

# Privately Owned “Charter Cities” in Honduras: Entire Urban Areas Handed over to Corporations

From neo-liberalism to neo-colonialism

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*The Honduran National Congress is currently reviewing the law to geographically define the first four “Charter Cities” in the world, three sites along the Caribbean coast in Garifuna afro-indigenous territory, Trujillo, the Valle de Cuyamel and the Sico-Paulaya Valley, which includes Miskitu indigenous territory. One is proposed in the Gulf of Fonseca which would include the community of Sacate Grande.*

The Charter Cities initiative cedes city-sized sections of Honduras to corporations or foreign governments to govern autonomously, indefinitely. Investors can make their own laws, build their own police force, administer services and regulate their economy.

On September 4, Michael Strong, representing the MKG Group, signed a memorandum of understanding in the Honduran Congress to establish the world’s first Charter City, a contract is surrounded by confusion and secrecy. Strong provided no information about the MKG Group, which has no web site or any other readily available public information.

## MICHAEL STRONG, PARTI FRIEDMAN AND PETER THIEL MEET PAUL ROMER

In blogs and international forums over the past year, a group of free market Libertarians have made clear their intention to channel their ideological vision into the blueprint outlined by New York University economist Paul Romer.

Strong founded the Free Cities Institute [FCI] to promote charter cities, which in July 2011 co-sponsored with Guatemala’s Francisco Marroquin University [UFM] a forum in the Honduran Island of Roatan. Though the FCI web site has apparently been taken down, the UFM page on the event featured articles by Patri Friedman, grandson of Milton Friedman. Friedman and Peter Thiel, the billionaire founder of PayPal, founded the Seasteading Institute in 2008 and Michael Strong is on its Board of Directors.

The Seasteading Institute is dedicated to promoting communities in the sea, free of states. Friedman late last year resigned as the Seasteading CEO to head the Future Cities Development Corporation, dedicated to developing a Charter City in Honduras.

## SAVING THE POOR FROM THEMSELVES

Paul Romer explains that his plan is about starting over, with a clean slate with good laws. The Wall Street Journal’s diehard neoliberal Mary O’Grady noted “What advocate of free markets hasn’t, at one time or another, fantasized about running away to a desert island to start a country where economic liberty would be the law of the land?”

The problem is there are no clean slates. Honduras does not have untouched expanses of territory awaiting homesteaders to lay claim. Trujillo, the site most often mentioned for the first Charter City, has long belonged to afro-indigenous Garifuna communities and campesino farmers, and suffers from a long history of attempted usurpation, from the Republic of Poyas to the United Fruit Company.

US filibuster William Walker, after being chased out of Nicaragua, tried to take his thwarted plan to create a US slave state to Roatan, but was captured and executed in Trujillo in 1860.

Romer argues it is necessary to 'start from scratch,' in order to create economic opportunities for the impoverished people of the world. Poverty, he argues, could be ended if impoverished people, and nations, could only let go of the systems of bad laws and social mores that bind them to poverty.

Clearly wealth and poverty are about governance, who makes the rules, who they favor, who must abide by the rules and who is doesn't have to, who benefits, who doesn't.

#### UNLOCKING THE WEALTH IN LAND, ARMED ROBBERY AND MIGUEL FACUSSE

Trujillo's Garifuna and campesino communities have, over the past 20 years, been preyed upon by violence unleashed as a consequence of a set of rules inspired by one of Michael Strong's ideological cohorts, and co-author of a book promoting 'entrepreneurial capitalism,' Hernando de Soto.

In the heart of the region apparently now proposed as the future home of a Charter City, on August 27 the Garifuna community of Vallecito awaited government officials, who never came, to measure a small portion their land, to which they hold full legal title. The huge majority of their lands has been taken over by businessmen and drug traffickers, mostly, they explain, through violence and fraud. The measurement would be a first step in recovering possession of the land.

