



REMARKS OF

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SECRETARY OF STATE OF PUERTO RICO

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CONRAD SAN JUAN CONDADO PLAZA

I would like to thank architect Pablo Figueroa, Chairman of the Board of the Puerto Rico Chamber of Commerce, and Rosana Roig, Chairperson of the *E-4 Summit of the Americas 2012*, for the privilege of addressing you today.

Time passes so quickly... It seems as if was only last month that I was invited to speak before the *E-3 Summit of the Americas* that Pablo Figueroa chaired last year.

Most of all, I would like to express my deep appreciation to everyone who has made this *E-4 Summit of the Americas* possible —organizers, sponsors, speakers, moderators, and panelists— for contributing to a greater understanding of how Puerto Rico can continue improving its competitiveness in the global economy.

The *E-4 Summit of the Americas* also provides great rewards to the business community: a forum to reach-out to stakeholders, engage high-ranking government officials that are involved in the development of public policy, discuss ideas and, to some extent, influence the public debate.

One of the great advantages of being a keynote speaker is the great latitude that one is allowed. Within reason, one is given the freedom to speak about almost anything as long as it is relevant to the subject matter. Today, I plan to take advantage of that privilege...for the following two hours!

Government officials usually make use of the opportunity that private-sector conferences and conventions provide to showcase their accomplishments and demonstrate how much their constituents have benefited from their work. I am proud of what the Fortuño administration has accomplished in strengthening Puerto Rico's competitiveness and would be remiss if I were not to highlight some of our achievements.

Nothing provides a more clear demonstration that the policies of this administration have worked than the latest *Global Competitiveness Report* of The World Economic Forum. This is an independent international organization that has assessed and ranked the competitiveness of well over a hundred of the world's economies since 1979.

The 2012-2013 Report ranked Puerto Rico 31st among 144 economies; this makes Puerto Rico the most competitive economy in Latin America.

Moreover, Puerto Rico went-up 10 places in the ranking since the 2008-2009 Report which shows that during Governor Fortuño's administration the Island has made great improvements in its ability to compete.

Compare this to how the United States did during the same time-period. The 2008-2009 Report placed the United States in the first position but it has been sliding down until it reached 7th place in the 2012-2013 Report.

That's good news, but later this month, Puerto Rico will begin a pilot project that will initially bring bad news that will help Puerto Rico digest and understand one of its toughest problems---the quality of public education. Governor Fortuño is the first to take the step of administering OECD's internationally-acclaimed PISA academic achievement tests in October to students throughout Puerto Rico. In several months, when the results arrive, we will have to brace ourselves for terrible news. The PISA tests will document how much work must be done to fix up our public education system. I mention this here today because you've read little or nothing about this in the news media, and because improving our public education is as much an economic development issue as it is a social or educational issue. In that sense, the decision to administer these tests, in and of itself, is an economic development accomplishment.

However, I will not make the accomplishments of the Fortuño administration the focus of my remarks. Today you had an opportunity to listen to José Ramón Pérez-Riera, the Secretary of our Department Economic Development

and Commerce, which we know as DDEC. And on October 2nd DDEC will host the Economic Development Summit at the Puerto Rico Convention Center where Governor Fortuño will deliver the main address. If you have an opportunity to attend, don't miss it.

Rather than restating José Ramón's remarks this morning or anticipating the Governor's on October 2nd, today I would like raise awareness about a problem that is not being discussed and that the business community cannot continue to ignore if we want Puerto Rico's competitiveness to reach its full potential.

There is a metaphor used to describe an obvious problem, usually big, that is being ignored or going unaddressed: "the elephant in the room"... Puerto Rico's unresolved political status is the elephant in the room of Puerto Rico's economy.

It is almost taboo —a subject matter deemed appropriate for debate among politicians during daytime radio programs but not for entrepreneurs, business executives, and economists to address at private-sector conferences and conventions.

Nonetheless, it needs to be discussed because Puerto Rico's unresolved political status is hindering our competitiveness and impeding our economic growth.

How big of an elephant are we talking about? I will tell you...

The Obama administration entrusted The President's Task Force on Puerto Rico's Status to do something that had never been done since President Clinton created it by Executive Order in the year 2,000: helping Puerto Rico's economy. And it showed: perhaps 75% of the Report that was released on March 11, 2010 was devoted to making recommendations intended to build competitive industries, develop a modern renewable energy infrastructure, and enhancing economic development.

