

Cafta's risks and opportunities highlighted during trade mission to Dominican Republic

Fortuño sees opportunity in free trade with Dominican Republic and Central America; trade group leaders agree, but say key questions remain unanswered



Gov. Luis Fortuño addresses a group of businessmen from the Dominican Republic and Puerto Rico.

BY MARIO SANTANA
mario@caribbeanbusinesspr.com

SANTO DOMINGO—Whether its businesspeople are prepared or not, globalization—at least a regional form of it—will strike Puerto Rico in the near future, creating risks and opportunities, acknowledged Gov. Luis Fortuño and the presidents of four leading trade organizations on the island.

The Central American and Dominican Republic Free Trade Agreement (Cafta-D.R.) will likely force Puerto Rican companies that traditionally have relied on the island's internal market to not just share their market with Dominican and Central American competitors, but also to engage in exports to survive, agreed the group.

On Aug. 5, 2004, the United States signed the Cafta-D.R. The agreement is supposed to create new economic opportunities by eliminating

customs duties and tariffs, thereby opening markets, reducing barriers to services, promoting transparency and establishing new rules for commerce in the region.

As a U.S. territory, Puerto Rico is subject to Cafta-D.R., said Fortuño, who last week led a two-day trade mission in the Dominican Republic. It was the governor's first official trip to the neighboring country and the first trade mission organized by his administration in which he personally participated.

"Cafta-D.R. is already signed and applies to us," the governor said. "What we should do, then, is take advantage of it. That's why I'm here. That's why I dedicated 36 hours to strengthen our relationship with the Dominican Republic."

When asked about the negative effects of Cafta-D.R., the governor said, "Those who will be adversely affected by the agreement already are affected because global competition

has already begun in some way or the other.

"What this will do is that it will speed up what was an unavoidable process anyway," he said. "What we should do is look for opportunities."

Fortuño said opening markets to free trade benefits consumers, first and foremost. He said Puerto Rico has tried protectionist policies in the past, "but they did not work."

"We cannot think that protectionist public policy will strengthen our economies," he said. "We need free trade policy for the benefit of consumers."

As a showcase for the possibilities of working together with the Dominican Republic, Fortuño presented the Lanco plant north of Santo Domingo, operated through a joint venture between the Puerto Rico-based Lanco Manufacturing Corp. and the Corripio Group of the Dominican Republic. The plant,

which produces industrial adhesives, roof coating, sealants, contact cements and other products for the Dominican Republic and Haiti markets, began with 16 employees and now has 200.

"We have created jobs in Puerto Rico thanks to this plant," said Sergio Blanco of Lanco Manufacturing.

"What we really need is to strengthen trade in both directions in the areas that businesspeople think make sense," Fortuño said. "The government should not tell them which areas those should be, but rather should create the conditions to make it happen."

CAFTA-D.R. RISKS

Important matters on Cafta-D.R. remain unanswered, the most important of all being what products from the Dominican Republic, Costa Rica, El Salvador, Guatemala,

Continued on next page

Honduras and Nicaragua will be allowed to enter Puerto Rico without customs duties and tariffs or with reduced customs duties and tariffs, explained Puerto Rico Trade & Export Company Deputy Director Rafael Marín Pagán.

The trade agreement is already signed, but what is still missing is the working document that states what those products are that will compete on equal terms—or with lower duties and tariffs—with those in Puerto Rico, said Marín Pagán. The situation resembles that of a law that already has been enacted while its regulations are still in the drafting process, he added.

Puerto Rico Engineers & Surveyors Association President Miguel A. Torres Díaz said that a local distributor of flour-based products told him that because of Cafta-D.R., Dominican and Central American flour-based products will enter Puerto Rico duty-free, but Puerto Rican flour-based products will enter their markets with a preferential custom duty, which is not the same as duty-free.

“Although his products are of a higher quality, because the quality standards in Puerto Rico are higher, he cannot compete with the Dominican Republic’s costs,” Torres Díaz said.

Dominican production costs are significantly lower than those of Puerto Rico, due to much lower labor and environmental costs and lower quality standards, trade group leaders pointed out.

The group underlined that although the Dominican Republic is poorer than Puerto Rico and its infrastructure and technology are behind Puerto Rico’s, there is an important fact to take into account: while Puerto Rico is in its fifth straight year of economic recession, the Dominican Republic’s economy has continued to grow during those same years.

According to the CIA World Factbook, the Dominican Republic’s gross domestic product (GDP) growth rate was at 8.5% during 2007, 5.3% during 2008 and 2.5% during 2009, and the economy has further rebounded during 2010. However, the Puerto Rican GDP decreased -1.2% in 2007, -2.8% in 2008 and

-3.7% during 2009, according to the same source.

✓ To those facts, Puerto Rico Chamber of Commerce President Raúl Gayá Nigaglioni added that Dominicans are eager to work and progress, while many Puerto Ricans have gotten used to life without working.

Torres Díaz noted that the Dominican Republic has made progress in making its customs & permits processes more transparent.

Puerto Rico also has to improve in matters like permits, the group pointed out. United Retailers Association President Ignacio R. Veloz recalled that a Puerto Rico apparel manufacturer got a U.S. government contract but has been waiting a year and a half for the necessary permits to start operations.

Along the same lines, Torres Díaz recalled the case of a Dominican engineer trained at the Mayagüez Campus of the University of Puerto Rico who could not get the necessary permits to start a used-tire recycling business on the island. Two years ago he returned to his native country, where he started his first

tire-recycling plant in two months and now is opening a third plant.

CAFTA-D.R. OPPORTUNITIES

An area of opportunity for Puerto Rico is in providing advisory services to Dominican and Central American companies willing to export agricultural products to Puerto Rico and the U.S. These companies need guidance on how to comply with U.S. Department of Agriculture (USDA) and U.S. Food & Drug Administration (FDA) phytosanitary measures and regulations, explained Liza Ruiz, export promotion director at the Puerto Rico Trade & Export Company.

“A main reason why the Dominican Republic does not export more agricultural products to Puerto Rico is its lack of knowledge of the USDA and FDA phytosanitary rules,” she said. “Because in Puerto Rico we have the American model, we have professionals in that field that can provide advice to Dominican businesses.”

Similarly, Puerto Rico Manufacturers Association President Pedro J. Watlington said that two weeks

ago Johnson & Johnson-Dominican Republic contracted the services of Pharma-BioServ Puerto Rico, a local company that provides regulatory compliance and other industry support services.

“Their services were requested on a Friday and the next Monday they were here,” he said.

Although it is an important beef producer in the region, the Dominican Republic does not export meat to Puerto Rico, a situation that should change in the short term, said Veloz. He explained that small and midsize retailers could take advantage of Cafta-D.R. to contract new and cheaper distributors of Dominican-made food products.

Torres Díaz said that Puerto Rico has ideal human capital willing to export its knowledge in fields like transportation, pharmaceuticals and housing construction. He recalled that many Puerto Rican engineers trained in the pharmaceutical and construction industries are now jobless.

“One of the things I’m going to look at when I return to Puerto



Gov. Luis Fortuño visits the Lanco Manufacturing Plant in the Dominican Republic. From left, Economic Development & Commerce Secretary José Pérez-Riera; Fortuño; Lanco Manufacturing Group Vice President Sergio Blanco and a Lanco Employee.