

Praise for Alexander Odishelidze's last book,
Pay to the Order of Puerto Rico

"It is fitting that we ask ourselves what future political status is best for Puerto Rico. This book answers that question and another: What status is also best for the United States?"

Robert J. Lagomarsino

Former US Representative of California
Ranking Member of Subcommittee on Territorial Affairs

"Just as Art Laffer helped start a revolution of thought about taxes on the mainland more than twenty-five years ago, he and Alex Odishelidze will begin a national debate about the relationship between the United States and Puerto Rico. Pay to the Order of Puerto Rico is an important book for understanding the roots and consequences of a failed economic policy."

The Honorable Jack Kemp

"Mr. Odishelidze's book reveals the economic and social consequences of the confused and ambiguous territorial status policy Congress has implemented for Puerto Rico... The sooner the better in order to bring about an orderly culmination of Puerto Rico's political progress from territory to a permanent status."

Richard Thornburgh

Former United States Attorney General

AMERICA'S LAST FORTRESS

**PUERTO RICO'S SOVEREIGNTY, CHINA'S CARIBBEAN BELT
AND ROAD, AND AMERICA'S NATIONAL SECURITY**

ALEXANDER ODISHELIDZE

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Dedication

I WANT TO THANK THOSE WHO HAVE BEEN CLOSEST TO ME DURING the process of putting out this book, my immediate family. Thank you to my wife of 25 years, Odette, who is my best friend and life-time companion. Like a real champ, she has always given me the support I've needed—both in business and in life. Also, of course, thank you to my oldest son Sasha, my younger son Michael, and most of all to my granddaughter Allie, who is a real champ in her own right through her political, social media campaigning. Kudos to our younger generation. I know they will make this world right again!

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A FRONT ROW SEAT TO CHINA'S CARIBBEAN GAMBIT

I FIRST REALIZED HOW SERIOUS CHINA'S INTEREST IN PUERTO RICO was after giving a speech at the Wan Chai Rotary Club in Hong Kong in 2018. The subject of my talk was a book I had coauthored with economist Arthur Laffer, called *Pay to the Order of Puerto Rico*. It touched on various political, economic, racial, and ethnic issues on the island. Though I have made my life and money in Puerto Rico and spent the last sixty years plugged into its economy, culture, society, and politics, I am not Puerto Rican by birth. My youth was spent in Nazi-occupied Belgrade and later in Communist Yugoslavia. In 1960, at the age of nineteen, and after almost three years in European refugee camps, I landed in America with \$20 in my pocket and no understanding of English. It's a long story, but many years later, I had become a successful family and businessman in Puerto Rico. Life is a fascinating journey—more on that later.

I share my Russian-who-immigrated-to-America bio because it always seems to loosen up my Chinese audiences. When I first started meeting Chinese businesspeople, I would simply tell them that I was from America. After this news, they would politely shake my hand and walk away. When I started telling them I was a Russian who immigrated to America, things changed. I would get a big smile, a hug, and be called, *tovarisch*, which in Russian means comrade. I think you get the picture. So, when I shared my Soviet-bloc background with my Hong Kong-Chinese audience during my 2018 speech, they immediately assumed we were “on the same side” and felt they could share information with me much more freely. The evening would prove to be enlightening, to say the least.

After my speech, I was surrounded by attendees asking questions. One mergers and acquisitions (M&A) professional, who’d been born in Hong Kong but was not Chinese, showed special interest in my speech. He told me that his partners were Chinese from both Hong Kong and mainland China, and they were acquiring properties for the benefit of Chinese interests. He also explained that his clients were primarily focused on acquisitions in the US and Caribbean.

“We are negotiating to buy Roosevelt Roads,” he shared proudly.

It’s possible my jaw physically dropped to the floor at this news. Roosevelt Roads was the original naval base established in Puerto Rico by the US government in 1943. Upgraded in 1957, the base was occasionally used by the Navy for training exercises. Mainly, though, it served as a permanent American footprint in the Caribbean for emergency defensive, quick-response maneuvers to discourage aggressive intruders during WWII and the Cold War. In the early 1960s, when Khrushchev decided to put nuclear missiles in Cuba, the blockade ordered by President John F. Kennedy was mounted out of Roosevelt Roads. The US Department of Defense once called the base “our permanent battleship in the Caribbean.”

