Industrial Policy for Puerto Rico and the Implications of Political Status

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Introduction

While the debate over Puerto Rico's political status continues, there is general consensus among policy makers that changes in local and global economic conditions demanded new integrated approaches and new tools to strengthen the economy. Across the political spectrum, policy makers, planners and others recognized that it was no longer sufficient to tinker with existing economic development programs, but that they must rethink the concept of industrial policy altogether. Puerto Rico's industrial policy today must be as dynamic as the internal and external conditions it is designed to confront. It should be geared toward a vision of a Puerto Rican economy that is integrated and competitive on the global scale, but that it is also strong and diverse at the local level and can successfully retain profits on the Island. As a foundation, it should have education and training, research, financing, and marketing strategies that sustain economic growth.

Above all, policy should support a vision of Puerto Rico in which the quality of life at home continues to improve, and a basic standard of living and equity of economic opportunity is guaranteed to all. Given the loose consensus around the need for change and the ever pervasive question of status in economic policy making in Puerto Rico.

It is the purpose of this study to 1) assess the strengths and weaknesses of the Puerto Rican economy and establish a set of industrial policy goals based on that assessment, 2) present specific policy tools designed to realize those goals, and 3) indicate the role of status in Puerto Rico's ability to design and carry out policy. As I will demonstrate, the tools available in certain areas, such as the attraction of foreign capital, are distinct under Commonwealth, Statehood or Independence. *Specifically, to the extent that trade and tax policy weigh on the success of industrial policy, status is an important factor*. In other areas, however, such as the development of local capital and the strengthening of the Island's capacity to develop new production technology, political status need not be a determinant of success. Indeed, by shifting the focus of its industrial policy from relying on the attraction of foreign capital to developing human and technological capacity, Puerto Rico makes itself less dependent on a particular status.

It is *not* our purpose to discuss the attributes of one status configuration over another, nor to answer the oft-raised question of which comes first: status or economic change? Rather, we endeavor to demonstrate ways in which Puerto Rico can improve its performance on the international stage, and the quality of life at home, and to determine how status can affect the pursuit of the policies presented.

Methodology

The methodology is consistent with the goals of presenting specific policy alternatives and determining how status matters. I first develop an analysis of the economy, based on current economic literature on Puerto Rico (multiplying exponentially due to the recent debates on the status and federal tax incentive issues). I then turn to strategies developed in Puerto Rico to respond to the needs of the industrial sector, as well as policies adopted by other small, newly industrializing countries, and by U.S. states. Interestingly, it is relatively common to affect comparison with other small nations, however attempts to draw comparisons or learn from the states has been minor. Perhaps the only exceptions are the studies of the Hawaiian economic development model.[1] Yet for reasons I will describe later, I believe that the economic challenges facing the states today merit consideration.

The use of non-Puerto Rican examples must be done with caution. That is, there are certain economic changes, such as the heightened pace of technological innovation and the new mobility of capital, that have universal effects. In these cases, examples from a range of economic entities — states, possessions, or independent nations — regarding the ways they have confronted these changes are useful. On the other hand, there are particulars of the Puerto Rican economy, such as its heavy reliance on U.S. investment and markets, which place limitations on the relevance of some models. Thus, when considering ways in which Puerto Rico might strengthen its local economy, for example, it is more instructive to look at Singapore, which has had little control over foreign investment, than at Taiwan, which has long been able to exert control in this area.[2]

The examples drawn from independent nations and from states are useful, not only in that they expand the range of options, but also because they assist in the consideration of status.

New conditions warrant new strategies

For more than four decades, the main pillar of Puerto Rico's industrial strategy has been the attraction of U.S. manufacturing investment through a combination of local incentives and federal tax exemption. That strategy is unique to Puerto Rico's current political status in that it exploits a tax benefit extended only to U.S. companies operating in U.S. possessions.

