2001 Country Reports on Economic Policy and Trade Practices
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DOMINICAN REPUBLIC

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP 2/	17.3	19.7	21.6
Real GDP Growth (pct) 3/	8.0	7.8	3.0
GDP by Sector:			
Agriculture	6.7	5.0	N/A
Manufacturing	6.4	9.0	N/A
Services	7.7	10.3	N/A
Government	3.1	4.3	N/A
Per Capita GDP (US$)	2,076	2,304	2,486
Labor Force (000s)	3,457	3,528	N/A
Unemployment Rate (pct)	13.8	13.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	24.0	14.1	N/A
Consumer Price Inflation	5.10	9.02	8.00
Exchange Rate (DR Peso/US$ annual average)			
Official	15.83	16.18	N/A
Parallel	16.03	16.42	16.67
Balance of Payments and Trade:			
Total Exports FOB 4/	5.21	5.73	6.18
Exports to United States 4/	4.29	4.38	4.43
Total Imports CIF 4/	8.04	9.48	9.00
Imports from United States 4/	4.10	4.44	4.80
Trade Balance (US$ millions) 4/	-2.83	-3.75	-2.82
Trade Balance with United States 4/	0.19	-0.06	-0.37
External Public Debt	3.66	3.68	N/A
Fiscal Deficit/GDP (pct)	0.8	0.1	N/A
Current Account Deficit/GDP (pct)	2.5	5.2	N/A
Debt Service Payments/GDP (pct)	2.2	2.5	N/A
Gold and Foreign Exchange Reserves	0.88	0.82	0.80
Aid from United States (US$ millions) 5/	46.25	13.86	19.37
Aid from All Other Sources	151.4	102.6	N/A

1/ 2001 figures are all estimates based on available monthly data through June 2001.

2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Merchandise Trade; exports FAS, imports customs basis.
5/ Military aid equaled $870,000 in 1999, $850,00 in 2000, and $1,099,000 in 2001.

Source: Economic Studies Department, Central Bank of the Dominican Republic.

1. General Policy Framework

President Hipolito Mejia took office on August 16, 2000, pledging to maintain the macroeconomic stability that has helped the Dominican Republic achieve high levels of growth over the past five years. At the same time, he made clear his intention to share the benefits of that growth more broadly through increased government attention to education, housing, agriculture, and health. His plans for new initiatives in these areas were initially hampered by the impact on government finances of high world oil prices and election year spending in the waning months of the Fernandez Administration. These caused a drain on foreign exchange reserves and left a large fiscal deficit. In early November 2000, the new Mejia government proposed a series of tax measures, passed by Congress the following month, in order to close the government's fiscal deficit and to provide funds for new government programs. These included an increase in the Value Added Tax (VAT) from 8 to 12 percent; a new minimum income tax equal to one and one-half percent of gross revenues; increases in selective consumption taxes on automobiles, alcoholic beverages, and tobacco products; and an across-the-board reduction in tariff levels.

A reduction in demand for Dominican exports, especially from the United States, and the new tax measures combined to halt growth entirely in the first half of 2001. The terrorist attacks in the United States in September 2001 resulted in a sharp decline in hotel reservations. Thus despite signs that economic activity had begun to pick up in the third quarter, growth for the year is likely to be minimal. The Caribbean Basin Trade Partnership Act (CBTPA) went into effect in October 2000 and provides tariff benefits for Dominican apparel and other products. Effects of CBTPA should be felt more strongly in 2002. Inflation, which began to edge up toward the end of 2000, has moderated in 2001, and will likely end the year well below 10 percent.

The exchange rate of the Dominican peso against the U.S. dollar has remained stable through most of 2001. Because of the Dominican Republic's high propensity to import, changes in the exchange rate are politically significant. The need to keep the peso stable forces the Central Bank to maintain a high interest rate structure to retain short-term capital. Foreign exchange operations also play a role in meeting money supply targets since the Central Bank's purchase of pesos for dollars tends to reduce the money in circulation within the country.

