

**REMARKS BY THE GOVERNOR
OF THE COMMONWEALTH OF PUERTO RICO
HON. RAFAEL HERNANDEZ COLON
AT THE CITIBANK 936 CONFERENCE**

MARCH 15, 1991

It gives me great pleasure to be with so many friends of Puerto Rico in Citibank's 936 Conference, an annual event which contributes towards a better understanding of technical issues affecting Section 936. I appreciate this opportunity to share with you our vision of Puerto Rico's role and commitment in the economic development of the Caribbean Basin.

As you know, my administration has been committed for the past six years to develop closer ties with the region and with making available some of the advantages which we, by virtue of our very special relationship with the U.S. have available under Section 936. In particular, we have strongly promoted the availability of low cost financing for projects which foster and strengthen the economies of the region.

The importance of this relationship lies not only in the jobs and investment it generates in our communities, but in strengthening the ties that bind us in a common regional development effort.

Puerto Rico is keenly aware that the Caribbean Basin economies must work towards achieving a commonality of objectives with respect to development.

The world is changing rapidly in ways which could either threaten our future development or provide us with significant opportunities. Much has been made of the fact that the opening of Eastern Europe, although presenting a major opportunity for the west in terms of new markets and access to a large supply of labor, also represents the potential for a major change in the distribution of investment flows among the regions of the world. The Caribbean, Latin America and other regions could very well see the flow of foreign investment decrease, if we do not direct our economic strategy towards regional integration and collaboration.

As I mentioned earlier at the Miami Conference on the Caribbean, we must take stock of our achievements and limitations and search for concrete ways in which we can enter the new global

marketplace with an integrated and more competitive economic profile. If we are to benefit from the new global economic arrangements, we must renew our commitment to making the caribbean economies more competitive, and thus, better able to be an effective participant in the emerging global economy. I wish to emphasize that we must think in regional terms, and not on the basis of the various individual economies. Our complementary plant program is aimed precisely at achieving greater competitiveness in view of the increased competition from other locations, such as the mexican Maquiladora Program.

It is by pooling our resources and capabilities, towards generally accepted goals and objectives, that we will be able to identify viable projects and to engage in joint promotional efforts to encourage european, asian and U.S. investment in our region.

We should work together to construct an overall, consistent framework for all the caribbean countries. Our objectives should be coordinated to

make certain that we are not working at odds with each other and that, whenever that situation arises, corrective action can be implemented to assure that our objectives complement each other and increase the probabilities of success for all.

Puerto Rico has been working consistently at increasing our ties to the caribbean region. Since my Inaugural Address in 1985, I committed significant resources from the Government of Puerto Rico to support U.S. policy towards the region, as defined in the CBI legislation of 1983, as amended by the CBI II Act of 1990. To this effect, we have become observers at CARICOM, and Associate Members of the Economic Commission for Latin America and the Caribbean (ECLAC), both major organizations in delineating the region's future. We have done this because we are aware of the need to become part of the region's joint endeavors. We are convinced that the success of our efforts in the caribbean will depend to a large extent on how they fit into that broader caribbean strategy.

At the end of last year, I met with officials from the European Economic Community, who visited the island to obtain first hand knowledge of our economic condition and of our need to become a much more integral part of the new Europe. I feel strongly that we must become closer in every way to events in that continent.

While we must never yield to complacency, we must recognize our achievements of past few years in channeling new investment capital to the Caribbean region for what they are -- truly remarkable. The World Bank's Caribbean loan facility, has invested a cumulative total of \$240 million in the region over its seven years of existence.

I am confident that, as the magnitude of our effort and achievement is fully understood, as we communicate clearly what has been achieved, the misguided salvos against section 936, to which we have become by-now accustomed, will become less frequent, and remain inconsequential. Today's press reports the latest such attempt, again devoid

of support, lacking in seriousness and based on partisan misinformation.

