
Rethinking the Puerto Rican Commonwealth Model through a Lens of Internationalization

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INTRODUCTION

For many, Puerto Rico's place in the world is either unknown or confusing. Its complex political relationship with the United States, Latin American culture, and symbols of nationalism—such as its independent Olympic team—make the island unique. After a decade of economic decay and brutal crime waves, a November 2012 referendum indicated that, for the first time, a majority of Puerto Ricans—fifty-four percent—expressed dissatisfaction with the island's relationship with the United States.¹ Although residents of Puerto Rico have never reached consensus about whether the island should become a state of the union, an independent nation, or

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another version of its current status, the message sent to the U.S. Congress is clear: American policy towards Puerto Rico needs to be revised and adapted to the global realities of the twenty-first century.

CURRENT FRAMEWORK

The United States has exerted control over Puerto Rico ever since the end of the Spanish-American War in 1898. In 1952—within the context of the Cold War and a global wave of decolonization—the United States and the Popular Democratic Party, led by Luis Muñoz-Marín, adopted Puerto Rico's current Commonwealth status. This allowed the creation of a local constitution, subject to veto from Congress. Despite allowing Puerto Rico to handle local governance, the United States did not intend any major substantive change in policy towards its Caribbean territory; America still held full responsibility for military, monetary, and foreign affairs. In 1950, the U.S. Congressional and Administrative Service reported that the bill establishing the Commonwealth “would not change Puerto Rico's funda-

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mental political, social and economic relationship to the United States.”²

Today, these words seem as accurate as they were 63 years ago.

In tracing the complex relationship of these two nations, it becomes clear that the “U.S. has maintained a policy of no policy towards Puerto Rico.”³ Although different presidents have shown diverse personal opinions about its status, Washington's usual stance is “let the Puerto Ricans decide.” Currently, there is no office in the federal government dedicated to

dealing with Puerto Rican issues, and the island's sole representative in Congress cannot vote. Lacking proper voice in Congress and representation in the Department of State, it seems that U.S. policy towards the island cannot be described as foreign or domestic, instead falling into a gray category of “inter-mestic.”⁴

The discontent expressed by the Puerto Rican populace towards the current political situation not only stems from sharp economic decay and severe security problems, but also from the visible absence of concrete policies by the U.S. government. Therefore, it is vital for the United States to

recognize the ambiguity of its policy framework, find creative solutions to address the concerns expressed in the plebiscite, and adapt its relationship with Puerto Rico accordingly.

WHERE DID GLOBALIZATION GO?

Although Puerto Rico's Commonwealth status became an exemplary model of rapid industrialization and democratization in the 1950s, its main shortcoming as a model for the twenty-first century can be attributed to the barriers it imposes on the territory's ability to internationalize its society and economy. In a post-Cold War era, there are clear signs that the island has not fully embraced the benefits of globalization:

- ***Economic Openness:*** Ninety percent of Puerto Rico's trade is only with the United States, because federal trade policies are made to satisfy U.S. interests and Puerto Rico is subject to U.S. customs laws. Trade barriers have prevented the island's full integration into global markets and the development of globally competitive industries. In addition, much of the private sector has relied on manufacturing and pharmaceutical industries run by U.S. companies and a tourism sector geared towards Americans. Also, the local government's strategy for economic growth has historically been focused on attracting foreign and American investment. This myopic policy has resulted in a failure to develop competitive exporting sectors.
- ***Global consumption patterns and local production patterns:*** The Puerto Rican economy has extremely high levels of imports and a vast consumer market, making it a predominantly inward-oriented economy. However, a significant portion of consumption is fueled through federal transfer payments such as social security, pensions, unemployment benefits, and food stamps. Therefore, Puerto Rican consumption patterns are an economic fantasy—they do not reflect the actual purchasing power of the people, earned from production activities.
- ***Flow of people:*** Historically, there has been low international migration into Puerto Rico because the island is subject to U.S. immigration laws. This has impeded Puerto Rican firms from attracting highly-skilled foreign labor and entrepreneurs, and has disconnected residents of the island from other cultures. At the same time, a generous federal welfare system has created disincentives for outward

migration of low-income sectors of the population, so migration in recent years has been focused on high-skill workers, causing a severe brain drain phenomenon in the Commonwealth.