The Central Bank regulates the money supply by issuance of new money through the banking system, by the purchase or issuance of debt instruments of the Central Bank itself, and at times by direct limits on bank sector net assets. Since there is no secondary market for government securities and no liquid security market, the tools available to the Central Bank are limited. The Central Bank can modify bank reserve requirements but rarely does so. Banks resort to the discount window of the Central Bank only rarely. The Superintendency of Banks has continued its work to improve banking regulation. Although the Dominican Republic has no deposit insurance, the Central Bank guaranteed deposits at Bancomercio, the country's third largest bank, when it failed in early 1996 and subsequently supervised its sale to another Dominican bank. There have been no significant bank failures since then.

The government has continued timely payments of foreign private bank debt and payments on renegotiated Paris Club debt. The government has also, however, accumulated large arrears to domestic suppliers and contractors, although some efforts have been made to pay this down. For example, in September 1999 the government agreed to pay off $125 million in debts of the State Sugar Council in connection with the privatization of that entity. The government also began in 2000 to issue bonds under new legislation that authorized liquidation of around $300 million in internal debt. In September 2001, the Dominican government issued $500 million of sovereign bonds the proceeds of which will be used to finance several infrastructure projects. The central government continues to provide subsidies to some state enterprises without regard to efficiency or production targets, but has moved decisively on privatization of electricity, sugar, flour, and airports.

2. Exchange Rate Policy

The official exchange rate is set by the Central Bank. On July 2, 1998, the peso was devalued nine percent from 14.02 pesos/dollar to 15.33 pesos/dollar. Since then, it has continued to devalue slowly with the most recent official rate (October 2001) set at 16.66 pesos/dollar. The unofficial rate has also devalued and is currently in the range of 16.83 pesos to the dollar. An October 1999 increase in the fee for purchasing foreign currency to 5 percent (up from 1.75 percent) effectively further devalued the peso. Traditional exporters such as sugar, cocoa, and coffee producers, credit card companies, and airlines are still required by law to sell foreign exchange to the Central Bank at the official rate, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial bank system. The market rate is influenced by Central Bank activities such as dollar sales and the use of its considerable regulatory discretion to "jawbone" banks.

3. Structural Policies

Market forces determine most domestic prices, although distortionary government policies sometimes limit the operation of these forces. High tariff and nontariff barriers have also increased the cost of doing business in the Dominican Republic. Following the negotiation of free trade pacts with Central America and with Caribbean Community (CARICOM), however, the Mejia administration submitted, and Congress approved, a new proposal to decrease tariff levels to Central American/CARICOM levels (i.e. a top tariff of 20 percent).

The Dominican Republic has ratified the GATT 94 and participates in World Trade Organization (WTO) meetings. The Dominican government has yet to determine an equitable and transparent method of quota distribution to implement its rectification agreement for eight protected agricultural products. In addition, the Dominican Republic has a discretionary import permit requirement for some agricultural products, especially beef and pork.

Government policy prohibits new foreign investment in a number of areas including national defense production; forest exploitation; and domestic air, surface and water transportation. Government regulations, such as the process required to obtain the permits to open new businesses, hinder economic growth and innovation. The difficulties of protecting intellectual property rights have slowed the use of modern medicines. A chaotic land tenure system and the unwillingness of large landowners to modernize impede investment in modern agricultural techniques.

4. Debt Management Policies

A significant portion of the Dominican Republic's official debt was rescheduled under the terms of Paris Club negotiations concluded in November 1991. In August 1994, the government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and U.S. Treasury-backed rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then. A September 1999 Dominican request to defer Paris Club debt payments due in the first half of 2000 was denied. Government payments to foreign non-financial institutions are notoriously slow. Some debts are over ten years old.

5. Significant Barriers to U.S. Exports

Trade Barriers: In 2000, the Dominican government lowered tariff rates on imports in order to comply with the terms of new Free Trade Agreements with CARICOM and five Central American countries. Most Dominican tariffs now range from 3 to 20 percent. Virtually all tariffs are bound in the World Trade Organization (WTO) at 40 percent. In addition, the government imposes a 15 to 60 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles. In early 2000, the government adjusted the formula for determining the base on which to apply the selective consumption tax to imported liquor following complaints from importers that the old formula discriminated against them in violation of WTO commitments. Importers are still concerned, however, because the selective consumption tax on whisky (much of which is imported) is 45 percent, while that on rum (nearly all of which is domestically produced) is only 35 percent.

