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*CARIBBEAN RIM INVESTMENT INITIATIVE*

# BUSINESS ENVIRONMENT REPORT

## *DOMINICAN REPUBLIC*

***April 2003***

**Caribbean Rim Investment Initiative (CRII)**
**Business Environment Report (BER)**
**Dominican Republic**

## Executive Summary


Located between the North Atlantic Ocean and the Caribbean Sea, on the island of Hispaniola, which it shares with Haiti, the Dominican Republic is a small country twice the size of the state of Massachusetts, with a population of 8.6 million people and a per capita income of US$2,500 in 2001.[1] After a decade characterized by an unprecedented annual growth rate exceeding 6 percent, the highest such rate in Latin America and the Caribbean, and an increase of over US$4 billion in foreign direct investment (FDI) inflows, economic growth fell to 2.7 percent in 2001 due in large part to the slowdown in the U.S. economy, while FDI reached an impressive US$1.2 billion. The Dominican economy recovered in 2002 and grew at an estimated rate of 4.1 percent. FDI inflows amounted to US$850 million.[2]

The country experienced a period of strong growth in the 1970s, which was followed in the early 1980s by a significant slowdown in production and severe balance-of-payments problems compounded by high import and export tariffs, domestic price controls as well as expansionary monetary and fiscal policies. Whereas the Dominican economy grew in the late 1980s, as a result of higher spending, inflation reached 80 percent in 1990 and international reserves and income growth fell sharply. The Government then implemented a series of economic reforms aimed at reducing the budget deficit, curtailing money supply and devaluing the exchange rate, eliminating price controls and reducing the anti-export bias in the economy. These reforms initiated in 1991 were accompanied by others in areas such as labor, taxation, and the financial system. In 1995, the Foreign Investment Law liberalized the investment regime and abolished most barriers to national treatment.

The Dominican Republic is principally a services economy, albeit it has traditionally been known as an exporter of primary products such as mining, sugar, coffee, and tobacco. The services sector now accounts for over 55 percent of the domestic output and is the largest employer in the country. Free trade zones (FTZs), tourism, telecommunications as well as construction are the core sectors of the economy.

FDI inflows are a necessary component in the development strategy of the Dominican Republic, and structural reforms implemented over the past decade have undoubtedly contributed to increase investor confidence and FDI levels. Foreign investors have


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[1] The Dominican Republic's gross domestic product (GDP) per capita based on purchasing power parity was of $5,700 in 2000.

[2] U.N. Economic Commission for Latin America and the Caribbean (ECLAC), *La inversión extranjera en América latina y el Caribe: Panorama regional*. Santiago: ECLAC, May 2002 and March 2003.

principally been attracted to FTZs due to fiscal incentives and low labor cost, and to the communications, electricity, and tourism sectors. These sectors have generated higher economic growth and attracted higher levels of FDI than more traditional segments (agriculture, non-FTZ manufacturing, and financial services) of the Dominican economy. While considerable progress has been accomplished and the Dominican Republic remains one of the best performers in Latin America and the Caribbean, the country must continue to improve its business environment to sustain and increase the current investment trends.

The investment strategy of the Dominican Republic is based on a two-pronged approach aimed at promoting FDI in FTZs and in infrastructure services, including via the privatization of state-owned enterprises. Recognizing the significance of FDI for the FTZ sector, the Government has recently sought to attract foreign investors in high value-added mega projects, which go beyond the efficiency-seeking investment traditionally present in the FTZ sector. For instance, in February 2003, President Mejía announced that he had enlisted a new partner, *Dubai's Ports, Customs and Free Zone Corporation*, in a scheme to develop a port and free trade zone on the coast of Monte Cristi, in the northwestern corner of the country, in what may become the largest single foreign investment in the Dominican Republic (US$4.1 billion). The Dubai firm has signed a 19-year concession to develop and manage a 30-square-kilometre FTZ, a port complex, a cargo airport and a passenger airport near the city of Monte Cristi. The proposed project will be developed in an area the size of a medium-sized city. It includes the modernization of the current port of Manzanillo, the construction of a container ship and cargo freight facility, 1,000 hotel rooms, a 400-ship full service marina, an industrial FTZ, an ecological park, an airport, urban development projects, potable water and sewage infrastructure, a 100-megawatt power plant, a waste recycling facility, and highways.

Another example is the Cyber Park of Santo Domingo, which is a public-private partnership aimed at fostering technology and innovation. Located near the Las Americas International Airport, the park, once fully developed, will include residential villas, a golf course, a spa, a medical center, and a host of other high-end amenities. It is an all-inclusive facility providing the best office space and a host of supporting programs and infrastructure so that employees can live and work in the park. In 2002, the Cyber Park welcomed twelve firms specializing in data processing, data recovery, e-commerce, and also a number of call centers. A major feature of the park is the Las Americas Institute of Technology, a computer science training center that houses its own research and development laboratories. The institute provides customized courses and training to park tenants as well as access to research facilities.

Successive governments have privatized numerous state-owned enterprises, which explains why very few government-owned enterprises remain in the Dominican Republic today.[3] The Dominican Government has recently sought to improve infrastructure

[3] State-owned enterprises are present in the following sectors: ports and water facilities; water supply and sewage; banking (for example, Banco de Reservas and Banco Agrícola); and in the transmission lines and hydroelectric generation facilities of the Dominican Electricity Corporation. The Government has

services with a view to attracting more FDI. For example, in February 2003, President Mejía announced the construction of the San Pedro de Macoris-La Romana highway expansion. The Government entrusted the Spanish-Dominican engineering firm *Concesionaria Dominicana de Autopistas y Carreteras* with the 30-year concession contract. Construction time is estimated to take two years. The construction work at the Multimodal Terminal at Punta Caucedo has also advanced significantly, with partial operation of the country's first terminal of mega-ship capacity expected to begin by the end of 2003. The 50-hectare Caucedo Terminal will provide extensive container handling capability to and from the Dominican Republic. The port's location in the center of North-South and East-West trade lanes is expected to competitively position the Caucedo port as a transshipment hub of the Caribbean. The country will also greatly benefit from lower freight rates. Currently, the cost of shipping a container from Santo Domingo to Miami is US$2,800, from Costa Rica to Miami it is US$2,000 and from Honduras, it amounts to US$1,800.

