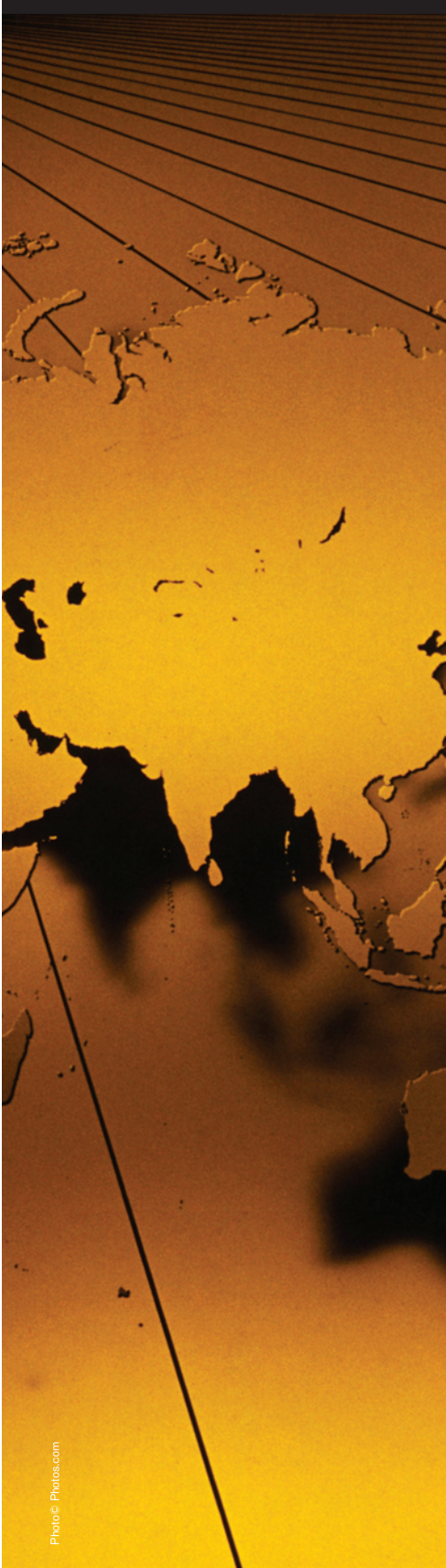




Going Global

Doing business in Central America and the Dominican Republic

BY LAUREL DELANEY

Once the ultimate destination spot for busy executives interested in adventure or a relaxing time, Central America and the Dominican Republic (Caribbean) are rapidly becoming the hot new hubs for international free trade. With more than 47 million people and 80 percent of goods from the U.S. now imported to this region duty-free, this area is an economic force to be reckoned with. Here's a closer look at why and how a new trade agreement is propelling this region to get back its global groove.

The Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR), signed on August 5, 2004, is a trade agreement between the United States and the countries of Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. It is designed to eliminate tariffs and trade barriers, and to expand regional opportunities for workers, manufacturers, consumers, farmers, ranchers and service providers in all these countries. Like the North America Free Trade Agreement (NAFTA) did for the United States, Canada and Mexico, CAFTA-DR offers new hope for accessing emerging markets, reducing poverty, securing democracy, strengthening trade, building up economies, stabilizing strategic interests and creating jobs.

Benefits Abound

"American small businesses operating successfully in [the CAFTA-DR] markets are a good test for market success further afield, as these economies are physically close and plugged in economically and financially to the United States," says Anton Edmunds, executive director of the Washington, DC-based group Caribbean Central American Action (CCAA; c-caa.org). "Visas are not required for U.S. citizens [to travel there], and CAFTA-DR-based businesses are actively seeking partners and investments from the United States."

According to the U.S. Census Bureau and the Bureau of Economic Analysis, U.S. exports increased by 13.1 percent to \$1.649 billion in the 12 months ending January 2008. Imports also increased 6.8 percent to \$2.359 billion, and the trade deficit narrowed 5.5 percent during the same time period.