The Dominican Republic requires a consular invoice and "legalization" of documents, which must be performed by a Dominican Consulate in the United States. Fees for this service vary by consulate but can be quite substantial. Some importers now pay the consular invoice fee in Santo Domingo directly to customs. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

Customs Procedures: Bringing goods through Dominican Customs can often be a slow and arduous process. Customs Department interpretation of exonerated materials being brought into the country often provokes complaints by businesspersons. The use of "negotiated fee" practices to gain faster customs' clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market. The Dominican government implemented the WTO Customs Valuation Code in July 2001, but has been granted a waiver to permit use of minimum prices on several categories of goods.

Government Procurement Practices: The Dominican Republic has a centralized Government Procurement Office, but the procurement activities of this office are basically limited to expendable supply items of the government's general office work. In practice, each public sector entity has its own procurement office, both for transactions in the domestic market and for imports. Some U.S. bidders on government contracts have complained that the provisions of the U.S. Foreign Corrupt Practices Act often puts them at a serious disadvantage in what are sometimes non-transparent bidding procedures.

Investment Barriers: Legislation designed to improve the investment climate passed in November 1995. The legislation does not contain procedures for settling disputes arising from Dominican government actions. The seizures of foreign investors' property by past governments which are still unresolved, refusal to honor customs' exoneration commitments, and the government's slowness in resolving claims for payment reduce the attractiveness of the investment climate, notwithstanding passage of the 1995 legislation. Foreign investment must receive approval from the Foreign Investment Directorate of the Central Bank to qualify for repatriation of profits. The new law provides for repatriation of 100 percent of profits and capital and nearly automatic approval of investments. Foreign employees may not exceed 20 percent of a firm's work force. This does not include foreign employees who perform managerial or administrative functions only.

The electricity sector is a weak link in the Dominican economy with long blackouts, especially in the hot summer months, a regular occurrence. The state electricity company's distribution units and thermal generation facilities were capitalized in 1999, and are now under the control of private sector operators. This, together with new investments underway in both power generation and transmission, should improve the electricity situation over the next few years.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards. Several investors have outstanding disputes concerning expropriated property. The government continues to maintain that it wishes to resolve these issues although progress has been slow. The Dominican Republic does not recognize the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Private investment has been permitted in selected sites. Currently, foreign investors are exploring for gold, natural gas, nickel, and copper.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: the Free Trade Zone Law (Law no. 8-90, passed in 1990) and the Export Incentive Law (Law no. 69-79, passed in 1979). There is no preferential financing for local exporters nor is there a government fund for export promotion.

The Free Trade Zone Law provides 100 percent exemption on all taxes, duties, and charges affecting the productive and trade operations at Free Trade Zones (FTZs). These incentives are provided to specific beneficiaries for up to 20 years, depending on the location of the zone. This legislation is managed jointly by the Foreign Trade Zone National Council and the Dominican Customs Service. Investors operating in the Dominican Republic's FTZs experience far fewer problems in dealing with the government than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move quickly, without the kinds of bureaucratic difficulties mentioned above.

The Export Incentive Law provides for tax and duty free treatment of inputs from overseas that are to be processed and re-exported as final products. The Dominican Export Promotion Center and the Customs Service manage this legislation. In practice, use of the export incentive law to import raw materials for process and re-export is cumbersome and delays in clearing customs can take anywhere from 20 to 60 days. This customs clearance process has made completion of production contracts with specific deadlines difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal customs' procedures which, although more costly, are more rapid and predictable.

7. Protection of U.S. Intellectual Property

The Dominican government has taken several steps to improve protection of intellectual property rights, but piracy remains a serious problem. The Dominican Republic belongs to the WTO, and is a signatory to the Paris Convention, Berne Convention, Madrid Agreement, and the Rome Convention. Since 1998, the Dominican Republic has appeared on the U.S. Trade Representative's “Special 301” Priority Watch List because it continues to have inadequate enforcement of its existing laws and a legal regime that does not meet international standards.

