



FUNDACION
REMARKS BY HON. RAFAEL HERNANDEZ COLON
DURING RECEPTION OFFERED TO A GROUP OF
FINANCIAL ANALYSTS (AMERICAN AIRLINES)

AT LA FORTALEZA

NOVEMBER 6, 1986

It is a particular pleasure to welcome American Airlines' President Robert Crandall. On his last visit to this building, he announced American's plans to make our airport the "Gateway to the Caribbean". American's San Juan hub, is already a reality, and we congratulate Mr. Crandall and his colleagues for the faith they demonstrated in Puerto Rico.

Over the past two years we have expanded the hub concept to another area of activity. Today, Puerto Rico has become the hub of economic activity in the entire Caribbean. We have embraced President Reagan's Caribbean Basin Initiative and committed ourselves to sharing our progress, our accomplishments, and our future, with our brothers and sisters throughout the Caribbean. This is not merely a noble venture on our part; rather, it was a key feature of our fight to save what for us is the keystone of our economic development program: Section 936 of the Internal Revenue Code.

The first challenge I faced upon assuming, once again, the reins of government was Washington's determination to delete this section which allows US companies to receive profits earned by their Puerto Rican plants without incurring any federal tax liability. We tussled imaginatively and

creatively with this challenge and I am pleased to say we prevailed.

This threat promised to undermine my efforts to face up to my primary commitment to my people. The island had experienced for years unemployment rates in excess of 20 percent. Among our youth, the rates were even higher; the frustration, discontent, despair was overwhelming. It was imperative that we undertake programs aimed at creating tens of thousands of jobs for our people, and in a hurry.

We attacked this challenge on several fronts: agriculture, tourism, industry, commerce, construction and others.

In the area of agriculture, we have pursued measures to achieve an expansion in agricultural activity and employment. This we are doing through programs aimed at introducing "the new agriculture" to our rural folk, even as we strengthen participation in the traditional areas of agricultural activity. We have also expanded our efforts to resettle farmers with title to the land plots they would occupy and to provide them with the necessary amenities.

In the area of construction, we have fashioned a massive public works program, involving over one

billion dollars of new investment, that addresses needs that were either neglected or inadequately attended during the previous eight years. As a prime example of this I can point out the construction and rehabilitation of waste treatment plants, where a federal order restricting any new connections threatened all our efforts in tourism, industry, home building and the like.

We have taken measures to cut the bureaucratic red tape that can hold up the process of securing permits for the construction of new projects for months and even years; we fostered the construction of new homes to fill latent needs by imaginatively using 936 funds to reduce financing costs; and the construction sector, I am pleased to say, responded. Today, there are 6,000 more workers engaged in construction than there were when I assumed office and the number continues to grow.

We similarly structured incentives and programs aimed at assuring the investment community of our commitment to the development of the tourism industry. We worked diligently at creating a positive image, both at home and abroad, where our new advertising message soon hit the mark and assured travel agents and others that Puerto Rico,

"the shining star of the Caribbean", was indeed on the comeback.

The private sector once again responded; since last year nearly two thousand abandoned rooms have been either recovered or refurbished. Several new hotel projects are moving rapidly from the drawing boards to the construction phase.

The airlines also responded to our efforts. The major carriers, with American leading the way -- shortly followed by Eastern -- announced major flight expansion plans, and the establishment of hub operations. We were also able to attract additional carriers to serve the island, including flights from the United States mainland directly to Borinquen airport on the Island's northwest corner. We took steps to decentralize our tourism plant opening up new areas of the island to our visitors from the U.S. and abroad.

And through the aggressive utilization of incentives such as reductions in port fees, we were able to attract an increased number of cruise ships to either base their operations in San Juan, or to include us as a regular port of call, contributing to significant increases in port activity.

Our manufacturing sector was virtually at a stand still in early 1985, paralyzed by the threat

of a withdrawal of the tax privileges that section 936 had afforded the companies that located major investments on the island. Our unceasing campaign in the halls of Congress, and the offices of the executive branch, and were rewarded with congressional approval of a tax reform act which contains rather minimal changes to section 936.

In the meantime, we initiated an aggressive program throughout the Caribbean to develop complementary plant operations which while contributing to retaining or expanding jobs in Puerto Rico would also create new employment opportunities in neighbouring countries, and enable companies, faced by increasing production costs in the United States or in Puerto Rico, to maintain a competitive stance in national and world markets.

We are also diversifying the sources of new investments in our island, as we pursue investors in Asia and Europe. Just recently we celebrated the first venture in which Chinese investors have joined with Japanese and U.S. interests to establish a manufacturing endeavour in Puerto Rico and we are simultaneously working closely with the local business community to assist those with the entrepreneurial spirit to become involved in new manufacturing ventures in their homeland.

In the area of commerce, we have been actively engaged in developing new markets for our goods, particularly in the Caribbean and South America. We have established commercial offices in Santo Domingo and Costa Rica; and encouraged efforts by airlines and shipping companies to expand their routes to serve the entire Caribbean area. We have structured new incentives for companies engaged in export activity and are developing port facilities and foreign trade zones to further facilitate such expansion.

All of these measures and others have contributed to a turn-around in economic activity and in the attitude of our business community as things are now evidently coming together. Since January, employment has increased by 83,000 and unemployment has dropped to 17.9%.

Confidence has returned to the Puerto Rican populace, and a conviction has returned that there shall be a brighter tomorrow.

With your help and your understanding, I am sure that we shall continue to progress and grow, and be a beacon of our cherished freedoms and of the free enterprise system in this part of the world, the Caribbean.

Thank you very much.