruled that the charter city law was a violation of sovereignty and the constitutionally established form of governance in the country.

What happened next made it clear to Cruz that powerful people in the country want the ZEDEs, badly.

The president of Congress at that time was Juan Orlando Hernandez—now president of the country. Hernandez responded to the court’s ruling by calling lawmakers together at 1:35 a.m. Within two hours, Congress unseated the four justices who ruled against the charter cities. They kept the fifth justice, who ruled in charter cities’ favor; and when Hernandez became the country's president, he nominated this judge to be the country’s attorney general.

Hernandez’s official explanation was that the four justices were unseated because days earlier they had rejected the use of polygraph tests to root out corrupt police. (In the majority opinion, the justices argued that the polygraph isn’t scientifically accurate enough, so using it would violate the constitutional rights of police officers subjected to the test.) But legal experts in the country felt that Hernandez illegally routed the law to force ZEDEs through. A former attorney general [decried](#) “the imminent dictatorship of Juan Orlando Hernandez.”

ZEDE supporters hailed Hernandez’s act as a brave, politically expedient move. In an article for the Caiman Financial Review, Klugman [called](#) Hernandez a “brilliant young politician” and described his handling of the Supreme Court as “a great testament to the legislative leadership of Mr. Hernandez.”

The congress, led by Hernandez, rewrote and re-passed the law.

One month earlier, officials in Tegucigalpa had signed a memorandum of understanding with the Korean government to begin the first ZEDE. The document, soon leaked, tasks the Honduran government with, among other things, “clearing all legal and political obstacles to the charter cities.”

On May 26, 2014, the new Supreme Court gave ZEDEs its blessing.

The island of Amapala is located in the state of Choluteca. Choluteca is rural, flatter, and warmer than the chaotic national capital of Tegucigalpa. Main street isn't divided into lanes, so cars drift lazily about the road like Labradors trotting on loose leashes. Few buildings stand taller than two stories. Cholutecans have lived there for generations; this is a place where residents give directions not by street names, but in relation to where the fish market is, or where the rubber tree used to be. They boast that their state is the only safe place left in the country.

Ricardo Espinoza sits in his sparse office off the main street. Espinoza has a Master's degree in business management, and he helps Cholutecans living on \$2 per day start small businesses with microloans. He believes in smart investment as a solution to poverty, and recognizes that his country needs more economic development. "But development is not just economic," he says. "Poverty is not only a salary that's too small. It's also the lack of basic necessities like health, education, and the social exclusion of youth. Already, 40-50 percent of our youth are leaving for the U.S. or joining gangs."

One cause for alarm, Espinoza says, is how little control the residents of Choluteca have over something that will change their lives. "Historically, Latin America has been a place for imported economic experiments. But experiments aren't exciting for the people who live here; it's different when it's your house that's being experimented with."

Saul Montufar, a fourth-generation artisanal fisherman, stands on the curb of the Choluteca highway and describes how he thinks this story will end. "Multinational companies won't have to uphold any environmental standards they don't want to. ZEDEs will destroy our livelihood," says Montufar. "They will allow investors to kidnap the state."

In June 2014, Amapala mayor Santos Alberto Cruz Guevara spent 15 days in South Korea to see charter cities first-hand. He came back cautiously optimistic. "In Korea, what I saw is a city that used to be poor but is now rich, so I feel that ZEDEs create employment opportunities," the mayor told me in June.

But even after his visit, Cruz Guevara still didn't know fundamental details about how the program would work. Who, for instance, would have authority to intervene if the private police hired by the investor harmed the Amapalans?

"I listen to my people, and they're saying to me, 'Mayor, they're going to kick us off the land! Mayor, where are we going to go, we have no where else to go!,'" Cruz Guevara said. "And I tell them, 'Calm down, nothing's happening yet, we still don't know anything.' And as the mayor, my commitment above all else is to protect the best interest of the majority of my people."

No one but the investors and the Honduran negotiators know how far into Amapala the autonomous charter city could reach. But Cruz Guevara seemed unaware that once the zone is established, he would have no authority within that land.