And it’s not just the base itself that has been strategically important. The construction of the Roosevelt Roads naval base included

substantial excavations into the surrounding mountains during World War II, when England was under heavy German attack. The facility was designed to provide Churchill and the British government safe haven should they have to exile during the blitzkrieg. And in the 1970s, the Navy claimed proudly but secretly that it had spent \$4 billion on this grid system alone and that it was one of the most modern, advanced, and important training tools for naval maneuvers. Then, in the early 2000s, President George W. Bush decided that America did not need protection in the Caribbean any longer. He turned the base over to the local Puerto Rican government. Since then, the Department of Defense has pulled out of Puerto Rico almost completely. Roosevelt Roads, along with other US military installations, was put up for sale.

Once I had recovered from the shock of what my Hong Kong attendee was telling me, I tried to calmly ask, "So, what does the US government say about your deal?"

"Oh, we are not talking to the US government," The M&A professional continued. "We are dealing with the governor of Puerto Rico, who has assured us that they have complete control and do not need US permission to make this deal."

Supposedly, Puerto Rican Governor Ricardo Rosselló had told them it would be better for "political reasons" to call this venture a "tourism and industrial development project." He also advised them to submit plans that included beach condos, hotels, a boardwalk with waterside restaurants and perhaps a few stores, along with a private marina. The group was buying a fully functioning US naval base, after all, so it would be best to avoid any raised eyebrows. At the time, *Fomento*, the Puerto Rico industrial development agency, touted the sale without revealing the real purchasers.

Looking back, I wonder if my M&A colleague even knew who was behind the deal. It's quite possible he did not. According to my Hong Kong attendees, Rosselló had suggested that the Chinese pursue the acquisition through a US hedge fund as a "directed investment." This way China could invest the purchase price in the

hedge fund and “direct” it to buy the naval base limiting their share of the profits. The hedge fund would get the fees for the acquisition and China would get the property without their name attached to it—creating the appearance of a domestic US acquisition. Of course, with China’s permission, the original hedge fund could profitably sell this “directed investment” to another investor through a separate corporate entity or hedge fund, and so on. Eventually, the identities of the original purchasers would be lost in the mountains of paperwork these transactions require.

When I left the Wan Chai Rotary Club that day, I started looking deeper into the Roosevelt Roads project, and heard rumors that confirmed what I’d been told in Hong Kong. Apparently, Governor Rosselló—the son of former Governor Pedro Rosselló, who had been responsible for getting the Department of Defense out of Puerto Rico a decade earlier—had turned over many classified documents relating to the former US naval base in order to smooth over the sale of Roosevelt Roads. It’s probably not a coincidence that two years after he was elected, the people of Puerto Rico marched on the governor’s house and successfully removed him from office, even though he still had two years remaining in his term.

Though I was stunned by the circumstances of the deal, I was not at all surprised by China’s interest in Roosevelt Roads. It is definitely a prize piece of real estate. The bay where the base once sat is surrounded by mountains and ringed by beautiful beach areas on its seashore. Just a few miles from the bay lies the gorgeous island of Culebra, which is home to one of the most beautiful beaches in the world. But the crystal-clear waters around Culebra are not as pristine as they appear. Culebra was once consistently bombarded by missiles launched as target practice from naval vessels based at Roosevelt Roads. I will never forget the first time I sailed around Culebra. When I looked at the charts, I saw warning signs everywhere saying, “Danger! Unexploded Ordnance!” This, of course, stifled my desire to jump into those fabulous, reef-rich waters full of fish and lobsters.

Though the involved parties claimed the objective of the Roosevelt Roads deal was economic rather than geopolitical, the fact that a strategic US naval base could be sold to a foreign adversary seemed unthinkable to me. The infrastructure of that base could be used at any time, by anyone controlling that piece of real estate, no matter how many McDonalds, Marriotts, and Holiday Inns could be erected to line the beach. The greater danger was that Roosevelt Roads military infrastructure would no longer be available to the US military to launch any operations against potential enemies who challenged the US in the Caribbean. With China controlling much of the rest of the Caribbean, America would not have a place to launch a blockade to stop unwanted visitors with nefarious intentions, as we did during the Kennedy years.

