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**INDUSTRIAL INVESTMENT PROMOTION ACTIVITIES OF THE
UNITED STATES OFFICE OF THE
ECONOMIC DEVELOPMENT ADMINISTRATION
COMMONWEALTH OF PUERTO RICO**

submitted by

Ramon Acevedo, Director of Industrial Promotion

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The story of Puerto Rico's rapid development into one of the world's fastest growing industry-based economies is generally well known. It is, basically, the story of a people who overcame the inertia of four-and-a-half centuries and set out to find workable solutions to their economic and social problems. The story is not yet complete, for Puerto Rico still has problems, some of them the direct result of progress; but the important point to be remembered always is that in Puerto Rico men have proved that the future need not be a reflection of the past, that solutions can be found and opportunities created.

The 30,000 officials, planners and technicians who have come to Puerto Rico from all over the world during the past decade have witnessed a peaceful revolution in motion. They have seen a society that has bridged the great gap between antiquity and the modern world and has been transformed. My subject here is the methods by which this transformation was accomplished and I shall start by giving you a brief description of the Puerto Rico that used to be, for only by knowing this other Puerto Rico can you begin to understand our Island as it is today.

Puerto Rico was discovered and claimed for Spain by Columbus during his second voyage to the New World in 1493. During the early years of its colonization the Island was highly prized as a military base. Guarding the ocean shipping routes connecting Spain with her New World colonies, Puerto Rico represented a

haven for Spanish vessels and a threat to the ships of competing colonial powers. As a result attempts were made by the British, French and Dutch to take the capital city of San Juan, but these were stopped in the blue water approaches to the massive El Morro fortress at the mouth of San Juan harbor.

As the frontier of exploration moved west, Puerto Rico settled into its new life as a colony. Under Spanish rule the Island was permitted to trade only with Spain and to engage only in agriculture. By the time of the Spanish-American War Puerto Rico had achieved a measure of self-rule, without making appreciable economic advancement, but the Island's cession to the United States in 1898 once again placed Puerto Rico in the hands of a colonial administration.

There were some who believed that the coming of American rule would generate new activity and result in progress, but aside from the granting of U. S. citizenship to all Puerto Ricans in 1917, the economic facts of life for the average man changed very little. Puerto Rico the American territory was not much different from Puerto Rico the Spanish colony.

As a territory, Puerto Rico had its governor appointed by the President. Legislation passed by the locally-elected legislature could be vetoed by both the governor and the President. Not that much legislation had to be vetoed. The legislature, like the Island's economy, was dominated by a half-dozen large sugar companies that were automatically opposed to any act that might weaken their position. Political leaders were more interested in philosophical discussions on political status than in the real problems at hand.

In short, Puerto Rico's condition during its first forty years under the American flag was characterized by political and economic inertia that resisted change and perpetuated poverty with all its attendant evils.

The beginning of the long-awaited change came in 1940, for it was then that a new political party -- the Popular Democratic Party -- captured the hearts and minds of the people with a program to build a new Puerto Rico, a program to attack the Island's age-old problems. Led by Luis Muñoz Marín, the Popular Democratic Party won a slim majority in the legislature and gained the support of the appointed governor.

The problems faced by Muñoz and his young followers are best reflected by a few key statistics. The Island's per capita income was \$121 a year. Average life expectancy was 46 years. Literacy was a low 63 percent. Furthermore, the economy had virtually no industry and was totally dependent upon agriculture for its income. Today per capita income is \$1,000; life expectancy is over 70 years and the literacy rate is nearly 90 percent. Still, in 1940, coupled with the underdeveloped state of the economy and the almost total lack of trained government administrators and civil servants, the chances of realizing the Popular Party's goals seemed very remote.

In 1941 there began what can be described as the first, or experimentation, stage of the Island's modern development. Faced with the task of breaking ground in an area never before directly confronted by a government, Puerto Rico's new leaders set about to train people and devise methods for combatting

the Island's economic ills. Their approach was non-doctrinaire, their purpose to find out what would work.

The decision to industrialize was based on a set of clearly defined facts. Puerto Rico, with a total area of less than 3500 square miles, much of it mountainous, did not have enough arable land. The people needed jobs that would pay fair wages, but agriculture was incapable of providing either sufficient food or income.