The country offers numerous opportunities to foreign investors. The process of further opening up the financial services sector to foreign investment, as allowed under the new Monetary and Financial Code, which became law in November 2002, is one such example. This will contribute to strengthen the efficiency and solvency of the Dominican financial system and create spillover effects in other sectors of the economy. Wholesale and retail trade as well as tourism facilities remain very strong sectors where foreign firms can invest and benefit and where strong backward linkages can be developed. The telecommunications industry with its modern and competitive regulatory framework also represents an excellent sector for future FDI. In fact, foreign companies, especially those from the United States, Canada and Spain, have been investing heavily in the telecommunications and energy sectors in recent years, where demand far exceeds supply. Traditional FTZs also remain very attractive, albeit export subsidy programs under the WTO Agreement on Subsidies and Countervailing Duties (SCM) are to be eliminated by the end of 2007.[4] The FTZ-based apparel sector could be adversely affected by preferences granted by the United States to Central American countries under the US-Central American Free Trade Agreement (CAFTA), whose negotiations were launched on January 8, 2003. However, overall trade liberalization within the Free Trade of the Americas (FTAA) process, in particular with rules of origin allowing for local value-added activities, would provide foreign investors in the Dominican Republic with additional market opportunities abroad and would offset the trade and investment diversion effects of such preferences.

Investor perceptions of the Dominican Republic as a location for investment are quite positive. The state-of-the-art telecommunications infrastructure, which is one of the most advanced systems in Latin America, openness to foreign investment, political and

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nonetheless numerous shares in several privatized companies. See WTO document WT/TPR/S/105, September 9, 2002.

[4] See WTO document G/SCM/N/74/DOM of January 8, 2002 where the Dominican Republic invokes Article 27.4 of the SCM. At their Ministerial Meeting held in Qatar in November 2001, WTO members agreed to postpone to 2007 the elimination of export or local content subsidies by developing countries under the SCM Agreement. Export subsidies were to be eliminated by 2003.

macroeconomic stability, and access to global and regional markets are factors identified by investors as the key elements contributing to attract FDI. The country's geographic location is also considered a major source of competitive advantage by export-oriented firms such as those located in FTZs, which regard the country's access to regional and global markets as a strategic element in choosing the Dominican Republic as a location for investment. These firms have identified export incentives and FTZs, labor costs and worker productivity as strong factors attracting FDI to the Dominican Republic. For firms, which are market-seeking, the size of the Dominican market is one important factor. Moreover, investors recognize that there have been marked improvements, in general, over the past few years in the areas of crime (both street and organized), taxes, regulations, and "helpfulness" of the Government to the business community.

Among factors that need to be improved, investors indicate the high cost of electricity and the shortage of skilled workers and supervisors. Foreign market-seeking firms located outside the FTZs identified the education level of workers as a major weakness. Both elements can be addressed with appropriate reforms and in securing the resources necessary to carry out such reforms. They would contribute to attract more FDI and would also clearly benefit domestic investors. The enactment of the Electricity Law in 2001 was an important step in improving the framework for a more competitive electricity sector but as demand for power in this fast-growing economy doubled over the past decade, increased investment is much needed in power generation capacity and in the overburdened transmission and distribution systems. With respect to the labor force, the increase in the skill level of the Dominican work force, which is perceived by investors as being "competent, trainable and cooperative," would help the Dominican Republic to compete for higher value-added foreign direct investment.

Other factors affecting the Dominican Republic's competitiveness for investment are Government's regulations and taxes. It is worth noting that the Dominican Republic is one of the few Latin American countries, which has successfully implemented a comprehensive tax reform in recent years. While many other countries in the region had to abandon, postpone or scale back their reforms, the Dominican Republic adopted in 2000 a flat tax on fuel, raised the value-added tax (ITBIS) rate from 8 percent to 12 percent, and increased selective excise taxes on tobacco and alcohol, which have also contributed to raise tax receipts. The tax reform was accompanied by a tariff reform that slashed the number of tariffs by half and the maximum tariff from 35 percent to 20 percent.[5] However, in February 2003, the Government imposed by decree a 10-percent surcharge on all imports –except food, medicines, raw materials and capital goods— for a period of 90 days, as part of a series of measures to promote austerity in an attempt to curb the depreciation of the exchange rate.

Tax changes implemented in 2000 have had a positive impact on compliance and have removed a number of distortions in the economy. But more remains to be done. For example, the phasing out of the 5 percent commission on foreign-exchange transactions was delayed until October 2001, with a reduction of 0.25 percentage point. Under the

[5] *Ley de Reforma Tributaria* (Law No. 147-00) of December 27, 2000 and *Ley de Reforma Arancelaria* (Law No. 146-00) of December 27, 2000.

new Monetary and Financial Code of November 2002, this exchange commission is to be eliminated within twelve months. The new Code, which strengthens the legal framework for investment in the country, also guarantees that the currency and interest rates will be determined by market forces, hence the currency will float freely and interest rates will no longer be set at a maximum of 12 percent. The Code prohibits exchange controls and ensures that contracts signed in the country in a foreign currency will be regarded as legal. Moreover, the Code strengthens the autonomy of the Central Bank since, as of July 2004, it will no longer be possible for the Central Bank governor and Monetary Board members to be removed from their posts until the end of their two-year terms.

Efforts to liberalize the Dominican economy, invest in human capital and improve governance, fiscal transparency, and management need to be enhanced in the current decade to ensure that the country continues to enjoy strong growth and make further progress in reducing income inequality, which constitutes a serious problem since the poorest half of the population receives less than 20 percent of national income, whereas the top 10 percent captures slightly less than 40 percent of the total.

The Dominican Republic is at a crossroads. In order to sustain economic growth, the country must continue to improve its business environment to attract FDI in FTZs and in infrastructure services (telecom, energy, financial services, and transport). It must also broaden the number of sectors that receive FDI and must especially encourage foreign investment in the non-FTZ manufacturing sectors of the economy. The country would particularly benefit from eliminating the remaining measures that create an anti-export bias in the domestically-oriented sectors of the Dominican economy and the cumbersome administrative procedures facing investors. Another key element is the quality of the labor force and the need to invest in training and re-training programs aimed at improving the productivity of the work force.

Although the country faces numerous challenges in the coming years, within the next twelve months, a number of concrete measures could be implemented by the Government of the Dominican Republic, in the context of the National Competitiveness Plan launched in 2001 and with the support of international organizations such as the Inter-American Development Bank (IADB) and the Organization for Economic Cooperation and Development (OECD), to improve the investment climate in the country. These measures should include:

a) the enactment of a modern Commercial Code, which would eliminate the burdensome requirements for the establishment of a business;

b) the removal of administrative barriers with respect to land titling and registration, and customs administration;

c) the review of the incentive packages for investors, taking into account that the Dominican Republic may have to eliminate its export subsidy programs under the WTO Agreement on Subsidies and Countervailing Duties by the end of 2007 (unless WTO members agree on further postponement of the deadline to a later

date). Such review should be undertaken using a cost-benefit analysis to assess the use and provision of these incentives in the country;

d) the establishment of an annual benchmark survey of investors views on critical issues affecting investment decisions; and

e) the establishment of a clearing house where small and medium-sized local companies meeting some well-defined standards of performance would register and could become suppliers of the foreign (and local) companies operating in FTZs. Such a mechanism would encourage backward linkages.

