

## Five-month Puerto Rico trade mission to China most extensive in history

Businessman mines Chinese interest to use island as trade hub

BY GABRIEL PARRA BLESSING

Jose Ledesma, president of Far East-Puerto Rico Trade & Investment Group, has returned from a 22-week trade mission to China. The initiative helped focus the interest and attention of several dozen Chinese government functionaries, trade representatives, business leaders, academics and organizations on Puerto Rico. His mission, which was originally scheduled to last for only six weeks, was sponsored in part by the Puerto Rico Trade Co. (PRTC) and the Puerto Rico Chamber of Commerce.

Ledesma indicated his Chinese counterparts initially expressed interest in Puerto Rico principally as an area for Chinese products to gain entry into the U.S. market. However, he suggested that beyond using the island as a stepping stone into the mainland U.S., the singular value of Foreign Trade Zones (FTZ) on the island could be key to securing millions and even billions of dollars of Chinese Foreign Direct Investment (FDI) in Puerto Rico.

An FTZ is an area on U.S. soil that, for all intents and purposes, may be regarded as cut off from U.S. territory. Any foreign merchandise that enters an FTZ is isolated from having to pay taxes and tariffs and is free from any quota restrictions while it remains within the zone. "Value added" manufacturing activity can take place within an FTZ such that if the value of the product is substantially increased through such activity, it can be re-exported from the zone as a domestically manufactured item and is treated by U.S. Customs as such.

"Once they understood Puerto Rico is a U.S. jurisdiction, most of the questions posed by the people I met with dealt with the idea of taking advantage of our relationship with the U.S. and how they could use the island as a hub into what they consider their most important market," Ledesma said. "However, once I explained to them the particular benefits of using FTZs and their ability to 'transform' Chinese goods so that they can leave an FTZ with a 'Made in the U.S.A.' label on them, that's when their eyes really opened up and they began to think in terms of exploring partnerships with island businesses."

FTZs are "definitely an incentive" for China to take a closer look at Puerto Rico, affirmed David E. Lewis, former Puerto Rico assistant secretary of state and vice president of Manchester Trade Ltd., a Washington-based consulting firm specializing in international trade and investment issues. "The key issue is whether the value added can be done competitively," Lewis cautioned, noting that cheap labor elsewhere in Latin America, not to mention China itself, may be more attractive to Chinese firms than any benefits FTZs have to offer. "If it's going to be labor intensive it's just not going to happen."

"I don't see anything new," countered Felix M. Cortes, professor at the marketing,



*José Ledesma, center, president of the Far East-Puerto Rico Trade & Investment Group, with members of the China Council for the Promotion of International Trade: Lin Ning, deputy director general, department of economic information (left) and Zhenge Zhao, deputy director general, department of international affairs.*

communications and tourism department of the Pontifical Catholic University of Puerto Rico and coordinator of the Office for Economic, Business & Development Research. "If you look at it historically, providing access to the U.S. market, Puerto Rico's development has been based on that. My concern is that this becomes the sole object and sole vision of Puerto Rico."

While admitting the U.S. is "definitely the biggest and most attractive market in the world," Cortes emphasized, "It isn't the only market. We keep making ourselves dependent by relying on an outdated structure of the economy. I've been doing a study on clusters in Puerto Rico, and the market structure hasn't changed since Operation Bootstrap. It's the same closed market structure where we serve as a springboard to the U.S."

While China's existing and incipient economic strength and its capacity to flood markets with vast quantities of cheap products have encouraged many nations, particularly developing ones, to view China's transformation into a market economy less as an opportunity and more as a threat, Ledesma argued Puerto Rico ought to take advantage of China's willingness to engage in joint ventures with companies overseas as well as its goal of investing billions of dollars in Latin America. During a speech to the Brazilian Congress in November 2004, Chinese President Hu stated China would invest \$100 billion in Latin America over the next 10 years.

Ledesma indicated infrastructure projects like Ponce's gestating Port of the Americas could attract significant FDI, with several Japanese shipping companies already expressing interest in investing several hundred million dollars in the port. "Asian shippers should be aware of Puerto Rico as a destination point for their routes," Ledesma argued, adding that he spent a good portion of his trip selling the idea to potential Chinese investors. ■