CAFTA-DR immediately creates the second-largest U.S. export market to Latin

Top 10 Tips

To successfully do business in the CAFTA-DR region, it's important to follow these tips:

- 1. LOOK BEFORE YOU LEAP.** You need to do your research and become acquainted with the country. If possible, spend a month in the region getting to know the locals.
- 2. BE FLEXIBLE.** If you don't know how the markets operate, find out—fast. Stay sensitive to the cultural values of the area. If things appear one way today and another tomorrow, shift gears and work with conditions as you find them. Flexibility mixed with a little bit of perseverance will give you strength and confidence to carry you through to even bolder efforts in the future.
- 3. LINK UP WITH APPROPRIATE IN-COUNTRY U.S. AGENCIES.** "Join mailing lists and membership rolls of American Chambers of Commerce, and meet with U.S. commercial officers at the embassy. That way, you know you are meeting and plugged into a network that is interested in helping you succeed," says Anton Edmunds, executive director of the Washington, DC-based group Caribbean Central American Action (CCAA).
- 4. TO LEARN THE ROPES,** hire local experts to give you advice or have someone on your team spend serious time in the country, well in advance. Experts might tell you that there is no market under CAFTA-DR for dog food—and they could be wrong. Listen to your gut, and if you believe strongly in your vision, go for it. But checking your gut instincts with someone on your team who has spent serious time in the region will be integral to your marketing success.
- 5. CHECK MARKET DEMOGRAPHICS** in advance to ensure customers have the money to buy your product. "Do your own extensive market research and analysis," says Edmunds.
- 6. "WHEN RE-IMPORTING PRODUCT INTO THE UNITED STATES,** do not underestimate the importance of a good [third-party logistics] provider who has knowledge of CAFTA-DR requirements," says Global Product president Rebecca Herwick.
- 7. "PROVIDE MORE SHIPMENT INFORMATION** earlier in the process so customs can perform security screening to efficiently enable the process," says Tom O'Malley, vice president of Air Cargo, UPS Americas.
- 8. TAKE YOUR TIME UNDERSTANDING** and entering the market. Do it right the first time to avoid costly and time-consuming mistakes. "While the region is indeed open to new investment and business opportunities, it is worthwhile to do the appropriate research on competitors, either local or international, and recognize that issues such as transportation logistics can impact one's success," says Edmunds.
- 9. GET HELP FROM THE U.S. EXPORT-IMPORT BANK** (exim.gov), which offers insurance policies to protect small businesses against the risks of dealing with foreign buyers. Minimize your overhead and financial exposure—especially at the beginning.
- 10. RECOGNIZE THAT THE REGION IS RELATIVELY SOPHISTICATED.** "Government [employees], as well as the private sector, are well educated and traveled," says Edmunds. "Treat them with respect, even if you are dissatisfied with the pace of action."

America, behind only Mexico and bigger than trade with Brazil, and is the 13th-largest U.S. export market in the world. Just for perspective: America is the world's No. 1 exporter. The most recent figures indicate that in 2007, the United States exported \$22.4 billion in goods to the five Central American countries and the Dominican Republic—a 22 percent

increase compared to the prior year. Even as the U.S. struggles with a market slowdown, this region is still poised for steady growth throughout 2008. Tom O'Malley, vice president of Air Cargo, UPS Americas, notes that CAFTA-DR eliminates foreign taxes on exports to the region, saving more than \$1 billion annually for U.S. exporters.

The China and India Factor

China's and India's growing prominence as cheap and plentiful producers is creating global shortages in many commodities. Many areas in the U.S. are feeling the crunch of competing against these two powerful countries—or companies, if you will—when asked to bid on projects ranging from fabrics to packaging. China, in particular, appears to have a primary competitive advantage when it comes to making most components of apparel and other textile products.

One of the major benefits of CAFTA-DR is to help that region cope with the industrial downward spiral resulting from China's increasing industrialization and its dominance in the textile and apparel industries. Hence, CAFTA-DR has become a sustaining force in the economies of these six countries.

Easy Street

Is qualifying complex? Actually, it is the opposite. Companies need only generate supporting documentation, including a certification stating that your product meets the relevant origin criterion of the Agreement, to qualify. For example, if goods contain only U.S. or Central American-originating inputs, they are eligible.

If you are not sure where your product falls, a global shipper such as UPS can help determine prequalification by asking the right questions. Since UPS already has a large global suite of customer solutions ranging from packages to freight, customs clearance and technology, they can simplify the entire transport process. And remember, though a shipper can help you, it is still your responsibility, as the importer, to use and submit a written claim as proof to customs authorities of preferential treatment.

From entrepreneurial artisans to personal businesses, globalization has created a whirlwind effect for many small businesses, turning them upside down in their local neighborhoods, and landing them wobbly on one foot without any sense of foreign market direction. The fear of closing up shop due to disintegrating local sales and profits is enough of an incentive for many small businesses to move into uncomfortable interna-

tional territory, even though they don't know the laws, language or culture there. Turning their vulnerability into strength, these courageous small businesses are elbowing into CAFTA-DR territory to spearhead new and untested international growth. And it's beginning to pay off.