- ***Representation and visibility:*** There are only thirty-eight foreign consulates on the island, and the Puerto Rican government does not have any substantive membership in international organizations. This situation has led to a lack of international awareness in the Commonwealth, and a deficiency of foreign policy discussions in academia and the press.

INTERNATIONALIZING POLICY SOLUTIONS FOR THE UNITED STATES

Beyond the question of political status, it is of vital importance for the United States to facilitate economic and social stability in Puerto Rico and to start framing creative policies to propel the island's integration into the global economy. For the purpose of promoting debate and exploring solutions, this paper will present some concrete examples of how policies could be developed in different areas that are impeding Puerto Rico's internationalization without substantially altering America's relationship with its Caribbean territory.

Economy

Currently, one of the Commonwealth's main barriers to international economic activity stems from the Jones Act of 1920. This protectionist law requires that ships constructed in the United States and owned by Americans carry all goods transported by water between U.S. ports, including Puerto Rico. High shipping costs are a burden for Puerto Rican consumers and reduce the island's options for engaging with foreign trading partners. At the same time, shipments from abroad "are all subject to the same import duty rates, regardless of whether the destination is the U.S. or Puerto Rico."⁵

Seeing the Jones Act as unfair for Puerto Rico and other American overseas territories, Senator John McCain tried to repeal the act in 2010 quoting an "International Trade Commission Study that suggested that Jones Act repeal would cut shipping costs in those markets by twenty-two percent."⁶ However, Congress did not approve McCain's proposal, possibly due to lobbying pressure. If the federal government would commit to facilitating the island's engagement with other economies in a truly free-market

environment, it should repeal or at least limit the scope of the Jones Act to make some concessions for commercial vessels entering and departing from Puerto Rico.

Additionally, the U.S. government should find ways to actively engage Puerto Rico in The North American Free Trade Agreement (NAFTA) to increase Canadian and Mexican trade with the Commonwealth. After the enactment of NAFTA, industries in Puerto Rico lost competitiveness to Mexican firms, particularly in the manufacturing sector; unemployment dramatically increased; and levels of investment decreased vis-à-vis Mexico. Lacking the capacity to engage in NAFTA discussions, Puerto Rico had to suffer the enactment of an agreement that was not made to satisfy the Commonwealth's needs. As a result, the federal government should be responsible for finding solutions to minimize this economic blow. Some possible options might be to work with the Puerto Rico Industrial Development Company to increase Puerto Rican exports to both Mexico and Canada, to support Puerto Rican commercial offices in these two countries, and to provide incentives for American firms with labor-intensive operations to do business on the island.

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Another policy that could improve Puerto Rico's economy is the establishment of legal provisions for the Commonwealth to develop an immigration system adapted to its realities. While tourism is one of the island's biggest sectors, Puerto Rico has not maximized tourism's economic potential because it can only allow visitors holding U.S. visas. Similarly, multinationals small and medium enterprises have difficulty in attracting foreign skilled labor without U.S. work permits. Leaders in Washington and San Juan could negotiate reforms in Puerto Rico's immigration system such as the creation of Puerto Rico-specific visas/permits. While such legal reforms are certainly open to debate, a reformed immigration system could potentially allow Puerto Rico to become an economic hub in the Caribbean without jeopardizing America's broader immigration and foreign policy goals.

Diplomacy

The Commonwealth is an observer member in the Caribbean Community, yet other than symbolic representation in one organization, it suffers from a lack of substantial contact with foreign governments. To fill this void, The U.S. Department of Commerce and the Department of State should promote Puerto Rican commercial delegations (whether temporary or permanent) in other countries, especially in growing economies such as China, India, and Singapore. It could even allow the operation of Puerto Rican “special interest” sections in U.S. embassies and the development of a Puerto Rican commission in the State Department. Also, it should tolerate the island’s engagement in international economic partnerships, even if limited. Currently, there is a Puerto Rican-Dominican agreement

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“regulating trade in certain tropical foodstuffs.”⁷ This could be a good starting point and an example of an international interaction that satisfies Puerto Rico’s needs without violating the 1952 Commonwealth pact.

