

Statement by Dr. Rafael Picó, Secretary of the Treasury of the Commonwealth of Puerto Rico, on "Puerto Rico's External Trade and Economic Development"; to be released to the Members of the World Trade Writers Association, New York City, on March 27, 1957

Puerto Rico's limited geographic extension gives no clue as to its importance as a market for United States goods. Although its area is smaller than that for any state in the Union except Rhode Island, Puerto Rico occupies the seventh position among buyers of United States' goods throughout the world.

On the basis of official figures, Puerto Rico's merchandise purchases in the United States in fiscal 1955 exceeded those for any other single nation in the Western Hemisphere, except next door neighbors Canada and Mexico, and oil rich Venezuela. Puerto Rico bought more from the United States in that year than any single European country, except England and West Germany, and more than any other area in the rest of the world, except Japan.

Despite Puerto Rico's offshore location relative to the U. S., trade between Puerto Rico and the United States is not, legally speaking, foreign trade. Under its present political status as a self governing Commonwealth within the American Union, Puerto Rico is part of the domestic trade area of the United States.

Trade between Puerto Rico and the United States is carried on exactly the same terms as trade between any two points within the Continental United States. There are absolutely no legal bars obstructing the movement of merchandise, money or persons between the Island and the Mainland. Legal problems of currency exchange or transfer of funds never complicate trade or financial transactions between the two areas.

United States merchandise sales to Puerto Rico, totalling \$524 million



in fiscal 1955, look small when compared to U. S. sales to foreign countries in the same year, \$15.3 billion. However, for many specific items and classes of merchandise, sales to Puerto Rico were fairly sizeable compared to U. S. sales of the same goods to foreign countries.

For instance, U. S. sales to Puerto Rico of leather and leather manufactures came up to 42 per cent of United States' exports of these goods to foreign countries. Also, Puerto Rico's purchases of United States rice amounted to about 1/3 of United States' sales of this grain to foreign countries. Sales to Puerto Rico of cotton manufactures, machinery and vehicles and man made fibers were equivalent to 19, 12 and 10 per cent, respectively, of United States sales of these goods to foreign countries. Items in these last three categories are among the nation's leading exports. Total U. S. sales of these items to foreign countries amounted to \$1.3 billion in 1955.

One reason why Puerto Rico's purchases from the United States are so high, relative to the Island's area and population, is that practically all of Puerto Rico's external trade is carried on with the United States. In fiscal 1955, only 9 per cent of Puerto Rico's purchases from the outside came from foreign countries and only 3 per cent of its sales abroad went to these countries. However, the Island's trade with foreign countries is likely to be stimulated with the inauguration next year in the San Juan area of a foreign trade zone similar to that now operating in New York.

Some very far reaching changes have been taking place in Puerto Rico's merchandise trade with the United States during the last 16 years. For one thing the dollar volume of this trade has risen enormously. United States' merchandise shipments to Puerto Rico have increased roughly six fold since 1940, from \$100.5 million in that year to \$570.6 million in fiscal 1956.



Sales of Puerto Rico's goods to the U. S. have increased four times in the same period, from \$90 million in 1940 to \$390 million in fiscal 1956.

Puerto Rico has been incurring in nearly all these years a deficit in its merchandise trade with the U. S. This deficit has been made up mainly by U. S. Government agencies disbursements in the Island, direct investments by U. S. residents in local industries and tourist expenditures.

Part of the cited increase in the dollar value of United States' sales to Puerto Rico has, of course, been due to price inflation. However, even after correcting for price changes, shipments in both directions show an increase of much more than 100 per cent for the period between 1940 and 1956.

A second very significant development taking place in Puerto Rico's trade with the United States in the last 16 years is the shift in the relative position occupied by certain leading commodities, or classes of commodities, within the overall trade picture.

As far shipments from Puerto Rico to the U. S. are concerned the most conspicuous change taking place in this respect has been the remarkable relative decline of raw sugar as Puerto Rico's leading export item. Shipments of raw sugar to the United States, valued at \$58 million, made up two-thirds of all Puerto Rican commodity sales to the United States in 1940. By fiscal 1956, the value of such shipments had risen to \$131 million, but they amounted to less than one-third of Puerto Rico's total sales to the United States.