Reducing corruption is another issue that should continue to be addressed, as it imposes costs on firms. The announcement in early 2003 of the creation of a new department – *Fiscalia Anticorrupción*— as well as other government initiatives aimed at curbing corruption are welcomed steps.

# PART I
# FDI Trends

## 1.1 Flows and Stocks of FDI

FDI inflows into the Dominican Republic grew at a phenomenal average annual rate of 52 percent from 1990 to 2000 (see Table 1). The first half of the decade was marked by a steady increase in FDI inflows and an average annual growth rate of 26.7 percent. During the second half of the 1990s, in contrast, the country experienced declines and peaks, as well as more rapid growth in FDI inflows with an average annual rate of 77.6 percent. The most severe reduction in inflows occurred in 1996 and might be explained by the adoption on November 20, 1995 of the Foreign Investment Law (no. 16-95), which eliminated restrictions on the repatriation of capital. A year later, inflows had regained the level reached in 1995. Moreover, the Government's privatization program, notably with respect to electricity services, and the reconstruction efforts that took place in the aftermath of Hurricane Georges in September 1998 help explain the 91 percent rise in FDI inflows from 1998 to 1999.

**Table 1**
**FDI Inflows, 1990-2001**
**(Millions of U.S. Dollars)**

| Year | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | 133 | 145 | 180 | 225 | 360 | 414.3 | 96.5 | 420.6 | 699.8 | 1337.8 | 953.0 | 1198 |

*Sources*: U.N. Economic Commission for Latin America and the Caribbean, and Central Bank of the Dominican Republic

In addition to traditional areas (mining, for example), services (such as electricity, telecommunications and tourism), as well as FTZs have greatly benefited from this influx of foreign capital in the 1990s. Services industries and efficiency-seeking investment in textiles, apparel and other sectors have attracted the bulk of FDI inflows into the Dominican Republic in recent years.

Table 2 shows that new investments have captured close to 60 percent of all investment in the Dominican Republic between 1995 and 2000, whereas reinvestments account for only 38.5 percent of the total, a lower share than other countries in the region such as Costa Rica for which reinvestments represented 53 percent of total FDI in 2000. In December 2002, the Director of the Dominican Republic's Office for the Promotion of Investments (OPI-RD) announced that changes would be made to the Foreign Investment Law so as to provide incentives for the reinvestments of profits by foreign investors. Table 3 indicates the extent to which FDI increased in the Dominican Republic during the last decade. The inward stock rose by an impressive factor of eight between 1990 and 2000.

**Table 2**
**FDI Inflows, 1995-2000**
**(Millions of U.S. Dollars)**

| Year | New Investment | Reinvestment | Other Capital | Total |
|---|---|---|---|---|
| **1995** | 111.1 | 284.8 | 18.4 | 414.3 |
| **1996** | 75.6 | 69.7 | -48.8 | 96.5 |
| **1997** | 181.4 | 245.1 | -5.9 | 420.6 |
| **1998** | 293.5 | 343.7 | 32.6 | 669.8 |
| **1999** | 946.8 | 343.4 | 47.6 | 1,337.8 |
| **2000*** | 658.4 | 210.8 | 83.8 | 953 |
| | | | | |
| **Total** | 2,266.8 | 1,497.5 | 127.7 | 3,892 |

*: Preliminary data
*Source*: International Department, Central Bank of the Dominican Republic

**Table 3**
**FDI Inward Stock, 1990, 1995, 2000**
**(Millions of U.S. Dollars)**

| Year | 1990 | 1995 | 2000 |
|---|---|---|---|
| **Total** | 572 | 1707 | 5214 |

*Source*: UNCTAD, World Investment Report 2002

Although data on FDI outflows is often anecdotic and not widely available, UNCTAD has estimated that Dominican investors abroad were particularly active in 1995 and 1996 where FDI outflows amounted to US$15 million and US$14 million, respectively (Table 4). In the recent past, Dominican companies have started investing abroad in major infrastructure service sectors. For example, the Dominican telecommunications company TRICOM is established in Panama and began operations in 2002 in Nicaragua. Moreover, the fertilizer company FERSAN is opening a plant in Jamaica, whereas Grupo Hormigones Moya plans to do the same in Costa Rica.

**Table 4**
**FDI Outflows, 1995-2001**
**(Millions of U.S. Dollars)**

| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| **Total** | 15 | 14 | 1 | 1 | 6 | 3 | 4 |

*Source*: UNCTAD, World Investment Report 2002

## 1.2 Country of Origin and Destination

During the second half of the 1990s, Spain (26.2 percent), the United States (21.2 percent), and Canada (19.7 percent) captured approximately 70 percent of all FDI flows into the Dominican Republic. A few major sectors benefited from these investments:

infrastructure services through the privatization of electricity and telecom services, tourism, retail trade, mining and export-oriented manufacturing industries (FTZs). While U.S. FDI increased steadily during this period, Canadian inflows, in contrast, varied considerably from year to year. Moreover, investors from Grand Cayman, which is as part of the Cayman Islands a British dependency, have made significant investments into the Dominican Republic over the past six years. Also worth noting is the recent arrival of new foreign investors such as the French, the Chileans, and the Dutch. In fact, the percentage of FDI originating from Spain, the United States, and Canada decreased in relative terms in recent years. In 2000, for example, their combined share was of 55 percent.[6]

Spain, whose total investments in the Dominican Republic surpass US$4 billion, is particularly active in tourism and the electricity distribution sector with Edenorte and Edesur owned by Union Fenosa. More recently, in November 2002, the Spanish group CITA identified the Dominican Republic as a strategic market in the Americas, and agreed to invest US$25 million in a cigar factory (La Tabacalera). The United States tops the list of the foreign investors with companies in sectors such as agribusiness, banking and finance, chemicals and pharmaceuticals, computer and data processing, consumer products, manufacturing and assembly, natural resources, telecom, and tourism and hospitality industry. Canada is principally present in mining and financial services. There are several Canadian firms doing business in the Dominican Republic, including Falconbridge, Placer Dome, Unigold, Vancouver Airport Services, Bell Helicopters, and Scotiabank.