The relative importance of Section 936 on the Puerto Rican economy — specifically on job creation — is a much-discussed issue. The change in the type of company that took take advantage of Section 936, less labor-intensive and more technology and capital-intensive has resulted in fewer jobs generated. The U.S. company coming to Puerto Rico today is often high tech and high profit.

But serving as a tax-free zone for U.S. companies has not come without costs. Puerto Rico has found that other industrializing countries in Asia, Latin America and the Caribbean could offer similar if not better benefits to foreign investors, either as low-wage or low-tax locations. These developments around the world make the arrangement between Puerto Rico and the United States less competitive.

Moreover, it is widely agreed that continued dependence on the U.S. Congress to sustain Puerto Rico's principal means of attracting foreign investment makes for excessive uncertainty. Indeed, the profitability of the typical U.S.-owned firm in Puerto Rico has landed Section 936 on Congress' chopping block several times during the last decade and a half, and most recently in 1996.[3]

The recent reduction in Section 936 benefits indicates that this policy tool could easily be altered or completely eliminated in the near future with or without a change in status. Thus long-term alternatives and emphasis on the local economy are in order.

Changes on the international stage

Dramatic changes in production worldwide have had a significant impact on Puerto Rico. Advances in technology and communications allow multinational companies to transmit data, capital, production plans and orders immediately from one location to another. The new freedom of capital has heightened the competition for foreign investment and for markets. Multinational corporations are able to break up production, and take advantage of world labor markets to generate the highest return.

For Puerto Rico, this trend has led to greater dependency on Section 936, as evidenced by the pharmaceutical companies, which have chosen Puerto Rico for its tax scheme as a place to carry out their production operations. With the future of Section 936 uncertain, many of these companies have threatened to leave the Island in search of another tax haven. Competition has arisen from other small and medium-sized countries such as Singapore, Taiwan and South Korea, that have industrialized rapidly by focusing on exports and offering low labor costs and tax benefits to investors.

The decline of the U.S. role in the international economy is also affecting Puerto Rico. With the economic rise of Japan and its Asian neighbors, and the European Community, the United States no longer enjoys the world economic dominance it once did. This, in turn, affects Puerto Rico because of its dependence on the U.S. economy.

The expansion of "free trade" through such treaties as the General Agreement on Tariffs and Trade (GATT), the Caribbean Basin Initiative (CBI), and the North American Free Trade Agreement (NAFTA), has driven down the value of the privileged status Puerto Rico has in terms of access to U.S. trade markets. Predictions of the impact of NAFTA embody the global changes facing Puerto Rico. NAFTA will give Mexico free access to U.S. markets, serve as a new domestic market for the United States, and provide new access to natural resources and low-cost labor — all areas in which Puerto Rico has at one time or another relied on to sustain U.S. investment.

Production itself is changing. Today, knowledge and technology are expanding. Short-run, "flexible" production is replacing mass production, with industries attempting to achieve "economies of scope," rather than "economies of scale." According to Lockwood, the countries that will have an advantage in the world of flexible production will be those that save and reinvest in their businesses; adopt and generate new technology; have strong networks of internal marketing and export; can easily adjust their product lines to market changes; have superior communications and cooperation among management, engineers and marketing; and those that have the support of the state to achieve these goals (Lockwood, 1990).

This list runs contrary to a Puerto Rico heavily dependent on U.S. investment in mass production, attracted by tax breaks. Companies operating in Puerto Rico under Section 936, like U.S. companies in general, are under great pressure to yield short-term, high profits, rather than make long-term investments in technology, training and the development of markets. Further, production is dispersed around the world in such a way as to discourage close cooperation among engineers, production line workers and marketers, and hinder rapid response to changes in demand.

The pace of technological change in the international economy also places new demands on Puerto Rico. With the time between the research stage and commercial application of new products and production technologies dramatically reduced, Puerto Rico must play a more active role in adapting, developing and applying technology in order to remain competitive. Not only do industries new to Puerto Rico need to have state-of-the-art production methods, but existing ones, too, must modernize and be able to keep abreast of rapid changes in product demand. Entrepreneurial training, technical assistance to some businesses, capital and support from research institutions are all in order (Osborne, 1990).

