The San Juan STAR | CAFTA Group Trade and Invest for Economic Growth | La Semana

**MONDAY,** April 28, 2008

# CAFTA-DR

**CAFTA-DR: A missed opportunity for P.R.?**
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Guide to the Central America-Dominican Republic-United States Free Trade Agreement

# Dominican Republic, a strong trade partner

**BY PEGGY ANN BLISS**
Special to The STAR

After only one year with the CAFTA-DR pact, the Dominican Republic is thriving on increased trade.

With 1 million Dominicans living in the United States, their island home is the States' largest market of all CAFTA members.

It is the 6th largest market for the United States in the western hemisphere, behind Canada, Mexico, Brazil, Venezuela and Colombia.

But according to Foreign Relations Undersecretary Juan Guiliani, international trade has always been on even keel.

Foreign investment in the Dominican Republic increased 16 percent last year, the first year of CAFTA-DR, according to Banco Central which put investment in 2007 at $1,698 million, up from $1,459 million the previous year.

According to the bank, foreign real estate investment soared 120 per cent, reaching $723.3 million.

The country's goal is $2,000 million growth per year.

The new treaty, which the Dominicans signed on March 30, 2007, is a good way to "create employment, improve transparency and strengthen the ability of the government to govern," according to Guiliani, who is also the president of the Dominican Chamber of Commerce.

"The treaty has been favorably evolving and we have increased the flow of trade in the Dominican Republic," he said in a telephone interview with The STAR.

The first year gave the country a chance to improve the customs system, which Guiliani said was "important for Puerto Rico."

The Dominican Republic is in the unique position of having a trade treaty with the European Union and also being signatories to CAFTA-DR, as well as a longtime member of the Caribbean Community, known as CARICOM, Guiliani noted.

Guiliani said his country exported $11,000 million to the United States last year, with $1,500 million of that going to Puerto Rico.

However, he would like to see the neighboring island play a bigger role in the region.

"Puerto Rico could serve as a hub to attract investments from other parts of the world, such as China, Brazil, Taiwan, Korea and other emerging economies," he said.

Membership in CAFTA-DR will also allow increased exports of "ethnic" fruits and vegetables such as mango, avocado, papaya and plantains as well as oranges and pineapples, Guiliani said.

"This agreement will allow us to increase our export of these fruits," he said, noting that Puerto Rico allows the entry of several native products when there is a shortage here.

### CAFTA-DR plus Euro trade is good for business

Dominican Secretary of State, Eddy Martínez Manzueta, who is also the Executive Director of the Center for Exports and Investments of the Dominican Republic, attributed his country's record investment to the CAFTA-DR treaty.

In a written communication with The San Juan STAR, Martínez expressed optimism that investments would rise significantly next year, thanks to the recent signing of a treaty with the European market.

Participation in these two treaties, he said, puts the Dominican Republic in the enviable position of being able to access both major markets.

"Investors are looking for what we have," he said. "Open access to preferred markets, investment climate with clear guidelines, confidence, economic stability, and logistics such as infrastructure and the quality of Dominican workers."

"The only thing lacking is an active policy of investment attraction,"he said.

The second largest increase in investment last year was in tourism, which reached $445 million for an increase of 58 per cent, followed by $417 million in telecommunications for a 22 per cent increase.

Offshore investment came primarily from the United States, with $796 million, Spain with $258 million and Canadá with $163 million.

According to Martínez, another reason to do business in the Dominican Republic is the strength of the euro and the dollar compared to the Dominican peso.

Martínez said that the repatriation of hard currency helps maintain the country. The great influx of euros and dollars has gone a long way to stabilizing the macro-economy in the last decade, he claimed.

When the Dominican Republic signed the treaty in March 2007, U.S. Trade Representative Susan C. Schwab, predicted that the Dominican Republic would increase trade as the other countries had done in their first year, about 18 percent for Honduras and Nicaragua.

Even before CAFTA ˇDR, bi-lateral trade between the United States and the Dominican Republic was healthy, with $8.8 billion in 2004, Schwab noted. The almost equal breakdown was $4.3 billion in imports from the U.S. and $4.5 billion in exports to the U.S.