In contrast, the relative importance of manufacture goods as a component in Puerto Rico's total sales to the United States has risen enormously. Manufacture goods, consisting for the most part of needlework goods, made up slightly more than one-fourth of the dollar value of Puerto Rico's shipments to the United States in 1940. In 1956 manufacture goods accounted for about two-thirds of the total. Shipments to the United States of goods manufactured in Puerto Rico have risen from \$28 million in 1940 to \$267 million in 1956, or about 8 times.



The composition of Puerto Rico's purchases from the United States has also changed very markedly. The share of total purchases accounted for by final consumer goods has dropped from 53 per cent in 1950 to 47 per cent in 1956.

On the other hand, the relative share of capital goods in this total has risen from 7 to 9 per cent in the last six years. The share for intermediate goods--mainly raw material and semi-processed or unfinished goods--has also risen, from 39 to 44 per cent, in the same period.

The far reaching changes which have occurred in the volume and composition of Puerto Rico's trade with the U. S. since 1940 reflect accurately the dramatic transformation the Puerto Rican economy has undergone during this period.

The four fold increase registered in the volume of Puerto Rico's trade with the U. S. since 1940 is the result of the rapid uplifting of the levels production and income occurring in the Puerto Rican economy in the last sixteen years, and particularly in the last six years, under the Government's program of accelerated economic development.

Net income generated in the Puerto Rican economy rose from \$232 million in 1940 to over \$1 billion in fiscal 1956. These figures do reflect in some measure the increase in the prices of commodities which has taken place since 1940. But, even after correcting for the effect of price changes, the net income generated by Puerto Rico's economy in 1956 was more than double that for 1940.

Income and production levels have been rising in the Puerto Rican economy at a faster rate than in the U. S. economy. For instance, Puerto Rico's net income rose at an average rate of 5.5 per cent annually during the years from 1951 to 1956. The comparable figure for the United States was 3.6 per cent.

The shifts in the composition of Puerto Rico's trade with the United States referred to above are, in turn, a reflection of the far reaching internal changes going on in the Puerto Rican economy as a result of the development process now under way. Foremost among these changes is the very marked expansion taking place in the manufacturing sector of the Puerto Rican economy. Income generated in manu-



facturing has increased from \$26 million in 1940 to \$175 million in fiscal 1956, about 7 times.

Nearly all of the gain registered in manufacturing activity in recent years is accounted for by the new industries established in Puerto Rico under the industrial incentives program. This program provides a number of incentives to firms manufacturing certain designated products, as well as any product not manufactured on a commercial scale in Puerto Rico prior to 1947, in order to induce their establishment in Puerto Rico. Foremost among these incentives is the exemption from income taxes for 10 years and from all property taxes for a period between 5 and 10 years. Other incentives include the provision of low interest long term loans, low-rental industrial buildings, free training of workers and technical and financial assistance.

New firms established under this program numbered 478 in January, this year. These firms employed over 35,000 workers and had an estimated payroll of about \$55 million.

Most of the new firms established fall in four industrial subgroups: textiles and apparel, metal fabricating, electrical machinery and food products. However, there is no excessive concentration in any one group. These new firms manufacture over 263 different products.

Of late, there has been a tendency for some of the better known U. S. industrial giants to establish operations in Puerto Rico. Among the famous brand names with branches in Puerto Rico are General Electric, Remington Rand, Union Carbide, Sunbeam Electric and Phelps-Dodge Copper.

Signal gains have also been registered in sectors of the economy other than agriculture and manufacturing. A veritable boom has been going on in the last 5 years in the construction industry. The value of new constructions put up annually has increased by 36 per cent since 1952. Businesses catering to tourists have also expanded markedly. The number of persons visiting Puerto Rico annually has increased 63 per cent in the last 5 years.



Public utilities have also expanded to keep abreast of an ever increasing demand for their services. For instance, electricity output has risen about 65 per cent in the last 5 years. In fact, Puerto Rico is today way ahead of every other country in Latin America in electricity output per capita.

This increase in total income generated by the Commonwealth's economy has not been frittered away by population increases. Puerto Rico's real per capita income expressed in terms of 1940 prices, has increased from \$125 in 1940 to \$253 in 1956. This means that the volume of goods and services produced per person in Puerto Rico today is twice the volume produced in 1940.

