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**PUERTO RICO'S ECONOMIC DEVELOPMENT GROWTH  
— PAST AND FUTURE — AND ITS RELATIONSHIP  
TO TRADE POSSIBILITIES IN THE CARIBBEAN  
AND U.S. MARKETS**

*Alex Vallecillo\**

OVERVIEW

Puerto Rico, during the period since World War II, has transformed an economy which had relied primarily on agriculture. Today, Puerto Rico has a sophisticated and diversified economy with a significant industrial sector while still retaining strengths in selected agricultural products and implementing plans for obtaining the most beneficial utilization of our land.

The purpose of this paper is to highlight certain key elements in our past and future economic development growth, emphasizing, of course, the importance Puerto Rico attaches to fair trade possibilities with the U.S. mainland and its Caribbean neighbors.

There are no tariffs or other barriers to trade between Puerto Rico and the U.S. mainland. Thus, for goods produced in Puerto Rico, this means accessibility to a market of over two hundred million people with a per capita income of over \$8,627 (based on GNP figures).

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Puerto Rico is also a good customer, and in the past, with a few exceptions, has had a trade deficit with the U.S. mainland and foreign countries. In fiscal year 1977, Puerto Rico had over \$6.1 billion in imports, and exports totaled less than \$4.5 billion. This resulted in a trade deficit balance of over \$1.6 billion. Raw materials represented about sixty percent of imports; consumer goods accounted for thirty-five percent, while capital goods reflected only five percent. Puerto Rico's manufactured products totaled well over seventy percent of all exports during the 1977 fiscal year.

The manufacturing sector's contribution to Puerto Rico's gross product was over \$3.3 billion in 1977, out of a gross product total of over \$7.9 billion or 42.2%. Because of the significant manufacturing infrastructure within Puerto Rico, we believe the time has arrived when our island cannot be just a good neighbor, but a strong partner in regional mutual growth as well. This growth can be possible as long as the participants recognize the economic, social, political and technological traditions and pressures of others in the Caribbean area.

Puerto Rico has resources which can be effectively utilized for cooperative economic development with Caribbean area countries. We have a skilled and productive labor force which can supply added value to many products or raw materials provided by other trading partners in the Caribbean area. We have a foreign trade zone in Mayaguez which can be effectively utilized by many diverse groups without the necessity of first paying U.S. tariff duties. This zone is helpful especially for those who reexport products to foreign countries. We are presently in the process of reviewing economic development and incentives used in the past. New approaches and options are being proposed. The Puerto Rican economy has on-island sources of capital and many service organizations which Caribbean nations can utilize. We are an island with the capability to conduct trade in Spanish or English and this facilitates growth and communication. Natural resources in Puerto Rico include such minerals as copper and possibly oil, or other new energy sources such as ocean thermal energy conversion. We have a population density of almost 1,000 persons per square mile. This creates a need for importation of many agricultural, timber and other products, which, in turn, should expand drastically Puerto Rico's trade in the Caribbean area.

Just as Puerto Rico seeks many Caribbean raw materials, it also has the capability of supplying many goods and services at attractive prices, which will also strengthen development. The GSP will allow duty-free importation of selected products from many Caribbean area countries which can in turn utilize our goods and services. Recently about one-half or 2,766 of the 5,348 articles in the TSUS have been eligible for preferential treatment. We recognize that Caribbean area countries must specialize in a particular product or service, and Puerto Rico is now in the

process of reviewing which import-substitution products should be emphasized. There is no major conflict in such a goal of import-substitution in those product or service areas where we have absolute or comparative advantages. Classical economic theories prove that well-planned specialization increases the overall benefit for trading partners. This is why we in Puerto Rico are optimistic that new long-term benefits can accrue to the Caribbean area partners in economic growth and development.

#### POST ECONOMIC DEVELOPMENT

Puerto Rico and U.S. economic development, of course, are intertwined in many areas; Puerto Rico has, however, had its own special characteristics, opportunities and problems. Although Puerto Rico has been associated with the United States since 1898, the first and most formal economic development plan was not drafted until the staff of the National Resources Planning Board provided a document in 1943 entitled *A Development Plan for Puerto Rico*. In the thirty-five years since, Puerto Rico has struggled with such problems as increasing population, inadequate income production and unsatisfactory income distribution.

In 1940, there were about 1.8 million inhabitants on our Island of 3,435 square miles. In 1978, the population is estimated to exceed 3.3 million. Some population pressures were relieved in the 1950s and 1960s due to a net out-migration (mostly to the United States) of about 640,000 persons. But since 1972, this migration pattern has drastically shifted to the point where Puerto Rico has had a net immigration or inflow of about 36,000 persons annually. This has, in turn, brought about increased pressures on the Puerto Rican government and its economy to provide new job opportunities. The reversal, when coupled in recent years with an annual birth rate of less than two percent, has caused new pressures for a thorough review of economic development policies and options.