International Trade Boom

PCM Industrial Supply Co. Inc., an established supplier and exporter of industrial parts and equipment based in Tuckahoe, New York, conducts most of its business in South America and Russia. But a major part of its 2008 global strategy is to enter the goldmine CAFTA-DR region of untapped customers. "We are in the process of seeking a good agent and learning everything there is to know about the market before we take our first entry step," says PCM president Minna Laputina. "Based on our success in Ecuador and Columbia, we have found that using a local agent helps us establish our business in new parts of the world in order to take us to the next level."

Ramping up to the next level is standard operating procedure for St. Peters, Missouri-based Global Product Inc., a WBENC-certified exporter that designs, manufactures and distributes licensed and custom products worldwide. "The biggest benefit for the U.S. in CAFTA-DR is that nearly all textile and apparel goods that meet the agreement's rules of origin are now traded duty-free and quota-free, promoting opportunities for U.S. and regional fiber, yarn, fabric and apparel manufacturing," says Global Product president Rebecca Herwick, who was recently honored as St. Louis' top woman business owner. All things being equal, if given a choice of either Asia or the CAFTA-DR region, Herwick says she would choose CAFTA-DR to save on duties when importing final products into the United States.

Transportation Savings

Due to its close geographic proximity to the United States, the CAFTA-DR region, especially the Caribbean region, offers a cost savings not just on duties, but on transportation too. To most, shipping globally is a complicated process because of export documentation, tariff and harmonization codes, customs duties

and other international regulations. That's why it is critical for a small business to partner with a knowledgeable transportation provider with the necessary experience and infrastructure to operate in the region and understand the intricacies of exporting.

"Our new paperless product has been well received by customs agencies, and we are exploring other ways to utilize this new service to improve the flow of goods in the supply chain," says O'Malley at UPS. "Exporting to the CAFTA-DR countries has become increasingly easier due to the implementation of the Free Trade Agreement [FTA] in these countries."

What's Hot?

According to Edmunds, hot exports are pharmaceuticals, IT products and services and electronics. Flick says agricultural and construction equipment, paper products, chemical, and medical and scientific equipment gain immediate duty-free access in Central America and the Dominican Republic.

According to 2006 WorldCity TradeAmericas Numbers (worldcity-web.com), the following are the top export items to the CAFTA-DR countries:

HONDURAS: Oil, cotton, textile products, wire/cable, clothing and apparel

COSTA RICA: Electronic integrated circuits, computer parts, paper and medical instruments

GUATEMALA: Oil, charitable items, wheat and transmission parts for cellular phones

EL SALVADOR: Oil, textile products, corn, cotton and transmission parts for cellular phones

NICARAGUA: Export of charitable items, oil, rice, transmission parts for cellular phones, wheat and computers

DOMINICAN REPUBLIC: Textiles, medical instruments, jewelry parts, cigars and electrical supplies

The same report spotlights these products as the top imports from the CAFTA-DR countries:

HONDURAS: Textile products, wire/cable, fruits, tilapia and other seafood

COSTA RICA: Medical instruments, fruits, computer parts, banana products, electronic integrated circuits and coffee

GUATEMALA: Textile products, coffee,

Resources

These sites, maintained in English and Spanish by the U.S. Commercial Service, help U.S. companies export to the CAFTA-DR region by providing market research information, success stories and tips for doing business.

COSTA RICA

buyUSA.gov/costarica/en/

buyUSA.gov/costarica/es/

DOMINICAN REPUBLIC

buyUSA.gov/caribbean/en/

buyUSA.gov/caribbean/es/

EL SALVADOR

buyUSA.gov/elsalvador/en/

buyUSA.gov/elsalvador/es/

GUATEMALA

buyUSA.gov/guatemala/en/

buyUSA.gov/guatemala/es/

HONDURAS

buyUSA.gov/honduras/en/

buyUSA.gov/honduras/es/

NICARAGUA

buyUSA.gov/nicaragua/en/

buyUSA.gov/nicaragua/es/

banana products, crude oil and fruits

EL SALVADOR: Textile products, ethyl alcohol and coffee

NICARAGUA: Textile products, wire/cable, coffee and live crustaceans

DOMINICAN REPUBLIC: Oil (not crude), electrical supplies, jewelry parts, motor vehicles and corn

Not only have Central America and the Caribbean got their groove back, but thanks to CAFTA-DR, they have managed to level the global playing field for everyone from the tiniest firms to the most established U.S. small businesses, fostering growth, jobs and prosperity. **SBS**

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