

# **Exploring Free Zones and Free Cities as an Approach to Global Poverty Alleviation**

Overview of Nov. 5<sup>th</sup>, 2007 Workshop convened by  
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## **The Problem to Be Solved:**

A significant percentage of the world's population currently resides on land ruled by governments that do not provide secure opportunities for entrepreneurs to build and grow large-scale enterprises. Such enterprises are crucial for job creation. In order to integrate the populations of those nations into the global system of ever-increasing wealth and well-being in a meaningful way, we must find a way to provide millions of people with the opportunity obtain access to employment and to legitimate entrepreneurial opportunities. The alternative is to leave such people in nations that serve as breeding grounds for civil wars, terrorism, famine, and desperate attempts to enter other nations to obtain decent employment opportunities.

For some time now, knowledgeable economists have been promoting increased economic freedom, including improved legal institutions, as a key means of bringing the virtues of entrepreneurial capitalism to the people of these nations. And yet there are abundant challenges surrounding how, exactly, one can increase a given nation's economic freedoms and, more deeply, how to improve dysfunctional legal systems, including the "legal systems" of failed states. Recent work by Douglass North suggests that even when there is some willingness on the part of some actors within a nation to liberalize the economy, many such moves will be opposed by the elites out of a concern that the entire social order may collapse into civil war.

## **The Proposed Solution:**

There is anecdotal evidence that free zones have provided a means of liberalizing the economies of:

- Taiwan
- South Korea
- China
- Mauritius
- Mexico

Without arousing the opposition of elites. Given that these are among the most successful cases of economic liberalization on the planet, it is worth looking more closely at the role of free zones in economic liberalizations.

## **The Prospective Role of Research and Scholarship**

At present, the academic development literature almost completely neglects the role of free zones in economic development. In order to better understand the prospective role of free zones in development, we need a scholarly research base that includes:

- A history of the role of free zones in economic development with detailed case studies
- Databases on investment, employment, and output on existing free zones, both current and historical
- A rigorous, formal evaluative system to rate free zones on the quality of business environments created similar to the Cato/Fraser “Index of Economic Freedom”
- Creating a template of “best practices” that encourage zones as catalysts for nation-state reform rather than zones as enclaves of privilege
- A theoretical account of how free zones can be used to move from a Northian “Limited Access Order” to an “Open Access Order”

These tools may then be used to create an improved normative account of the role of zones in economic development. This research base may then be used to inform those change agents interested in crafting zone proposals that are likely to lead to improved institutions and liberalization on a nation-wide basis in those nations most in need of improved institutions.

We encourage funding sources to devote resources to developing an expanding research base in support of these needed scholarly resources. It is noteworthy that none of the items identified is currently supported by a scholarly literature or by a practitioner’s literature in the field of economic development. We include an appendix with a much longer list of topics on which research is desired.

## **Free Cities**

The research agenda outlined above will take years to implement. In parallel with these efforts, it is worthwhile to promote the concept of “Free Cities” which go beyond traditional free zones in that they contain entire communities – lodging, entertainment, education, health care, etc. In addition, traditional free cities, such as Hong Kong and Singapore, were autonomous jurisdictions.

Contemporary notions of sovereignty, tied to the existing system of nation-states and supported by a web of international organizations and treaties, presents challenges for the creation of new, autonomous Free Cities. That said, insofar as such new jurisdictions may allow for the more rapid creation of world class business environments and large scale opportunities for job creation and wealth creation, the concept of Free Cities ought to be explored and promoted.

The “Free City” strategy should move in parallel with research on “free zones as a means of nation-state economic liberalization” because there is no guarantee that any particular nation-state will liberalize. We can expect steadily increasing global immigration flows in the coming decades as hundreds of millions of poor people escape their current political jurisdiction to move to one that provides greater opportunity. There are already significant voting blocks within every nation in the developed world working to reduce immigration into their nations.

In principal, it should be possible to create additional Free Cities around the world that provide greater opportunities for the world's poor to seek better lives for themselves. Indeed, if this model were to become widely accepted, and a competitive global industry in Free City creation and management were to be launched, in which private developers competed to create the best legal environments for business and existing nation-states ceded land and jurisdiction to such developers in exchange for revenue, it would be possible to create enough high quality Free Cities to eliminate global poverty in a relatively short time span.

## **Summary**

Many of the world's most pressing problems are caused by the fact that billions of people live in regimes in which entrepreneurial capitalism cannot yet thrive. In recent years economists have reached a consensus that the quality of the legal institutions of a given jurisdiction are critical to the successful launch of modern economy.