The "500 Acres Law" had broken the power of the sugar companies by limiting the amount of land that could be held by a single firm, but it could not create more land or reduce what was already one of the world's highest population densities -- over 700 people per square mile. The answer, obviously, lay in industrialization. Only through industry could Puerto Rico hope to generate enough new, well paying jobs to turn the economy around and raise the general standard of living.

In order to insure coordinated economic, social and physical policy-formation, planning and programming, the Puerto Rico Planning Board and the Bureau of the Budget were established in the Office of the Governor. The implementation of the decision to utilize "all possible means for increasing production" was to be carried out through several new agencies utilizing the concept of the public corporation, namely the Puerto Rico Industrial Development Company, the Puerto Rico Agricultural Development Company, the Land Authority and the Government Development Bank for Puerto Rico. Recognizing

that it was necessary to develop the infrastructure of the economy to support the work of the primary development organizations, the following public corporations were also organized: the Water Resources Authority to provide electricity and primary water supplies; the Aqueduct and Sewer Authority to develop and distribute potable water supplies and a sewage system; the Communications Authority to cover the areas not serviced by the private telephone company; the Transportation Authority to develop and supervise the operation of the ports of the Island and provide public transportation within the Island.

The task of industrialization was assigned to the Puerto Rico Industrial Development Company (PRIDCO). Financed by tax collections on the sale of Puerto Rican rums in the United States and headed by a young former pharmacist named Teodoro Moscoso, PRIDCO faced some major obstacles. Puerto Rico had no industry to speak of. The small pool of skilled workers had been depleted by the war effort and few investors were inclined to risk capital on manufacturing ventures on the Island.

It was decided, therefore, that Puerto Rico would build its own industries in order to provide a base capable of producing some essentials and to prove that industry could operate successfully on the Island.

Five plants were built for the production of cement, glass, cardboard containers, ceramics and shoes. These plants proved that Puerto Ricans could adapt themselves to manufacturing and that industry could operate profitably in

Puerto Rico, but they also demonstrated that the Government had neither the capital nor the knowhow with which to create and run a manufacturing community of any size. This valuable lesson resulted in the shift in policy that marked the beginning of Puerto Rico's industrialization effort as we know it today. Instead of building its own plants, Puerto Rico would henceforth concentrate on creating incentives and a business climate capable of attracting private industry. "Operation Bootstrap" the now famous self-help industrialization program, was taking its final form.

By 1947, with the war over, the new program was ready for implementation. The five government built plants were sold to private interests and the Legislature passed the Island's first Industrial Incentives Act. Taking effect in January of 1948, this Act provided new manufacturing and tourism projects with a ten-year freedom from all corporate, real estate, property and municipal taxes and created additional incentives designed to help new industry become established as easily and as economically as possible.

The act differed from those later passed in many states in that it stipulated that tax exemption and other incentives could not be extended to runaway industries -- that is, industries that would close operations in their present location in order to move them to Puerto Rico. There is no doubt that Puerto Rico could have attracted many more plants had we accepted runaways, but, knowing too well the horrors and hardships of unemployment, we did not want our progress to come at the expense of others.

Progress at first was slow. Puerto Rico represented an unknown to the U. S. manufacturer and to many it had a decidedly negative image. Furthermore, the job of getting our message to manufacturers proved more difficult than had been imagined. Because of this early experience it was decided in 1949 that the machinery of "Operation Bootstrap" would have to be overhauled and adapted to the task of promotion.

The reorganization went into effect in 1950. A new agency, the Economic Development Administration, was given overall responsibility for the development of the Island's manufacturing and tourism, with PRIDCO operating as a public corporation, as its financial and real estate subsidiary. EDA would work to attract new industrial and tourism investments and PRIDCO would work to provide the necessary physical facilities and, on occasion, serve as a secondary source of financing.