The majority (fully sixty percent) of Puerto Rican families, by U.S. standards, have frequently been below the federal poverty level. Despite the rise in median family income from about \$350 in 1939 to \$3,063 according to 1970 U.S. census statistics, Puerto Rico still has a median income of approximately one-half that of the lowest state in the union, Mississippi, with \$6,071.

Recently, another problem has arisen in Puerto Rico. The Puerto Rican labor force participation rate is only about forty-two percent. This is down sharply from the fifty-two percent labor force participation rate that existed in 1940 and is considerably below the recent U.S. national average labor force participation rate of sixty-two percent. New opportunities need to be created for Puerto Rico's workers. This is one reason why past economic development approaches have been reviewed.

In the past, Puerto Rico has engaged in an evolutionary approach to economic development. Such an approach, of course, has had some trials and errors. We presently have minimum wages nearly equivalent to those on the U.S. mainland. The United States Occupational Safety, Health and Environmental Regulations generally apply also to Puerto Rico. Our workers' benefits as well as educational and training systems are very similar to those elsewhere in the greater U.S. areas. We have several distinct advantages in taxation and related revenue areas which have cushioned the total impact of the negative shifts in economic activity.

As compared to the 1940s or 1950s, distribution of the labor force today shows considerably less emphasis on the agricultural areas and more emphasis on the manufacturing, service, trading and administration areas. Also, the Puerto Rican economy has become diversified and has acquired sophisticated new components. These developments have not occurred without planning. For instance, Carlos Chardon, Chancellor of the University of Puerto Rico, headed a 1934 group planning reconstruction, agrarian reform, social improvements and industrial development, advancing early Puerto Rican development plans. Furthermore, in 1935, the Puerto Rico Emergency Relief Administration was created by President Roosevelt with the purpose of initiating recovery and development plans for Puerto Rico.

Between 1935 and 1941, U.S. government agencies provided some \$300 million in grants and loans for agricultural adjustments, farm credit, public works, slum clearance, housing and other measures to generate employment and income. Such appropriations helped lay the groundwork for the development of new industries in Puerto Rico.

Another individual, Rexford Tugwell, who in 1941 was Assistant U.S. Secretary of Agriculture, later to be appointed Governor of Puerto Rico, further implemented the Chardon plans and overhauled Puerto Rico's administrative structure. Land use and development became regulated under Law 213 of 1942 and the predecessor of our present planning board was born.

The Land Authority was created. This Authority acquired lands held in excess of the restrictions which applied to private corporate land holdings. In addition, the government created an Agricultural Company to hasten agricultural development and the application of new technology.

In the manufacturing sectors, the Puerto Rico Industrial Development Company was authorized to establish and operate new manufacturing plants and to conduct industrial research activities. At the same time, the Government Development Bank was established to extend credit to new industrial enterprises and to act as fiscal agent for the insular government and public authorities. Similar new entities in other areas

were established to provide insurance, electric energy, water and waste treatment and communications as well as transportation services and facilities such as seaports and airports. Some of the public enterprise plants, however, did not fare well — for example, those producing ceramics and shoes. In later years, these became private enterprises.

In 1947, Puerto Rico created the incentive of a full tax exemption from both income and property taxes for a period of up to ten years for any plant that manufactured a product which had not been produced in Puerto Rico prior to 1947. This approach was aimed at diversification of the Puerto Rican economy. In addition, rents from property leased to such tax-exempt companies and dividends distributed by such companies were granted the same tax exemption. Presently, Puerto Rico has approximately 2,500 plants or an average of about seventy-three plants per square mile. The tax exemption incentives of the past and consequent diversification have not been achieved without some costs and pressures on existing public and private resources as well as on the facilities infrastructure and tax bases.

#### MORE RECENT DEVELOPMENTS

During the following decades, there have been changes in the conditions and length of time tax exemptions and other benefits were effective. In efforts to encourage better geographical distribution of industries in what some term “economic justice” for all Puerto Ricans, the legislature in 1963 provided for varying periods of exemption related to the existing degree of development in specific areas. New options were created. Tax zones were established in Puerto Rico and, according to 1975 revisions, the longest tax exemption was up to twenty-five years.

We are currently engaged in providing additional options for established and new corporations. Just as tax exemptions were granted to commercial and tourist hotels, as well as industrial enterprises, so now we are considering what incentives or benefits might be provided to new varieties of corporations or service organizations, especially those with export activities.

