



Puerto Rico ★
THE ALL STAR ISLAND

ECONOMIC ROADMAP

The Commonwealth of Puerto Rico



AGENDA



- ECONOMIC DEVELOPMENT PLAN
- TOURISM
- SMEs AND AGRICULTURE
- LIFE SCIENCES AND KNOWLEDGE SERVICES







An aerial photograph of a port facility. In the foreground, a large, rectangular structure with a grid-like pattern of white lines is visible, possibly a solar panel array or a large-scale construction project. To the left, a body of water is visible, with several large cranes and industrial structures along the waterfront. In the background, there are various industrial buildings, parking lots filled with vehicles, and more port infrastructure. A semi-transparent blue rectangular overlay is positioned in the center of the image, containing the text 'ECONOMIC PLAN' and 'The Commonwealth of Puerto Rico'. Below this overlay is a solid red horizontal bar.

ECONOMIC PLAN

The Commonwealth of Puerto Rico

PUERTO RICO HAS ACTED SWIFTLY AND DECISIVELY



Rating Agencies' highlighted...	...Puerto Rico has taken action:	
1) Size of the General Fund's Structural Deficit	<ul style="list-style-type: none"> Approved a budget for fiscal year 2014 that reduces the budget deficit from \$2.375 billion in FY2012 and \$2.213 billion as of January 31, 2013 to \$820 million in FY2014 by enhancing and diversifying our revenue base, including through an increase in the Act 154 excise tax to 4%. 	
2) Insolvency of the Commonwealth's Pension System	<ul style="list-style-type: none"> Act 3 delivered on the long-standing promise of enacting meaningful and comprehensive reform of our main pension system that eliminates the projected need for approximately \$900 million in annual pay-as-you-go contributions in the future. 	
3) Need of Meaningful Spending Controls	<ul style="list-style-type: none"> During the second half of FY2013, the Commonwealth reduced General Fund expenses and finished the fiscal year approximately \$50 million under budget. For FY2014, payroll for July and August reflects an 11% decrease over the same period in the prior year. As of August 30, 2013, cumulative General Fund headcount was approximately 5,000 less than January 1, 2013 and less than August 30, 2012. 	
4) Need to Jumpstart Economic Growth	<ul style="list-style-type: none"> We are currently executing a short-term outreach plan with clear and achievable goals and benchmarks that we are confident will result in thousands of new jobs and reposition Puerto Rico as a competitive business and investment destination. Our focus on job creation has already led to commitments expected to generate approximately 25,000 direct and indirect jobs. We have developed a five-year economic plan, with the input of Boston Consulting Group, that we are confident will jumpstart our economic engine and lead us to sustainable, long-term economic growth. 	

ECONOMIC PLAN: OVERVIEW



VISION

Build upon Puerto Rico's historic strengths, creativity, and innovative spirit to achieve a **more diversified, knowledge-driven economy** that addresses the challenges of globalization and seizes upon emerging opportunities

GOALS

Near-term goal

Shore up and diversify the economy by leveraging Puerto Rico's competitive advantages and consolidating its productive base

Long-term goal

Build sustainable competitive advantage with a diversified, adaptive economy and workforce driven by technology and innovation

POLICY PRIORITIES

- 1 **Defend anchor industries** while diversifying job sources on the Island
- 2 **Stimulate local entrepreneurship** – drive growth of small and medium enterprises (SMEs)
- 3 Restore Puerto Rico's credibility as a **stable, business-friendly jurisdiction**
- 4 Take full advantage of opportunities tied to **Puerto Rico's relative fiscal autonomy**

IMPACT

By beginning of 2016

Over 90,000 jobs created
\$6 to \$7 billion in incremental GDP

By beginning of 2018

Over 130,000 jobs created
\$10 to \$12 billion in incremental GDP



1

Re-energize Anchor Industries

- **Manufacturing (Life Sciences)**
- **Commerce (SMEs)**
- **Tourism**

2

High-Impact Projects

- **Port of The Americas**
- **Science, Investigation & Technology Trust**
- **Roosevelt Roads**

3

Attract New Investment

- **Acts 20 & 22 (Knowledge Services)**
- **Jobs Now Act (SMEs)**
- **Medical Tourism**
- **New Agriculture**