One of the most important steps in the establishment of EDA was the creation of its Continental Operations Branch. With headquarters in New York, this Branch would act to bring Puerto Rico's message to manufacturers and tourists in the United States. Today the Continental Operations Branch has regional offices in Boston, Philadelphia, Miami, Chicago, Toronto and Los Angeles. Its three principal programs -- industry, tourism and rum sales -- are represented throughout the nation by promotional staffs who are, in turn, supported by departments carrying out advertising, direct mail, economic research and public relations services in the New York headquarters office.

Each of these programs and departments have counterparts in EDA's San Juan Office and together they form the operational chain along which the work of EDA flows.

As an example, let me cite the case of a manufacturer establishing a plant in Puerto Rico. He may become interested in expanding to Puerto Rico in a number of ways. He may attend one of our industrial seminars in his area; he may become aware of a competitor's operations in Puerto Rico; he may see a newspaper story or an advertisement; he may receive our newsletter or some of our literature; or he may be visited by one of our Industrial Representatives. This last possibility is the most likely, because the majority of our direct contacts with industrialists is the result of field work by our Representatives using the EDA master list of prospect companies. Once the manufacturer's interest is aroused he meets with our Representative and tells us his needs and is given a full briefing on tax exemption, incentives, wages, labor availability, transportation and every factor that would be of importance to his operation.

The next step is a visit to Puerto Rico, where the Industrial Promotion Department of the San Juan Office, show him available plant sites, conduct him to plants already in operation and arrange for him to talk with plant managers and government officials. When his decision is made, sometimes after two or three visits, the manufacturer signs his building rental or construction contract, which includes the incentives he will receive, and makes formal application for tax exemption.

This is, of course, a simplified outline of our promotional procedure, but I believe it will give you an idea of how we work. I should add here that we have two industrial promotion departments in San Juan. One, which works in conjunction with our Department in New York, is for outside industry. The other is for the promotion of local industry. When EDA started in 1950 very little thought was given to encouraging Puerto Rican investors to enter manufacturing, but by the late 1950's it became obvious that the Island's progress had generated sufficient new capital and interest to make a Department of Local Industries a necessity. Local manufacturing projects are eligible for the same incentives available to U.S. and foreign projects and the local industries program has met with great success in the development of both locally-owned industries and joint ventures combining local and outside capital. The Department of Local Industries also encourages the agricultural sector to enter into industrial projects, such as the canning of locally grown fruits.

But let us return for a moment to the establishment and development of the "Bootstrap" program.

The first manufacturing sector to react favorably to the attractions and opportunities made possible under "Bootstrap" was the apparel and sewing industry. Narrowing profit margins and a need for workers with a high level of manual dexterity led this industry to look to Puerto Rico and, with the early success of a few pioneers, others followed. Although this industry tended to

employ female, rather than male, production workers it did, nevertheless, give "Bootstrap" a start and did help to prove that industry could make a success of Island operations despite the need to keep high inventories in Puerto Rico and inspite of the transportation factor.

The next industry group to respond to Puerto Rico was electronics, once again because of the high labor content of component products. Gradually the base of Puerto Rico's new manufacturing community was beginning to broaden, and as this was accomplished we put into effect measures designed to spread the benefits of industrialization throughout the Island. "Tax Exemption Zones" were created, based on the degree of industrialization in each area, and manufacturers establishing in the less industrialized areas were granted special locational incentives and exemptions of 12 or 17 years. I shall refer to this again later.

The first stage of Puerto Rico's development program -- the stage in which the industrial base was established -- came to an end in 1956, when manufacturing passed agriculture as a source of income for the first time. In the six years since the establishment of EDA 274 plants had started operations, directly employing about 20,000 workers, and creating 40,000 indirect jobs, and making possible "Bootstrap's" second stage -- the stage of diversification and integration.

From the beginning Puerto Rico's industrialization had been handicapped by the Island's lack of natural resources and the scarcity of service industries.

Manufacturers operating in Puerto Rico found it necessary to bring in their own materials and components and to keep a supply of replacement machine parts. Because of this EDA made a special effort to attract suppliers and machine tool and die producers, thus setting in motion a process of reverse integration of industry which made it more economical for manufacturers already in operation to continue and to expand. The success of this program, and the accelerating expansion of our general promotions, later made it easier for Puerto Rico to spur the process of forward integration in other industries. By granting special incentives to what we call "core" industries, that is industries that produce materials and supplies for other industries, Puerto Rico was able to attract parts and supplies manufacturers thus making a Puerto Rico plant more feasible for others.