The Economic Development Administration (FOMENTO), created in 1950, was charged with the responsibility of coordinating all aspects of development necessary for industry and tourism. The Puerto Rico Industrial Development Company (PRIDCO) is a division of FOMENTO which is responsible for real estate operations. Also originally under FOMENTO, but now operating independently, are the Ports Authority which split off from the earlier Transportation Authority and the Bureau of Tourism. Today, efforts are still being made to integrate activities, to coordinate corporate operations and to create key industries where they are required as vital support or building-block industries.

We have attempted to analyze the multiplier effects of past and new schemes. Our petrochemical industry complex in areas west and east of Ponce on the south coast of Puerto Rico has recently struggled through difficult times and is still occasionally beset with severe financial difficulties. The Commonwealth Oil Refining Company (CORCO) has suffered recently from the oil price increase shocks that have placed Puerto Rico at a competitive disadvantage relative to mainland petroleum and petrochemical operators. Major companies such as Union Carbide and Sun Oil are involved in important parts of the Puerto Rican petrochemical industry. Our recent problems have been significant, but with cooperation, favorable solutions are being achieved.

New industrial development sites are being selected and preplanned. Puerto Rico's economic development program is being reevaluated as to new alternatives or options. We realize that existing water supplies, sewage and energy arrangements must be reviewed. At the same time, new sources or forms of energy supplies may become available as earlier mentioned. We are confident that new programs for higher value or vitally needed agricultural or forestry products will aid Puerto Rico's growth.

Special funds have been set aside to assist companies which are faced with the need to acquire and install equipment to curb environmental pollution. We have considerable retained earnings accumulated by roughly 2,500 companies which are available for investment in long-term economic development, as well as in the infrastructure and pollution abatement sectors of the Puerto Rican industrial complex. Some of these funds can be made available through the Puerto Rico Industrial and Environmental Pollution Control Facilities Financing Authority (AFICA) and the Puerto Rico Development Fund. AFICA was created in Puerto Rico on June 27, 1977 and was authorized to issue industrial revenue bonds to finance new facilities in Puerto Rico and to provide long-term financing for the acquisition of pollution control equipment and systems. AFICA does not compete with established financing institutions.

The Puerto Rico Development Fund offers various types of financing to private firms, particularly those in the manufacturing and service sectors. This Fund will complement and/or induce other financial intermediaries to participate actively in the financing of Puerto Rico's economic development. It does so by direct loans to industry and commerce, loan participation with other institutions, guaranty of loans granted by other institutions and by capital investment. It will only participate if total financing cannot be obtained from other sources.

Not only are manufacturing development incentives being reviewed and modified, but so also are the tourist accommodations. The Puerto Rico Tourist Company is now promoting a system of country inns which

are modeled on the successful Spanish "Paradores." San Juan has a new major convention center. New options are being provided to visitors and Puerto Ricans alike. The present review of incentives and planning cause me to be optimistic about our future economic and trade development.

#### FUTURE ECONOMIC DEVELOPMENT

We anticipate that the future economic development emphasis will shift increasingly to new, high technology industries. These pay higher wage levels, frequently have products which have high value relative to shipping weight and bulk and require a well-trained, productive labor force. Naturally, we will continue to have many new manufacturers, service or support groups that aid the more traditional industries which have been in Puerto Rico for over a decade. In addition, we will seek to retain industries, companies and jobs. To maintain growth and create jobs, education and training have been emphasized. In fiscal year 1977, Puerto Rico's trained labor force had completed a median of 11.7 years of school. At the same time, some Puerto Rican industries have experienced subtle shifts to higher quality or upper end products, thereby becoming more capital intensive relative to labor. This allows Puerto Rico to compete better in these industries, especially vis-à-vis lower wage areas.

We need many raw materials from our Caribbean neighbors and anticipate that our trade with them will escalate. Just as we have our own incentive packages to make Puerto Rico feasible for appropriate kinds of manufacturing, so also do we anticipate that new trade option arrangements or supply and marketing efforts will aid greater economic growth with our neighbors.

A complex analysis has not been accomplished in order to describe fully the changing patterns of Puerto Rico's economic development or trade, but it should be made clear that we are committed to open and fair trade. Many possibilities of joint ventures or other alternatives exist for mainland United States and foreign Caribbean development and trade partners.

We acknowledge that the United States International Trade Commission's actions, namely, usage of trigger pricing and quota possibilities, have overshadowed short-term trade trends, but this must be weighed against the special problems of Puerto Rico, the United States and others. These include the improved economic conditions of the Marshall Plan countries, the decline in U.S. holdings of foreign exchange and other reserves, the huge U.S. balance of payments deficit and the increased cost of energy.