OPINION
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DR-CAFTA:

Can the Region Compete?

BY JERRY HAAR

DR-CAFTA countries have several advantages, including close proximity to the region's major export market and relatively inexpensive labor. But challenges include weak public structures and low access to capital.

Last month's Miami Conference on Central America and the Caribbean was the most upbeat in years. The reasons? Good economic performance numbers for the region; the passage of DR-CAFTA by the U.S. Congress and ratification by almost all signatory countries; an increase in the region's investment attractiveness—thanks in no small part to the leaders of Venezuela, Argentina, and now Bolivia; minimal progress on the FTAA front; and dynamic leadership at the helm of Caribbean Central American Action, the conference's sponsoring organization.

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Fortuitous though it may be, the overarching question remains: Can Central America and the Dominican Republic compete?

Clearly, the region has indisputable advantages. These include political and macroeconomic stability, a longstanding trade and investment relationship with the U.S. and close proximity to the region's major export market, relatively inexpensive labor, and agricultural/agribusiness and manufacturing diversity. Major players such as Grupo Poma, La Fragua, and Lafise as well as scores of contract manufacturers in textiles, apparel, and electronics continue to demonstrate competitiveness, whether within internal, subregional, or hemisphere markets. While the expiration of the Multifiber Agreement in December 2004 has created an avalanche of low-cost Chinese textile and apparel exports to the U.S., resulting in factory closings and layoffs in Central America and the Dominican Republic, the textile and apparel sector may be down but not out. The DR-CAFTA agreement locks in tariff advantages thereby dissuading existing foreign producers in the region from migrating to Asia.

Additionally, textile firms currently operating in the region can avail themselves of a special DR-CAFTA clause allowing them to claim a refund of past duties dating back to January 2004. With shipping times to the U.S. only five days from El Salvador versus four weeks from China, time-sensitive and "taste-sensitive" garments both have a competitive advantage over Asia, as do higher-end apparel in which pricing makes the manual labor factor less of an issue. Specialty goods—particularly agribusiness products—enjoy great potential for exports within Central America, Mexico, and the U.S., especially in light of the growing demand for ethnic foods. For example, Costa Rica's Industrias Bendig, a medium size company employing 60 people, produces five dozen types of machinery for processing organize company, with 75 percent of their sales destined for export markets.

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Inarguably, Central America and the Dominican Republic are handicapped by enduring weaknesses that undermine their competitive position. These include those that are commonplace throughout the Americas: administrative, regulatory, tax, labor, judicial, and financial structures and policies that impede transparency, growth, productivity, efficiency, and investment. Access to capital for small and medium size enterprises remains the largest impediment of all. Additionally, problems in the areas of infrastructure, public safety, education, housing, and social services deter the region from achieving its potential in regional and global markets and improving the lives of its citizens. Customs integration and harmonization are lagging, knowledge of marketing and branding outside home country markets is poor, and infrastructure and cross-border bureaucratic hassles undermine efficiency in logistics systems. It is not surprising, therefore, that big retailers like Wal-mart with a one-third stake in Carhco, Central America's largest retailer, are forced to decentralize their distribution systems on a country-by-country basis, thereby eroding lower pricing options for consumers.

While the verdict is still out on the DR-CAFTA region's competitiveness, there are a number of indicators and tell-tale signs that would lead one to be optimistic. Efforts are underway across the region to create *ventanillas únicas* (one-stop shops) to expedite business registration and administrative compliance for both local and foreign firms. Honduras, for example, has been able to cut business registration time down from four months to less than four days. E-government systems, the recruitment and retention of highly qualified middle-level and senior public sector managers, and widespread recognition by politicians and civic leaders that government must become more responsive to its citizens are spurring the kinds of changes in the region that boost competitiveness.

AGEXPRONT in Guatemala is a shining star, providing

Often overlooked as key actors in the process to improve competitiveness,

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business organizations or *gremios* are playing an increasingly important role. FUSADES in El Salvador, FIDE in Honduras, AGEXPRONT in Guatemala, and the new FUNIDES in Nicaragua are working arduously to assist their private sectors to compete in both domestic and export markets. AGEXPRONT is a shining star in this regard. Its half-dozen *comisiones*, covering the gamut from manufacturing to agriculture, provide market information and technical assistance to boost export competitiveness. AGEXPRONT's foreign trade school provides short, practical courses to current and prospective exporters well as state-of-the-art instruction on all aspects of export production, financing, operations, and marketing to trainers who, in turn, fan out throughout the country to transfer this knowledge to Guatemalan producers. It is developing a network of ten *contactos* (business service centers) nationwide and pioneering a digital export certificate system that will allow exporters to complete and send all their paperwork online.

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With foreign investment flows to the region topping $3 billion in 2004, bond spreads less volatile and GDP growth rate increases higher than any other region in the Americas, and an increase in investment not just from the U.S., but Mexico, Brazil, Colombia and Venezuela, there is certainly reason for cautious optimism. The road ahead will be challenging for the region, to be sure. While the DR-CAFTA countries will not be able to compete across the board, they will be able to do so in selective arenas of business activity. If governments can make broad and deep changes in infrastructure and regulations and implement a second generation of reforms (social and educational policies), if banks can step up to the plate and lend, and if business organizations can aggressively address the needs of their constituents, then the competitive outlook will be favorable, indeed.

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