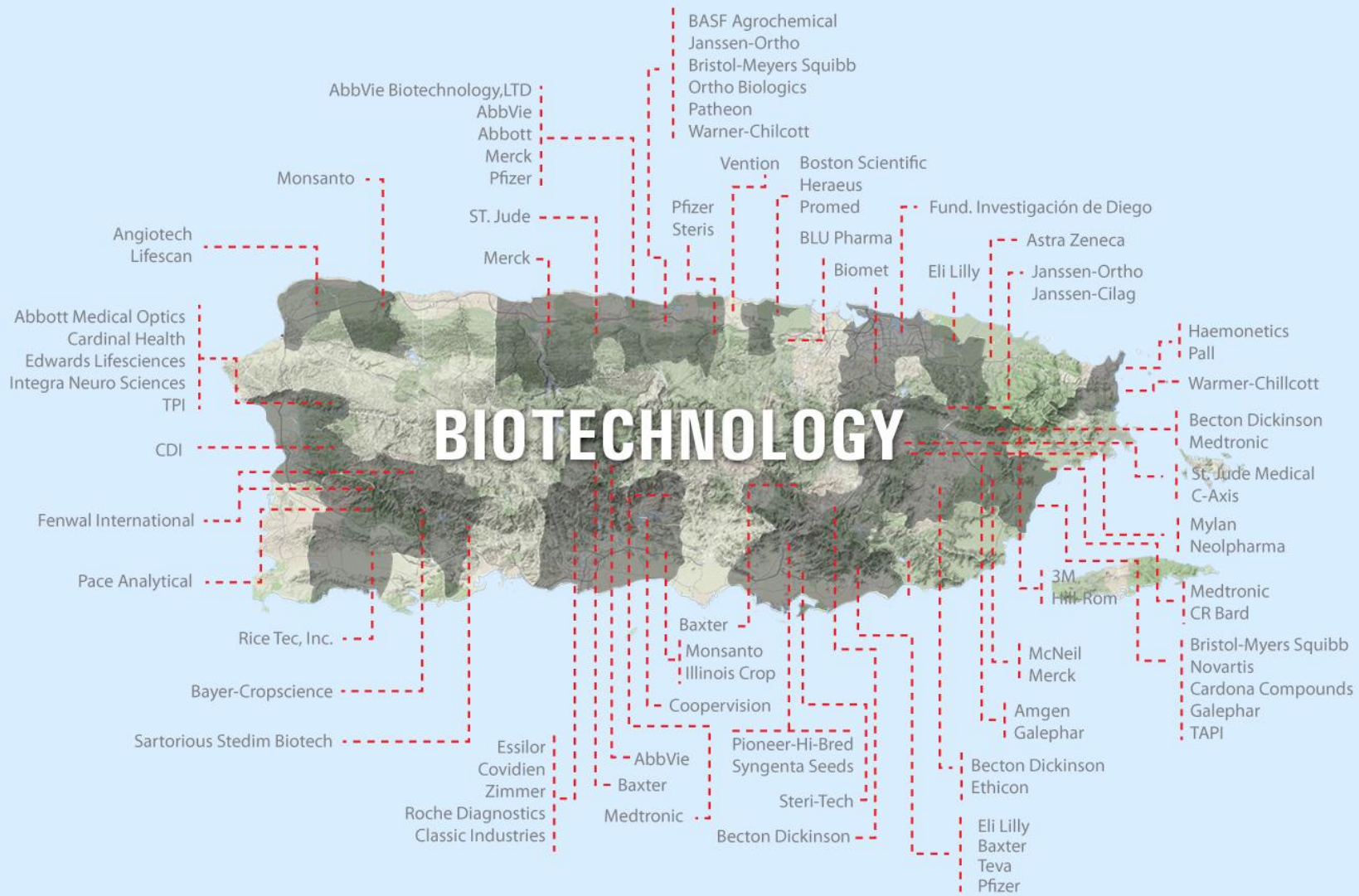
5 PRIORITY SECTORS

Global	Life Sciences	<ul style="list-style-type: none"> • Defend traditional Pharma base and pursue innovative opportunities (generics, biologics, contract mfg) • Consolidate PR's position as a global manufacturing hub for Medical Devices • Bolster PR as the Center for Scientific Crop R&D in the Americas (Agricultural Biotechnology)
	Knowledge Services	<ul style="list-style-type: none"> • Become the Knowledge Services Center of the Americas • Pursue niche plays to grow Insurance and Financial Services
	Tourism	<ul style="list-style-type: none"> • Re-capture historic strengths in Tourism to become a premier U.S. and global travel destination • Additionally, target emerging niche markets including luxury, ecotourism, medical, cultural, and sports tourism
Internal	SMEs	<ul style="list-style-type: none"> • Build world-class SMEs support through a full-suite of coordinated programs targeting SMEs at all levels of development
	Agriculture	<ul style="list-style-type: none"> • Reduce reliance on food imports by investing in high-productivity agricultural production