In order to build upon this existing knowledge base, we need a more developed knowledge base pertaining specifically to the design, development, and implementation of free zones and Free Cities. Now that we know that legal institutions are crucial, and that those free zones and Free Cities with some legal autonomy have been among the most successful engines of economic success, we need to refine our knowledge base to identify precisely which elements of successful free zones and Free Cities led to their success so that we may more reliably replicate them.

At the nation-state level there is a significant amount of knowledge regarding the legal systems needed to allow entrepreneurial capitalism to thrive and thereby create jobs and wealth. This knowledge is, at present, not being well utilized to alleviate poverty, reduce immigration pressures, and reduce those social pressures that lead to violence. By means of an improved research base on Free Zones and the promotion of the concept of Free Cities as an explicit strategy for introducing broader economic liberalizations, we hope to increase the supply of world class legal environments for business and thereby reduce global poverty and conflict.

## **Appendix: Additional studies**

The following is a partial list of the additional topics on which conference participants suggested we needed better information pertaining to free zones and Free Cities:

- The spectrum of triggers that have led to political decisions to create free zones
- Trends in land value appreciation (awakening dead capital) resulting from zone designation
- Market-sensitive systems for incentivizing public-sector support for zones, including gain-sharing of land value gains and public sector wage bonuses tied to zone success
- Current partnering trends in global zone development (Dubai in India, Singapore in China, China in Africa, Hyundai zones in North Korea)
- Ways that zones are evolving to overcome pressures from the EU, WTO, and other international and multi-lateral organizations to harmonize and standardize business incentives as opposed to their mission of promoting positive deviations in governance in defined geographical areas

- Comparative studies within nations on zone vs. non-zone growth
- Empirical estimates of diverse zone policies. For instance, what is the estimated magnitude of fast-tracked regulatory policy vs. long-term tax holidays?
- What generalizations can be made regarding privately managed zones vs. publicly managed zones?
- What are the best models for public-private zone partnerships?
- Is it possible to work with the International Labor Organization (ILO) to create a zone standard acceptable to them? Or will they be hostile to all zones?
- Is it possible to create proposals that unbundle sovereignty so that zones can be autonomous with respect to key legal variables, including rule of law?
- What are the current trends and future prospects of a competitive global zone industry? What role in such an industry is being played by governments, such as Dubai and Singapore, vs. private developers?
- What are the opportunities for using a “Build-Operate-Transfer” protocol through which private developers develop a zone then gradually transfer a portion of ownership to local governments and/or civil society organizations?
- What effects to zones have on the culture in a region? Is there evidence that successful zones effectively transmit entrepreneurial culture, high-trust culture, or other features of contemporary global business in regions where such cultural traits are very rare?
- What about industry specific legal exemptions at the nation-state level?
- What role do, or should, major equity players have in the development of a global zone industry?
- What are the best models for rallying widespread political support for zones? What are the worst disasters in terms of selling zones to the public?
- Can zones use legal systems from other nations? What about privately supplied legal systems?
- Can the Doing Business rankings be applied directly to zones? How can we encourage the World Bank to do this?
- How constraining is EU harmonization on zones?
- What is the proper role of the UN vis-\_-vis zones? IMF? World Bank? GATT? How can we encourage these organizations to support wealth-creating zone experimentation?
- Should Transparency International or other anti-corruption organizations play a role in documenting the transparency of zone operations and governance?
- Should Grameen, Oxfam, Fair Trade, or other credible global NGOs be encouraged to play a role in supporting positive zones?
- Can international private arbitration firms play a role in supplying legal services to zones in order to produce world class business climates quickly?
- What is the investors’ perspective on zones? What do they find most attractive, most credible, in zone design?
- How can a diverse global market in zones be nurtured, with multiple expert developers of infrastructure and legal environment competing on a transparent basis to land contracts for zone development?
- Is there a place for a zone-focused equivalent of the Davos Economic Forum?
- How can prizes stimulate the highest quality zone practices?
- How can philanthropy stimulate the best zone development trajectory?

- Why are not zones more widely recognized as a more effective path to economic development than is foreign aid?
- What is the state of eGovernment, especially on-line turn key business registration and licensing systems? Could a well-developed eGovernment industry support a well developed zone industry to provide some aspects of government quickly, cheaply, and scalably across diverse jurisdictions?

Our short session quickly generated these and related questions related to a better understanding of the role of zones in economic liberalization and economic development. Clearly there is unmet need. Bill Easterly stated explicitly that the neglect of zones in development economics was due to the long-standing anti-market prejudice of many development economists. The time has come to right this wrong, and create a rich literature to support the theory and practice of zones as a path to global peace and prosperity.