U.S. exports to the entire Caribbean region totaled $15 billion in 2005.

Exports to the Caribbean Basin Initiative countries more than tripled since it was created, from $6.5 billion in 1984 to over $20 billion in 2000.

COURTESY PHOTO

**Secretary of State and Executive Director of the Center for Exports and Investments of the Dominican Republic, Eddy Martínez Manzueta**

STAR FILE PHOTO

**According to the Dominican Republic Foreign Relations Undersecretary Juan Guiliani, membership in CAFTA-DR will also allow increased exports of "ethnic" fruits and vegetables such as mango, avocado, papaya and plantains as well as oranges and pineapples.**

# CAFTA-DR: A missed opportunity for P.R.?

**BY JAVIER MAYMÍ**
Special to The STAR

STAR FILE PHOTO

In many economic circles, a common rhetorical question popping up is whether or not the passage of the Dominican Republic - Central America Free Trade Agreement, or CAFTA-DR, has, in one way or another, been an influential factor in the Puerto Rican economic recession.

According to the World Economic Forum, every economy in the region is growing except that of Puerto Rico. In some cases, like the economy of the Dominican Republic, there is double-digit growth for the last three years.

Furthermore, since its implementation in 2005, more than 15 U.S. states have seen trade deficits turn into surpluses, including Florida, which saw a $69 million increase in sales in the first semester of 2006.

According to John G. Murphy, of The Heritage Foundation, the onset of CAFTA-DR would represent a boon to states that had prepared for it. According to a U.S. Department of Commerce study released in 2006, California, Florida, New York, New Jersey, North Carolina, Louisiana and Texas were the biggest gainers by the agreement.

"Even with these assumptions, we found that in the first year, CAFTA-DR would generate over $3 billion in new sales across all industries just in the seven states. It would boost payrolls by $685 million and would generate 20,000 jobs in year one in the seven states. Projecting out over nine years, CAFTA-DR would boost sales by over $17 billion in the six states for which we have data. The agreement would also raise worker earnings by $3.5 billion and create more than 100,000 jobs in the six states," said Murphy in a lecture hosted by The Heritage Foundation.

Some experts believe a lack of vision in trade policy by the Puerto Rican government may be a reason to blame for the island's non-participation in CAFTA-DR. Otherwise, "we wouldn't so dependent on the U.S. economy and we would be keeping manufacturing jobs instead of losing them at a pace of almost 10,000 jobs a year," according to Frank Galliano, Executive Director of CAFTAGroup, a business working dedicated to educating Puerto Rico's public and private sectors about the virtues of CAFTA-DR and how to bring about economic policy that is more "CAFTA-friendly."

"A lot of government and political leaders talk a lot about innovation and the need for technology to do business in Puerto Rico," Galliano said.

"The fact is, what we need is innovative thinking about how we are doing business in Puerto Rico. CAFTA-DR is an opportunity that we can't let go because it helps breaks some insular barriers and gets the manufacturing sector, for example, to start thinking about the big picture."

**Case in point – Dominican Republic**

Picking up the pieces of a collapsed banking system was a daunting challenge for the Administration of Dominican Republic President Leonel Fernández in

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COURTESY PHOTOS

CAFTA-DR WEEKLY REPORT is an initiative from CAFTA Group, The San Juan STAR and La Semana along with Universidad del Turabo and the endorsement of the Commercial Office of the U.S. Department of Commerce. With the purpose of developing a specialized report to cover weekly business information and news of the United States-Central America-Dominican Republic Free Trade Agreement. This FTA includes the Dominican Republic, Costa Rica, Nicaragua, El Salvador, Guatemala, Honduras, Puerto Rico and the United States.