Perhaps the most important implication of this new scenario is that the skill and knowledge base of Puerto Rico's human resources will be a key determinant in the Island's economic future. New developments such as NAFTA and changes in production and in the distribution of labor make acute the need to ensure a place for Puerto Rico in the high skill, high wage economy.

Adaptation to new short-run production strategies may indeed be an order a small-scale economy such as Puerto Rico can fill, but only with a commitment to investment in technology and training, and support from government, financial and educational institutions. "Flexibility" from the labor force requires basic skills on which to base the acquisition of changing specific skills, as well as guarantees that technological transition will not result in displacement. It requires ongoing worker training, and public and private support for employment security. The demand for modern production technologies also requires strong government leadership.

Taking a comprehensive approach to industrial policy

Puerto Rico is not alone in feeling the effects of globalization and the pressure to develop and redirect policy. The changes in the global economy described here have affected state and national economies alike. In addition to contending with a decreased federal role in economic development, states have found that competition for jobs and economic growth lies not only across the state line but also on the other side of the globe.

Like Puerto Rico, U.S. states and developing countries have come to reconsider the use of tax breaks as the backbone of an economic development strategy. Literature on economic development in the United States indicates that as states have become more active in the field of economic development, they have adopted strategies that rely less on industrial recruitment through tax breaks, and more on strengthening their own entrepreneurial climate and existing industry. This is not to say that states are no longer offering tax incentives to business. On the contrary, the Council of State Governments reports that the number of states offering incentives has increased in recent years, and it is the majority of states that do provide tax and financial incentives as a way to compete with other states for industry. Yet such a trend does not bode well for the long-term effectiveness of this strategy: the more tax breaks, the less attractive and effective is each on its own (Walker, 1989).

While past studies have shown that incentives have no positive statistical impact on job creation, states use them because they are important in business ranking of locations. The federal government, as well, has long pondered the idea of creating "enterprise zones" in order to attract investment to impoverished urban areas. Business that agreed to locate in desiquated zones would be granted special tax reductions and relief from regulations. Legislation to create enterprise zones still being considered in Washington. (Leviatan and Miller, 1992). Notably, the enterprise zone concept has been raised by proponents of Puerto Rican statehood as a means for the new state to attract investment.

At the international level as well, nations in the process of industrialization rely heavily on tax-reducing arrangements to attract and maintain industry. Tax-sparing agreements and "tax holidays" encourage both foreign and domestic investment in selected countries (Negrón Rivera, 1993).

Yet to an ever-greater degree, incentives today are used as part of a comprehensive economic strategy, not alone. State level experience with tax-related incentives to attract direct foreign investment show that policies to improve the job skills of residents, infrastructure and business services, and to reduce crime were equally if not more important to business attraction and to the promotion of economic growth in a given location (Leviatan and Miller, 1992). As a result, while tax incentives continue to be the most commonly used type of inducement offered to investors, the fastest growth in state incentive programs is in the non-tax incentives. Economic development goals have expanded from traditional industrial recruitment to include business creation, expansion and retention. Studies indicate that most job growth results not from industry relocation, but from the expansion of existing firms or the creation of new firms (Walker, 1989). In the case of Puerto Rico, Section 936 has been very effective in importing foreign capital and in promoting high tech industries, but it has not proven effective in promoting local linkages or a diversified economy.

Like states and nations around the world facing the highly competitive global economy, Puerto Rico must consider which tax policies are the most appropriate for its needs, and employ them as just one component of a broad based strategy. Equally if not more important than a favorable tax climate is a coherent plan for developing an intellectual infrastructure; a skilled, educated workforce; an entrepreneurial climate; a market for new products and processes; and sufficient and targeted amounts of capital. Each component will help Puerto Rico to successfully negotiate changing economic conditions[4.]