At the end of 2002, French investments in the Dominican Republic were valued at US$400 million, with a concentration in beverages, mobile phone services, in addition to the Carrefour and Coforama stores on the eastern side of the Province of Santo Domingo, whereas German investments amounted to US$380 million. Italian investment is concentrated in FTZs and in shoe manufacturing with a new investment of US$40 million announced in June 2002.

British investment is more modest but growing. In February 2003, a British meat processing company made public that it will invest UK£9 million, over RD$250 million, in the construction of an industrial slaughterhouse in Santiago Rodríguez. This investment falls under Law 28-01, which provides incentives for investments on the border with Haiti. Another British company, the British American Tobacco Company (BAT), plans to invest US$35 million over the next five years.

Other key investors include *Dubai's Ports, Customs and Free Zone Corporation*, which is to manage a free-trade zone on the coast of Monte Cristi, in what could become the single largest foreign investment in the country (US$4.1 billion). New potential investors also comprise a business group from Morocco, who has plans to install a chain of eight

[6] The Dominican Republic has not been a major recipient of portfolio investment due in large part to its very embryonic stock market. The *Bolsa de Valores de la República Dominicana* (Dominican Republic Stock Exchange) has been in operation since 1991. A minimum reserve requirement with respect to foreign capital deposited in Dominican banks aims at discouraging short-term speculative flows.

Morocco handicraft stores in the Dominican Republic. The goods would be part of a US$8 million investment that also includes a manufacturing operation at a Dominican free zone. The announcement was made in May 2002, while President Mejía was touring Morocco.

**Table 5**
**FDI Inflows by Country of Origin, 1995-2000**
**(Millions of U.S. Dollars and Percentage)**

| Country | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Total | Percent |
|---|---|---|---|---|---|---|---|---|
| **Spain** | 60.8 | 61.2 | 52.4 | 205.6 | 457.1 | 190.1 | 1027.2 | 26.2 |
| **USA** | 64.3 | 44.9 | 157.8 | 180.4 | 181.2 | 201.6 | 830.2 | 21.2 |
| **Canada** | 239.7 | -23.3 | 199.0 | 127.8 | 94.8 | 133.2 | 771.2 | 19.7 |
| **Grand Cayman** | 4.2 | 1.6 | 45.6 | 45.5 | 179.2 | 37.0 | 313.1 | 8.0 |
| **England** | 5.9 | 5.2 | 41.4 | 22.9 | 75.7 | 17.4 | 168.5 | 4.3 |
| **France** | - | - | - | - | 34.4 | 97.5 | 131.9 | 3.4 |
| **Chile** | - | - | - | - | 88.9 | 21.6 | 110.5 | 2.8 |
| **Netherlands** | - | - | - | - | 61.5 | 36.0 | 97.5 | 2.5 |
| **Switzerland** | 14.8 | 12.9 | 14.7 | 7.7 | 16.5 | 14.0 | 80.6 | 2.1 |
| **Italy** | - | - | 0.3 | 33.1 | 13.9 | 15.5 | 62.8 | 1.6 |
| **Others** | 24.6 | -6.0 | -90.6 | 76.8 | 134.6 | 189.0 | 328.4 | 8.4 |
| | | | | | | | | |
| **Total** | 414.3 | 96.5 | 420.6 | 699.8 | 1337.8 | 952.9 | 3921.9 | 100 |

*Source*: Central Bank of the Dominican Republic

## 1.3 Distribution by Economic Activity

The electricity sector through the Government's privatization program has been the main beneficiary of the influx of foreign capital into the Dominican Republic over the past three years (Table 6). While the sector accounted for only 7.7 percent of total FDI in 1996, its share had risen to 47.2 percent by 1999, when some of the thermoelectric plants and distribution facilities belonging to the public electricity company were privatized. Tourism also represents an important sector for FDI inflows into the country. New hotel facilities in recent years have been in part the result of the reconstruction efforts following Hurricane Georges in September 1998. Retail trade and telecom's shares of FDI are also significant.

The current trend points to the fact that infrastructure services (energy and telecom) have overtaken the export-oriented manufacturing sector and primary products as the lead category for FDI inflows. Although efficiency seeking-investment in FTZs, primarily in textile activities but also in tobacco, shoes, electrical components, hospital supplies, and data processing remains important, the services industries account for more than 50 percent of total FDI in the Dominican Republic. Infrastructure services –energy, telecom, financial services, transportation —are vital for the efficient operation of any economy. They play a major role in the competitiveness of all other sectors, including

manufacturing and agriculture. Without well-functioning infrastructure services, a country cannot aspire to be competitive on the global scene.

**Table 6**
**FDI Inflows by Sector**
**1993-2000**
**(Millions of U.S. Dollars and Percentage)**

| Sectors | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* | Total | Percent |
|---|---|---|---|---|---|---|---|---|---|---|
| **Electricity** | - | - | - | 7.5 | 42.9 | 33.4 | 631.4 | 281.9 | 997.1 | 25.4 |
| **Tourism** | 73.1 | 42.5 | 111.2 | 61.2 | 114.2 | 312.2 | 296.9 | 73.7 | 969.4 | 24.7 |
| **Retail Trade** | 16.6 | 33.9 | 140.8 | 59.8 | 216.5 | 177.4 | 182.6 | 153.7 | 930.8 | 23.7 |
| **Telecom** | 93.1 | 123.7 | 149.3 | (36.2) | 32.8 | 117.1 | 98.0 | 272.2 | 633.2 | 16.1 |
| **Fin. Serv.** | 6.5 | 6.7 | 13.0 | 4.2 | 14.2 | 29.5 | 40.9 | 45.3 | 147.1 | 3.8 |
| **FTZs** | - | - | - | - | - | - | 40.5 | 42.5 | 83.0 | 2.1 |
| **Others** | - | - | - | - | - | 30.2 | 47.6 | 83.7 | 161.5 | 4.1 |
| | | | | | | | | | | |
| **Total** | 189.3 | 206.8 | 414.3 | 96.5 | 420.6 | 699.8 | 1337.8 | 952.9 | 3922 | 100.0 |

*: Preliminary Data
*Source*: Central Bank of the Dominican Republic

## 1.4 Main Foreign Investors

The number of foreign investors into the Dominican Republic has also grown significantly in recent years. There are now over 500 foreign investors in the country. As Table 7 shows, the United States is home to seven of the ten largest investors in the Dominican Republic. These large investors are concentrated in telecommunications; sugar plantations; cigarettes, cigars and beer; mining; petroleum distribution; financial services; and household products. The electricity generation sector has also greatly benefited from an influx of FDI inflows. Firms operating in that sector rank 11th, 12th, 13th, 14th, and 16th among the largest investors in the country.[7]

[7] These firms are: AES, Enron, Coastal, Seaboard, and Unión Fenosa. TRICOM, in which Motorola has a stake, ranks 15th. It is the second largest provider of long distance and cellular phone services in the country.

