PUERTO RICO: "THE ART OF THE DEAL"

Erick Negrón Rivera of Rexach & Picó explores the steps ahead for Puerto Rico's economy and its promising future

"Puerto Rico is an island made out of cork. Every time it seems about to sink in the ocean, it floats back to the surface."

The above comment, which long ago I heard from a Cuban-born friend who resides in Puerto Rico, and which he had reportedly first heard in a conversation with Cubans from Miami, has come to mind several times during the past few years, as the persistent negative trend in the island's economy has made clear that, on this occasion, the floating quality of its "cork" is being severely tested.

Puerto Rico has now reached a full decade of economic recession, with no immediate end in sight. The local government's fiscal imbalance has progressively worsened, triggering defaults in its public debt and prompting the US Congress to pass "Promesa" – an emergency legislation establishing a federally appointed "financial oversight and management board," modeled on somewhat analogous bodies that have previously handled the financial distress of jurisdictions such as Washington, DC, New York City and Detroit.

As new governor Ricardo Rosselló Nevares – of the pro-statehood New Progressive Party (NPP) – starts his four-year tenure, he faces the inescapable need to implement substantial budgetary adjustments and administrative restructurings that, at least in the short term, may likely overshadow the rest of his agenda. Yet he will also need to succeed in stimulating private-sector-led economic recovery, as no liquidity is left for continuing to fund the paternalistic role that an over-extended public sector had generally played heretofore.

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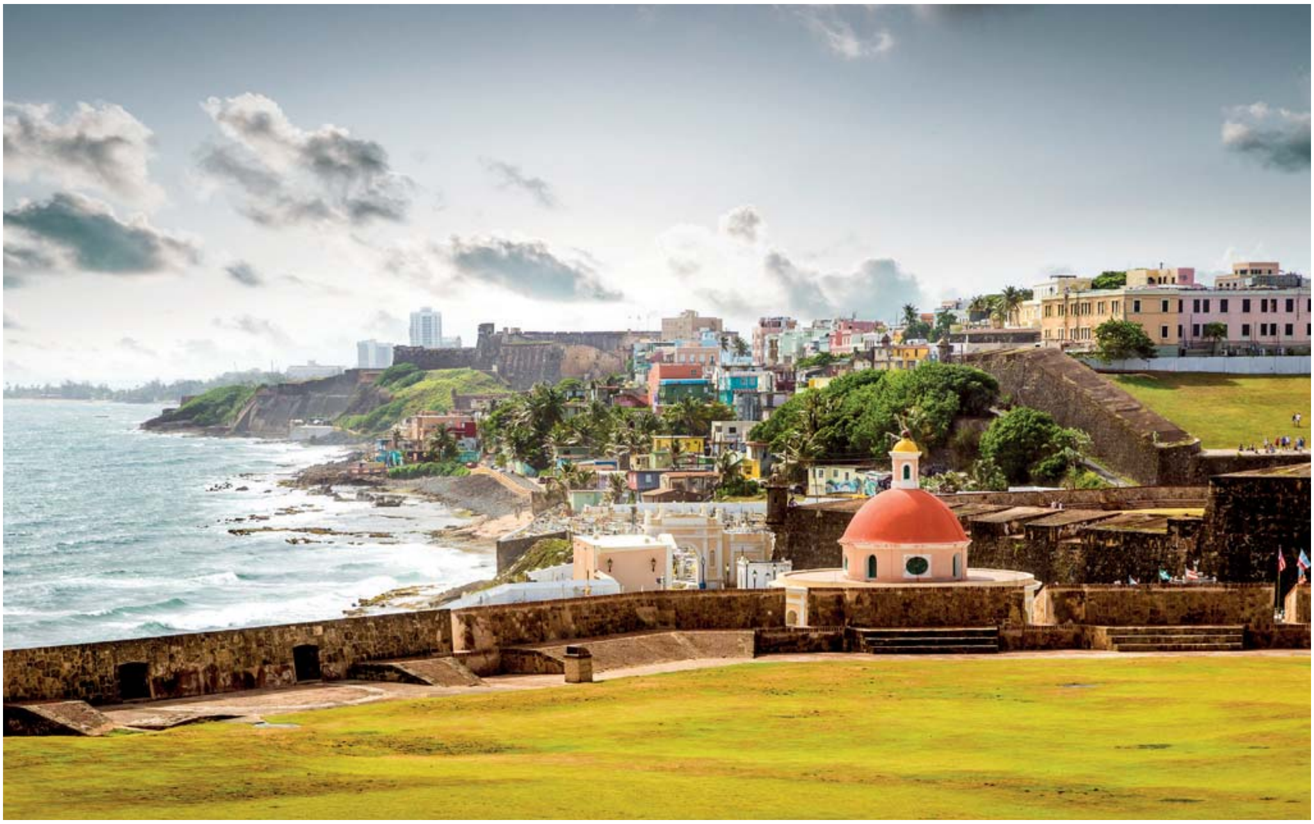
So, will "Cork Island" be able to do the trick this time?

