

# Can Honduras' ZEDE become a new "Hong Kong" or the next "Singapore"?

## **LEAP Zones**

Mark Klugmann  
Presidential Commissioner,  
ZEDE of Honduras

**Barcelona**  
**Free Market Road Show**

**April 4, 2014**

# Hong Kong 1964 (a buy or a sell?)

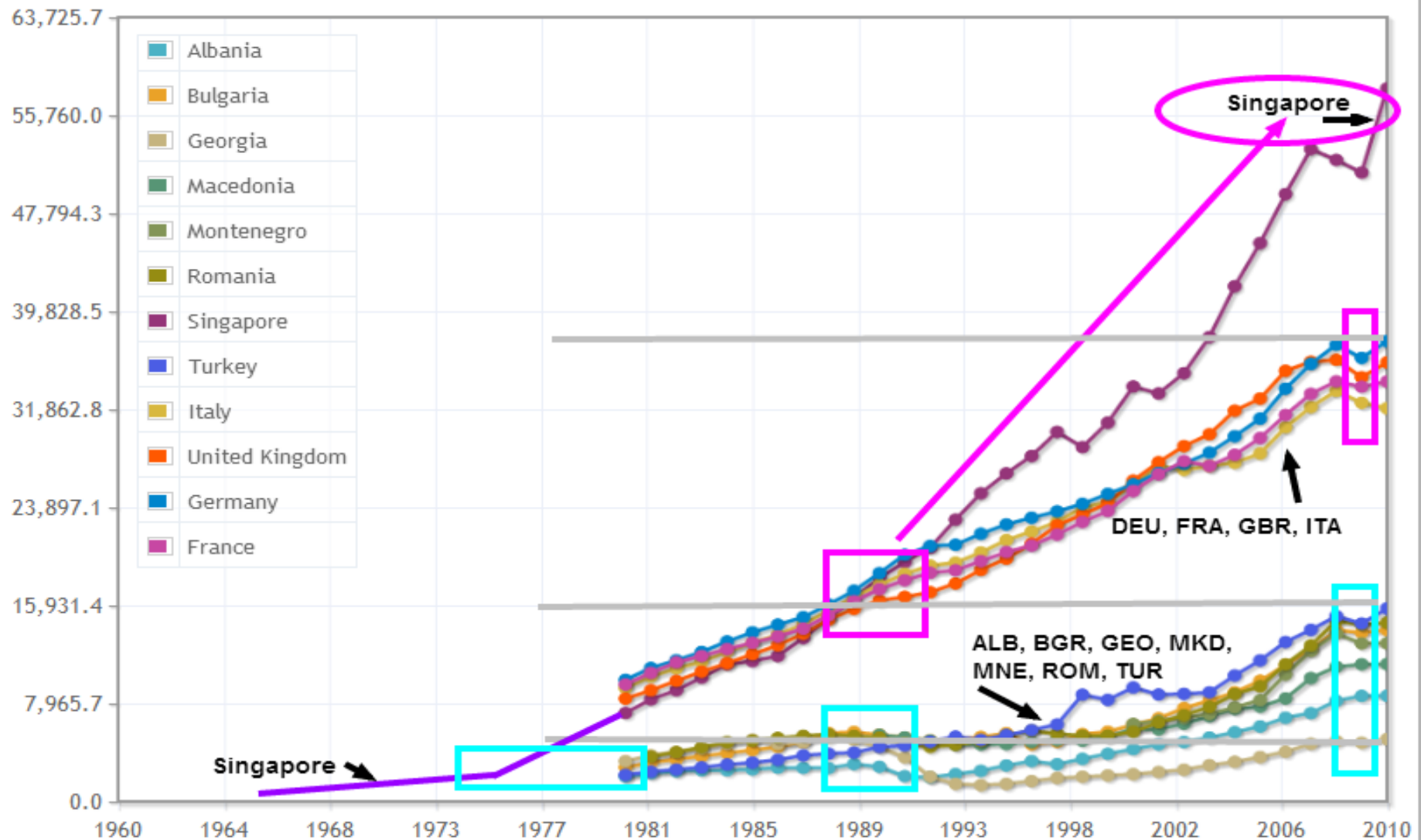
Get ready for:

- Socialism in Great Britain
- “Sick Man of Europe”
- Retreat from empire

China:

- Maoism, Marxist-Leninist insanity
- Violence. Turmoil. “Cultural Revolution!”

# Singapore: grew from \$600 to \$62,000 (per capita income)



# The “secret” of how Deng Xiaoping transformed China

Shenzhen SEZ  
just 2,050 km<sup>2</sup>  
next to Hong Kong

(1980) 30,000 pop.

(2012) 12 million pop.