Another important development was the rapid progress made in the technology of "containerized" ocean freight. Sea Land of Puerto Rico, the major ocean cargo link with the U. S. mainland, pioneered in the use of ocean-going truck trailers that could be driven to a factory, loaded sealed, driven to the pier and placed aboard a ship for transport to a mainland harbor for direct highway delivery to its destination. Working closely with the Puerto Rico Ports Authority (another subsidiary of EDA) Sea Land designed and built special pier facilities for the loading and unloading of trailerships and thus helped greatly to reduce transportation costs for manufacturers. A trailer sealed at one plant and not opened until its arrival at its destination eliminates the need for cargo handling at both ports and cuts losses from damage or pilferage to next to nothing.

Containerized shipping has since been adapted to railroad boxcars by Seatrain Lines and late this year Trans American will put into operation -- on the New York-Puerto Rico run -- the world's first roll-on-roll-off trailership, a ship that will be able to have trailers driven aboard, thus eliminating the need for costly dockside hoisting equipment.

Puerto Rico's industrial development effort is now in the first stages of its third and most far reaching phase. As indicated by the fact that the Island's gross national product has risen from \$287 million in 1940 to \$1.5 billion in 1960 and over \$3 billion in 1967, we have succeeded in building a strong, industry-based economy. It remains, however, for Puerto Rico to develop a more self-sufficient industrial economy capable of producing and using a wide variety of raw materials.

Up to now, most of our industrial operations have relied on materials and components brought into Puerto Rico and this has acted as a drag on our capacity to accelerate expansion and the creation of jobs. Our population has a median age of 19 years and an annual average increase of 2.2 percent, which means that many young people enter the labor market every year, and, as a result, we have so far been unable to reduce our unemployment levels to less than 10-11 percent of the labor force -- despite our industrial development.

And this is why we ascribe so much importance to recent trends in two key sectors: petrochemicals and metals.

Allow me first to discuss petrochemicals. Puerto Rico, of course, has few natural resources that can serve as a basis for manufacturing; however, the development of a large petrochemicals production capacity on the Island will provide an almost infinite variety of primary and intermediate materials that can substitute effectively for natural resources. In other words, the numerous by-products derived from petrochemicals will, in themselves, make it possible for Puerto Rico to attract many industries that process raw materials or manufacture end products. And this, in turn, will permit a substantial expansion of job opportunities on the Island.

At present there are two major petrochemicals operations taking shape in Puerto Rico. The first is the Commonwealth Oil Refining Company, a Puerto Rican firm established in 1956 and which expanded into petrochemicals in 1965. The second, expected to be completed by the end of this year, is owned by the Phillips Petroleum Company, with PRIDCO as a minority investor. Gulf Oil operates a smaller refinery, which is also being expanded for petrochemicals production.

The Commonwealth Oil operation has already resulted in joint venture satellite projects involving Hercor, Royal Dutch Shell and W. R. Grace and the Phillips core complex is being supplemented by Esso Chemical and a joint venture nylon plant owned partly by Rhone-Poulenc of France. In addition, Union Carbide is expanding its already substantial Island operations with a \$175 million investment in petrochemicals and Texaco, Sun Oil and Allied Chemical are each now planning to build their own petrochemicals refineries.

Although the chemicals and petrochemicals industry in Puerto Rico today represents an investment of over \$300 million, and employs nearly 4,000, its most significant contributions to the Island's development will come during the next decade, as investment rises to an expected \$1.5 billion and its direct employment potential of over 60,000 is realized. The importance of this contribution can best be understood in comparison with the total contributions of all Bootstrap industry to date. At present the EDA industrial community represents a total investment of \$1.2 billion and directly employs about 90,000 workers. The petrochemicals industry alone, therefore, will in 10 years invest more money in Puerto Rico and create two-thirds as many direct jobs as did all our various industries in 20 years.