**Table 7**
**The Dominican Republic's Ten Largest Foreign Investors**

| Company | Foreign Investor/ Country of Origin | Registered Capital | Sector(s) |
|---|---|---|---|
| CODETEL[8] | Verizon (United States) | US$ 370 million | Telecommunications (phone service provider) |
| Central Romana Corporation[9] | United States | US$ 92 million | Sugar plantations (also: a mill, real estate, and a hotel) |
| E. León Jiménez, C. X. A. | A local partner of Phillip Morris (United States) | US$ 16.5 million | Cigarettes, cigars, and beer |
| Falconbridge Dominicana | Canada | US$ 15 million | Ferronickel production |
| Shell Company[10] | The Netherlands/ England | US$ 14 million | Petroleum by-products distribution |
| CITIBANK | United States | US$ 13 million | Financial services (banking) |
| ESSO Standard Oil | United States | US$ 11 million | Petroleum by-products distribution |
| TEXACO Caribbean | United States | US$ 10 million | Petroleum by-products distribution |
| Colgate Palmolive[11] | United States | US$ 9.5 million | Household products |
| Bank of Nova Scotia | Canada | US$ 8 million | Financial services (banking) |

## 1.5 Main Explanatory Factors for FDI

During the last decade, the Dominican Republic has eased restrictions on foreign direct investment and adopted policies aimed at attracting FDI flows in FTZs and in infrastructure services. Numerous elements, such as privatization initiatives, particularly in the non-hydroelectric power generation and distribution components of the national electricity company, the *Corporación Dominicana de Electricidad*, and the opening of state enterprises to private investment have contributed to the substantial increase in FDI inflows into the country.

One key attraction of the Dominican Republic is the Cyber Park of Santo Domingo, which is a public-private partnership aimed at fostering technology and innovation. Located near the Las Americas International Airport, the park, once fully developed, will include residential villas, a golf course, a spa, a medical center, and a host of other high-end amenities. It is an all-inclusive facility providing the best office space and a host of

[8] CODETEL is the Dominican Republic's main telephone provider. Incorporated in 1930, it has been a subsidiary of GTE for over two decades. As a result of the merger between GTE and Bell Atlantic in 2000, CODETEL is now controlled by Verizon.

[9] Central Romana Corporation is the largest private sector employer in the country.

[10] Shell operates the only petroleum refinery in the Dominican Republic.

[11] Colgate Palmolive is the leading manufacturer of toothpaste in the country.

supporting programs and infrastructure so that employees can live and work in the park. In 2002, the Cyber Park welcomed twelve firms specializing in data processing, data recovery, e-commerce, and also a number of call centers. A major feature of the park is the Las Americas Institute of Technology, a computer science training center that houses its own research and development laboratories. The institute provides customized courses and training to park tenants as well as access to research facilities.

### 1.5.1 Market-Seeking FDI in the Dominican Republic

In recent years, the Dominican Republic has benefited from a large influx of market-seeking FDI in services sectors, in particular in underdeveloped infrastructure services, which require large amounts of capital to operate and take advantage of economies of scale. For example, as demand for power in this fast-growing economy doubled in the past decade, numerous sectors, including tourist facilities, have had to invest heavily in their own private back-up generators. In 1999, the generation and distribution electricity sectors were part-privatized. A new Electricity Law (*Ley General de Electricidad*) enacted on July 27, 2001 provides for a modern regulatory framework and has helped alleviate numerous problems in the energy sector but increased investment in power generation capacity and in the transmission system are greatly needed to eliminate electricity shortages. The Electricity Law allows foreign investment in distribution and electricity generation with the exception of hydroelectricity. Transmission and hydroelectricity generation are reserved to the state. It is worth noting that power service in the Dominican Republic is the most expensive in the region.

In September 2002, Hong Kong-based Cavendish International made public that it would invest US$250 million to rehabilitate the Haina River sugar mill, which was one time the largest sugar mill in the world, and build another sugar mill in San Pedro de Macoris to produce alcohol. The company will purchase 1.6 million tons of sugar to produce ethanol, which will be mixed with gasoline and diesel. This is expected to cut 20 percent off fuel costs in the Dominican Republic. Concurrently, with the signing of the project, President Mejía issued Decree 732-02, which establishes special economic and tax incentives for local and foreign companies investing in the production of ethanol and other bio-mass energy forms.

Telecom services have also registered significant increases in FDI. In 2002, the sector experienced a phenomenal increase in the first six months of the year drawing investments worth $106.5 million, up from $26.1 million in the first six months of 2001. The industry accounted for approximately 6.5 percent of the Dominican GDP in 2001, up from 3.5 percent in 1995.

Other market-seeking services sectors which have been the recipient of FDI inflows into the Dominican Republic include tourism and retail trade. Investments in the tourism sector rose by 57 percent in the first six months of 2002.

### 1.5.2 Natural Resources-Seeking FDI in the Dominican Republic

The Dominican Republic is very rich in minerals such as nickel, gold, silver, marble, limestone and granite. The mining sector has attracted a number of foreign companies. Falconbridge Dominicana, a Canadian-owned firm, operates a nickel mine and smelter, in which the Government has a 10-cent stake. Canadian gold giant Placer Dome has recently signed an agreement with the Government to take over the Pueblo Viejo gold-focused operation, which was operated by local state miner Rosario Dominicana until environmental and minerals processing problems forced it to shut down in 1999. In April 2003, the Dominican Senate approved an amendment to the mining law in order to legalize the resumption of operations at the Pueblo Viejo gold mine in central Cotuí. Placer Dome, the Canadian company that currently holds the mining concession at Pueblo Viejo, has pledged to invest US$336 million to reactivate the old Rosario mine, in addition to the sum of US$1.5 million per year to be spent on water treatment.

In November 2002, Canada’s Unigold Resources announced that it is investing US$20-million dollars in the exploration of two potentially rich ore fields located in the Northwest region of the Dominican Republic. The two mining locations, Neíta and Sabaneta, are located in the provinces of Elias Piña, Dajabón and Santiago Rodriguez. Unigold is mainly looking for gold, silver, copper, and zinc.