Patents: Patents are difficult to receive and enforce against a determined intellectual property thief. In 1999, however, the Supreme Court upheld the rights of a foreign patent holder against a local laboratory. New patent legislation passed in 2000 does not appear to be wholly in compliance with the Dominican Republic's obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The Mejia government has pledged, however, in connection with its bid for eligibility for CBTPA benefits, to bring IPR protection up to TRIPS standards. In 2001, the Pharmaceutical Research and Manufacturers Association filed a petition requesting a review of the Dominican Republic's eligibility for benefits under the Generalized System of Preferences due to continued patent violations.

Trademarks: Apparel and other trademarked products are counterfeited and sold in the local market. Although the Dominican government is taking a more activist stance toward remedying shortcomings in this area, including seizure of pirated goods, protection remains problematic.

Copyright: Despite a new, TRIPS-compliant copyright law passed in 2000 and improved efforts at enforcement, piracy of copyrighted materials is still widespread. Video and audio recordings and software are being counterfeited despite the government's efforts to seize and destroy pirated goods. Some television and cable operators are re-broadcasting signals without compensating either the original broadcaster or the originator of the recording. The Motion Picture Association of America (MPAA) estimates that losses in the Dominican Republic due to theft of satellite-carried programming are one million dollars per year.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the freedom of workers in all sectors, except the military and police, to organize labor unions and for the right of workers to strike. It also provides for private sector employers to lock out workers. Workers in all sectors exercise these rights. Organized labor represents approximately 10 percent of the work force and is divided among three major confederations and a number of independent unions. The government generally respects association rights and places no obstacles to union registration, affiliation or the ability to engage in legal strikes.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is lawful and may take place in firms in which a union has gained the support of an absolute majority of the workers. Only a minority of companies has collective bargaining pacts. The Labor Code stipulates that workers cannot be dismissed because of their trade union membership or activities. In practice, however, workers are sometimes fired because of their union activities.

c. *Prohibition of Forced or Compulsory Labor:* Although the law prohibits all forms of forced or compulsory labor, such practices still exist to a limited extent. There have been several reports of coerced overtime in factories and of workers being fired for refusing to work overtime. Union officials state that newly hired workers are not informed that overtime is optional.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits employment of children under 14 years of age and places restrictions on the employment of children under the age of 16. These restrictions include limiting the daily number of working hours to six, prohibiting employment in dangerous occupations or in establishments serving alcohol, and limiting nighttime work. Dominican law requires eight years of formal education. The high level of unemployment and lack of a social safety net create pressures on families to allow or encourage children to earn supplemental income. Tens of thousands of children begin working before the age of 14, primarily in the informal economy, small businesses, clandestine factories, and prostitution. The Ministry of Labor, in collaboration with the International Labor

Organization's Program on the Eradication of Child Labor and the U.S. Department of Labor, has implemented programs to combat child labor.

e. *Acceptable Conditions of Work:* The constitution empowers the Executive Branch to set minimum wage levels, and the Labor Code assigns this task to a national salary committee. Congress also may enact minimum wage legislation. The Labor Code establishes a standard work period of eight hours per day and 44 hours per week. The Code also stipulates that all workers are entitled to 36 hours of uninterrupted rest each week. In practice, a typical workweek is Monday through Friday plus a half day on Saturday. The Code grants workers a 35 percent differential for work totaling between 44 and 68 hours per week, and double time for any hours above 68 per week. The Dominican Social Security Institute (IDSS) sets workplace safety and health conditions. The existing social security system is seriously underfunded and applies to only about nine percent of the population. Conditions for agricultural workers, especially in the sugar industry, are generally much worse than in other sectors.

f. *Rights in Sectors with U.S. Investments:* The Labor Code applies in the more than 40 established FTZs. The FTZ companies, over sixty percent of which are U.S.-owned or associated, employ approximately 200,000 workers, mostly women. Some FTZ companies have been accused of discharging workers who attempt to organize unions, but these allegations have primarily been made against non-U.S. companies. Some companies in the FTZs adhere to significantly higher worker safety and health standards than do non-FTZ companies. In other categories of worker rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		590
Food & Kindred Products	31	
Chemicals & Allied Products	31	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	529	
Wholesale Trade		49
Banking		90
Finance/Insurance/Real Estate		(*)
Services		19

Other Industries	(D)
TOTAL ALL INDUSTRIES	1,126

(D) Suppressed to avoid disclosing data of individual companies.
(*) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.