We find ourselves in this surprising situation for many reasons, but primarily due to China's Belt and Road Initiative—a long-term infrastructure investment plan to create an unbroken trade route for Chinese goods to circle the world without interference from any other country. If it is successful, the plan would be a geopolitical masterstroke, setting up China for the same kind of soft-power status in the twenty-first century that Britain and America enjoyed in the nineteenth and twentieth centuries, respectively. Right now, China's main trade route begins in Beijing. A railroad connection through Siberia and Russia brings Chinese goods to Europe, and then from Paris via the Chunnel, they wind up in London. From the UK, Chinese goods are loaded onto ships for the transatlantic voyage. But this northern route relies too heavily on western influence. In case a conflict were to arise, China would need an alternative. Enter the Mediterranean port in Syria.

Bashar al-Assad, president of Syria, is backed by both Russia and Iran. So, as part of their strategic alliance, Iran and Russia have pledged to help China develop a secure passage to Syria's Mediterranean port. For those who wonder why Assad, after all his atrocities, is still in power, this is the answer: Anyone who dares take him out will have to deal with China, Russia, Iran, and their

client states, which right now may be more powerful militarily than NATO when you consider their combined resources—especially in the wake of Donald Trump’s isolationist presidency. Europe can no longer depend on the US to bail them out, so if there is a conflict with China’s allies in the Middle East, Europe will probably stay out of it.

Once Chinese ships are loaded in either Syria or England, they need to get through the Panama Canal (or the new canal China is building in Nicaragua) in order to reach the Pacific Ocean and complete their worldwide trade route. But in order to get to Panama, they must pass through Puerto Rico, which is still the domain of China’s natural enemy, the United States of America. As long as Puerto Rico is a US territory without sovereignty, Congress can still step in and prevent a foreign military presence—effectively, cutting off access to China’s Belt and Road Initiative.

But how long will colonial status last for Puerto Rico in today’s modern world? Most other former colonies have already gained their independence. Economic interests are the main drivers of foreign influence today, rather than a military occupation. This is precisely why the Chinese have such an interest in Puerto Rico. From what I have learned in my visits to Asia and speaking to groups of Chinese businessmen, it is in the best interest of China to try to transition Puerto Rico away from US statehood and toward national independence. Once that is achieved, Chinese investments there can pour in, quickly turning Puerto Rico into another client state—just like so many other Caribbean and Latin American nations.

Puerto Rico is currently the only part of Latin America—which includes the northern nations of South America, all of Central America, and the Caribbean islands—that has not yet been openly and heavily influenced by the Chinese. In the past decade alone, China has pumped hundreds of billions of dollars of investments into the region. Since Panama officially signed on to the Belt and Road Initiative, four new bridges across the Panama Canal have been announced. China loaned Venezuela more than \$67 billion before

halting investments there in 2016 due to international pressure. Cuba, China's second largest partner after Venezuela, had billions of dollars of debt written off by Chinese investors. The biggest potential winner in the region may be Nicaragua, which has been floated as a site for a new Chinese-financed canal project that would be a major counter to the US dominance of the Panama Canal. Why would China invest so heavily in the Caribbean and its surrounding countries and not invest in Puerto Rico? Because they can't, due to Puerto Rico's status as a US colony. Strategically, Puerto Rico would be China's most important prize because it blocks the entrance to the Panama Canal through the southern Caribbean.

It's conceivable that the Chinese could offer the US a boatload of cash to take possession of Puerto Rico and its people. This may seem far-fetched, but it is perfectly legal under current US law. In 2016, the US Supreme Court ruled that Puerto Rico was an unincorporated territory—a possession—and that America could do whatever it damn well pleased with the island. If it wanted to sell Puerto Rico to China, along with its three million plus residents, then so be it. Some of our recent presidents might very well have considered such an offer. Former President Donald Trump, from what I have heard, tried to do that very thing. He offered to sell Puerto Rico to Denmark in return for Greenland. Investment in Puerto Rico as an independent sovereign nation might carry a fraction of the price tag of such a negotiated purchase, though. The Chinese are surely monitoring the election trends in Puerto Rico to see whether the number of Puerto Ricans voters who prefer a non-statehood candidate for governor will continue to grow as it has over the last ten years—and they will likely encourage that rising sentiment. China's goal, of course, is an independent Puerto Rico. Thirsty for money to solve its fiscal problems, an independent Puerto Rico would surely look at China as its savior from the "Yankee dollar." Right now, as much as half of Puerto Rico's fiscal budget is from US federal transfers. Money that Puerto Rico does not have must come from somewhere, if the island is to function—unless, of course, Puerto Rico decides to

become another Haiti and go it totally alone. For so many reasons, this does not seem likely.