Puerto Rico's metals industry will also provide a new dimension for the Island's economy in the years ahead. Recently completed surveys indicate considerable copper deposits in our central mountains, deposits exceeding 2.2 million tons. Mining contracts for the extraction of this copper require that the ore be smelted in Puerto Rico and that sufficient quantities of the finished product be made available locally as demand requires for the development of a brass and copper fabricating industry. Conservative estimates indicate that the basic processes involved in this industry will employ 3,000 people. The overall impact, however is even more important, because, over the industry's projected 32 year life expectancy, copper is calculated to pump \$1.6 billion into the Island's economy. For example: initial investments will total \$253 million; labor will cost \$134

million; fuels and chemical agents will require another \$150 million; and electricity costs will be about \$75 million. Commonwealth investment income from these projects will be nearly \$160 million.

Another recently discovered mineral is dolomite, which we hope will lead to the production of magnesium in Puerto Rico. The Island's metals industry already includes 162 plants, with 14 more in process of establishment, but we believe that these new projects mentioned here represent a mere beginning in this important sector, which also provides an important source of male employment.

With all these developments, the work of the Economic Development Administration is in many ways today becoming more demanding. The need for more industry is just as basic as ever, but it is necessary that we be more selective in the promotion of this new industry, because we do not want to attract operations that will not be successful because of poor marketing arrangements or inexperienced management. Attracting a plant that will operate for a year or two and then close represents a defeat for us, because it means wasted promotional efforts as well as the dislocation of workers in Puerto Rico. This does not mean that we do not want small companies. It means simply that we must evaluate each carefully to determine as accurately as possible if the product, the management and the markets are of such a nature as to give good indications of successful operation and future expansion.

Another area of prime importance -- and one in which EDA is still taking a lead in Puerto Rico -- is in the development of institutions and facilities that,

although not directly related to industry, have a direct bearing on the Commonwealth's capacity to provide for the needs of an expanding industrial community. This is the infrastructure I referred to earlier. For example, the growth of our manufacturing sector, along with the increasing size and complexity of individual projects as we attract heavier and more sophisticated industry, makes it essential that electric power and water resources be continually expanded, that educational standards be upgraded and opportunities diversified, that highways be maintained and expanded and that general planning be coordinated. For this reason, as has been customary from the start, top EDA officials participate as directors in the various Commonwealth Government agencies charged with these responsibilities -- agencies such as the Government Development Bank, the Planning Board and the Land Authority.

Puerto Rico has attained amazing progress in every area, of course. Electric power capacity has risen from 488 million kilowatt hours in 1950 to 3.8 billion kilowatt hours in 1966. School enrollment has risen from 431,000 to 698,000 in the same period, while the number of doctors has almost tripled. But the acceleration now taking place in the growth of both our population and our industrial community requires that we surpass our former attainments in all fields.

One major problem EDA is now confronting in cooperation with the Department of Education and private industry is the vast need for skilled technicians and engineers. Until recently the Commonwealth's 16 vocational schools were geared to meet the needs of conventional industry, but the rapid growth of our chemicals

industry has created a demand for a new kind of worker and a more highly educated supervisor. Between 1950 and 1966 college enrollment in Puerto Rico increased from 12,500 to 40,000, but today's demands have placed a new set of stresses on our system of higher education. It is, of course, imperative that a developing economy keep pace with the world at large and look to future as well as present needs. In line with this, EDA is consciously making an effort to attract more sophisticated industrial operations and has started work on the development of a research oriented scientific community for the Island.

In some industries the problem of skills can be approached differently. For example, Puerto Rico is now becoming a major center for the production of footwear, which is good for us because most footwear operations involve a high labor factor and employ a high percentage of male production workers. In order to provide ready-trained labor to meet the demand, and make the Island even more attractive to shoe manufacturers, we have started a footwear training center for production workers and are in the process of establishing other centers for the training of shoe machinery maintenance mechanics and production supervisors. I am happy to be able to report that this training program has proved so successful that the demand for graduates is far exceeding the supply and it now appears that a second center will be necessary.

In general, I cannot over emphasize the importance of developing a society's institutions and physical facilities as part of the overall program of industrial development. Had we not developed our electrical grid system and our

roads it would not have been possible for Puerto Rico to carry out its program to decentralize industry. At one point it seemed that only San Juan would undergo significant industrial growth and that most people would leave the smaller municipalities to come to the capital in search of jobs, but we were able to encourage industry to establish away from San Juan by granting additional incentives and today more than half of our new projects are located away from San Juan -- and every one of the Island's 76 municipalities has at least one plant.