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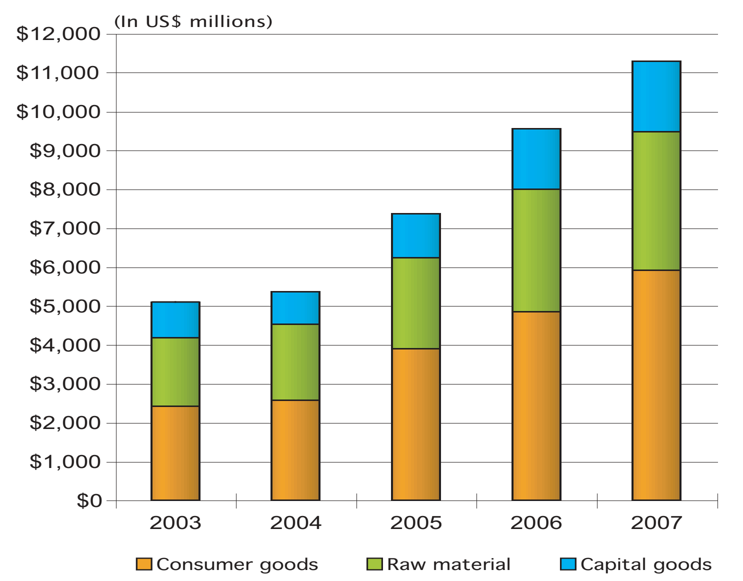
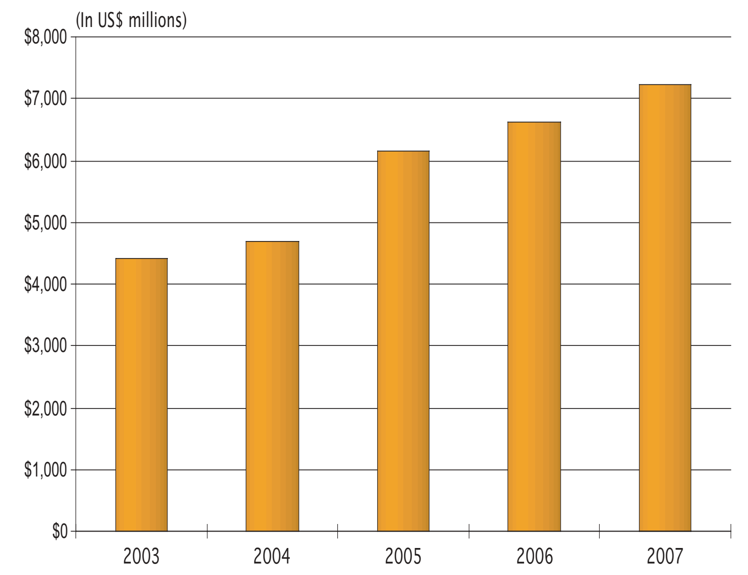
# DOMINICAN REPUBLIC