The truth is that, if anything, the Congressional support for section 936 has strengthened. After two years of sustained and serious study, the most prestigious independent Congressional agencies have concluded that section 936 is vital to the economic future of Puerto Rico. This is no surprise to us, we've understood that first hand. But for the first time, the expert Congressional agencies concurred. The Congressional Budget Office, for example, analyzed the consequences of eliminating section 936 under statehood. Using conservative assumptions, and a favorable seven-year phase-out period, it reached chilling conclusions -- by the year 2000, the loss of up to 100,000 private sector jobs, one of every 6, a permanent decline in GNP of 10 to 15%, manufacturing investments down 57%, and fully 40% of the economy would consist of federal transfer payments. As this understanding widens, in Washington and indeed in Puerto Rico, the

permanence of section 936 under our present relationship will be assured.

In the area of private investment in the region, Section 936 has played an important role in the strengthening of Puerto Rico's economic ties with eligible countries of the Caribbean Basin.

Puerto Rico's Caribbean Development Program has far surpassed Congress initial expectations of providing \$100 million in 936 funds to finance active business assets and development projects in eligible Caribbean projects.

To date, we have promoted an investment of over \$600 million in 12 Caribbean Basin countries, of which \$500 million are 936 funds, most of which have already been disbursed. These projects will create over 19,000 new job opportunities in these countries, demonstrating that the Caribbean is a viable destination for private investments.

From an initial disbursement of \$10.8 million of 936 funds in 1988 and \$68 million in 1989, disbursement of funds during 1990 amounted to over \$206 million. Based on the 936 projects we

presently have in the pipe line, in areas such as manufacturing, tourism and transportation, I feel confident that during 1991 we will be able to double that figure, particularly now that Costa Rica exchanged diplomatic notes related to the Tax Information Exchange Agreement with the U.S. government. We expect El Salvador, Honduras and St. Lucia to complete agreements with the U.S. Department of Treasury before the end of this year.

I want to take this opportunity to congratulate Citibank for the very significant role it has assumed in the financing of projects in the region. In particular, I was pleased with the closing of the first project submitted by Citicorp Financial Services Corporation to the Board of Directors of the Caribbean Basin Projects Financing Authority, as announced last month.

The proceeds of this \$60 million bond issue was utilized for financing Alcan Aluminum Limited's project in Jamaica, one of the largest alumina exporters in the world.

In the past, your support for 936 has been instrumental in gaining the needed support from the U.S. to maintain the benefits of Section 936 for Puerto Rico. I again urge you to support this valuable development tool, which is essential not just for Puerto Rico, but for the economic development of the region.

I want to thank many of the 936 companies, most of them represented here today, for their individual support to the program. More than fifty of the close to ninety projects that have been established in the CBI countries are subsidiaries of 936 corporations.

Recent developments are expected to improve the accessibility of 936 funds to small and medium sized private sector business projects.

We are working with the U.S. Treasury Department in an effort to allow greater flexibility in the provisions contained in the federal regulations so that 936 funds may be channeled more efficiently into the Caribbean economy.

A group of 936 companies recently formed the Caribbean Basin Partners For Progress, which is committing up to \$100 million in 936 funds, to be used for direct loans to qualified projects in eligible CBI countries. Investments will be in the form of loans with terms of up to 10 years, and the financing will be provided for up to 75% of the project's financing requirements.

The CBI General Partner Board intends to work closely with such agencies as the Overseas Private Investment Corporation (OPIC), the International Finance Corporation's Caribbean Project Development Facility and the Agency for International Development in identifying economically viable private sector projects for financing opportunities.

We are also working closely with the State Department, and the Agency for International Development to structure a guarantee fund to lend to the bankable CBI projects, which due to size and lack of required guarantees, have not been able to access 936 funds.

We are confident that the implementation of these mechanisms will result in the further expansion of 936 funded projects, that will strengthen the Caribbean's position in the global marketplace and assure the permanence of Section 936 of Puerto Rico.

Through regional economic cooperation, 936 funds will become an important tool to foster regional stability, and assist the Caribbean as it faces the new and growing challenges of the global economy. In this effort, I know that as in the past, we will continue to count with your unconditional support.

Thank you.