This doubling of per capita real income in the last sixteen years reflects the fact that although both production and population have been rising during this period, production has been rising at a much faster rate. In fact, population has risen relatively little in the last few years, due mainly to the large number of Puerto Ricans who have chosen to make their residence in the United States.

The increased income of the average Puerto Rican has been translated into higher levels of living for the bulk of the population. Expenditures on consumer goods have risen 24 per cent in the last 5 years. Consumption of imported consumer goods has increased at an even faster rate, 36 per cent.

Much of the expansion in the imports of consumer goods is related to an increased demand for consumers durables, which are for the most part imported. In the last 5 years, expenditures on automobiles have increased over 30 per cent, and those on household appliances, some 82 per cent.

Another item of consumption on which expenditure has soared is housing. Expenditure on private residential housing has increased 40 per cent since 1952.

An expanding economy has also permitted increasing Government expenditures in basic social services. Foremost attention has been given to education. Expenditures on education have increased 52 per cent in the last 5 years, from \$33 million in 1952 to \$51 million in 1956.

One major objective in this intensive educational effort has been to provide



adequate school facilities for the population of school age. The proportion of children of school age actually enrolled has increased from 68 per cent in 1952 to 82 per cent in 1956. This is no mean achievement since Puerto Rico has a greater proportion of its population in the school age bracket, 6 to 18, than any state of the Union.

Present expenditure programs call for upping the proportion of children of school age actually enrolled to 87 per cent by fiscal 1962. In particular, it is planned to have 96 per cent of children in ages 6 to 12 in school by that time.

Programs related to health and welfare have also been expanded significantly in the last 5 years. Expenditures for these purposes have gone up 40 per cent, from \$36 million in 1952 to \$49 million in 1956.

Public outlay on roads and other facilities related to transportation and communications has also expanded considerably in the last 5 years. Puerto Rico has close to 600 kilometers of paved roads for each 1,000 kilometer of territorial extension. This rate is not even remotely approached by any other country in Latin America.

It should be stressed that the vast upsurge in economic activity which has taken place in Puerto Rico in recent years is not merely the result of chance or of impersonal forces, but, in a very large measure, the product of a deliberate, planned effort on the part of the people of Puerto Rico to build up a modern, diversified, high productivity economy.

The Government of Puerto Rico has played a leading role in this development. In fact, the beginning of the whole process can be traced to plans laid down by this government in the early 1940's and during the wartime years, but which did not get going in a big way until the early postwar years.

The Government of the Commonwealth of Puerto Rico has contributed to the economic development process in two major ways. Firstly, it has undertaken the task of building up the vast complex of public utilities which are essential to a modern, high productivity economy and to expand those government programs



which enhance the productive capacity of the population.

The public utilities referred to include roads, water works, electric power installations, and ports and docks. In most low income countries these utilities can be build in a hurry only by government.

Commonwealth Government programs which have helped to uplift the productivity of the labor force are those related to general education, vocational training, and improved health facilities. These services are essential to develop a well trained, healthy, alert and industrious population. As stated above Puerto Rico is making good progress in these fields.

A second way in which the Commonwealth Government has contributed to push forward the development of the economy is by its efforts to create in Puerto Rico a climate favorable for private individuals to assume risks and exercise their own initiative in economic activity. This type of action is extremely important in a country which lacks an industrial tradition and where businessmen are reluctant to start new ventures except in fields of activity they know well, such as farming and trade.

The Commonwealth Government maintains a number of programs aimed at fostering private initiative in economic affairs in Puerto Rico.

It is constantly seeking to keep the Commonwealth's tax system favorable to risk taking in economic activity. Besides providing tax exemption for new firms in certain fields, it adheres firmly to a policy of keeping the tax burden at moderate levels and equitably distributed.

Our Government also renders direct assistance of various types to persons interested in establishing new businesses in Puerto Rico. A businessman showing interest in starting new ventures in the Island can count on financial and technical aid of several types. Various government agencies will help him obtain the data needed to determine the prospective profitability of his proposed venture, build or procure suitable premises for his operation to be leased at low rates, grant him low interest loans for certain purposes, and help him recruit and train his workers.



