

# CHARTER CITIES AND GOVERNANCE OF MEGA-CITIES



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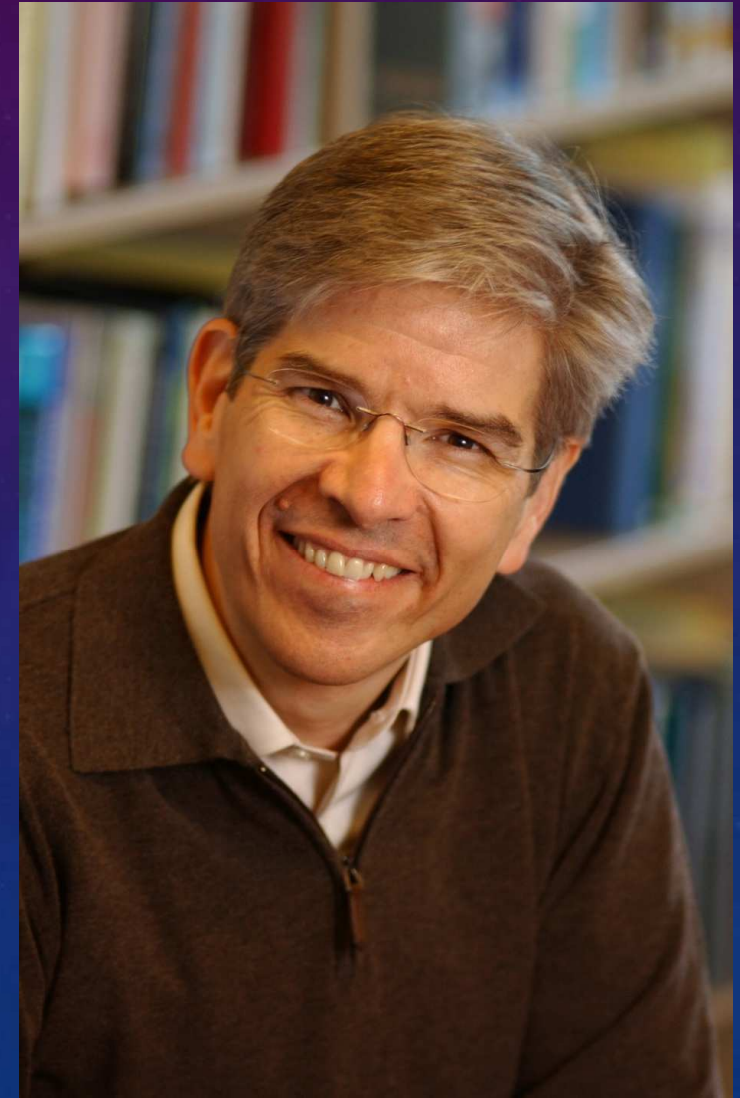
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## WHAT'S THE ISSUE?

“The key to the project (development) is a charter city, which starts out as a city-sized piece of uninhabited territory and a charter or constitution specifying the rules that will apply there.”

(Paul Romer)

- Development aid in its classic form has failed (bad institutions suck up money from donors)
- If the rules specified in new territory are good, people will come to build the city
- It's similar to an SEZ, but not quite: Attractiveness for companies not based on tax cuts, but on the reforms implemented



# WHAT ARE THE BENEFITS?

Reap the benefits  
of exchange (profit  
from large market)

Charter cities as an  
“opt – in” choice in  
comparison to  
national reforms

Current cities  
forced to  
become more  
attractive  
because of  
competition





# HOW DOES IT WORK EXACTLY?

Set aside a piece of land large enough to hold millions

Draft a charter/constitution for the city

Allocation of responsibilities of administration between existing national governments

Further custom development models and arrangements



# WHY WOULD THE CORRUPT ELITES OF POOR COUNTRIES CEDE PART OF THEIR SOVEREIGNTY?

Rules can be sticky – even in NYC

Treaty commitments can be strong – look at Hong Kong and Guantanamo

We should nevertheless voice the idea

Attract business with a credible rule of law commitment – like in China

Economists should not self – censor themselves because of political difficulties

# CRITICISM

- The Guardian criticized Romer's idea as **colonialist** because governments are essentially selling out their control rights
- Some of Romer's arguments have been put forward exactly like this by British **imperialists** of the 19th century
- Some development economists accuse him of „**blank slate**“-ism, that is an overtly naive belief in the possibilities of starting from zero when there is already an institutional environment in which the charter city has to operate



## „CASE STUDIES“: 1. MIGRATION

An Indian charter city with a governor appointed by Canada experiences unexpected success. Millions of migrants flock to the city, driving up rents. While insiders enjoy prosperity and well-paying jobs, fuelled by foreign direct investment, millions of people settle down in sprawling slums in the outskirts of the city. The government of the city wants to remove the slums to cope with issues of crime and sanitation, send police to settlements outside its jurisdiction and restrict access to the city. The Indian government protests, demanding free access to the city for all Indian nationals and no change in the status of the slums as well as no intrusion into its sphere of sovereignty. Mass protests by a strong minority faction inside and outside the city call upon the governor to resign.



## „CASE STUDIES“: 2. COMPETITION POLICY

Malaysia sponsors a charter city under French supervision which becomes a successful manufacturing hub. It's car factories quickly outcompete the Malaysian car industry and now some old companies in other places in Malaysia go out of business. The Malaysian government is outraged over the job losses and the public is stoked because the companies in the charter city greatly rely on foreign talent instead of locals. The Malaysian government starts charging protective tariffs on goods from the charter city, violating the original treaty. France escalates the rhetoric and threatens to back out of the agreement completely.