EDA's budget has remained fairly constant over the past few years, generally running about \$6 million a year. Approximately half of this amount goes for the programs of the Continental Operations Branch. Nearly two-thirds of Continental expenditures are accounted for by advertising, with the vast majority of advertising funds dedicated to the promotion of Puerto Rican rums. The reason for this is that Federal excise tax collections on the sale of Puerto Rican rums revert to the Puerto Rican treasury. This \$2 million yearly expenditure has enabled us to capture 75 percent of the U.S. rum market and last year produced some \$44 million in tax revenues.

The operational cost of our industrial promotion effort in the United States amounts to approximately \$1 million a year. This may sound like a lot of money to spend on selling an already attractive product, but it is necessary, especially in view of the thousands of competing agencies that have come into the picture since the birth of Operation Bootstrap. Furthermore, our rate of return indicates that this is rather good investment for the Commonwealth Government. Each

dollar spent by EDA on promotion results in a return of more than \$70 to the Puerto Rican economy and I submit that this is a rate of return that would make even the most ambitious private entrepreneur quite happy.

The promotion of tourism, another major EDA program, has also served to strengthen the Puerto Rican economy. Seventeen years ago Puerto Rico had no tourism industry to speak of and the Government was not able to interest any of the principal hotel chains in the building of a resort hotel in San Juan. PRIDCO thus built the first of San Juan's new hotels and contracted Hilton to manage it. Later, when Hilton asked to buy this hotel, the Caribe Hilton, PRIDCO refused to sell. Hilton has since expanded its Island operations -- and with good reason, for between 1950 and 1966 the number of visitors to Puerto Rico rose from 65,000 to 723,000 and tourist expenditures climbed from \$6.8 million to \$139 million.

I might add here that our development of a tourism industry had a twofold purpose from the start. It was intended to create jobs and bring money into the local economy, of course, but we also wanted to provide the kind of modern and enjoyable surrounding that a businessman, whether on vacation or not, can enjoy. Our experience has shown us that this concept was correct, because a number of manufacturers who have plants on the Island have told us that they first came to Puerto Rico on vacation, were surprised by its development and the presence of other U.S. firms and decided to investigate the Island as a possible plant site for their own companies.

In presenting this picture of Puerto Rico's "Operation Bootstrap" I have tried to convey two ideas. The first is that the problems of development and promotion can be confronted and overcome and the second is that the rewards to be attained through a sound and realistic development program are more than worth the time and money invested. In the long run, there is not substitute for such a program, because progress can not be bestowed upon a people. It is something that must be worked for if it is to be of a permanent nature.

I should like to conclude by making two more very important points.

We have found that material progress brings almost as many problems as it solves. They are problems of a different nature, but they exist and can not be avoided, for you can not move a people 100 years forward in time in 20 years without causing a change in the very ways and attitudes of life. The automobile, the telephone and other material things gain in importance to the extent that human values are overlooked. We have recognized this problem and, although we do not pretend to have solved it, are trying to do something about it by placing new emphasis on the arts and culture of Puerto Rico as well as of the world in general. As former Governor Muñoz put it several years ago, we must not forget that "the economic progress is Man's servant and not his master."