In his book on the surge in economic development activity among states, *Laboratories of Democracy*, David Osborne outlines the new structural foundation upon which states are building their economies. Rather than assist one industry or another, or simply lure investment, the goal of industrial policy should be to improve the competitiveness of a given economy by targeting economic processes. That is, it should intervene in ways that support capital formation, new business formation and expansion, technological innovation and the commercialization of research, and the adoption of new manufacturing technologies.

As Osborne and others point out, the lessons lie not in the multitudes of new programs, government departments, etc., but in gaining a sound understanding of the strengths and weaknesses of a particular economy, the global economic forces affecting it, the critical points of intervention and new institutional arrangements available.

The development of a sound foundation for economic development through industrial policy as we are conceiving it here is difficult. Transformation of the education system, for example, requires careful analysis of existing
In the case of Puerto Rico, such comprehensive planning is invaluable not only in strict economic terms, but also in that it moves economic development in Puerto Rico to a position less dependent on status. Unlike tax benefit packages, which are consistent with particular status configurations, measures to improve Puerto Rico's human resource base, for example, can be taken under Commonwealth, Statehood or Independence. Ultimately, this would allow Puerto Ricans to make a sound decision on status without fear of negative economic consequences.

Puerto Rico, like its counterparts in the States and around the world, has begun to adopt changes in economic strategy toward these goals. The following sections of this study describe these changes and point out where greater emphasis should be placed.

Assessment: Strengths of the Puerto Rican Economy. Implications of Status

Puerto Rico is position as a U.S. possession has played an important role in shaping its industrial economy. Many of the features of the Commonwealth relationship with the United States have had both positive and negative repercussions. The tax benefits offered U.S. corporations to locate in Puerto Rico, for example, have heightened investment and the pace of industrialization dramatically, but stunted the development of a local entrepreneurial class and local investment. Much of the profit generated by U.S. subsidiaries are not reinvested locally, but is repatriated to the home company. Likewise, free access to U.S. markets and U.S. goods have permitted economic growth, yet Puerto Rico is vulnerable to shifts in the U.S. economy and exercises limited or no control over imports, the levying of tariffs and the negotiation of foreign trade agreements.

services and gaps, and garnering support from teachers, parents, labor and private industry. Results may not be evident for a decade or more. Yet such strategies are far less sensitive to external changes and lay the groundwork for economic progress for decades to come.

If its position as a U.S. Commonwealth has made for certain idiosyncrasies in its economy, Puerto Rico has also developed a unique set of strengths upon which to forge industrial policy. The rapid pace of industrialization — much of it externally driven — has made for a skilled, educated labor force, with a high level of bi-lingualism. Average education level is 12.5 years, and the percentage of the population with university and technical training is high. While Puerto Rico is no longer internationally competitive as a low-wage location, the technological and managerial skills of the labor force hold great potential, especially given the rapid rate of change in technology and production processes.

The attractiveness of tax incentives offered by the federal and local governments have also resulted in a high concentration of high-tech and pharmaceutical industries. In 1988, some 28 percent of the 2,100 manufacturing operations on the Island were directly involved in the production of high-tech goods including scientific and professional instruments, electrical and non-electrical machinery and pharmaceuticals. In 1991, these three industries accounted for 57 percent of the Island's gross domestic product.

The Island's physical infrastructure and well-developed communications systems put it ahead of many other industrializing countries, especially in the Caribbean. In telecommunications, Puerto Rico's sophistication is an attraction for both manufacturing and service, particularly finance industries.

Puerto Rico's location, once coveted by foreign powers for its strategic military importance, continues to be an asset today. Together with its dual languages, the Island's position between North and South American and the Caribbean makes it apt for commerce transactions among its neighbors.