## Imports by Sector




## Total Exports




## General Facts

**Capital city:**
Santo Domingo

**Official languages:**
Spanish

**Population:** 8,8,94,907

**Government type:**
Representative democracy, one president and a congress

**Currency:**
Dominican Dollar

**Gross Domestic Product:**
DR$314,592.9

**Gross National Product:**
DR$21,884,930,048

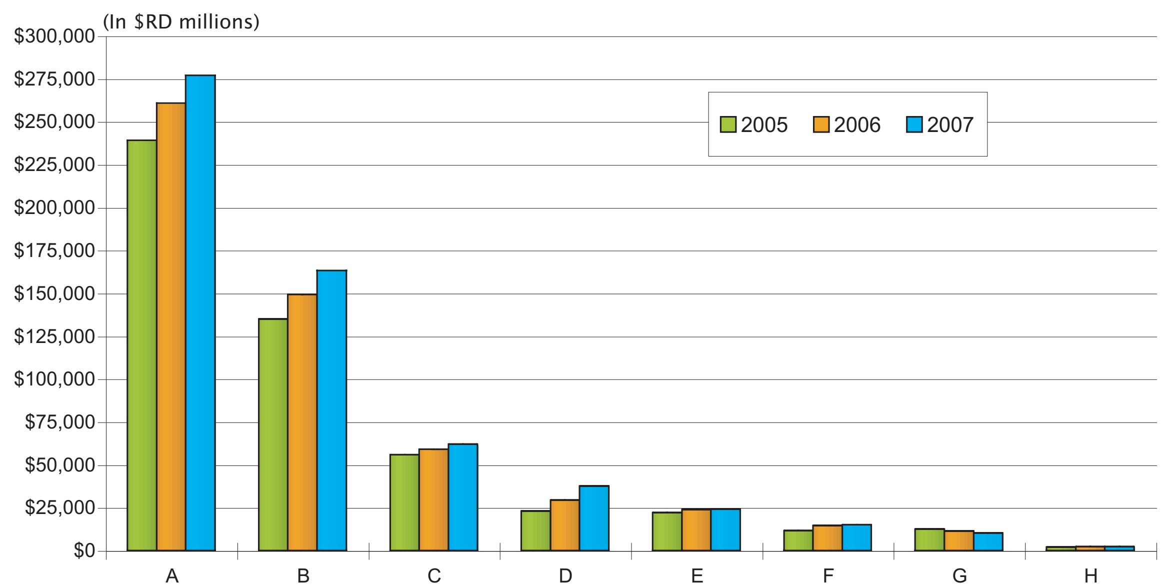
**GNP per capita:**
DR$2,460

**GNP growth:** 10.7%

**Inflation:** 7.6%

**Unemployment:** 4.09%

## Gross Domestic Product by Sector




### LEGEND

**A:** Value-added products

**B:** Services

**C:** Local Manufacturing

**D:** Production Taxes

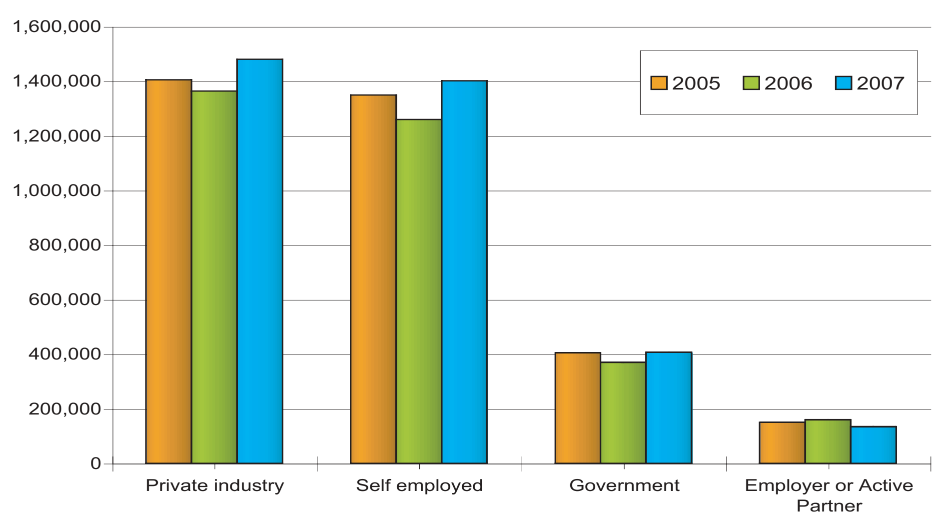
**E:** Agriculture, Farming and Fishing

**F:** Construction

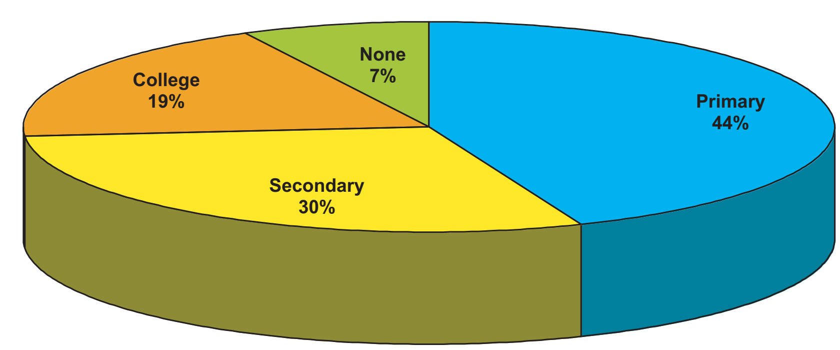
**G:** Manufacturing in Trade Free Zones

**H:** Mining

## Employment by Sector




## Employment by Education Level



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2004, most of which fell on the hands of Dominican Republic Banks Superintendent Rafael Camilo.