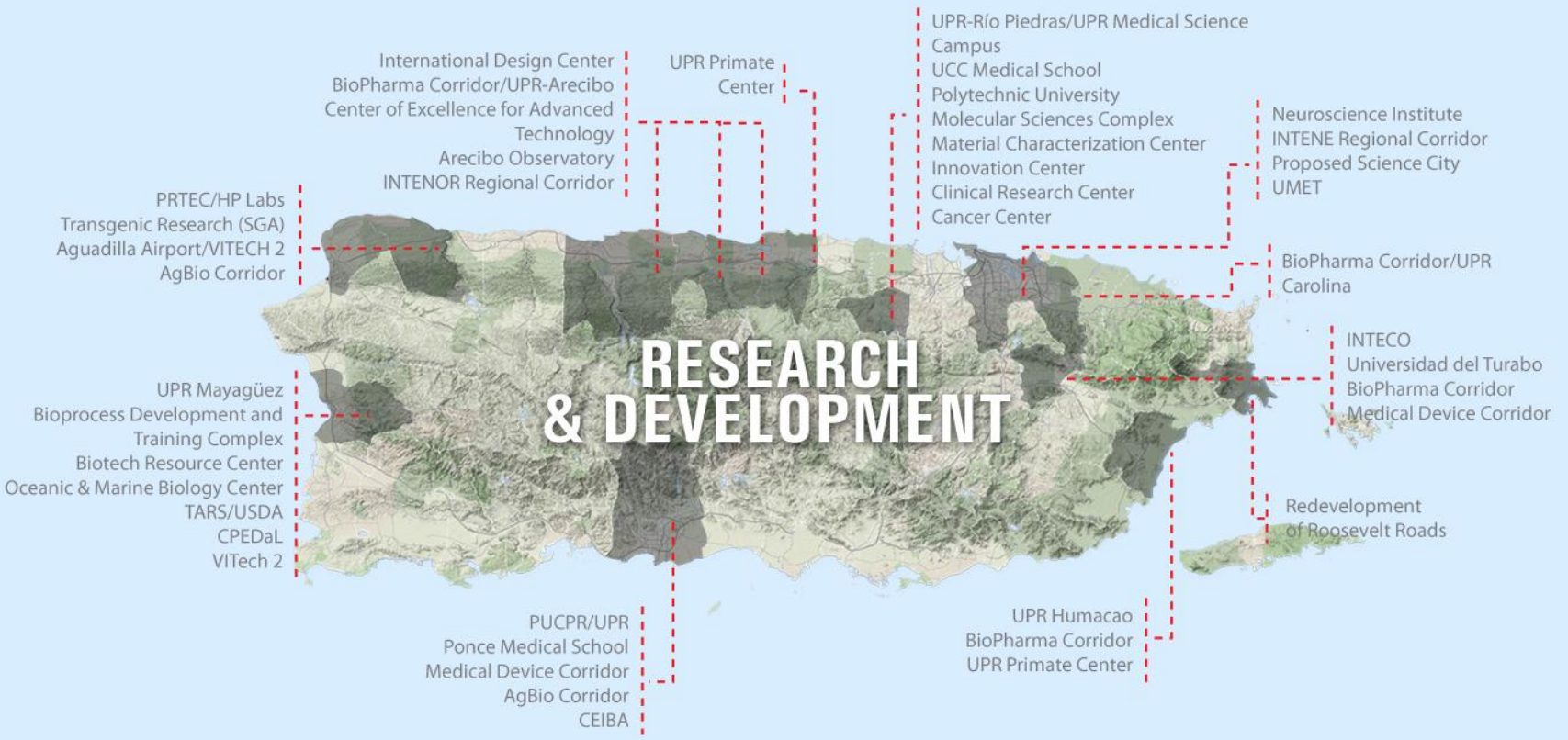


**LIFE SCIENCES &
KNOWLEDGE SERVICES**

The Commonwealth of Puerto Rico



RESEARCH & DEVELOPMENT





TELECOMMUNICATIONS INFORMATION TECHNOLOGY & SERVICES

Axon de Puerto Rico
Infotech Aerospace Services
Turabo University

Caribbean Engineering & Technologies, Inc.
PVSr Corporation/AIT Latin America

Document Control Systems Processing, Inc.