Nonetheless, the President's Task Force included a section entitled "The Intersection between Status and the Economy." It is worth quoting at length and it reads as follows:

Regardless of the status chosen by the people of Puerto Rico and the process by which status is decided, Puerto Rico needs economic growth today. The Task Force is recommending a series of steps to assist in improving the Puerto Rican economy, educational system, environment, and social services.

At the same time, the Task Force recognizes that the status question and the economy are intimately linked. Many participants in the forums conducted by the Task Force argued that uncertainty about status is holding Puerto Rico back in economic areas. And although there are a number of economic

actions that should be taken immediately or in the short term, regardless of the ultimate outcome of the status question, identifying the most effective means of assisting the Puerto Rican economy depends on resolving the ultimate question of status.

In short, **the long-term economic well-being of Puerto Rico would be dramatically improved by an early decision on the status question.** Nevertheless, the status debate should not impede action on economic and social issues that would benefit Puerto Rico.

I agree wholeheartedly with the assessment of the President’s Task Force. Let’s review these dramatic statements —particularly when one takes into account how carefully the Task Force needed to draft the Report in order to minimize the opportunities for spin in Puerto Rico’s polarized political landscape.

- “[T]he status question and the economy are **intimately linked.**”
- “[I]dentifying the most effective means of assisting the Puerto Rican economy **depends** on resolving the ultimate question of status.”
- “[T]he long-term economic well-being of Puerto Rico would be **dramatically improved** by an early decision on the status question.”

It is as if The White House was telling us: we can help you get there but you need to make-up your mind about where is it that you want to go.

Puerto Rico's political status is a divisive issue. And, trust me, centering on divisive issues is not what presidents seeking a second term in office like to do. But, when focusing on Puerto Rico's economy, not even The White House could maneuver around the status elephant. What we are dealing here is a 7-ton 14-feet tall African elephant with tusks that are as long as men are tall.

The Democratic Party platform, approved in Charlotte a couple of weeks ago after being vetted by the President's staff, provides further proof. It restated that "[t]he economic success of Puerto Rico is intimately linked to a swift resolution of the status question." But it went further by directly asserting that "lack of resolution about status has held the island back". Moreover, it added a sense of urgency stating that "[i]t is time for Puerto Rico to take the next step in the history of its status and its relationship to the rest of the United States."

This is significant, because a party that is nominating a President for reelection will not approve a platform without first getting approval from The White House.

And, when we look at the figures, it is easy to see that the lack of resolution of Puerto Rico's political status has been holding back the Island's economy.

When Puerto Rico's unemployment rate was at its lowest in 2000 at 9.5%, the average unemployment rate in the United States was only 4%. While GDP per capita in Puerto Rico peaked in 2006 at \$19,300, in the United States it was \$44,000. When in 2010 the percentage of the population below the poverty line in Puerto Rico was at 45%, nationally the poverty rate was 15.3%.

Ladies and gentleman... There is nothing inherently wrong with Puerto Rico or with the residents of the Islands to account for such a wide gap in income and employment. And that gap becomes so much more dramatic when one takes into account that the Island is a territory of the United States—in fact, it is the only U.S. territory within the “customs territory of the United States” together with the 50 States and the District of Columbia. As a part of the U.S. market Puerto Rico should have fared so much better... Why it did not?

There is a study authored by Dr. Fernando Lefort that sheds some light on why Puerto Rico, being a territory of the United States, has never caught-up with the U.S. economy.

Dr. LeFort, who holds a Ph.D. in Economics from Harvard University, is the Dean of the Economics and Business School at the *Universidad Diego Portales* in Chile. In his doctoral thesis he analyzed Puerto Rico's economic development on the basis of the convergence theory, which predicts that integrated economic entities tend to close the existing gap between them

converging more rapidly at the outset and then at a slower rate as they get closer to their target.

He found that Puerto Rico, rather than converging to the U.S. economy, has been diverging away from the economy of the United States. The reason, according to Dr. Lefort: Puerto Rico's current political status. To all of you who are interested in Dr. Lefort's research, I will gladly send you the papers.

More recently, Daniel Alemán, a Director and Senior Economist at the Wells Fargo Securities Economics Group, pointed-out that “[i]t is time for a change” having concluded that the current status “has outlived its useful life” and that its persistence over time “affects the ability of Puerto Rico to finally move forward”.

Why is our unresolved political status holding us back?