I feel it should also be said that the Commonwealth Government has contributed to foster private initiative in Puerto Rico by promoting confidence in government on the part of investors and entrepreneurs. To this end, good care has been followed to maintain the Commonwealth's finances on a very sound basis and to develop and maintain the highest standards of honesty, efficiency and alertness in public administration.

Despite all the progress of recent years, Puerto Rico still has a long way to go before its economy can provide adequate living conditions for all Puerto Ricans. Puerto Rico's net per capita income is at present about half that for the poorest state in the Union, Mississippi.

On the other hand, Puerto Rico has today one of the highest levels of living of any country in the Western Hemisphere, South of the Rio Grande. Puerto Rico's per capita net income is the second highest in Latin America, next to Venezuela's. And this island commonwealth leads all Latin American countries in many of the accepted indicators of levels of living and economic achievement.

Puerto Rico has a higher percentage of its total population actually enrolled in school, 29 per cent, than any other country in Latin America. The next highest figure, 16.5 per cent, corresponds to Costa Rica. In fact, the figure for Puerto Rico is even higher than that for the United States, 18 per cent.

In addition, Puerto Rico leads all countries in Latin America in the rate of students enrolled in colleges and universities per thousand persons in the population. Puerto Rico's rate, 7.2, compares very favorably with Uruguay's 5 and Argentina's 4.

Puerto Rico is also way ahead of other Latin American countries with respect to health standards. Infant mortality per thousand births is 55 in Puerto Rico, compared to 60 in Honduras and 62 in Argentina. Life expectancy of the average Puerto Rican is 68 years, barely below the United States' average of 70. The next highest rates in Latin America are Argentina's 59 and Costa Rica's 56.

In addition to these fundamentals, Puerto Ricans seem to have more of some



amenities of life than their neighbors in Latin America. There were 64 TV sets per thousand inhabitants in Puerto Rico at the latest count. The next highest figure in Latin America were Cuba's 34 and Argentina's 7. There were 30 automobiles per thousand persons in Puerto Rico in 1955 compared to 21 in Venezuela and 19 in Uruguay. And the latest available figures indicate that the average Puerto Rican went 9 times a year to the movies, against 7 times for the average Argentinian and 5 times for the average Brazilian.

Puerto Rico's impressive economic advances in the last decade have made it a sort of living laboratory for students of economy development. Over 3,000 persons from all parts of the world have visited Puerto Rico in the last 5 years under the joint sponsorship of the Federal and the Commonwealth Government to observe the dynamic economic and social changes taking place in the Commonwealth.

To a large extent, Puerto Rico's economic achievement are the result of the Commonwealth's very favorable economic and fiscal relationships with the United States, and can hardly be duplicated by other underdeveloped areas. However, the Island does stand out as a shining example to other areas of what a free people, under democratic institutions, can do for their own good thru properly planned and well organized efforts.

Given favorable conditions, the prospects for the continued development of the Puerto Rican economy in the coming years are quite promising. A fairly realistic idea of Puerto Rico's economic future may be gathered from some projections of the Commonwealth's net income trends from 1956 to 1965 which have been drawn by the Puerto Rico Planning Board. These projections are based on rather cautious assumptions concerning the island's industrial potential and overall business conditions in the U. S. during the period.

According to these forecasts, net income generated by the Puerto Rican economy should rise from \$1.0 billion in 1956 to over \$1.3 billion in 1960, and over \$1.8 billion in 1965. On the basis of these figures, net income per



capita would rise to \$800 in 1965, or 80 per cent above the 1956 rate of \$445.

These projections have some interesting implications for Puerto Rico's trade with the United States. If Puerto Rico purchases from the U. S. increase at the same rate as the Commonwealth's net income, they will exceed the \$1 billion mark by 1965. This amount is considerably higher than the value of U. S. exports to England, the nation's best customer after Canada, in 1955.

To pay for these increased purchases, Puerto Rico is counting on a very marked expansion of its merchandise shipments to the U. S. and its sales of goods and services to U. S. residents visiting the Island. The flow of these visitors is likely to expand noticeably after 1959, when jet passenger planes capable of flying the New York-San Juan run in 3 hours are scheduled to go into operation.

If, as they say, trade and travel draw the peoples of the world closer together, it certainly looks as if the peoples of the United States and Puerto Rico will keep getting closer and closer in the years ahead.

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