The Vallecito community was surrounded by armed bands firing off weapons through the night. A group of heavily armed paramilitaries snuck into the middle of a Garifuna drumming circle, made their presence known and left, the death threat established with clarity. The armed bands have continued to circle the community.

The scene was typical of the region since the 1992 Land Modernization Law unleashed paramilitaries against agrarian communities. The law altered the Agrarian Reform Law from the 1960s, which prohibited the resale of land acquired through the agrarian reform program. Businessmen and drug traffickers, with deep ties to the military intelligence death squads infamous for political killings in the 1980s, used armed bands and other forms of coercion to force Garifuna and campesino communities to sell their land, illegally, and used their political clout to maintain control of the land despite the illegal title transfers.

'Unlocking the wealth' held in land through the promotion of land markets was a principal of the "Washington Consensus" ideologically promulgated by Hernando de Soto. The Washington Consensus also involved shifting access to financing from the public to the private sector. The single largest benefactor in Honduras of this shift in the early 1990s was clearly African palm oil businessman Miguel Facusse, who not only used fraud and violence to gain control of land in the Aguan region that Trujillo forms part of, but used political connections to generate even more wealth through access to loans from public entities

including the WB (World Bank) and IDB (Interamerican Development Bank).

## MAKING THE RULES AND TWO MILITARY COUPS

The written and unwritten rules of Honduras have been set into place over generations by the constant use of force, both violence and other forms of coercion, by the wealthy sectors in Honduras, and by the wealthy nations and corporations of the world.

A recent example is the June 2009 military coup that set the political stage for the Constitutional Amendment that provides the framework for Charter Cities. The on-going usurpation of Garifuna lands in Vallecito is another expression.

The Charter Cities proposal was linked to a government turnover in Madagascar in 2009, this one the consequence of massive protests. Paul Romer first traveled to Madagascar in July 2008, to propose a Charter City, but the deal was left in the air. The same month, the South Korean transnational Daewoo announced it struck a deal to cultivate 1.3 million hectares of farmland for free, over 99 years. In early December 2008, Daewoo announced the deal was uncertain as a contract had not been signed. In late December 2008, Paul Romer traveled to Madagascar and met with President Marc Ravalomanana, who soon announced the intention of creating Charter Cities in Madagascar.

By the end of January 2009, citizens of Madagascar - outraged by these proposals - took to the streets, the military took control and President Ravalomanana left the county. Within a few months both proposals had been scrapped. Though not explicitly linked the Daewoo deal and Charter Cities, the timing leads to the conclusion they were related.

## CORPORATE WELFARE FOR THE CHARTER CITIES

Daewoo is a subsidiary of the South Korean transnational POSCO. Originally a steel corporation, it is today a diversified conglomerate which owns corporations involved in everything from machinery and automobile production to food and biofuel production, mining, textiles, etc. In May 2011, POSCO signed a contract with the Honduran government to carry out initial studies for infrastructure development for the Model Cities.

In March 2011, Honduran President Porfirio Lobo attended a ceremony to place the first brick in a cruise ship dock in Trujillo, there he announced that the IDB would finance studies for the construction of an airport and port for a Charter City.

The cruise ship dock is a venture of Life Vision Properties, a Canadian investment fund (with a Cayman Island shell corporation) promoted by Canada's "Porn King" Randy Jorgenson and Porfirio Lobo's brother, Ramon Lobo. The cruise ship dock and mega-tourism project associated with it are annihilating the Garifuna community of Rio Negro, which has literally been bulldozed away, and the families were resettled in a "model community" outside the neighboring Garifuna community of Cristales.

A clear violation of international law regarding indigenous territory and the obligation to gain consent for development projects carried out on indigenous land, community members who opposed displacement have been threatened, particularly Garifuna journalists with the community radio. In December 2011, families from Rio Negro presented a complaint against Randy Jorgenson in the Honduran justice system.