No doubt it can. Much may depend, however, on whether its new government finds the way to a mutually beneficial "understanding" with the recently initiated administration of US president Donald Trump; a president whose list of top priorities is not yet known to include Puerto Rico, and whose highly controversial 2016 candidacy was not publicly supported by any single prominent politician on the island. A president, nonetheless, whose ultimate inclinations – on the Puerto Rico issue as in others – may perhaps turn out to be consistent with the provocative title of his best known book: "The Art of the Deal".

Up to now, president Trump has certainly shown no shyness when venturing into "outside of the box" solutions for uncomfortable issues on which others may have carefully chosen to procrastinate. If he adopts the same attitude with respect to Puerto Rico, he will probably notice quite soon a seemingly puzzling fact: for no apparent reason, the peculiar "deal" that the island was offered many decades ago by the US government was simply allowed to become obsolete, without an appropriate replacement. Right after the end of World War II, and in the context of the immediately following Cold War, federal tax incentives and assorted programs injected lots of cash and industrial activities into an island that became engaged in the role of "showcase of democracy" for the developing world. A sophisticated infrastructure of physical, corporate and human capital was developed, still unparalleled as of today in the Caribbean region, as well as in most of Latin America. But as the Cold War eventually expired and gave way to globalization, Puerto Rico's "deal" was not adjusted accordingly. For reasons not entirely different – but not entirely similar either – to those that in recent decades led to the loss of millions of middle class jobs in Ohio, Pennsylvania, and other locations pointedly mentioned during last year's presidential campaign, Puerto Rico's previous dynamism became eroded.

Federal transfer payments and recourse to substantial public and private credit became artificial methods for avoiding the consequences of an economy that had lost its steam. Yet the recent adoption of Promesa, a legislation that is clearly at odds with the notion of fully autonomous "self-government" on which the "showcase of democracy" concept had rested, is an unequivocal sign that those consequences have now become sufficiently manifest, and can no longer be ignored. There will



be no quick fix to the present situation; but the opportunity to restore and even surpass the dynamism of the past is still very much available, perhaps more so than at any other time in the last half-century.

Long-awaited changes

Objectively speaking, there is no reason why Puerto Rico's role should not have been already "upgraded" to that of a regional financial, insurance, transportation, technology, distribution and general export service center, ultimately oriented towards modernizing the Caribbean and Latin American economies. Almost every required ingredient is already in place: the location, the bilingual business environment, the familiarity with global corporate practices, the US dollar, the reliable legal system, and a professional and entrepreneurial class that is singularly qualified for the task. Subjective barriers, however, have stood in the way of such golden opportunity. As the recent death of Cuba's "commander-in-chief" served to remind, the Cold War mind-set never entirely vanished from the Caribbean after the fall of the Berlin Wall. Within the enduring, zero-sum constraints of that mind-set, a perception prevailed in Puerto Rico to the effect that any serious attempt towards an assertive regional role would have to come at the expense of a weakening of the island's special relationship with the United States. Yet the reverse is likely to be the case: in order for that latter relationship to remain one of true mutual long-term benefit, the most valuable contribution that Puerto Rico could bring to the table would be, ironically, the kind of influential presence that it has neglected to achieve in a geographic zone that has become of vital importance from the US standpoint.

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Significantly, the International Insurance Center and other local tax incentives laws adopted in recent years for service and financial activities directed to outside markets have been yielding highly promising results already, even in the midst of the adverse publicity stemming from the situation in the island's public sector. Could this be the seed for a truly transformative recovery that would serve as well a much larger US strategic interest? Indeed, better than by building a now famous "wall" that cannot possibly withstand the demographic pressures from an underperforming neighborhood of over 600 million people, the US could profit immensely from assisting in the build-up of a regional player that might become a spark for the much needed economic revival of the Caribbean and Latin America.

Only time will tell if the new US administration will support such a constructive pathway for overcoming Puerto Rico's present ordeals. But in the meantime, nobody should rule out that the magic of Cork Island may once again resurface, at the least expected moment, in its playful dance over the waters.

In the end, all that may be required is an artful "deal".