Integration of the Economy, Diversification of Industrial Structure

In 1989, policy advisors to the Puerto Rican government noted the troubling lack of integration throughout the economy. As part of their report they stressed the need to diversify industrial structure (Consejo Asesor Económico del Gobernador, 1989). The call for change in strategy is long overdue. The issue of diversification is severalfold. Not only must Puerto Rico place greater emphasis on the non-manufacturing sectors and the linkages between them, but it must diversify production, ownership and markets within the manufacturing sector itself, as well as the actual phases of production that take place locally. The strategies that follow are based on a careful mix of internal and external measures geared toward strengthening the local economy. Some involve direct assistance to local entrepreneurs and businesses, others involve negotiating new terms with foreign-owned businesses, and still others require changes in Puerto Rico's trade policy. Accordingly, some steps can be taken under any political status, while others are dependent on a particular status.

A. Diversify sectors

Investment, productivity and employment should all be increased in the non- manufacturing sectors. Agriculture, tourism, and the service sector are all promising areas for Puerto Rico and demand attention — not at the expense of manufacturing, but rather to complement it. Increased investment in modern agriculture, for example, would allow Puerto Rico not only to expand its share of the internal market for agricultural goods, and add high-end tropical plants and fruits to its exports, but would also serve food-manufacturing industries. Much of Puerto Rico's agricultural land is currently underutilized, and productivity is below its potential. Business services, too, such as export and marketing companies, can meet the needs of stepped up production of Puerto Rican manufactured and agricultural goods.

The tourism industry provides a useful example of the interdependency of the different sectors of the economy, and how strengthening one will, in turn, fortify another. Services themselves can play a greater role in the economy, particularly if Puerto Rico can fully exploit the opportunity to be a trade service center for the Americas and the Caribbean.

Under any status, Puerto Rico cannot escape changes in manufacturing technology that have already begun to diminish the ratio of labor to capital. The need for increased emphasis on non-manufacturing sectors holds regardless of the future of the status issue, and indeed has been emphasized in the economic reform platforms of the political parties supporting all three status options . Resources dedicated to other productive sectors such as services, agriculture and tourism will be well-spent in that increased productivity in each will have spill-over effects into other sectors. The longterm effect of generating output and employment in non-manufacturing sectors, especially in the local sector, will also help to reduce dependency on Section 936.

It is important to point out that status presents a trade-off between the potential for increased federal agriculture support under Statehood, versus a greates ability to perfect local goods under independence.

B. Diversify Manufacturing

If Puerto Rico can learn anything from the economic development experience of other nations and states, it is the imperative for flexibility and evolution of policy itself. James Dietz, author of several works on Puerto Rico, Latin America and East Asia, argues that a successful "developmentalist state" must be able to recognize "strategy switch points." The key is not making the right decision between exports or import substitution, as many have argued, but rather understanding the limits of each and being able to employ both in a durable development strategy.

Given the present conditions of Puerto Rico's manufacturing sector — a strong set of foreign-owned, largely high-tech industries that export, along with another set of locally owned, low-tech industries serving mainly the local market — dynamic policy should move Puerto Rico toward greater internal integration. Policy can be designed to strengthen the local economy in four ways: 1) promote linkages between the foreign and local sectors, 2) maintain a balance between capital and labor-intensive industries, 3) substitute imports with locally produced goods, especially intermediate ones, in conjunction with a strong export sector, and 4) increase exports by local producers.

Strategies to diversify manufacturing are in part dependent on political status due to the importance of trade policy. Import substitution, in particular, would be best supported by tariffs, central over import licences, etc. These tools would be available under Interdependence and to some extent under an enhanced Commonwealth since Congress agreed to grant Puerto Rico greater be way in informing duties on certain goods. Trade policy of states, however, is reserved for the federal government.

The other three diversification measures discussed may be carried out relatively free of status considerations. Under any status, Puerto Rico's economic development agency could promote industries with linkages to foreign-owned businesses, negotiate for increased local purchases by multinationals through subsidies, incentives or decree. It can also exercise greater selectivity in its business promotions in order to achieve a healthier balance between capital and labor-intensive industries, and assist local exporters.