Singapore  
(1965) 581 km<sup>2</sup>  
(2013) 700 km<sup>2</sup>

Paris, France  
100 km<sup>2</sup>

Hong Kong  
1,104 km<sup>2</sup>

**1% of Honduras**  
**1,120 km<sup>2</sup>**

**1% of Greece**  
**1,320 km<sup>2</sup>**





YUCATAN  
PENINSULA

**BELIZE**

*Gulf of  
Honduras*

*Caribbean Sea*

Roatán

Puerto Cortés

La Ceiba

Trujillo

Brus Laguna

**GUATEMALA**

San Pedro Sula

Olanchito

Tocoa

Paya

El Progreso

Yoro

**HONDURAS**

Puerto Lempira

*Pátuca*

Santa Rosa de Copán

Catacamas

Wampú

Nueva Ocotepeque

Comayagua

Juticalpa

Marcala

Tegucigalpa

Danlí

*Coco*

**EL SALVADOR**

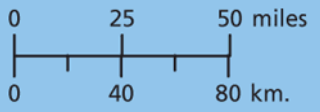
Nacaome

**NICARAGUA**

Choluteca



**PACIFIC  
OCEAN**



**RAND McNALLY**

© Rand McNally

# LEAP Zones

special Legal, Economic, Administrative, Political, jurisdictions



Stable governance. Rule of law. Clear principles.  
Transparency. Limited government. Public culture.  
Protection from populism and rent-seeking.





Executive efficiency, transparency. De-regulation.  
Pro-competition. Pro-growth. Pro-investment.  
Open access. No barriers to entry.



World-class judicial system: Courts. Judges.  
Judicial culture. Enforcement of contracts.  
Defense of property rights. Dispute resolution.



Low or zero tax. Duty free. Flexible labor rules.  
Low regulation. Profit repatriation.



# LEAP Zones

special Legal, Economic, Administrative, Political, jurisdictions



# “Institutional Leapfrogging”

Rule of Law

Judicial Independence

Transparency

Effective, Predictable Regulation

Credible Governance

Political Stability

(Best: Institutions that are *old and credible*, rather than *new and unproven*!)

Our goal:  
To achieve the complete model.





