As many Caribbean economies grow and the threat of Cuban communism fades, the United States’ top challenge in the Caribbean comes from the Commonwealth of Puerto Rico. A US territory since 1898, Puerto Rico has been economically outpaced by its neighbors. Compared to Puerto Rico, 17 Caribbean nations have higher GDP growth, 16 have less unemployment and 8 have a higher income per capita — statistics that might shock most Americans.

Puerto Rico was once perceived as an exemplar for economic development in the region under the U.S. flag. What many fail to understand is that the economic success of the Commonwealth was a time bomb: it relied heavily on direct access to American markets, coupled with manufacturing and tax incentives for American companies in a post-World War II era. In the age of globalization, where many other countries have free trade agreements with the US and generous fiscal incentives, the bomb exploded and left Puerto Rico without any major competitive advantages. Lacking voting representation in Washington and political sovereignty of their own, Puerto Ricans, who are also US citizens, have been left with limited tools to clean up the mess.

While the rest of the Caribbean integrates and grows through regional agreements and increasing trade with the rest of the world, Puerto Rico sits awkwardly without permission to engage in its neighborhood. The Commonwealth’s lack of international trade participation and the failure of the US to fill this void have prevented the island from integrating into the world economy, from cooperating with its neighbors, and from developing sustainable growth. This problem should be of concern to the US, as it watches the decay of its most stable, democratic, and loyal territory in the region.

To get Puerto Rico back on track and promote its integration in the world economy, Washington needs to look either at resolving the territory’s political status or conducting immediate reforms in the Commonwealth. President Obama proposed as-
signing federal funds for a referendum to solve the island’s political status and allow it to become a state, an independent nation, or to redefine its association with the US. However, a non-binding referendum without clearly defined options and conditions is nothing but a large-scale public opinion poll.

Historically, Puerto Ricans have favored their current Commonwealth status, voting four times in the past to keep it. However, a 2012 poll showed recent disenchantment with the current model but provided no consensus as to where the Commonwealth should go. Washington could allow the Puerto Rican case to be discussed at the United Nations General Assembly by the international community, but the General Assembly would be limited to condemning the behavior of the US, asking for a solution that complies with the right to self-determination, and providing possible models for sovereignty based on other international arrangements. While UN action might seem attractive for international law purposes, pursuing this channel will likely be a long and contentious process, with no immediate effect on Puerto Rico’s economic future.

The US, with financial troubles of its own, is in no position to make Puerto Rico the 51st state of the union. With poverty levels twice as high as the poorest state of the Union, a government on the verge of bankruptcy, and a population that cannot afford federal income taxes, Puerto Rico has little hope of becoming a US state. At the same time, America does not want to lose a century-old territory that has traditionally provided lucrative markets and a military stronghold in the Caribbean. Realistically, Washington would be better off allowing immediate reforms in the Commonwealth system that would facilitate greater international participation for Puerto Rico, economic sustainability and less dependence on US markets and federal funds.

The following reforms ought to be negotiated between the federal government and leaders in Puerto Rico, and can be done so without resolving the status question:
Terminate US Merchant Marine monopoly

Currently, one of the Commonwealth’s main barriers to international economic activity stems from the Merchant Marine Act of 1920. This protectionist law requires that ships constructed in the United States and owned by Americans carry all intrastate goods transported by water between US 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 US or Puerto Rico.

Senator John McCain tried to repeal the act in 2010, arguing that its elimination would drastically cut shipping costs. However, Congress did not approve McCain’s proposal due to lobbying pressure from the shipping industry. If the federal government hopes to facilitate the island’s engagement with other economies in a truly free-market environment, it should repeal or at least limit the scope of this law to make some concessions for commercial vessels entering and departing from Puerto Rico.

Grant autonomy to Puerto Rican immigration policy

Since the 1970s, there has been low international migration to Puerto Rico because the island is subject to US immigration laws. This framework has impeded Puerto Rican firms from attracting highly skilled foreign labor, entrepreneurs, and wealthy diasporas from Latin America as was the case with Cuban exiles in the 1960s. US immigration policy also prevents the Commonwealth from competing with other Caribbean economies such as the Dominican Republic, Costa Rica and Panama, which have grown through aggressive foreign exposure and investments from outsiders. Therefore, it would be beneficial for the Commonwealth to obtain legal provisions to develop an autonomous immigration system to attract skilled foreigners and international tourists, who would only be subject to US immigration laws if they traveled to any of the 50 states.

Proof that such arrangements are possible can be seen in the Guam and Commonwealth of the Northern Mariana Islands Visa Waiver Program (GCVWP). Through the GCVWP agreement, nationals from several countries are permitted to enter these two US territories as tourists without a visa for up to 45 days, but without permission to travel onwards to the mainland United States. Recently, Guam received a visa waiver for Russian tourists, leading to a record setting 1.3 million visitors in 2012. Recognizing the GCVWP’s success, Guam plans to expand this agreement to other countries such as China in the upcoming years. Both Puerto Rico and the US economy will benefit from a Puerto Rican visa waiver program that could propel a boom in tourism and investment.

Department of State Collaboration

The development of Puerto Rico’s international affairs would require the establishment of adequate channels of consultation and coordination between federal and local authorities. The Commonwealth model was created in the 1950s to exercise creative statesmanship between Puerto Rico and the US. Nevertheless, in the realm of foreign affairs, the island lacks effective coordination with Washington’s foreign policy community. Thus, a reasonable exercise of creative statesmanship could include the creation of a division in the State Department to deal with Puerto Rican affairs, allowance of space for Puerto Rican “special interest sections” in U.S. embassies, and the promotion of Puerto Rican commercial delegations (whether temporary or permanent) in other countries. Such coordination will allow the Commonwealth to attract foreign direct investment from non-American investors, promote tourism, and expand the island’s economic network to the extent required to compete in a globalized economy.

Permit more international organization membership

“San Juan, Puerto Rico” | Jeremy Jones
Currently, the Commonwealth’s participation in international organizations is limited to associate memberships and technical, cultural and educational partnerships, with no opportunities to promote economic development. For instance, in 2013 the leadership of the Community of Latin American and Caribbean States (CELAC) was willing to accept Puerto Rico as a member to promote regional integration of the island, but the US blocked the initiative. At the same time, the US prevented Puerto Rico from becoming a full member of UNESCO as the former lost voting rights in the organization due to unpaid dues. These actions limited the Commonwealth’s government, which is looking for more international participation, but frequently get blocked by the US. The Commonwealth also lacks significant interaction with international institutions that promote and enhance development, such as the International Monetary Fund and the World Bank. In light of the current economic depression facing the island, the United States should reconsider and promote Puerto Rico’s eligibility for participating in international organizations, especially with regard to aid and economic adjustment programs that benefit the rest of the developing world.

These suggestions will raise a lot of questions and debate, but with political goodwill and economic pragmatism some versions of them could be adopted immediately. Through more international participation Puerto Rico can not only grow its economy and lessen its dependence on the US, but also become another success story in the region.

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