C. Diversify phases of production

A third area of concern regarding the diversification and integration of the economy is that of the phases of production carried out locally. Since the majority of the manufacturing industries in Puerto Rico are U.S.-owned and largely attracted by tax incentives, they are effectively encouraged to carry out those phases most profitable under the tax benefits on the Island. Other phases of production are carried out — with no actual reportable gain and often deductible from taxable income anyway — on the mainland (Negrón Rivera 1991). Backward and forward linkages with the rest of the economy are often stronger in the United States than in the local economy.

The resulting lack of integration suggests the need for a policy designed to encourage businesses to add financing, research and development, and marketing to the production operations they carry out in Puerto Rico. This is another mean to fortify the local economy by strengthening both forward linkages (from the product back to the raw materials) and backward linkages (from the product to the consumer). The demand for raw materials, business services and labor should also increase.

The Governor's Council of Economic Advisors recommended that based on the success of Section 936 and the Industrial Incentives Law in drawing production operations to the Island, Section 936 companies should now be structured to encourage the establishment of all phases of operations in Puerto Rico (Consejo Asesor Económico del Gobernador, 1989). This recommendation is a good one, although it is not specific to Commonwealth status nor to the continued existence of Section 936. Puerto Rico could encourage a diversification of phases of production through local tax incentives, low cost financing and technical assistance, and subsidies returned to businesses in exchange for high local taxes.

What role will status play in future industrial policy?

Puerto Rico faces a new global context, in which capital is highly mobile, where the tools of technology and knowledge exhibit greater durability than low production costs in the struggle to remain competitive. Recognizing the limitations of prior economic development efforts that relied almost entirely on the attraction of U.S. investment through tax breaks, Puerto Rican officials have begun to develop new programs to confront these conditions.

Adoption of such programs comes with an evolving consciousness that industrial policy today must reach far beyond traditional goals in order to promote growth and generate employment. Industrial policy should continue to include strategies to attract foreign investment, but it should also include strategies to strengthen the local sector and integrate it with the external one. Policy should target the very processes by which Puerto Rico participates in the international economy, through the creation of new businesses, technological innovation and adaptation, and the commercialization of research. These process are facilitated by policies that train entrepreneurs and the labor force at large, that stimulate cooperation among academia and industry, and that provide non-traditional sources of capital. Broad and comprehensive industrial policy of this nature is slow and difficult, but it is aimed at a strong domestic economy rooted in its own strengths in technological, human and infrastructure capacity.

As we seek to understand the role of Puerto Rico's political status in this context, what becomes apparent is that many of the tools of industrial policy are status-neutral. They do not require a change in Puerto Rico's current status, and would continue to be available given a change from Commonwealth to either Statehood or independence. Significantly, the adoption of human resource, technology, marketing and sectoral diversification strategies will alleviate dependency on Section 936 to drive economic development, and mitigate the relative weight of status in economic considerations.

The diminishing ratio of labor to capital in manufacturing, demands that Puerto Rico concentrate on non-manufacturing sectors to provide employment. Manufacturing has certainly been the principal emphasis of Puerto Rico's industrialization program, through the use of Section 936, unique to the Commonwealth status. For the future, however, an integrated strategy that supports manufacturing, services, agriculture and tourism will increase local linkages, and reduce Puerto Rico's dependency on external manufacturing investment. Even in the presence of Section 936, a diversified local economy is in order. Puerto Rico's potential as a business service center for the region is just one of the ways Puerto Rico can develop in non-manufacturing areas. Its own success up to this point, as well as the examples of Miami and even Singapore testify to the flexibility of this strategy vis-à-vis status.

