

Comment

Charter Cities – An Idea Whose Time has Come or Should Have Gone?

Kee-Cheok Cheong*
University of Malaya

From Free Economic Zone to Charter City

With doubts cast on the effectiveness of aid in its many forms (Easterly 2006), Paul Romer's concept of charter cities sounds like a breath of fresh air. This concept is straightforward enough. It has four elements. First, because major reform or change is not easy on a nationwide scale in a developing country, any change must be undertaken on a smaller scale to have a chance of success. Second, rules matter. Within an environment that gives the beneficiaries of change freedom of choice, these rules must be transparent and incentivise, in short, 'better' than what the developing country has. Third, whoever lives under these rules, be he/she an existing resident or a new arrival, has the power of choice – to do what he/she wants to do, subject of course to these rules. Finally, the government of the developing country must also have the power of choice – to select whoever it wishes to administer the territory in which the desired changes are to be made.

How are these elements to be operationalised? Romer suggests that the best chance of success is to find uninhabited land and start a city (Romer 2010). As an entity, the city is small enough to be manageable. Uninhabited land would allow people freedom of choice. People can then move to that city and the good rules applied to them. These rules are embodied in a charter, hence the name 'charter city'. Referred to as 'urban oases of technocratic sanity' (Mallaby 2010), these cities will attract investment and jobs, desperately needed by a developing country that otherwise might have had to rely on the flow of aid. Since, for political or institutional reasons, the government of the developing country may not be able to implement these rules, it would invite a foreign (developed) country to set up and enforce the rules embodied in the charter. As the city prospers, it will not only attract more investors and residents but have powerful demonstration effects for the surrounding areas and eventually the entire country.

This picture is not unfamiliar to proponents of the many free economic zones¹ dotted around the globe. Although the primary objectives of the zones are not all the same, the ingredients of success, a zone set apart and physically delineated from its hinterland, strong institutions, good governance, and an autonomous administration are all factors that make for success (FIAS 2008: 48-51). The one major departure of charter cities from these zones is in the manner of control. Whereas these zones have at best autonomous

* Faculty of Economics and Administration, University of Malaya, 50603 Kuala Lumpur,
Email: cheongkeechek@um.edu.my

¹ This term is used generically to describe free ports, free trade zones, free cities, export processing zones, special economic zones and other similar arrangements. While each of the above has some particular characteristics, they share common features as enclaves. See Dabour (1999: 3-6).

administrations that ultimately answer to national governments, Romer's charter city envisages an extra-national administration, or even ownership of the city for a fixed period of time. This extra-nationality would ensure that any developing country government, within whose territory the city is located, cannot interfere with the operations of the city.

Hong Kong as Charter City

Is such a concept feasible, and does such a city exist? Romer's star charter city is Hong Kong, which he characterised as 'a state ruled by laws, not men, but one that leaves competition and individual initiative to decide the details' (Romer 2010). He described Hong Kong thus:

"In the 1950s and 1960s, it was the only place in China where Chinese workers could enter partnerships with foreign workers and companies. Many of the Chinese who moved to Hong Kong started in low-skill jobs, making toys or sewing shirts. But over time their wages grew along with the skills that they gained working with educated managers, and using modern technologies and working practices... The benefits demonstrated in Hong Kong became a model for reform-minded leaders in China itself."

Appealing as this example is, those familiar with Hong Kong's history will realise this is at best a gross simplification and at worse a misrepresentation of the territory's past. China ceded Hong Kong Island and its surrounding area to Britain after its defeat by the latter in two Opium Wars (1839-42 and 1856-60). Although administered by the British since then with its 'credibility of rules developed over centuries', it remained a backwater until the 1950s. It was only when the collapse of the Guomindang government and Mao Zedong assumed control over all China sent large numbers of skilled workers and entrepreneurs fleeing to Hong Kong and Taiwan that the colony's ascendancy began. Hong Kong's population growth was attributable primarily to this epic political change, and to a less extent the instability in China that preceded it; there was no rush of people into Hong Kong because of its good governance. Romer's characterisation of Hong Kong emphasised the pull factor of Hong Kong's rules but ignored the vital push factor of China's political change.

The above shows that Hong Kong's growth owed much to the fact that China was closed to the rest of the world. Hong Kong's importance stemmed from it being the only gateway to China; good governance of a *laissez faire* economy (the freedom of choice lauded by Romer) did serve as a magnet to international business, but even for international firms, the attraction was China rather than Hong Kong.

Hong Kong did play a role in the development of Shenzhen and the other three (Shantou, Xiamen and Zhuhai) special economic zones (SEZs) on the adjacent mainland, but not in the way that Romer envisaged. These zones allowed Hong Kong's entrepreneurs to reallocate production to a lower cost location at a time when costs were rising in the colony. This relocation was made much easier by the fact that the residents of both Hong Kong and its hinterland were really the same people – Cantonese – many of whom had not only cultural but familial ties one with another. These commonalities, coupled with close geographic proximity to Hong Kong, allowed Shenzhen to develop faster than the other three SEZs (Yeung *et al.* 2009: 226-232). Investors in Shenzhen were largely Chinese from, and ethnic Chinese based in, Hong Kong. Given these unique circumstances, those who

believe that Hong Kong's success is a reflection of what can be achieved through charter cities will be disappointed. There can be no more Hong Kongs that can arise in the developing world.

