Living by our wits

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"We have to live by our wits," Teodoro Moscoso used to say about Puerto Rico. Teodoro was the father of Puerto Rico industrialization, an improbable feat that stemmed from a keen perception of our geographical limitations, vis-à-vis our large population, the intelligent valuation of the developmental alternatives—agriculture vs. industry—and the ingenious creativity that conceived our tax-exemption program, much berated by latter-day critics while they enjoy the benefits and well-being attendant to the higher level of development brought by Moscoso's program. Tax exemption worked for Puerto Rico, and it still is a tool available to us. Of course, it isn't the only one—our capable workers, professionals, and natural competitive advantages are others—we may use as we scan the globalized scenarios to strategize in our continuous quest for sustainable economic activity.

Living by our wits doesn't mean repeating Moscoso's program today. It means taking stock of the economic realities of our island within the globalized world and the intelligent use of all our tools to foster production of goods and services that will provide us with the greater benefits of civilization. Every generation must live by its wits. Creativity wasn't exhausted with Moscoso's generation.

When my generation's turn came in 1985, our industrialization program was threatened by the Reagan administration, which wanted to do away with Section 936. At the same time, his administration was pursuing the Caribbean Basin Initiative (CBI) because civil war was part of everyday life in Central America. The impoverished masses in Nicaragua, El Salvador, and other Central American countries turned to armed conflict to overturn dictatorships and social injustice. Wisely, Reagan turned to trade policy to promote economic development for the Caribbean Basin and to provide stability for the development of democratic institutions.

The tariff barriers went down, but the federal government didn't have the tools to promote the establishment of industrial enterprises in the basin. Aware of that scenario, we used the tools available to Puerto Rico through Section 936 to stimulate twin plants with Central American and Caribbean countries. In addition, we financed infrastructure and social projects in the region. We succeeded to the tune of $1.3 billion in investments. Section 936 was saved and Puerto Rico enjoyed years of prosperity with a higher rate of growth than the U.S., whose economy went into recession during the first Bush administration. Our wits once again had served us well.

One of the scenarios to which we must now turn our wits is the Central America-Dominican Republic Free Trade Agreement (Cafta). With the CBI and other preferences the U.S. has granted the countries in the Caribbean Basin, 80% of their goods and services and 99% of their agricultural products enter the U.S.

duty free. Yet, U.S. products—which, of course, include Puerto Rican products—still pay hefty tariffs when they enter those countries. Cafta would eliminate the vast majority of these taxes, opening important opportunities in the U.S. and Puerto Rico. The Puerto Rico Commerce & Export Co. invites us to turn our wits to Cafta.

Puerto Rico's exports to Cafta markets, the company tells us, was more than $879 million in 2004, making it Puerto Rico's fifth-largest export market overall and its first trading partner in Latin America. Puerto Rico ranks fifth in trade among U.S. jurisdictions with Cafta countries, ahead of much larger states and jurisdictions, such as California and New York. Per capita, it is the largest U.S. trade jurisdiction in the region. Cafta countries constitute Puerto Rico's largest export market for apparel, electrical equipment, and food-and-beverage products.

In 2004, Puerto Rico exported to Cafta countries $257 million in textiles and apparel; $109 million in electrical appliances and parts; $101 million in petroleum and coal products; $64 million in miscellaneous manufactured products; and $48 million in metal manufacturing. Puerto Rico constitutes the second-largest export market for the Dominican Republic, one of the Cafta countries, after the continental U.S.

In 2004, we exported $757,544,000 in goods to the Dominican Republic and imported $661,719,000.

Costa Rican exports to Puerto Rico are larger than that country's combined exports to South America or its exports to the entire Caribbean region. In fact, Costa Rican exports to Puerto Rico are 10 times larger than Puerto Rican exports to that country, as a result of unilateral preferences in the Caribbean Basin Initiative.

Puerto Rico's trade deficit with Central American countries is the direct result of a lack of market access to those countries, especially in such areas as pharmaceuticals, biotechnology, and services, where Puerto Rico possesses regional competitive advantages. Cafta would open new export opportunities in these areas. Cafta would level the playing field for Puerto Rican exports to these markets, particularly for small and midsize businesses for which these countries are natural markets, with similar tastes and consumer preferences as in the local Puerto Rico market.

These opportunities are quite apparent and industries such as Vassallo, which have faced a protected market for PVC tubes in the Dominican Republic, will find the tariff barrier removed once Cafta is approved and goes into effect. However, the opportunities coming from Cafta to Puerto Rico go beyond the exportation of goods. U.S. standards for goods imported will have to be met by Caribbean countries. Production will have to be adjusted to these standards, which requires expert advice.

Puerto Rico is at a higher level of development than all Caribbean Basin countries. We have a wealth of experience in meeting U.S. standards in such matters as biotechnology or the environment. Our professionals and technicians will have a decisive linguistic competitive advantage in the exportation of services to Cafta countries. A considerable amount of federal funds also will be available to assist Cafta countries to comply with U.S. standards.

In the Dominican Republic, in particular, there is keen interest in working together with Puerto Rico on these matters. I have visited President Leonel Fernández on two occasions, and he repeatedly has brought the matter up with me. Our foundations—Fundación Global de Democracia y Desarrollo and Fundación-Biblioteca RHC—have marching orders to organize a meeting of Dominican and Puerto Rican businesspeople to launch Cafta-based initiatives upon ratification of the treaty.

As we face today's fiscal and political problems, we also must relentlessly pursue the opportunities opening up in such matters as Cafta. We will see the light at the end of the tunnel by once again living by our wits in the various fields of economic endeavor.