Likewise under any status, Puerto Rico can promote industries with linkages to foreign-owned businesses and negotiate for increased local purchases by multinationals through subsidies, incentives or decree. This process of inducing linkages will be facilitated through the promotion of local businesses that can provide

Since the mid-80's, Puerto Rico has appropriately implemented programs to assist local businesses; consortia to spur the development, adaptation and implementation of technology; and legislation to pave the way for new risk capital funds. Without doubt, these are steps in the right direction, and should be integrated into a comprehensive strategy such as the one described in this study.

inputs or services to larger, foreign-owned businesses such as pharmaceuticals or producers of scientific instruments. It can also exercise greater selectivity in its business promotions – Section 936 or non 936 — in order to achieve a healthier balance among capital and labor-intensive industries. With the assistance in financing and technological needs, small and medium sized local producers can meet the demands of new flexible production methods.

Assistance to local exporters can also be carried out almost entirely free of status considerations. The government can provide information, technical assistance and financing to potential and current local exporters, with an eye toward capturing specific markets in the United States and abroad.

Policies to enhance Puerto Rico's human resource base are relatively free of status constraints. Greater emphasis on enhancing its intellectual infrastructure and human resources is required of Puerto Rico in today's global context. In the long run, neither tax policies nor status alone will serve to maintain competitiveness. They will take a back seat to new strategies including changes in education, far-reaching technology policy and cooperation among universities, government and the private sector. The examples provided by even the poorest of states and developing countries demonstrate the non-constraining nature of status in these areas.

Two principal elements of industrial policy are dependent on political status. Tax policies designed to attract investment would be distinct under Commonwealth, Independence and Statehood. Trade policies, which would support other strategies such as import substitution, assistance to local exporters, and marketing, are also status dependent. A policy of import substitution, carefully designed to focus on intermediate goods, will help encourage foreign-owned entities to buy locally. Tariffs and import controls can also protect Puerto Rican goods in the local market. In addition, while the opening of new markets abroad can be done under any status, Puerto Rico's ability to oversee formal trade agreements would support these efforts. An Independent Puerto Rico would have the freedom to negotiate its own trade policy. Under "enhanced Commonwealth" Congress would likely grant Puerto Rico greater leeway in imposing duties on certain goods. Trade policy is not within the purview of states.

These changes in the relative importance of status thus certainly do not eliminate it as a factors in Puerto Rico's economic future. Rather, they provide policy makers a degree of freedom from the constaints of status, and allow the public to make a decision on the status question without fear of economic down.

Notes

1. The relevance and the appeal of the Hawaiian statehood case for Puerto Rico have been argued from both sides. For the affirmative case, see Michael McKee, "The economic consequences of Puerto Rican Statehood," Quick Finan & Associates, Washington, D.C., June, 1990, pp. 79-83; for an argument as to why the Hawaii statehood/economic model is not relevant or attractive vis-a-vis Puerto Rico, see Jose I. Alameda Lozada, "Estadidad y progreso economico en Hawaii," Dialago, October, 1989, pp. 12-13.

2. William Lockwood Benet groups Puerto Rico with Singapore and Ireland, and Taiwan with South Korea in his characterization of externally dependent economies and how well prepared they are to confront a new global context. "Los modelos exitosos de economias dependientes en mercados externos y su aplicación a Puerto Rico: Irlanda, Corea del Sur, Singapur, y Taiwan," Puerto Rico en los 1990, Centro de Investigaciones Sociales, Río Piedras, PR, 1987, pp. 122-125.

3. During the budget crunch of 1982 and again prior to passage of the Tax Reform Act of 1986, Puerto Rico was brought to the bargaining table over Section 936. On the first occasion, Puerto Rico used its support for the Caribbean Basin Initiative as a bargaining chip. In 1986, Puerto Rico again saved 936 by agreeing to make 936 deposits for a CBI loan fund. (Martin 1989-90). In 1996, (just prior to final publishing of this book) Section 936 was completely eliminated by Congress.

4. Negrón Rivera (1993) proposes that Puerto Rico require U.S. companies to pay high local taxes and then receive a foreign tax credit from the U.S. Treasury under the U.S. foreign tax credit. In turn, the Puerto Rican government could return these funds in the form of subsidies, some of which could be designed to encourage R & D or marketing.

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