CAFTA – Perils and Promises

During the past 9 months Tudog has become active in the Central American arena working with agencies, organizations and companies to enhance performance, augment competitive competence, and improve the ability of Central American companies to take advantage of the possibilities offered through CAFTA. While being formulated, the Treaty met with a great deal of resistance in all the countries involved. American businesses were fearful that the increased competition from countries with lower cost structures would lead to cheap products flooding the market and the consequential decline in their own sales. They argued that this would lead to unemployment and all the ailments of an economy under siege from low cost items. In Central America the anti-Treaty forces argued that the Free Trade Agreement threatened to flood their markets with American products and lead to an "invasion" of American companies. They argued that the Treaty will do nothing to enrich the relatively high percentage of poor people, and could in fact lead to more poverty as jobs are lost to American competition. Beside the stunning similarity in the fears of all opposed, the opposition failed to see through their fear and toward the promise CAFTA offers. Tudog supports the CAFTA agreement because we believe that Free Trade is good for everyone and that the global economy of our era demands that countries, particularly those in the same region, find ways to encourage and promote trade.

Why CAFTA?

As Tudog sees it, there are four factors that compelled the passage of CAFTA and serve as the driving force for the successful implementation of the Treaty. These four factors are:

1. The Trend Toward Globalization – while not new, the sheer force of the globalization process requires that all countries hone their skills and find their place in the increasingly competitive global economy. CAFTA provides the countries of Central America with the opportunity to pursue a more ambitious position in the global landscape.

2. The Trend Toward Regional Alliances – perhaps encouraged by the establishment of the European Union, the countries of Central and North America are looking ways to strengthen and empower the economies of the region. Only through strong local economies can the region establish and maintain its position of power globally.

3, Trade Pressures – the countries of Central America rightfully are seeking uninhibited access to the U.S. market in the hope that this will provide them with the opportunity to increase exports to the United States – offsetting a huge trade deficit and perhaps creating the atmosphere and opportunities necessary to grow their economies. The United States, to its credit – and because it too sees opportunity for economic growth – led the way to the CAFTA agreement, heralding a new era in U.S.- C.A. relations.

4. Specialized Economies – perhaps as a function of the global economy, different countries have begun determining which products and services are most worthwhile. The specialization of economies makes each country meaningful and important. The CAFTA process can serve to sharpen this understanding in Central American countries, where today many countries are competing against one another in the world market, as opposed to specializing in particular fields in which they can bring particular value.

Perils

There are some perils that could arise should the governments and businesses of Central America fail to adequately prepare for CAFTA. The increase in competition and the higher sophistication of business practices are challenges for Central American companies if they fail to heed the calls for improved operations and the adoption of best practices. The primary perils include:

1. Failure to See the United States as a Cohesive Market – there is a tendency on the part of companies in Central America to view the United States in terms of the Latino market only. While this market is large, attractive and growing, and does in fact, in many cases, constitute a viable point of entry, it is not the endgame for Central American companies. The broader U.S. market offers much greater potential for growth and should be part of the overall U.S. market penetration plans of every C.A. company.

2. Getting Overwhelmed – the United States supported and signed the CAFTA Treaty because it believes that it provides opportunity to American businesses. The countries of Central America are mistaken if they think that U.S. companies will not attempt to extract as much advantage from the Treaty as possible. This could pose some competitive challenges to local companies, especially if they fail to expect and plan for the influx of American companies. C.A. companies can position themselves to compete effectively against American companies by adopting best practices and seeking out the knowledge typically used by U.S companies to gain competitive advantage.

3. Failing to Invest in Competitive Competence – there is a tendency in Central America to be cautious and conservative in the allocation of resources. While not necessary a bad business practice, in the case of acquiring business expertise and U.S. based operational know-how, the adherence to traditionally cautious ways could prove dangerous. Companies (and governments) in Central America need to resist the temptation to rely on local talent when planning to compete against U.S. companies. They need to identify and retain qualified American companies to join forces with local companies in order to prepare for the competitive challenges of CAFTA.

4. Insufficient Government Support – the primary challenge for C.A. countries is the establishment of a strong Small and Medium Sized Enterprise (SME) sector and the thriving middle class that accompanies it. There is a strong need for the governments of Central America to take the lead in developing programs to support competitiveness and establish best practices. These programs, in most cases already in place, need to deliver the expertise directly to the market and not rely solely on the distribution of funds. The government support can also take the form of incentives to be provided to the wealthier companies to encourage them to invest in and mentor smaller companies.

Promises

Just as there are perils associated with CAFTA, there are also substantial promises that, if exploited properly could possibly mean the transformation of Central American economies. These promises include:

1. Easier Access to Attractive Markets – CAFTA provides all the participating countries with the right to export freely to one another. The removal of most trade barriers will increase the trade between nations and drive cooperation in regional projects.

Additionally, it can be expected that American companies and investors will look closely at the region and consider investments in a wide variety of infrastructure and commercial ventures. This influx of capital can be expected to further fuel growth.

2. The Compelling of Focused Economies – one of the challenges facing Central American counties is the intense competition they face between one another and the need they all have to transform their economies from agriculturally dependent to those that are better balanced and include industry, services and tourism. Certainly the safety factor and political stability are necessary components to the transition, but so too is the focusing of economies on sectors, products, and services that can be distinctive to, or specialized in, by certain countries. This would reduce the competition between the C.A. countries among themselves and add special value to the specific products and services each country distinctly provides.

3. The Enabling of the Middle Class – one of the most commonly heard criticisms of CAFTA in Central American countries is that the increase of trade with the United States does nothing to help the poor in the rural areas of C.A. It may be true that the immediate direct benefit of CAFTA will be felt by the upper class that has the relationships, capacity, and products to sell in the United States. But it is shortsighted to suggest that there will be no long term affect on the poor. The C.A. countries are already witnessing the development of their middle class and the migration of people from the poor rural areas into the cities. Moreover, there are also programs in place to develop the rural areas so as to bring jobs (away from agriculture) and improve the educational and health systems. The funds generate from CAFTA, through increased revenues and investment dollars, will serve to strengthen the middle class and provide opportunity for the middle class to perform its traditional and critical function in most modern economies – serve as the engine that makes the economy thrive. If the middle class in C.A. countries are successful in playing this role – enabled and energized by CAFTA – then we will witness a transition of the economies of these countries and a direct benefit to their poor.

4. The Transfer of Knowledge – CAFTA will encourage Central American companies to seek out knowledge and improve operations as much as a competitive imperative as a means of creating the efficiencies necessary to extract maximum profit from new trade ventures. The transfer of knowledge will serve to improve operations, create jobs, enhance products, introduce technologies, and empower companies.

5, Encouragement of Partnerships – the task of doing business overseas by definition includes the development of relationships and partnerships in the foreign country. This will create movement between the countries, allow for increased trade, provide investment opportunities, and improve tourism. All of these activities can be expected to provide significant benefit to Central American countries.

With CAFTA approved and pending implementation the debate on its worthiness should be long over and the concentration of effort should now be on how to best exploit the opportunities the Treaty affords. Unfortunately as with many controversial issues the debate has not subsided and has, in some areas, served to minimize the vision of what CAFTA can provide. This is a mistake because the Treaty is sufficiently flexible to enable each country to draw from the opportunity the benefits each seeks. All it takes is organization, a commitment to knowledge acquisition, the allocation of funds, and the will to execute.