Appletree Answering Service PR, Inc.
Oracle Caribbean, Inc.
E-Nabler Corp.
Cenntennial de Puerto Rico
Evertec, Inc.
Micro Fidelio Caribbean, Inc.
Microjuris Coom, Inc.
Softek Export, Inc.
Equant Puerto Rico, Inc.
Netxar Technologies, Inc.
Cascades Technologies, Inc.
Direct Responsource, Inc.
Transcat-Hilton Calibrating Services, Inc.

Digicore, Inc.

Hewlett Packard
Honeywell Aerospace
Rafael Hernández Airport
Interamerican University

Las Américas Technology Park

Essig Research

Caribe GE Int'l Relays Corp.
GE Sensing, Inc.

Lockheed Martin
Pratt & Whitney
University Puerto Rico

Interamerican University

Florida Turbine

Opti Manufacturing Corp.

Positronic Caribe, Inc.

Atento de PR, Inc.
Avant Technologies of PR, Inc.
CNC 2000. Inc.
Cortelco Systems PR, Inc.
Vernet, Inc.

Hamilton Sundstrand

Instituto de Educación Tecnológica, Inc.

Microsoft Operations PR, Inc.
Advanced Disc PR

Nova Comm, Inc.

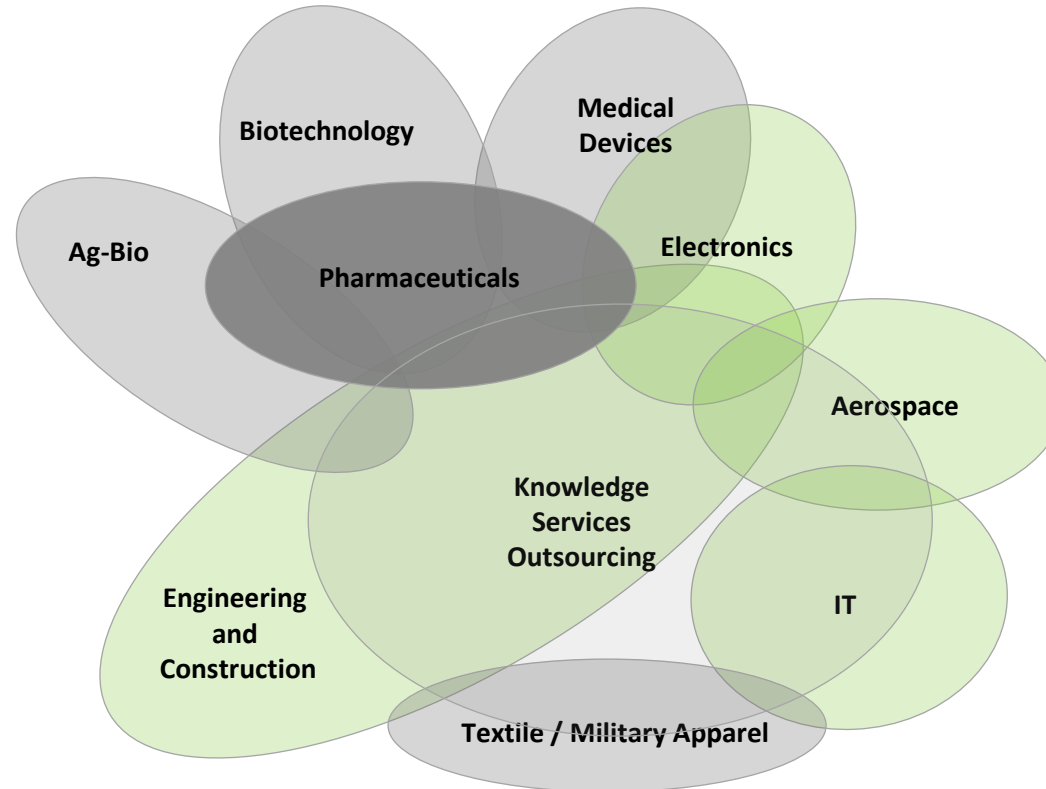
Touchstone Wireless Latin America LLC, Inc.