The Mejía Government has spent a lot of efforts trying to attract FDI in mining. New legislation to make FDI in mining more investor-friendly is being considered. New regulations for non-metallic or industrial mining operations from *Semarena*, the country’s environment and natural resources department, are designed to technically regulate the open-pit extraction of non-metallic materials such as limestone. These rules build on the existing regulations, such as a clause that refers specifically to methods used for drawing up environmental impact studies.

### 1.5.3 Efficiency-Seeking FDI in the Dominican Republic

Efficiency-seeking investment in the Dominican Republic is essentially concentrated in free trade zones (or *zonas francas*, as they as known in Spanish). The FTZ system began in 1969. It now has approximately 50 free zones with over 500 companies employing over 175,000 workers. The zones are regulated by Law 8-90 of January 15, 1990, which seeks to promote the establishment of new free zones and the growth of existing ones.

The range of FTZ production has increased markedly since 1969, when they were highly concentrated in textiles and clothing assembly. The sector stands to benefit from the Caribbean Basin Trade Partnership Act (CBTPA), which became effective October 1, 2000, and is an extension of the Caribbean Basin Initiative (CBI) implemented in 1984. The law is intended to restore advantages to the US's Caribbean and Central American trade partners equal to those enjoyed by Mexico since 1994 under the North American Free Trade Agreement (NAFTA). But the results of the CAFTA negotiations could offset some of the benefits obtained by the Dominican Republic under the CBTPA.

Although close to half of the FTZ exports are still in textiles, especially assembly of clothing, in 2000 there were electronics exports worth US$570 million, US$460 million from exports of jewelry, US$320 million from sales of medical products, and US$330 million from tobacco products such as cigars. Data also shows that more value is now being added to these exports within the Dominican Republic.

In February 2003, President Mejía announced that he had enlisted a new partner, *Dubai's Ports, Customs and Free Zone Corporation*, in a scheme to develop a port and free trade zone on the coast of Monte Cristi, in the northwestern corner of the country, in what may become the largest single foreign investment in the Dominican Republic (US$4.1 billion). The Dubai firm has signed a 19-year concession to develop and manage a 30-square-kilometre FTZ, a port complex, a cargo airport and a passenger airport near the city of Monte Cristi. The proposed project will be developed in an area the size of a medium-sized city. It includes the modernization of the current port of Manzanillo, the construction of a container ship and cargo freight facility, 1,000 hotel rooms, a 400-ship full service marina, an industrial FTZ, an ecological park, an airport, urban development projects, potable water and sewage infrastructure, a 100-megawatt power plant, a waste recycling facility, and highways. In 2001 it had been announced that *Trans Dominicana de Desarrollo* (a consortium comprising Groupe Balguerie of France, Nesebe-Emirat of the United Arab Emirates, and US operators Royal Caribbean Cruises and Carnival) would make a US$1.4-billion investment over a seven-year period in the northwestern provinces of Monte Cristi and Dajabon. Groupe Balguerie of France has been placed in charge of the port development, in conjunction with the shipping companies Maersk, Evergreen and CMA-CGM. The airport will be the investment of the Groupe Egis of France. Carnival, Four Seasons and Accor tourism companies will develop the tourism ventures.

### 1.6 Economic Impact of FDI and Linkages with the Local Economy

It is estimated that there are 350,000 jobs that are directly the result of FDI. There is no data on the impact of FDI on indirect jobs but it could be extrapolated that it is at least of the same order of magnitude as the direct impact. In the FTZ sector, women account for 55. 2 percent of all jobs. The average salary paid by foreign affiliates is US$286.50 monthly (which is also the country's average salary), whereas the country's legal minimum salary is of US$142 monthly.

**Table 8**
**FDI Inflows as a Percentage of GDP and Gross Fixed Capital Formation**
**1995-2000**
**(Million of U.S. Dollars and Percentage)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| **FDI** | 414.3 | 96.5 | 420.6 | 699.8 | 1,337.8 | 952.9 |
| **GDP** | 11,994.3 | 13,335.4 | 15,081.5 | 15,873.2 | 17,363.5 | 19,711.0 |
| **Gross Fixed Capital Formation** | 2,238.9 | 2,533.7 | 2,986.1 | 3,714.3 | 4,261.9 | 4,671.5 |
| **FDI/GDP** | 3.5% | 0.7% | 2.8% | 4.4% | 7.7% | 4.8% |
| **FDI/Gross Fixed Capital Formation** | 18.5% | 3.8% | 14.1% | 18.8% | 31.4% | 20.4% |

*: Preliminary Data
*Source*: International Department, Central Bank of the Dominican Republic

One key component of the FDI linkages with local companies and workers is the on-the-job training received by Dominican employees working for foreign firms. There is considerable evidence, in the case of the Dominican Republic, that unskilled workers are able to reach between 60 and 80 percent of best-practice labor productivity in the home countries of the investors.[12] Efforts should be devoted to increase this percentage to 100 percent in order to ensure that Dominican workers can match the skills of those in investors' home countries. In the Dominican Republic as well as in several other countries, evidence shows that spillovers to the local economy is the strongest when there is educational training.

Another winning strategy adopted by the Dominican Republic with respect to linkages with the local economy was to create FTZs near industrial and commercial centers, thereby allowing foreign investors to be near skilled labor, who is then able to benefit from spillover effects. But more remains to be done. To reap the full benefits of FTZs, it is essential to have better infrastructure and overall trade and investment liberalization providing a level-playing field to local companies so that they can compete to sell inputs to FTZ firms.

[12] See Moran, Theodore H. 2002. *Foreign Direct Investment and Globalization in Developing Countries*. Washington, DC: Brookings Institution Press, p. 34.

## 1.7 Future Perspectives

The foreign investment regime should be not adversely affected by any change at the political helm of the country when the presidential elections take place in May 2004 since all three main political parties share essentially the same views on the need to attract FDI. On May 16, 2002, the country's legislative and municipal elections gave the ruling *Partido Revolucionario Dominicano* (Dominican Revolutionary Party) (PRD) of President Hipólito Mejía nearly the entire senate but the PRD does not have an absolute majority in the lower house as it did before the elections. The PRD captured 73 seats; the *Partido de la Liberación Dominicana* (Dominican Liberation Party) (PLD), 41; and the *Partido Reformista Social Cristiano* (Christian Social Reform Party) (PRSC), 36.

## PART II
## Investment Environment

### 2.1 Structure of the Economy

The Dominican Republic's GDP grew from US$13.56 billion in 1996 to US$19.81 billion in 2000. The growth in the Dominican economy in the second half of the 1990s is the result of private sector consumption and investment, and growth in exports. In 2000, for example, private consumption accounted for 77.5 percent of GDP, whereas the private investment's contribution was of 19.4 percent. In contrast, government consumption had a small share of 8.2 percent and public investment had a smaller share of 4.4 percent. Exports of goods and services at 45.5 percent of GDP in 2000 and imports of goods and services at 55 percent are the other two key components of the gross domestic product.