## DEMOCRACY AND LIBERTARIANISM INCOMPATIBLE, VOTING WITH YOUR FEET

The proximity of coups and international law violations to the Charter Cities initiative probably does not faze the Libertarian cabal promoting them. They have been clear, they have their differences with democracy, and the plans for governance of model cities reflect this.

A recurring theme in interviews with Romer is the concept of ‘voting with your feet,’ as described in a July 2010 Atlantic Magazine article. “Rather than getting a vote at the ballot box, Romer is saying, the residents of a charter city would have to vote with their feet. Their leaders would be accountable — but only to the rich voters in the country that appointed them.”

The article continues, “The real test for Romer’s attitude toward democracy is not whether it conforms to Western ideals, but whether it appeals to the poor people whom Western aid agencies claim to be serving. And on this score, the answer is clear. In fact, you could say Romer’s assertion — that voting with your feet can be a palatable alternative to casting a ballot — already has 214 million adherents, for that is the number of people who have chosen to leave their home countries and settle as migrants in places where they have no political vote.”

In other words, people’s political participation in the Model Cities would be limited to deciding whether or not they would live there, an option that Atlantic Magazine explains 214 million people have “chosen” in deciding to live without a vote outside of their home nation.

This argument, that the hundreds of millions of immigrants who do not benefit from the rights of citizenship where they live is somehow an option they freely “choose” ignores a multitude of elements of coercion, repression, war, poverty, discrimination, etcetera, involved in many such decisions.

Patri Friedman wrote, in an April 6, 2009, Cato Institute blog post, “Democracy is the current industry standard political system, but unfortunately it is ill-suited for a libertarian state.” An appropriate precedent to his grandson’s declared belief in the incompatibility of democracy and Libertarian ideals, Milton Friedman was close to Chilean dictator – and darling of free marketers – General Augusto Pinochet.

Peter Thiel wrote, just a few days later, on April 13, 2009, also in the Libertarian Cato Institute’s blog, “Most importantly, I no longer believe that freedom and democracy are compatible.” He later recanted the statement; it is, after all, an impetuous statement from one of the world’s most wealthy and powerful men.

## AN ‘INTELLIGENCE’ STATE

Billionaire Peter Thiel was a founder of PayPal and the financier that made Facebook possible, retaining 10% of its ownership. He then went on to create Palantir in 2004 with joint start-up capital from the CIA-owned technology venture capital firm In-Q-Tel.

Palantir, named for the all-seeing stone in “Lord of the Rings,” is a technology company that – according to a November 22, 2011, Businessweek article – is “tying together surveillance video outside a drugstore with credit-card transactions, cell-phone call records, e-mails, airplane travel records, and Web search information,” to generate dossiers on people of interest, and is used by the CIA, the FBI, and the Department of Homeland Security among

many other government and private sector clients.

As if the concept of the ultimate ‘big brother’ technology controlled by a man who explained that democracy is not in line with his ideals is not disturbing enough, Thiel is also on the steering committee of the Bilderberg Meetings, annual meetings which since 1954 have brought together leading businessmen, politicians, academics, and journalists from Western European nations, Canada and the US for off the record discussions about the direction of the world.

## HONDURANS CHALLENGE THE MODEL CITIES CONTRACT

As the Garifuna communities, whose territory is slotted to house the worlds’ first Charter City, vocally oppose the project, in Honduras’ capital of Tegucigalpa, there was a strong reaction. Xiomara Castro, Honduran presidential candidate for the new LIBRE party, leading the race in some polls, issued a statement: “The law imposed is inconsistent with the concept of sovereignty, independence in equal opportunities for domestic and foreign investment. Those who initiate projects under this unconstitutional ‘model cities’ scheme are risking the loss of their investment... We invite the President of the National Congress and the National Party, based on Article 5 of the Constitution which regulates the Plebiscite and Referendum, to submit the Law of “Model Cities” to a referendum and let it be the people who decide.”

Since the September 4 contract was signed by Michael Strong a series of complaints have been presented to the Supreme Court arguing the contract is unconstitutional. On September 12 lawyers presented complaints of treason against the congressional representatives who voted for the Constitutional Amendment and Statute that established the Charter Cities.