Turabo University



- **Protect existing industrial base**
- **Enable the expansion of existing companies through cluster strategies**
- **Attract new global and local companies to invest in Puerto Rico**
- **Identify emergent segments that match Puerto Rico's capabilities**

INDUSTRIAL: STRATEGIC CLUSTERS



BASED ON 5 MAJOR PILLARS:

HUMAN CAPITAL

**LEGAL
FRAMEWORK**

TAX INCENTIVES

INFRASTRUCTURE

**GLOBAL
EXPERIENCE**



Focus sector

Vision

BioPharma manufacturing

Preserve Puerto Rico's status as key BioPharma manufacturing location and increase share of growing sub-segments (generics) & advanced technologies (biologics)

Why this sector?

BioPharma manufacturing represents ~25% of PR's GDP

To date, ~17K people work in the sector

Special attention needed to preserve jobs in this sector

Focus to be placed in generics and biologics / biosimilars

- Generics sub-sector expected to continue fast growth
- Most new products in innovation pipeline are biologics
- Biologic technologies require higher quality manufacturing sites

Why PR can win?

PR is a proven, high-quality manufacturing location

Opportunity to acquire high quality plants at low prices

PR well suited for large batch production

- Benefit for biologics and niche drugs as they grow in scale

Low manufacturing cost compared to US and western countries

PR uniquely advantaged of potential contract manufacturing opportunity

- High industry concentration
- No IP concerns with generics

Key initiatives

- **Defend existing Pharma operations**
- **Opportunistically pursue generics and biologics / biosimilars**
 - I.e. support repurpose of assets
- **Make innovative bets**
 - Establish contract manufacturing operation
 - Enable direct to retail distribution
 - Invest in education for advanced technologies



Focus sector

Vision

Knowledge Services

Establish Puerto Rico as a global center for the Knowledge Services industry, especially focused on near-shoring

Why this sector?

Companies are seeking to specialize in core business and outsource other activities

- Solid growth for KS in past 10 years

Outsourcing shifting from pure cost arbitrage (low-cost focus) to higher productivity, better workforce profile

- Trend favors Puerto Rico, given highly-trained and bilingual labor pool

Ease of operations becoming increasingly important

- Clients want more control over outsourcing operations
 - Near-shoring, same time zone, ease of communications
- PR offers compelling proposition given proximity to mainland U.S.
- Talent pools in some areas becoming saturated (e.g., Chile, Costa Rica)

Why PR can win

PR has convincing value proposition for America-focused near-shoring

- Low cost structure and solid tax incentives (Act 20, 22 and 73)
- Highly-skilled workforce, better trained than region's competitors

As U.S. jurisdiction, PR has access to industries with U.S. soil requirement

- PR ideal destination for US A& D, financial services

Recognized through high ranking from World Economic Forum (#30), higher than Chile, other competitors

Key initiatives

Establish PR as a worldwide KPO hub:

Provide knowledge services to clients worldwide, with focus on the Americas and mainland U.S.

Selectively go after integrated outsourcers:

Large integrated outsourcers with presence across the sector, with high potential for job creation

Expand ITO and BPO sectors:

Focus on clients with presence in the Americas, seeking to expand to U.S./Caribbean – promote software development

Build on initial progress to expand in

Aerospace & Defense: Focus on U.S. industry across all KS sectors, with concentration in ER&D and support functions



TOURISM

The Commonwealth of Puerto Rico





Focus sector

Vision

Tourism

Capitalize on Puerto Rico's diverse tourism offerings to develop new niche markets and become premier U.S. and global travel destination

Why this sector?

Tourism is a fundamental driver of the local economy and job creation

- Represents 6% of total GDP

Puerto Rico's tourism sector has significant room for growth

- Global average of 9% GDP
- Opportunity to meet global average

U.S. economic recovery provides base to drive tourism sector recovery

- Puerto Rico highly dependent on U.S. tourism, which declined significantly in 2008-2009, but has been steadily improving since

Opportunity to leverage LATAM emergent markets growth.