As mentioned above, during the second half of the 1990s, the Dominican Republic enjoyed strong economic growth with an average annual rate of 7.7 percent, becoming the fastest growing Latin American and Caribbean economy. Communications at an average rate of 17.4 percent per year led the other sectors. Construction came second at 14.5 percent. Tourism also exhibited very high growth with an average annual rate of 11.8 percent, and so did the electricity, gas, and water sector at 10.7 percent.

Other sectors also made significant contribution to GDP growth during the period from 1996 and 2000. Wholesale and retail trade contributed 15.2 percent to GDP growth and transportation 8.1 percent. Both sectors grew at an average annual rate of 9.2 percent. FTZs suffered after the implementation of the NAFTA. Facing trade diversion particularly due to the stringent NAFTA rules of origin in textiles and apparel, FTZs grew at a more modest average annual rate of 4.5 percent during the second half of the 1990s. As noted in section 1.5.3 on efficiency-seeking FDI, this sector stands to gain from the CBTPA, which provides a level-playing field with the NAFTA. Traditional manufacturing, in contrast, grew at a faster average annual rate of 6.8 percent as a result of the modernization of old industrial infrastructure.

As a whole, the services sector contributed to 54.9 percent of the country's GDP growth between 1996 and 2000. As the Dominican Republic becomes more dependent on services and manufacturing, the share of agriculture in the gross domestic product has been declining steadily for the past 20 years, from 20.1 percent in 1980 to 11.1 percent in 2000, as seen in Table 12.

A more in-depth analysis of the Dominican economy shows that the agriculture, livestock, fishing, and forestry sector is dominated by small domestic producers. Although this sector has experienced an average annual growth of 5 percent between 1996 and 2000, its share of total GDP has decreased due to faster growth rates in other sectors. Exports of agricultural goods were severely affected by the damage caused by Hurricane Georges in 1998. Total exports of primary agricultural products accounted for

7.3 percent of GDP in 1996 and only 2.3 percent in 2000. The Government has traditionally been very involved in the agricultural sector but in recent years it has limited its intervention to price-stabilization arrangements and financial help for small producers through the *Banco Agrícola de la República Dominicana*.

**Table 9**
**Main Economic Sectors as a Percentage of GDP**
**Selected Years**

| | 1980 | 1990 | 1999 | 2000 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| **Agriculture** | 20.1 | 13.4 | 11.4 | 11.1 |
| **Industry** | 28.3 | 31.4 | 34.2 | 34.1 |
| **Manufacturing** | 15.3 | 18.0 | 16.8 | 17.0 |
| **Services** | 51.6 | 55.2 | 54.5 | 54.8 |
| **Private consumption** | 77.0 | 79.6 | 75.2 | 77.7 |
| **General Government consumption** | 7.6 | 5.1 | 8.1 | 8.2 |

*Source:* Central Bank of the Dominican Republic

The other key component of primary production is mining, which is concentrated in nickel-iron, marble and quarry products. The mining sector experienced a major decline in 1998 (15.9 percent) when nickel prices fell sharply. A smaller contraction (1.5 percent) in 1999 was followed by strong growth (9.2 percent) in 2000. Production of *doré* (an alloy of gold and silver) ceased in 1999 when Rosario Dominicana, then owned by the Central Bank, faced financial and technical problems. In July 2001, the concession of Pueblo Viejo, where the sulfide deposits are located, was awarded to Canadian-based Placer Dome, subject to ratification by Congress.

The traditional manufacturing sector, which consists of flour, vegetable oils, fertilizers, cement, sugar, alcoholic beverage such as beer, rum and whiskey, steel bars, pharmaceutical products, and plastic derivatives, grew substantially during the second half of the 1990s, with an average annual growth of 6.8 percent. It benefited from increased investment in infrastructure as a result of tariff reform implemented in 1990, stronger domestic demand, and liberalization of foreign direct investment.

The FTZ sector is made of industrial parks, located throughout the country, whose vocation is to manufacture products for export. As firms which settled in the FTZs do not pay import duties, they operate in their own free trade area. Their contribution to GDP growth has been a steady 3.2 percent per year, whereas their contribution to exports and foreign exchange earnings has been spectacular. FTZs account for 83.2 percent of all Dominican exports (see Annex 1). They were the second largest source of foreign currency in the Dominican Republic between 1996 and 2000 with US$1.71 billion, ahead of workers' remittances (US$1.69 billion) but behind tourism (US$2.86 billion). More

than 200,000 Dominicans have found employment in FTZs. While investors who need a more sophisticated labor force have opted to locate near the capital, there are FTZs located throughout the country. In addition to the traditional textile and apparel manufacturing, other products are now manufactured in the free trade zones. Electronics, jewelry, medical products, metal products, and data processing are among the new FTZ sectors.

**Table 10**
**Gross Domestic Product by Sector**
**(as a Percentage of GDP, at Constant 1970 Prices)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **PRIMARY PRODUCTION** | | | | | |
| Agriculture, livestock, fishing and forestry | 12.8 | 12.2 | 11.5 | 11.4 | 11.1 |
| Mining | 2.6 | 2.5 | 2.0 | 1.8 | 1.8 |
| **TOTAL PRIMARY PRODUCTION** | 15.5 | 14.7 | 13.5 | 13.2 | 12.9 |
| | | | | | |
| **SECONDARY PRODUCTION** | | | | | |
| Manufacturing | | | | | |
| ----Traditional | 14.0 | 13.8 | 13.5 | 13.6 | 13.8 |
| ---- FTZs | 3.5 | 3.5 | 3.5 | 3.2 | 3.2 |
| Total Manufacturing | 17.5 | 17.3 | 17.1 | 16.8 | 17.0 |
| | | | | | |
| Electricity, gas, and water[13] | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 |
| Construction | 10.2 | 11.0 | 12.3 | 13.4 | 13.1 |
| **TOTAL SECONDARY PRODUCTION** | 29.7 | 30.4 | 31.5 | 32.4 | 32.3 |
| | | | | | |
| **SERVICES** | | | | | |
| ---- Wholesale and retail trade | 12.3 | 12.5 | 12.9 | 13.0 | 13.0 |
| ---- Hotels, bars and restaurants | 6.0 | 6.5 | 6.3 | 6.4 | 6.8 |
| ---- Transportation | 6.8 | 6.9 | 7.0 | 6.9 | 7.2 |
| ---- Communications | 3.8 | 4.2 | 4.7 | 5.0 | 5.4 |
| ---- Financial services | 4.7 | 4.4 | 4.3 | 4.2 | 4.0 |
| ---- Real estate | 5.0 | 4.7 | 4.5 | 4.2 | 4.0 |
| ---- Public administration | 8.4 | 8.0 | 7.8 | 7.5 | 7.2 |
| ---- Other | 8.1 | 7.8 | 7.6 | 7.3 | 7.1 |
| **TOTAL SERVICES** | 54.9 | 54.9 | 55.0 | 54.4 | 54.8 |
| **TOTAL GDP** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source*: Central Bank of the Dominican Republic

Electricity, gas and water are sectors in expansion, and so is the construction sector which benefited from construction of hotels, highways, dams, bridges, shopping centers, houses and office buildings in recent years.