On February 15, 2011, the Constitutional Reform that established the framework for Charter Cities in Honduras, dubbed Special Development Regions [RED], was published into law, and on August 23, 2011 the statutes that further defined the creation and administration of the REDs was published.

According to Jari Dixon Herrera, Oscar Humberto Cruz and four other lawyers representing the Honduran Jurists Association, the Charter Cities laws are unconstitutional. They presented a legal challenge to that effect on October 18, 2011 arguing the amendment and statute were unconstitutional. The lawyers argue that permitting foreign investors to enjoy territorial and administrative autonomy implies a separation of a section of the national territory, and violates the sovereignty of the nation since the people of Honduras would no longer exercise authority over the area circumscribed as a RED. They also argue that the initiative violates fundamental rights of Honduran citizens recognized by the Honduran constitution and international treaties, including the right to equality, no expatriation, free circulation, the public tutelage of labor relations and the right to not be obligated to change residence.

On January 12, 2012 the Honduran Attorney General’s office gave its opinion to the Supreme Court, that the reform and statutes do violate the constitution and should be overruled.

## THE TRANSPARENCY COMMISSION

Five ‘Pro Tempore’ Transparency Commission members were charged by acting Honduran

President Porfirio Lobo with overseeing the creation of the initial Charter Cities on December 6, 2012. However, in an interview in *The Guardian*, Romer said they were not notified beforehand that the September 4 contract would be signed. Implying he was concerned about the constitutional challenge, Romer explained he and the other commissioners had backed away from the Commission. In a September 7 letter, the Commissioners told Lobo they were “relieving him of the obligation” to formalize the commission by publishing into law the December 6, 2011 presidential decree that established the Commission.

The Commission is chaired by Paul Romer, Economics Professor at NYU, and includes Harry Strachan, Nancy Birdsall, George Akerlof and Ong Boon Hwee. They said they were still fully supportive of the proposal and willing to come back to the Commission as soon as soon as “the obstacles to the full establishment of the institutional framework of the RED have been resolved.”

George Akerlof created the field of ‘identity economics’, exploring how social psychology affects economics, arguing that social norms linked to a person’s identity impact their behavior within an economy, a vision shared by Romer, which in effect presents poverty as a cultural problem. The key to prosperity is eliminating cultures or cultural norms that generate poverty.

Nancy Birdsall was an Executive Vice President of the IDB when the IDB aggressively promoted Plan Puebla Panama. She is also a former Senior Associate at the Carnegie Endowment for International Peace and currently is president of the Center for Global Development. She advocates for economic reforms within the framework of the ‘Washington Consensus’ a set of neoliberal economic policies.

Ong Boon Hwee, Brigadier General of the Singapore Army who specialized in crisis management, currently directs two different consulting firms: Beyond Horizon Consulting (BHC), which describes its activities as people development, strategic thinking and change management, and Temasek Management Services (TMS). He also owns Stratton Management Company (SMC) which manages his joint investments in a range of sectors, particularly renewable energy, and is the former CEO of Singapore Power (SP).

While Romer, Birdsall and Akerloff provide the Commission with a theoretical framework, Birdsall and Hwee undoubtedly also provide important connections to financial backers. Hwee’s inclusion in the Commission gives an important insight into the vision for the Honduras RED. He has been a top ranking military officer in Singapore, widely described as an authoritarian police state.

Harry Strachan appears to be key to on the ground implementation. Over the past two decades, he has networked Central American oligarchs, constructing financial and political alliances, pushing Central American wealth management from family centered corporations into shared investment funds, and building up networks of strategic political influence.