Why PR can win

Most developed air access within all the Caribbean

- Makes travel to/from PR faster and more convenient than any other Caribbean destination

Relationship with the U.S.:

- Tourists do not need passports to come to the Island (making PR easy for short-term vacation segment)
- Tourists have the advantage of being in U.S. territory where medical and legal services are similar to their home states, making PR a safer destination.

Highest skilled labor force in the Caribbean, largely bilingual

Modern infrastructure (roads, convention and meeting facilities, etc)

Leverage language and culture advantage to reach out LATAM markets

Key initiatives

Promote and market Puerto Rico – Roll out "Five Star Reviews" and "Puerto Rico: All-Star Island" campaigns

Improve air and maritime access – Expand into Lat Am., recover position as hub of Caribbean, grow cruise access, rebuild European connections

Tourism product development - Expand range of accommodations, from ultra luxury to urban bed and breakfasts.

Grow niche markets – Particular emphasis on luxury, nature, adventure, gastronomy, and sports tourism

Strengthen quality and service – Ally with key academic institutions to develop tourism and quality and service educational programs



AGRICULTURE AND SMES

The Commonwealth of Puerto Rico

SMALL & MEDIUM SIZE ENTERPRISES



Focus sector

Vision

Small and Medium-Sized Enterprises

Build world-class SME support through a full suite of coordinated programs targeting SMEs at all levels of development

Why is this sector important?

Small and medium-sized enterprises (SMEs) are the largest sector in Puerto Rico's economy – representing ~65% of employment¹ and up to 90% of companies²

SMEs have struggled to recover from the economic downturn – small business bankruptcies in PR increased by over 8% from 2009-2011, compared to a decrease in 7.5% for the U.S. overall³

Enabling requirements

- **Legislation to extend targeted incentives for SMEs**
- **Interagency cooperation or leadership to coordinate SME support, in areas such as permitting, advisory services, and incentives**
- **Help SMEs start, expand, and succeed** through targeted incentives/credit, business advisory programs, and coordinated financing
- **Take mature SMEs to the next level** through trade and export programs, taking advantage of increased air and sea connectivity to Latin America and other key trade partners

Key initiatives

- **Support entrepreneurial culture and development of innovative companies** through educational programs, mentoring, and the establishment of incubators
- **Support mature SMEs that are ready to export** through trade missions, the PR Exports program, and other initiatives
- **Encourage development in urban centers** through the ICCU Program (Business Impact for Urban Centers) and EDCU (Direct Jobs in the Urban Centers)
- **Enter into Strategic Alliances** with other agencies responsible for supporting SMEs (e.g., with Economic Development Bank to offer services through CCE offices)

1. "Puerto Rico: Small and medium-sized business sector initiatives for job creation." Presentation by the Economic Development Bank, May 2012. SME defined here as is a company with up to 250 employees and less than \$5M in sales. 2. U.S. Census Bureau, 2011 County Business Patterns. SMEs defined here as a company with up to 20 employees; Nearly 99% of all establishments counted had fewer than 250 employees. 3. Small Business Administration and the US Territories Small Business Profile 2012.

Focus sector

Vision

Agriculture

Reduce reliance on food imports by building on Puerto Rico's traditional strengths and increasing capacity for high-productivity industrial agricultural production

Why this sector?

Once a major component of the Puerto Rican economy, still significant room for growth

- Puerto Rico currently produces only 15-20% of total food needs
- Opportunity to reduce roughly \$3.5B in agricultural imports per year, keeping money in local economy

New opportunities for innovative, high-productivity agricultural production

- Room to expand both cultivated land and modern production technology

Why PR can win

Favorable climatic conditions

- Allow PR to have several harvests per year, including year-round mango production

Strong internal infrastructure

- Allows quick and efficient transportation of high-value crops

Close proximity to the U.S.

- Ability to access one of the largest agricultural importers in the world

Highly skilled and technically proficient workforce

Key initiatives

Expand dairy production – Support partnerships with local dairy producers and processing facility workers

Invest in sugarcane processing – Partner with the Puerto Rican Rum Association to invest in the expansion of sugarcane production and processing

Build high technology greenhouses - Develop five high technology greenhouses to pilot the production of high-value vegetables for export markets

Expand coffee cultivation – Increase the acreage available for coffee production by 16,000 acres



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