Torrid government spending during the administration of former President Hipólito Mejía in the middle of 2003, coupled with a pair of private bank collapses opened the floodgates to a fiscal crisis in the Dominican Republic. Upon the change of government in August 2004, the first order of business was to get the banking system back on track.

"To put it mildly, we went back 10 years in a period of about six months", Camilo explained in a recent interview. "About 20% of the Gross Domestic Product was in jeopardy between August and December of 2003, our unemployment rate went from 13% to 19%. Economically speaking, the per capita income dropped more than 25%, which translated to layman terms, means that we had our own version of a Great Depression in our hands. Never in our history had we had such a profound crisis," Camilo said.

The precipitous fall of the banking system had a ripple effect on all sectors of the Dominican Economy. Construction projects were halted, manufacturing sector jobs were lost at a tremendous rate and the confidence foreign investors may have had on the Dominican economy was quickly lost.

"For us, the first order of business was to get an aggressive banking reform passed by Congress. We needed banks to adhere to new norms. We had a problem, when the normal reserve standard calls for banks to have reserves of 100 to 120%, Dominican banks were only at 67%. We had to bring back the concept of fiscal responsibility to the banking system," Camilo explained.

After the Fernandez Administration actively pursued and reached a stand-by agreement with the International Monetary Fund, Camilo said that action "actually gave us a road map of what needed to be done to rebuild the system and we established some safeguards that eventually helped us get ready for CAFTA-DR".

"We made profoundly difficult choices to cut government spending and send a balanced budget to Congress and established programs, like a Financial Aid Fund for the manufacturing sector that allowed us to recover. We moved away from protectionist laws for our manufacturing sector that should eventually allow us to compete in the open market and hopefully that will keep the flow of the economy and keep it sustainable", Camilo said.

According to Camilo, the banking system today is holding strong. The economic growth posted in the last two years, including the record-breaking 11.3% growth posted in 2006, is testimony to the immediate effects of the reforms. However, Camilo believes that the only way the economy will continue to grow is that all the reforms established by this administration are given continuity for "an extended period of time. The reforms are working and we need to give them a chance to continue to work in order to strengthen the foundation."

As CAFTA-DR has gone into effect, the Dominican economy has been complemented by increased exports and net sales and further vision from its leadership. The Dominican Republic has negotiated a similar agreement with the European Union and is an active participant in the Caribbean Community, also known as CARICOM, while Puerto Rico sits on the outside looking in.

**Puerto Rico's case**

Although not as drastic as in the Dominican Republic, the Puerto Rican economy is facing similar strains. According to Galliano, Puerto Rico has missed an opportunity to position itself within the framework of regional growth, allowing its regional neighbors to make strides in fields such as transshipment, manufacturing and even services.

"We are the United States in the Caribbean and we lose sight of that fact. There's no reason why Puerto Rico shouldn't be participating more actively in CAFTA-DR, especially when it comes to services, finance and manufacturing. We just haven't had the vision, as a government and as a private sector, to follow through on ideas and communication with, for example, the Dominican Republic," Galliano said.

Dominican Secretary of State, Eddy Martínez Manzueta, who is also the Executive Director of the Center for Exports and Investments of the Dominican Republic (CEI-RD) agrees.

"Since 2003 we have been trying to get

the Puerto Rico government aboard with some projects, but there always seems to be some sort of apathy," Martínez said. "The Dominican Republic and Puerto Rico already have a formidable trade relationship. I don't see any reason why that can't be translated into a bigger presence, together, in the regional economy."

Puerto Rico and the Dominican Republic currently have a trade relationship that represents some $1.6 billion, but there's room for plenty of increases. CAFTA-DR has paved the way for manufacturers to set up shop in the Dominican Republic to assemble products and enter them into the U.S. market free of tariffs.

"That kind of forward thinking is what Puerto Rico needs. Right now, we're stagnant because we're not thinking out of the box," Galliano said.