Romer's assertion that Hong Kong was the model for the SEZs is also unfounded. China's model was not Hong Kong but the export processing zones (EPZs) that had been established and were successful in Taiwan, Korea and Malaysia in the 1960s and early 1970s (see, for instance Ota 2003: Sit 1985: 74). These EPZs, as enclaves within countries that still had in place extensive regulatory controls, were clearly considered more appropriate models than the free-wheeling economy of Hong Kong.²

Beyond Hong Kong – How Feasible are Charter Cities?

Quite aside from the misuse of an example, how viable is the charter city concept? To the extent that many of its elements are also present in free economic zones in their various guises, they clearly work. The charter city concept, promoted by an economist of Romer's stature, helps re-emphasise the importance of these factors.

However, there is considerable uncertainty over the feasibility of the proposed extra-nationality of the city's administration; such uncertainty lying primarily outside the realm of economics. Even within that realm, a crucial assumption is that developed country governance is superior to that of a developing country. While this is generally true, the Global Financial Crisis of 2008 shows that from the largest to the smallest, developed countries in the West are not exactly the paragons of governance they are touted to be. Are charter cities any better able to defend against rent seeking and state capture than has occurred in these countries, and, when the chips are down, whose interests – those of the charter city or the home country – will dominate?

Sovereignty is a major issue for any nation developed or developing. For the developing country, even if the leadership is amenable to the idea, the citizens are unlikely to be. Madagascar's government was the first to buy into Romer's idea, but it was overthrown by a population that felt threatened by the perceived loss of sovereignty (Freschi 2010). If the city is sited in a developed country³, residents of that country would not take it any more kindly than their developing country counterparts, as is clear from fears of illegal immigrants exploited by politicians and expressed through legislation (e.g. the Arizona Immigration Law).

Beyond the sovereignty issue, problems also arise in jurisdictional relations between the city and its hinterland. The fate that befell the Suzhou Industrial Park (SIP), although not a charter city, attests to the pitfalls of implementing country-level cooperation at the local level even under the best of circumstances (Han 2008). In the Suzhou case, the local authorities built up their own facility in competition with the SIP and accorded the former preference. Seven years after it began operation, the Singapore government withdrew in 2001, ceding management to the Chinese government.

² This attitude is best understood by the statement "Politically, the special economic zones are based on assurance of China's state sovereignty and governing authority is entirely in China's hands. Economically, they are essentially based on state capitalism." (Xu 2009)

³ The example cited in Romer's website www.chartercities.org is for Indonesians to flock to a manufacturing hub in Australia. See <http://www.chartercities.org/concept>.

Other political/political economic issues revolve around interstate relations, e.g., how would problems between sovereign states over the running of the city be resolved? Specifically, how likely is Romer's vision of supporting cities and suburbs growing outside the boundaries of the charter city compared to the more likely prospect of people flooding into the city? And if the latter occurs, how effectively can these foreign administrations keep migrants out without the cooperation of the host government or its provincial/local government? As Easterly correctly noted, "International politics is a swamp." (Sheridan 2009)

Romer dismisses criticisms based on political and non economic infeasibility as economists self-censoring their ideas. "I think we'd do our jobs better if we just said what's true without trying to be amateur politicians" (Levitt and Dubner 2009). He argues that "all that holds us back is a failure of imagination."

In highlighting the key ingredients for success in developing enclaves that can provide powerful demonstration effects to the rest of the country, the charter city concept does contribute to development thinking, even if it is not the breakthrough it claims to be. However, in his dismissal of political/political economic realities, Romer unfortunately reaffirms the arrogance of mainstream economics that it can stand alone without reference to complementary disciplines that speak to political realities and other areas of human behaviour.

References

- Dabour, N.M. 2009. Free trade zones in the aftermath of the Uruguay Round: experience of selected PIC members. *Journal of Economic Cooperation* **20(4)**:1 – 33.
- Easterly, W. 2006. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good?* New York: Penguin.
- Foreign Investment Advisory Service (FIAS) 2008. Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development. Washington DC: The World Bank, April.
- Freschi, L. 2010. The lure of starting from scratch. *Aidwatch*, 17 June at <http://aidwatchers.com/2010/06/the-lure-of-starting-from-scratch/> [accessed 24 August 2010].
- Han, M.L. 2008. The China-Singapore Suzhou Industrial Park: Can the Singapore model of development be exported? Masters of Social Science Thesis, National University of Singapore.
- Kusago, T. and Z. Tzannatos 1998. Export Processing Zones: a Review in Need of an Update. Social Protection Discussion Paper No. 9802, World Bank, January.
- Levitt, S. D. and S.J. Dubner 2009. Can charter cities change the world? A Q&A with Paul Romer', Freakonomics Blog, *New York Times*, 29 September at <http://freakonomics.blogs.nytimes.com/tag/paul-romer/> [accessed 25 August 2010].
- Ota, T. 2003. The role of special economic zones in China's economic development as compared with Asian export processing zones 1979 – 1995. *Asia in Extensio*, March: 1 – 28.
- Panagariya, A. 1993. Unraveling the mysteries of China's foreign trade regime. *The World Economy* **16(1)**: 51-68.
- Romer, P. 2010. For richer, for poorer. *Prospect*. Jan 27: Issue 167.
- Sheridan, B. 2009. The best development plan in the world originated with ... the British empire? *Newsweek*, August 12, at <http://www.newsweek.com/blogs/wealth-of-nations/2009/08/12/the-best-development-plan-in-the-world-originated-with-the-british-empire.html> [accessed 24 August 2010].
- Sit, V. F.S. 1985. The special economic zones of China: a special type of export processing zone? *The Developing Economies* **23(1)**: 69 – 87.
- Xu, D.X. 1981. China's special economic zones. *Beijing Review* No. 50.