



REMARKS BY THE GOVERNOR
OF THE COMMONWEALTH OF PUERTO RICO
HONORABLE RAFAEL HERNANDEZ COLON
ON PUERTO RICO'S ROLE IN THE CARIBBEAN
AT YALE UNIVERSITY

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Now is always a good time to assess the future, because it is where we are headed sooner than we realize and most often before we are ready.

That is why I so appreciate this opportunity to pause a moment here at Yale to contemplate Puerto Rico's role in the Caribbean in the next century.

The Caribbean is now and will continue to be important to U.S. national security because of its strategic location. That will not change. Neither will the importance to the United States of Puerto Rico's role as a part of the Caribbean and as the U.S. presence in this vital region. So I am quite confident that Puerto Rico's role in the Caribbean in the next century will impact on your future and that of your children.

During the past four years I have seen how the power of a single idea can dramatically change the way people live and think. Let me tell you about that one idea. It has begun to reshape the Caribbean, as it also has taken hold in the White House and in the Congress of the United States.

Like many of its Caribbean neighbors, Puerto Rico suffers from a dearth of natural resources. As an island 100 miles long and 35 miles wide, its population density is greater than Japan's. If the U.S. mainland had Puerto Rico's population density the entire population of the world, including China, would be crammed within the borders of the continental United States. Puerto Rico also suffers because of the geographic distance from its sources of raw materials and markets.

Section 936 and its predecessors in the U.S. tax code made it possible for Puerto Rico to overcome these problems. The Federal Tax Law, in combination with the Commonwealth's own tax autonomy, permitted what is known as tax-sparing. If we granted concessions from our normally prevailing tax rate to encourage U.S. corporations to invest in manufacturing facilities in Puerto Rico, the U.S. agreed to let these companies keep these savings to compensate them for the greater costs of manufacturing in our island. Through a credit mechanism in the U.S. law, the U.S. companies are effectively made subject only to the

concessionary tax rate granted by Puerto Rico in exchange for specific undertakings to create employment in Puerto Rico.

The program has worked brilliantly. It has reversed what had seemed to be an economic law of gravity that for generations had condemned Puerto Ricans to poverty, high infant mortality, and the absence of hope for the future that remains such a corrosive force elsewhere in the region.

The program has also created an important pool of low-cost capital. In addition to the tax incentive accorded manufacturing, our Puerto Rican law and the Federal law also encourages deposits of the earnings of the Section 936 companies in Puerto Rican banks because the "passive" interest income from these deposits is also effectively made exempt from US tax and subject only to concessionary Puerto Rican taxes.

Back in 1985, the President's Caribbean Initiative was in serious trouble. This program, which had been President Reagan's response to the lesson of Grenada, was not working. Instead of

greater investment in the poor islands of the regions, we all witnessed disinvestment.

As originally conceived, the President's program would have afforded twelve years of duty-free access to the U.S. market for products manufactured in certain Caribbean countries, and it would have included tax incentives to encourage U.S. manufacturers to avail themselves of this opportunity. Congress gave the President the caboose -- the twelve years of duty free access to the U.S. market. But it denied him the vital engine of significant tax incentives needed to make the train go.

After having paid little attention to the Caribbean for many years, Puerto Rico saw in the region's problem, the President's, and our own, an opportunity for a bold new initiative that could at the same time breathe life into the moribund Caribbean Basin Initiative, return certainty to Puerto Rico's economy, and set the stage for a new connectedness in the region. We offered to make available some of the capital pool, created in Puerto Rico as a consequence of Section 936 and our

own laws, to finance on concessionary terms complementary manufacturing that would create jobs in Puerto Rico and in our Caribbean neighbors.

This proposal, which I made in my Inaugural Address in 1985, consciously posed a dilemma and a challenge. If the repeal threatened by the Treasury Department was carried out they would thwart the initiative ready to assist the United States achieve its national security objectives in the Caribbean.

The very announcement of this idea shattered old notions that had endured for years. Suddenly, demarcation between the English-speaking Caribbean and the Spanish-speaking Caribbean that had fragmented our region of small states seemed less important than the economic progress we all might make working together. Leaders of the English-speaking Caribbean-- Prime Minister Seaga of Jamaica, Prime Minister Blaize of Grenada, and Prime Minister Charles of Dominica --worked together with Spanish-speaking leaders of the region-- President Duarte of Salvador, President Blanco of the Dominican Republic, and President

Monge of Costa Rica. They and other leaders of the region joined with Puerto Rico in lobbying the Administration in Washington and the Congress to preserve what had worked so well for Puerto Rico and to free our hands to make even greater use of this tool to help our Caribbean neighbors as we continued to help ourselves.