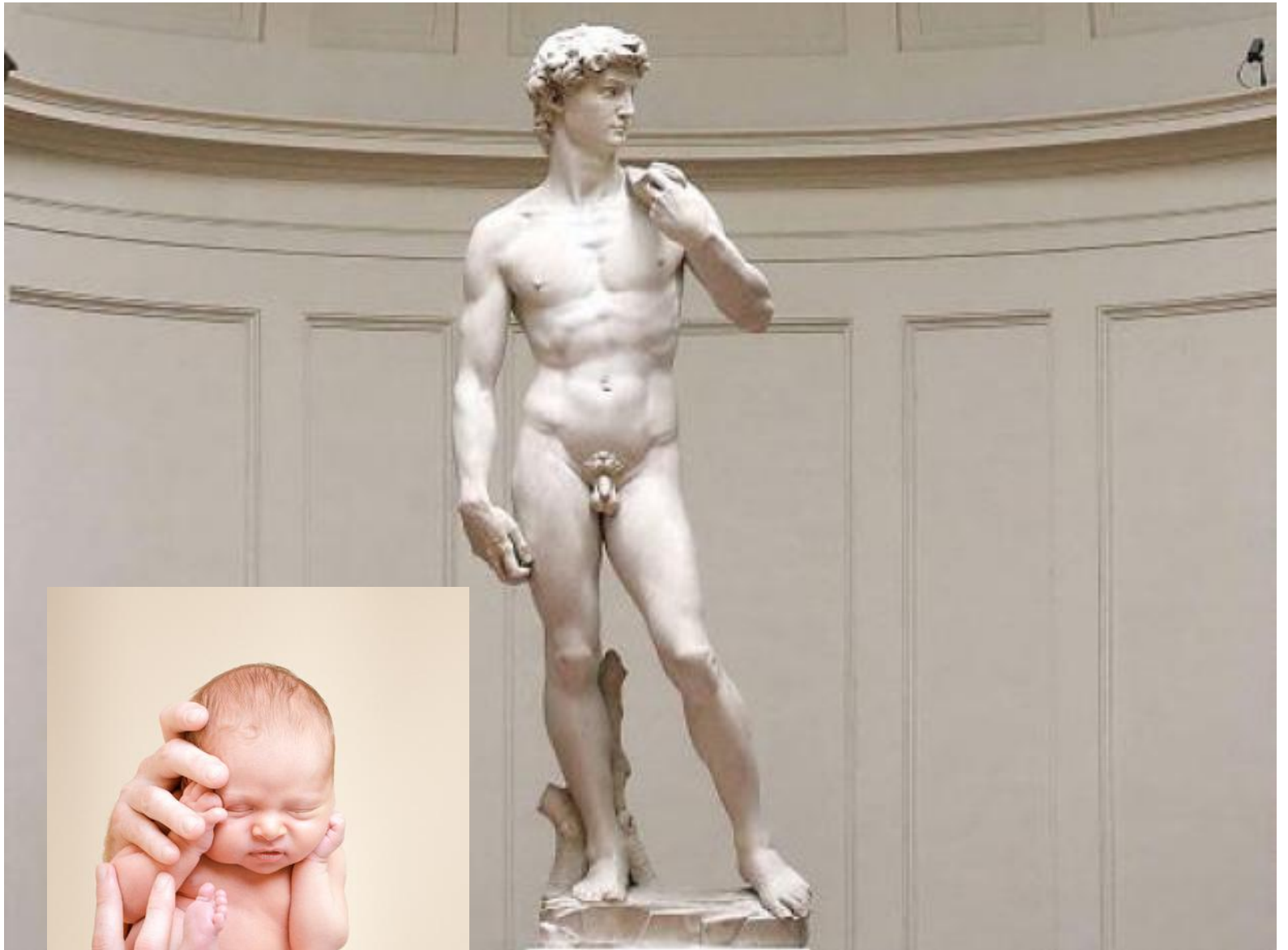
TITLE: SCULPTURE  
THEME: EAR, NOSE  
MEDIA/SOFTWARE: SCULPEY, ACRYLICS



**Tiny. Complete.**







# Thank you!

**Mark Klugmann**

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Legal limit on tax rates: 12% persons, 16% corporations. Flexible labor rules. Low regulation. Duty free. Choice of currency. 100% ownership. Investor protection.



Choice of law. Mandatory arbitration. Separate, independent courts with foreign judges using Common Law. Enforcement of contracts. Defense of property rights. Efficient dispute resolution.



Non-political administration. Customized regulation. Pro-competition. Pro-growth. Pro-investment. Open access. No barriers to entry.



International board of trustees. Investor protection does not depend on central government. Rule of law. Transparency. Limited government. CAFTA. Treaty with Kuwait.



# 21 Members of CAMP (board of trustees, maximum authority)

SALEM AL ISMAILY, OMAN

KAKHA BENDUKIDZE, GEORGIA

MORTON BLACKWELL, UNITED STATES

RICARDO CARDONA, HONDURAS

ALEJANDRO CHAFUEN,  
ARGENTINA AND UNITED STATES

LARS SEIER CHRISTENSEN,  
DENMARK

ALEX CRANBERG, UNITED STATES

EBAL DIAZ, HONDURAS

ENRIQUE GHERSI, PERU

GABRIELA VON HABSBURG,  
AUSTRIA, HUNGARY, AND  
GEORGIA

MARK KLUGMANN, UNITED STATES

BARBARA KOLM, AUSTRIA

RICARDO MADURO, HONDURAS

GROVER NORQUIST, UNITED STATES

SURSE PIERPOINT, PANAMA

RICHARD RAHN, UNITED STATES

MICHAEL REAGAN, UNITED STATES

OCTAVIO SANCHEZ, HONDURAS

MARK SKOUSEN, UNITED STATES

LOREN SMITH, UNITED STATES

FAITH WHITTLESEY, UNITED STATES

What values give birth to  
“A shining city on a hill”?





**Growth? Jobs. Investment.  
Entrepreneurship. Innovation.**

**Emigration.  
Capital Flight.  
Brain Drain.**



# CNN Headlines about Honduras

Crime!

Violence!

Poverty!

Corruption!

Drug trafficking!

Instability!

# LEAP! Begin with the entire model!

Think of *everything* that you believe is necessary, every reform that you hope to do in the next twenty years ...

That is what a LEAP Zone should *begin* with:  
Everything.

Do it all:  
Immediately. Simultaneously. Everything.

A LEAP Zone is tiny, but complete. It will grow.

# Start with a small, empty space.

- Create the platform: Rule of Law
- Create a credible framework for private investment and innovation.
- Rely on “self-selection” to define the participants.
- Do not impose change on people who do not want change.

# Honduras ZEDE

- **Legal** (Common law; arbitration; independent courts, international judges; choice of law)
- **Economic** (tax cap: 16% firms, 12% individual, 5% sales; strong property rights; low regulation; free trade, currency; investor contracts)
- **Administrative** (semi-autonomous; appointed Executive; new security force; int'l staff)
- **Political** (governance by int'l board of trustees; transparency under rule of law; insulated from national politics; durable treaty protection)

# Adam Smith:

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things.

(David defeats Goliath)





# What matters most?

The *quality* of the rule of law is what matters most.

The *size* of the land with rule of law does not matter very much.

# “Institutional Leapfrogging”

- Singapore (1965, out-sourcing)
- Hong Kong  
(UK: out-sourcing (post-1997: in-sourcing))
- Dubai IFC (in-sourcing)
- Botswana (in-sourcing)
- BVI, Cayman, Bahamas, Mauritius, Rwanda,  
etc. (out-sourcing)
- NAFTA, CAFTA (out-sourcing)

# 2003 – The LEAP experiment in Honduras with telecom sector.

- It worked!

# Two Big Mistakes

- Economic development is NOT mostly about “economics.”
- We have confused the constant (K) and the variable (v). In the orthodox approach to economic reform, we have inverted the factors of “time” and “space”.