

The HBR List: Breakthrough Ideas for 2010

When the business community supports an idea, change can happen fast. HBR's annual ideas collection, compiled in cooperation with the [World Economic Forum](#), offers 10 fresh solutions we believe would make the world better. Ranging from productivity boosting to nation building, from health care to hacking, any of the ideas presented in the following pages could go far with broad-based buy-in. Which ones will you get behind?

01/2010 Harvard Business Review

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9: Creating More Hong Kongs

by Paul Romer

How charter cities can change the rules for struggling economies.

The Problem.

Knowing how hard it is to transform a change-averse organization, managers sometimes create a skunkworks, an autonomous corporate division where pioneers can build something new. A leader who starts a successful skunkworks changes the firm by showing rather than telling. Target is a good example: It began as a discount-retailing skunkworks at Dayton-Hudson and eventually remade the entire firm.

Transforming a nation is even harder, but the dramatic reforms in China show that it can be done. When China's leaders started the reform process in the late 1970s, they could leverage a special asset: Accidents of history had made Hong Kong the skunkworks for Chinese political and institutional reform. The British government had administered rules that made the city livable and allowed a market-based economy to flourish. After World War II, it was a place where millions of Chinese could seek work—sewing shirts, for example, or making toys—and begin accumulating wealth, marketable skills, and the habits and values that sustain the quality of life in a well-run city. Hong Kong's success showed Deng Xiaoping and other Chinese leaders how to bring urbanization, market incentives, and foreign direct investment to the mainland.

Wisely, China's leaders did not compel every citizen to switch to the rules of the market. They started with special economic zones that Chinese workers and foreign firms were free to enter. Encouraged by the dramatic success of these zones (showcased by Deng's famous southern tour in 1992), the Chinese government accelerated the pace of urbanization and economic reform. As a result, the quality of life has dramatically improved for an unprecedented number of people. Hong Kong was the nearby model that demonstrated the power of the market and the potential of special zones. By establishing it, Britain may inadvertently have done more to reduce world poverty than all the intentional aid programs of the past century.

The Breakthrough Idea.

Today many countries are stuck with rules that slow down inflows of technology, prevent successful urbanization, and stifle personal ambition. They need new rules that will let their citizens take full advantage of mutually beneficial exchange with millions of fellow citizens and with people and firms

from around the world. Those rules could be introduced by chartering new cities like Hong Kong.

Creating this kind of city is not unlike launching an autonomous corporate division. It starts with a piece of uninhabited land and a charter listing the rules that will prevail in the city to come. With full knowledge of that charter, people choose whether to live and work there, to invest in its infrastructure, and to build and manage its apartments, factories, call centers, and shops.

A number of countries could benefit from chartering such cities. What if Raúl Castro wanted to follow this path and do for Cuba what Deng Xiaoping did for China? Even if he established attractive rules, no one could be sure that his successors would abide by them. The political risk would be too large for Cuba to attract meaningful levels of immigration and investment.

To make his commitment to new rules credible, Castro could enter into a joint venture with another nation. Canada could be party to a new treaty in which the United States handed over its rights to Guantánamo Bay. It could take over local administration for a defined period of time and establish a charter city there. The Canadian government would reduce political risk and attract foreign investors and citizens, just as the British government did in Hong Kong.

People would come because they knew that even if Cuba suffered from periods of political instability, the new city could use its port to trade with the rest of the world—just as Hong Kong did when China was going through the [Cultural Revolution](#). Cubans who were eager to adopt the market model could move to the new city, while their more cautious fellow citizens could wait to see how things played out. The flow of goods and people between the charter city and the rest of Cuba would increase, and wages would begin to catch up with those in developed nations. The charter negotiated with Canada could structure the venture as an enormous build-operate-transfer project. As the final step in the nation's political and economic transformation, people on both sides could eventually vote to integrate the city into the Cuban political system.

The Promise.

Many nations need to change their rules. North Korea's, for example, are too strong and harmful; Somalia's are too weak, lacking even a basic legal system that provides personal security. Many countries at intermediate levels of development still need rules to prevent cronyism, preserve competition, limit congestion and pollution, support modern utilities and infrastructure, and provide real educational opportunity for all.

Groups of people always find it hard to change the rules, even when other rules would clearly be better. [Charter cities](#)—dozens of them, perhaps even hundreds—could be the skunkworks that bring systemic change to entire nations. Ultimately, they could give the billions of people who will soon move to cities the chance to experiment with, and opt into, rules that let them achieve their full potential.

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