The big problem for China may come if and when the US wakes up and realizes that China is knocking at its back door. Interestingly, an April 16, 2020, press release from the office of US Congresswoman Jenniffer González-Colón, who represents Puerto Rico in Congress, stated:

Today, US Secretary of Commerce Wilbur Ross announced that the Department's Economic Development Administration (EDA) is awarding a \$4.5 million grant to the Local Redevelopment Authority for Roosevelt Roads, San Juan, Puerto Rico, to rehabilitate a building and make other infrastructure improvements on former Naval Station Roosevelt Roads. The EDA grant will support early-stage businesses focused on the visitor economy and is expected to create 134 jobs and spur \$1.5 million in private investment. The project, to be located in a Tax Cuts and Jobs Act designated Opportunity Zone, will be matched with \$1.25 million in local funds.

"The Trump administration is committed to assisting Puerto Rico as they work to recover from the 2017 hurricanes," said Secretary of Commerce Wilbur Ross. "The redevelopment of the Roosevelt Roads Naval Station will bring businesses back to a vital waterfront area."

"This investment will rehabilitate Roosevelt Road's Port Control Building for use as a multi-tenant, commercial space that will house early-stage tourism businesses," said Dana Gartzke, Performing the Delegated Duties of the Assistant Secretary of Commerce for Economic Development. "The project will also improve streets and sidewalks to facilitate pedestrian and vehicle traffic between the commercial site and the ferry terminal, and the project's location in an Opportunity Zone will encourage additional business development."

Could this be a sign that America is awakening to the Chinese threat in Puerto Rico? It's hard to be sure. But whatever presence the Chinese may now have in Puerto Rico is cloaked in secrecy and structured through hedge funds and alternate investors, so it is very difficult to determine who the real principals really are. This secrecy and subterfuge are driven by the simple fact that Puerto Rico is a US "possession," and, therefore, it behooves the Chinese to keep a very low investment profile on the island. Of course, this would be especially true if the Chinese really did put a deal together to buy a fully functioning American naval base in Puerto Rico, as I was told by the people I met after my speech in Hong Kong in 2018. There is "general awareness" that the Chinese own some hotel properties in Puerto Rico, specifically the Caribe Hilton hotel in the Condado. When walking the streets of San Juan, you can see Asian families walking in and out of their homes in the old city as well as their condos in Isle Verde, the Condado, and other locations throughout the island. Perhaps they are all just tourists—who knows?

The big question is: If we look at the issue of Puerto Rico decolonization geopolitically, would Puerto Rico be better off as a "possession" of the US or a debtor to China for all the infrastructure, utilities, and development ventures they would offer an independent Puerto Rico?

It is obvious Puerto Rico can't be both. Once again, the people of Puerto Rico will be asked to choose. Will they become an independent nation and take the "free" money offered by China? Or will they prefer continued "free" money from America as US citizens, while still remaining a colony?

"Give me liberty or give me death" was the battle cry of America's independence movement. For Puerto Rico, though, there is little liberty as a US colony and perhaps will be even less as an independent country dependent on Chinese investment dollars and debt. American statehood offers another alternative, but recent elections indicate dwindling interest in pro-statehood candidates. Since the

2020 elections confirm this trend, the chances of Puerto Rico having another shot at statehood are probably “slim to none.”

It’s not only a pivotal moment for Puerto Rico, but for America. If a decision is made by Congress to grant sovereignty to Puerto Rico without statehood, China will be free to openly invest there to its hearts content. The implications of such a scenario are unnerving for America’s strategic security, to say the least. Whether US leadership likes it or not, Puerto Rico is America’s last fortress in the Caribbean and it’s time to understand what’s at stake in the island’s sovereignty debate.