Although Puerto Rico’s socio-economic development is lower than any other U.S. state and parallels other developing nations, the Commonwealth also lacks significant interaction with international institutions that promote and enhance development, such as the International Monetary Fund, The World Bank, and the World Trade Organization. The role of these institutions is limited to selectively publishing statistics about

Puerto Rico. As economist Barry Bosworth explained, “the U.S. blocks the World Bank overview of competitiveness index from including Puerto Rico, which would not score well.”⁸ In light of the fact that the Puerto Rican economy has faced recession for the past decade and is ranked 213 out 216⁹ in real GDP growth rate, the United States should reconsider and promote Puerto Rico’s eligibility for the aid and economic adjustment programs that benefit the rest of the developing world.

International Security

Security threats to Puerto Rico are also serious threats to the United States. Ever since the adoption of the Merida Initiative in 2008, the United States and Mexico have collaborated to combat drug trafficking, weapon smuggling, and money laundering across their borders. This joint government pressure on Mexican cartels has made Puerto Rico the U.S.’s “third border,” because Central and South American drug cartels are using the Commonwealth as a new port of entry to the American drug market.

This has stimulated the growth of an immense drug trafficking industry in the island, characterized by recent crime waves. For instance, Puerto Rico’s per capita murder rate “is six times that of the U.S.,”¹⁰ and in 2011 there were 1,136 violent murders on an island of only 3.6 million inhabitants. Lacking the ability to coordinate security operations with other countries such as Mexico or Venezuela, the government of Puerto Rico needs the unconditional support of the U.S. government to combat transnational security threats. At this point, the government has provided some reinforcement by allowing the National Guard to operate in the Commonwealth, yet there have been no concrete policy-making initiatives and no public announcements about America’s intention to work with foreign governments to address this security threat.

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Perhaps the severity of this problem is not fully understood by American policy makers and the general population. According to economist Elías Gutiérrez, Puerto Rico satisfies twelve out of the fifteen characteristics used by the United Nations Office on Drugs and Crime that define a narco-state. Based on his research, almost twenty percent of the territory’s GDP stems from drug trafficking and related industries.¹¹ The size of the drug industry has also been a threat to the local banking system, and in 2010 the U.S. Department of Treasury identified 6,613 money-laundering complaints from Puerto Rican banks.¹² The costs associated with preventing money laundering have negatively affected banks and consumers, as borrowing interest rates have been raised to cover such costs, putting even more pressure on the formal economy. Therefore, any

policy designed by the U.S. government should not only address crime and violence, but should also include economic components to prevent money laundering, coordinate objectives with banks, and create jobs to stimulate the formal economy.

Information

One of the biggest impediments to finding more creative and innovative policy solutions for reshaping the Puerto Rican model is the absence of research and dialogue in both Puerto Rican and American academic and policy circles. During the Conference on Puerto Rico and the Caribbean Basin of 2011 at The Massachusetts Institute of Technology, economists and other social scientists agreed that there is a lack of institutions in charge of “thinking out strategy.”¹³ To tackle this deficiency, the United States should first recognize that Puerto Rico’s economic and social well-being is crucial for America’s interests at home and in Latin America, and thus promote the study of Puerto Rican affairs in both domestic and foreign policy think tanks. Additionally, it could strengthen the under-funded University of Puerto Rico, which currently lacks globally competitive programs in areas such as inter-

national relations, development studies, international business, and other fields that promote global understanding.

Regardless of what status solution is pursued by the two parties, it is in the best interests of the United States to tackle the island’s problems through policies that promote internationalization.

WHY PUERTO RICO IS AN AMERICAN INTEREST

Without a doubt, Puerto Rico’s economic woes and social disorder are directly related to the island’s unresolved political relationship with the United States. Regardless of what status solution is pursued by the two parties, it is in the

best interests of the United States to tackle the island’s problems through policies that promote internationalization. Otherwise, America will suffer severe consequences such as the ones described below.