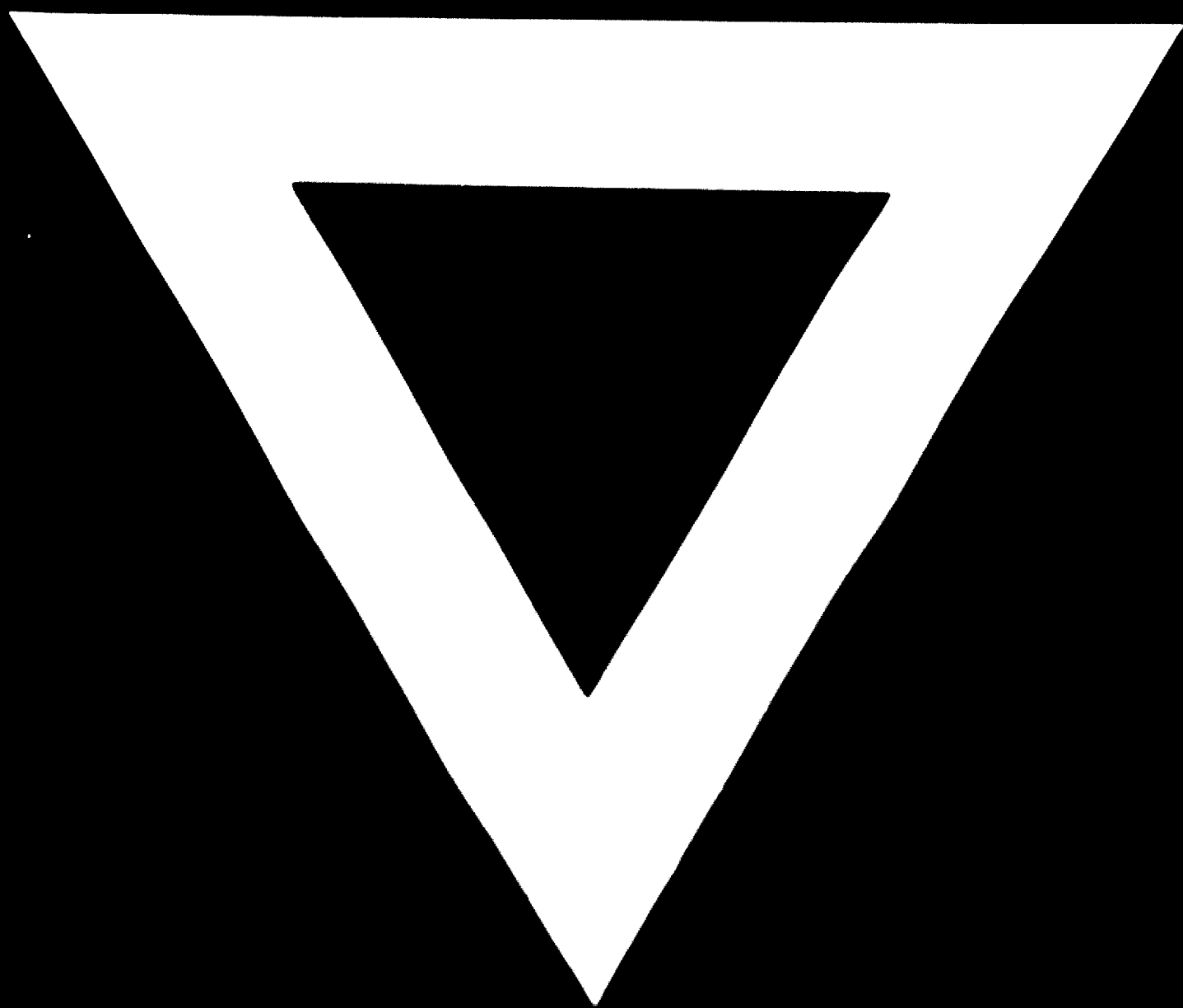
Finally, I want to say something about the circumstances that have made Puerto Rico's progress possible. The solutions we have developed for our problems are, of course, intended to meet our needs. It is true that Puerto Rico's special relationship with the United States -- the fact that Puerto Rico is within U.S. tariff walls and is part of the American monetary and postal systems, etc. --

that this has played an important role in our development and that, because of this, some of our solutions are not entirely applicable to similar problems in other areas. Still, I should like to remind you that Puerto Rico made very little progress during its first forty years under the American flag and that it was only when we developed the leadership and the popular will and faith to confront our problems that we were able to start down the long road to a better life for our people. The United States had always been interested in our development, but had we not applied our own understanding to these problems, had we not made the decision to change our destiny we would probably still be what we used to be called -- "the poorhouse of the Caribbean." I think this is the most important lesson we can offer.

I thank the United Nations Industrial Organization for this opportunity to put our story before you and, on behalf of the people of the Commonwealth of Puerto Rico, I extend our friendship and good wishes.

Thank you.





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