We in Puerto Rico began to act with our Caribbean neighbors in a new dimension. They were our allies and collaborators as well as our competitors. We advanced true economic opportunities that had largely been overlooked. We launched the Complementary or Twin Plant Program combining lower labor rates elsewhere in the Caribbean, with technologically advanced finishing operations in Puerto Rico, enabled by our tax program, and low cost capital. In this manner we were able to produce jointly what no one country could profitably produce on its own. We saved and created manufacturing jobs in Puerto Rico and the Caribbean region that were otherwise destined to the Far East.

Congress responded to the new wind that had begun to waft over the Caribbean. So did the President. On the heels of favorable action in the House Ways and Means Committee, the President reversed his Administration's previous position. Then Vice-President Bush announced to the Miami Conference of the Caribbean in November of 1985 that the Reagan Administration was committed to preserving this section into the future-- without limitation in time-- as a permanent instrumentality of the President's Caribbean policy, if we could demonstrate its efficacy with solid results. Congress concurred.

We have achieved solid results. As of January 1989, we had promoted the investment of \$165.3 million in Caribbean Basin Initiative beneficiary countries. This includes 60 projects in 11 Caribbean countries, which represent a total of 10,327 jobs.

Moreover, we have approved the creation of a \$60 million 936 Fund for the financing of additional projects in the Caribbean. The Government Development Bank of Puerto Rico and the

Overseas Private Investment Corporation will provide guarantees for projects financed through this fund. We are also presently working on another \$100 million fund to spur additional investment in eligible CBI countries.

Where then is Puerto Rico headed in the next century? Clearly we have our work cut out for us in further developing complementary manufacturing throughout the Caribbean.

In the next century, we will also focus on the processing of information. New state-of-the-art fiber optic systems are bringing the Caribbean together and in closer relation to the rest of the planet. These telecommunications systems are centered in Puerto Rico. The best-educated work force and most-developed economy in the region is in Puerto Rico. Our challenge now is to translate these regional strengths and advantages, in the coming century, to become the information gateway, between the United States and not only the Caribbean, but South America generally. The bilingualism of the Commonwealth, its successful melding of a vibrant and distinctive Hispanic

culture with widespread use of the English language, make the Commonwealth a natural bridge between the United States and other Hispanic countries.

Two major events are looming on the horizon that we must take into account. I refer to two events scheduled to occur in 1992: the celebration of the 500th anniversary of Columbus' discovery of the Americas, and the economic unification of Europe. In a way, both of these events will draw our attention to Europe where our Hispanic culture originated and where more of our economic future may lie.

Through the LOME Convention many Caribbean countries, but not Puerto Rico, enjoy preferential access to the European market. In 1992 that market will be even more significant than it is today. There may be ways to build upon the experience we are gaining now in complementary manufacturing. Though these projects are largely geared to entry into the U.S. market, we are confident they will teach us how to collaborate in new ways with our Caribbean neighbors. This, in turn, should enable

us to participate in their preferential access to the enormous European market of the 1990s.

The importance of these CBI initiatives go beyond the creation of highly needed jobs in the Caribbean. They give us the opportunity to shape the future well-being of our people through a steady economic integration.

For in order to compete effectively in today's global markets, the countries of the Caribbean Basin must recognize and reinforce the strongest economic element of each country, and at the same time, unite as a region. The Caribbean Basin must foster the institutional arrangements and economic ventures that will defend and advance our shared interests. Caribbean countries need to maximize opportunities such as the CBI, as well as develop an agenda for cooperation among ourselves.

Puerto Rico is willing to play an important role in the advancement of the region as an economic block. I believe Caribbean nations have an opportunity for substantial growth. As a region we can become competitive with Asia and greatly expand exports to the United States, Europe and

South America. I believe that we can turn geography to our advantage as we find new markets.

The shape of the world in the post-1992 era is far from clear. One hears rumblings of protectionist strife pitting the U.S. against a Fortress Europe. There are those who view the 1988 Trade Bill enacted by the United States as the first round fired in a modern global trade war.

European unification in 1992 might become a return salvo in such a war. European banks that will enjoy a very liberalized Europe-wide opportunity in 1992 are now suggesting that United States banks may enjoy similar opportunities in Europe, but only if the European banks are accorded reciprocal rights in the United States, greater than any now accorded to any United States bank.

No country can escape the impact of these future events. Puerto Rico and the rest of the Caribbean will be active participants in the global drama that is about to be played out. The strength we are building on the basis of constructive mutual engagement in the Caribbean will stand us in good stead in the uncertain days ahead.

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