Consequences of economic failure

If Puerto Rico’s economy continues to deteriorate, levels of immigration into the U.S. mainland will drastically increase. Historically, the

Puerto Rican diaspora has settled in big cities such as New York and Chicago. However, recent waves have chosen smaller cities such as Orlando and Hartford. This trend implies that these smaller cities will need to improve their physical and social infrastructure to accommodate incoming communities of Spanish-speaking U.S. citizens who are entitled to all of the benefits provide by the state.

The island's economic woes have more profound effects on the average American. If U.S. citizens on the mainland have a 401(k) account or pension for retirement, it is possible that they have money invested in Puerto Rican bonds, which are now no longer worth much.¹⁴ Therefore, further economic deterioration will inflict pain on American bondholders. Moreover, if unemployment and poverty continue to rise in Puerto Rico, the federal government will have the responsibility to increase welfare funds for the residents of the island, which will be a burden shared by all American taxpayers. Although Puerto Ricans do not pay federal income taxes, government transfer benefits have provided twenty-five to twenty-eight percent of Puerto Ricans' incomes, about twice the percentage on the mainland.¹⁵ Any increase in this percentage will exacerbate the dependent nature of the Puerto Rican economy and hurt every American taxpayer.

Consequences of social problems

The federal government should be alarmed by the fact that a U.S. territory with American citizens has violence levels as high as Mexico. Thousands of Puerto Rican lives have been lost in recent years, and numerous mainland American tourists in the "Island of Enchantment" have also been victims of violence. Also, the fact that Puerto Rico is used as a bridge to distribute drugs into the mainland means that the drug supply in the east coast has sky-rocketed, leading to spillovers of violence in cities such as Miami and New York where Puerto Rican drug networks operate.

Violence and poverty are also political enemies of the U.S. government. As evidenced in the November 2012 plebiscite, many Puerto Ricans have lost faith in the U.S. government. This is mainly because they feel that it has neglected its social contract with Puerto Rico by allowing the economy and security situation to deteriorate so drastically. To regain this trust, the

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federal government would potentially have to invest a substantial amount in the island, but the later this is done, the heavier the burden will be on American taxpayers.

International Consequences

The U.S.'s political relationship with Puerto Rico has been a constant source of embarrassment for America in the international community. There is no question that in the Caribbean, Latin America and the United Nations itself, Puerto Rico is seen as a colony of the United States.¹⁶ For instance, the Puerto Rican case has been discussed at the UN Decolonization Committee, and this international body has reaffirmed "the inalienable right of the people of Puerto Rico to self-determination and independence."¹⁷ Latin American countries have not only brought this debate to the UN, but they have also extended invitations for Puerto Rico to attend international events such as the Summit of the Americas, leading to diplomatic frustration on the part of the United States.

To counter these accusations of colonialism, the U.S. has stated that the Puerto Rican case is a domestic issue (even though the island is not part of the union), and that Puerto Rico has fared well economically compared to its Latin neighbors. In the twenty-first century, this argument has been weakened because most economies in Latin America are growing faster than Puerto Rico's, and countries such as Chile have higher living standards than the Commonwealth. Also, Caribbean neighbors such as The Bahamas, Barbados, Bermuda, and the Dominican Republic have integrated into the global economy more successfully than Puerto Rico, and residents of the Commonwealth are aware of this reality.

In short, the international community's perception of Puerto Rico as an American colony with limited rights, a failed economy, and a haven for drug trafficking does not serve the U.S.'s interests. If this negative narrative (which is currently being disseminated by the press) keeps evolving, America's image will be severely affected in the region, and the United States could suffer pressure from the UN to immediately resolve the political status of the island.

CONCLUSION

The United States has not yet made up its mind about what its interests in Puerto Rico are, or what it is ready to permit Puerto Rico to be.¹⁸ Given the results of the November 2012 plebiscite, the U.S. Congress

must be aware of the major issue presented in this paper: that there is a historical lack of policy towards Puerto Rico and that future policy-making should include internationalization plans for the Commonwealth. This is crucial for the United States' relationship with the island and the rest of Latin America, no matter how the discussion about political status may pan out. It is only by having a globally competitive economy and a secure territory that Puerto Rico can potentially earn a seat as a member of the union, successfully continue a trajectory of joint statesmanship, or become a crucial American ally in the region as a sovereign state.^f

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