A partner in the Boston financial advising firm Bain & Company, Harry Strachan started Central America’s leading financial management firm, coordinating regional mergers and acquisitions. He was Rector of the leading Central American Business school INCAE. When he first moved to Costa Rica in 1992 he dedicated much of his time to promoting the Central America Free Trade Initiative [CAFTA] that unified Central America’s mega-wealthy through a platform he helped to found, the US-AID-funded Caribbean Central America Alliance (C-CAA) which coordinated forums where Strachan presented at panel discussions with former

Honduran president Ricardo Maduro. After CAFTA was ratified across Central America, in 2007 he founded the Central America Leadership Initiative, a networking platform.

#### HARRY STRACHAN -MITT ROMNEY'S SALVADORAN DEATH SQUAD CONNECTION

In 1984, it was Strachan that connected Republican Presidential candidate Mitt Romney with El Salvadoran investors at same time they financed the ARENA party with its associated death squads. According to Huffington Post, the Salvadoran group provided a significant 40% of the start-up capital for a spin-off of Bain & Company, Bain Capital, launched in 1985 by Mitt Romney. The Salvadorans have been loyal patrons of Bain capital ever since.

Romney explains that his Salvadoran customers not only facilitated his massive fortune but he also learned from them: "These friends didn't just help me; they taught me." Romney describes as friends his initial investors, including the Salaverria, Poma, de Sola and Dueñas families who "were also at the time financing, either directly or through political parties, death squads in El Salvador."

#### THE CENTRAL AMERICA MATCHMAKER - TRANSNATIONAL MERGERS, MARRIAGES, OLIGARCHS AND POLITICIANS

In 1992, Strachan moved to his birthplace, Costa Rica, where he had grown up in a Presbyterian missionary family. In Costa Rica, Strachan founded Mesoamerica Investments, which INCAE's website describes as "the leading regional mergers and acquisitions firm with strategic consulting and private equity branches," while the firm's own website emphasizes its ongoing relationship to Bain Capital and Bain & Company.

Central American wealth and political power is coordinated through family dynasties, powerful oligarch clans that control different sectors of the economy in different countries - as Strachan describes them, family businesses. The trend over the past two decade has been to diversify, moving beyond financial alliances through marriages, to the creation of regional capital investment funds and corporations jointly owned by many families.

The Poma clan, whose patriarch Ricardo Poma is described by Harry Strachan as one of his best friends, is one of Central America's wealthiest families and is an investor in Bain Capital. Both Poma and Strachan are close to former Honduran president Ricardo Maduro. Maduros' company Inversiones la Paz manages Poma's Grupo Roble and Grupo Poma's Honduran subsidiarias.

The idea for the Charter City was reportedly presented to current Honduran leader Porfirio Lobo through Xavier Arguello Carazo, private secretary to the President of Honduras during Ricardo Maduro's term. Maduro is on the Presidential Model City Advisory Committee.

#### MIGUEL FACUSSE

In the map of oligarchic fiefdoms that overlays Central America, the areas proposed as the home of the future Model City / Charter City is controlled by palm oil magnates, principally Honduran Miguel Facusse who gained control of the territory through violence and fraud, taking wealth from the State and its citizens, and using public funds from international development banks and national banks.

Though Facusse has never been associated with the Charter Cities in any public way, it is impossible to escape the fact that he has territorial control over much of the area

surrounding proposed Charter Cities. His hold on much of that territory is challenged by campesino and Garifuna communities who never accepted the transfer of their lands to his control, and the control of a set of large landholders who appear to coordinate with Facusse, sharing security forces.

While the exact location of the first Charter City is unclear, there is virtually nowhere in Honduras that land conflicts of this nature do not exist, the legacy of the Washington Consensus' land modernization. It looks as though the free marketeers and Libertarians may be starting the world's first Charter City, with authoritarian governance, facilitated by a military coup, coordinated using political sway with business partners, using public funds from the IDB for infrastructure plans, and built on land stolen from indigenous communities, small farmers and the state of Honduras.

The Model (Charter) Cities proposal is hardly a new set of transparent rules, it follows the tradition of imposing laws through networks of power controlled by wealthy nations - neo-colonialism.

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