Let's start with perceptions because, whether correct or mistaken, they shape investment decisions. Puerto Rico is either unknown or perceived as a Latin American country in the Caribbean with a special relationship with the United States having both obscure characteristics from a political standpoint and unclear implications with respect to taxation and trade.

Even when Puerto Rico does well in competitiveness rankings, as it did in the latest report of The World Economic Forum, it is portrayed as a country separate from the United States which, to the detriment of our economy,

obscures one of the best assets that Puerto Rico has to attract investment — that it is a part of the United States. As the fictional homicide detective Adrian Monk would say of his OCD, “it’s both a blessing and a curse.”

And even if the trade and tax implications of our political status were widely and fully understood, the issue of uncertainty would remain because, while Puerto Rico’s political status continues unresolved, no one can predict for how long the legal framework on which an investment was made would be in effect.

Let me give you a concrete example of how serious the problem is. Foreign Direct Investment —FDI, for short— contributes to create new jobs, boosts wages, increase exports, strengthen manufacturing and services, bring in new research, technology, and skills, and raise productivity.

The United States is the largest recipient of FDI in the world; China comes second. Despite the fact that Puerto Rico is a part of the United States, in 2008 Puerto Rico ranked 43rd among all states and territories in capturing the international capital that flows to the United States.

How about foreign investment from Latin America? One should expect that business executives and entrepreneurs in Latin America would know Puerto Rico better than their counterparts elsewhere in the world since we are neighbors with a shared history, culture and language. And yet, Puerto Rico ranked only 25th. Half of the States —including many States without any

historical or cultural connections with Latin America whatsoever— fared better than Puerto Rico.

Needless to say, there are many factors involved in investment decisions. But if, on account of our unresolved political status, Puerto Rico is not perceived to be a part of the United States, it is unlikely to be considered by foreign companies that seek to invest in the U.S. as well as by stateside companies that prefer to invest and conduct operations within the United States rather than abroad.

In my many meetings nationally and abroad I have been able to experience first-hand how the obscurity and uncertainty of our unresolved political status gets in the way of marketing Puerto Rico. I often find myself spending more time answering questions related to Puerto Rico’s political status than extolling on why *Puerto Rico Does It Better*.

There are other ways in which the unresolved political status problem holds Puerto Rico back. In Puerto Rico political parties are differentiated on the basis of political status preferences rather than on economic ideas or views on how to best solve the most pressing issues affecting Puerto Rico. In such a political ecosystem it is difficult to reach a bi-partisan consensus on the reforms needed for Puerto Rico to become more competitive.

Needless to say, many comprehensive reforms are required to enhance Puerto Rico’s competitiveness —including lowering energy costs, labor law,

structure and governance of public corporations, and funding the state employees' retirement system. With a decision on a definitive status, Puerto Rico's contrived political system would disappear; new political parties would arise on the basis of solutions to the Islands' problems; and protecting the viability of a political status option would no longer get in the way of reaching consensus to achieve much needed reforms.

Political status debate is not a matter of political ideology or party politics. Holding off on a decision with respect to Puerto Rico's status has been holding back our economy and cutting into your bottom-line. We have been avoiding the problem for too long and cannot continue to postpone what is so vital for Puerto Rico to move forward and compete nationally and globally.

The problem has been laid down. The question now is what should be the proper role of the business community in addressing the problem. The Rationale of the Event that was published on the web includes a remarkable quote by Dr. Caroline Schroeder: "Some people change their ways when they see the light; others when they feel the heat."

And here lies the basic choice that the business community has before it: heed the warnings and be a part of an impetus towards Puerto Rico making its own choice on its definitive political status now or ignore the warnings at the risk of later feeling the heat as the federal government steers Puerto Rico towards a status choice when it cannot longer afford to hold up the economic underpinnings of the current political status. While you consider the choices,

the temperature in Washington is already rising as the United States approaches the impending “fiscal cliff” next year, either on January 1 or, at the latest, April 1.

It has come to a point where a status change is no longer optional and the time is running out. Making a choice might be, perhaps, more important than the choice that is made. And this is what the November 6th status plebiscite is about.

While we decide our ultimate political status, we will continue enhancing our competitiveness and promoting Puerto Rico’s attributes globally with the conviction that *Puerto Rico Does It Better* —the attributes that could make Puerto Rico the trade hub of the Americas... the stepping stone to conquer the growing Hispanic market in the continental United States... the bridge to the Caribbean Basin and South America... or the center of an integrated energy market in the Greater Caribbean.

Thank you very much. I will be glad to answer any questions that you may have.