The services sector in the Dominican Republic continues to be very dynamic. Multinational corporations have now entered the wholesale and retail trade sector, particularly through the large supermarkets, the fast-food business, the clothing stores, and franchising. Hotels, bars and restaurants have greatly benefited from the growth in

[13] Although listed here in secondary production, electricity, gas and water could also have been included under services, as noted in other parts of this document.

tourism. Transportation has also grown rapidly in recent years, as a result of the modernization of the country's infrastructure.

The 1990s witnessed the arrival of competition in the telecommunication sector, first with the launch in 1992 of TRICOM as a provider of telephone service, and in 2000 when France Telecom and Centennial Dominicana (a subsidiary of Centennial Communication Corporation) entered the wireless and fixed line telephone markets. As emphasized above, the communication sector registered the highest growth rate in the Dominican economy during the second half of the 1990s. The financial sector, in contrast, grew at a much lower rate, i.e. an average annual growth rate of 3.3 percent, which explains why the sector accounts for a smaller share of GDP in 2000 (4 percent) than in 1996 (4.7 percent). The Mejía Government has promised to pursue the opening up of the financial services sector to foreign investment.

On the macroeconomic front, the country has also been performing very well, albeit the situation worsened in 2002 and at the beginning of 2003. With respect to public sector external debt, the Dominican Republic is the Latin American and Caribbean country with the best grade report. Public sector debt declined significantly during the 1990s, from 28.1 percent of GDP and 60.6 percent of total exports of goods and services in 1996 to 18.6 percent of GDP and 41 percent of total exports in 2000 (Table 11). These percentages are very low when compared to other countries in the region, as shown in Table 12. Also worth emphasizing is that the external debt service to GDP ratio as well as the external debt service to total exports ratio are also low.

**Table 11**
**Public External Debt and External Debt Service**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Public Sector External Debt as a Percentage of GDP | 28.1 | 23.5 | 22.2 | 20.9 | 18.6 |
| Public Sector External Debt as a Percentage of Total Exports | 60.6 | 53.1 | 47.4 | 45.8 | 41.0 |
| External Debt Service as a Percentage of GDP | 3.1 | 2.5 | 2.5 | 2.3 | 2.9 |
| External Debt Service as a Percentage of Total Exports | 6.6 | 5.5 | 5.5 | 5.1 | 6.3 |
| External Debt Service as a Percentage of Total Exports and Workers' Remittances | 5.8 | 4.7 | 4.6 | 4.3 | 5.4 |
| External Debt Service as a Percentage of Total Fiscal Revenue | 21.7 | 15.7 | 16.0 | 14.7 | 18.0 |

*Source*: IMF and Central Bank of the Dominican Republic

The current account deficit as a percentage of GDP decreased in 2001 to 3.6 percent but increased in 2002 to 3.8 percent. The trade deficit on goods and services was financed by continued remittances from the one million Dominicans leaving abroad. FDI inflows will help finance the current account deficit in 2003 but an increase in external net indebtedness is also possible. Also worth noting is that the peso lost of one third of its value in 2002, despite monetary tightening and heavy intervention on the foreign exchange market by the Central Bank.

**Table 12**
**External Debt to GDP and Total Exports Ratios**
**for Various Latin American and Caribbean Countries**

| | External Debt as a Percentage of GDP (2000) | External Debt as a Percentage of Total Exports (2000) |
|---|---|---|
| Argentina | 62.0 | 484.7 |
| Jamaica | 61.4 | 85.7 |
| Panama | 58.0 | 122.6 |
| Colombia | 42.3 | 202.3 |
| Brazil | 40.5 | 340.0 |
| Costa Rica | 35.9 | 44.3 |
| Mexico | 32.2 | 92.6 |
| El Salvador | 27.0 | 78.2 |
| Dominican Republic | 18.6 | 41.0 |

*Source*: Moody's Investor Service

**Table 13**
**Current Account Deficit in Absolute Terms and Relative to GDP and FDI**
**1995-2000**
**(Million of U.S. Dollars and Percentage)**

| | **1995** | **1996** | **1997** | **1998** | **1999** | **2000*** |
|---|---|---|---|---|---|---|
| Current Account Deficit | 182.8 | 212.7 | 167 | 338.2 | 429.1 | 1026.5 |
| GDP | 11,994.3 | 13,335.4 | 15,081.5 | 15,873.2 | 17,363.5 | 19,711.0 |
| Current Account Deficit/GDP | 1.5% | 1.6% | 1.1% | 2.1% | 2.5% | 5.2% |
| Current Account Deficit/FDI | 44.12% | 220.41% | 39.71% | 48.33% | 32.08% | 107.71% |

*: Preliminary Data
*Source*: International Department, Central Bank of the Dominican Republic

## 2.2 Infrastructure

Transport, communications, and electricity are the key components of the country's infrastructure. While transport services accounted for 6.6 percent of the Dominican GDP in 2001, communications amounted to 6.5 percent during the same year. Improvement of the infrastructure in both sectors is a top priority of the Government.

*Road and Maritime Transport*
The Dominican Republic has a total of 12,600 kilometers of roads, including 6,200 of which are paved. Non-electrified railway consists of 757 kilometers, of which 240 are run by sugar companies. In February 2003, President Mejía announced the construction of the San Pedro de Macoris-La Romana highway expansion. The Government has entrusted the Spanish-Dominican engineering firm *Concesionaria Dominicana de Autopistas y Carreteras* with the 30-year concession contract. Construction time is estimated to take two years. The Government will install 10 new toll stations to increase collections to pay for the new highway improvements. Additionally, the Government plans to begin expansion of the La Romana-Higuey and Higuey-Veron (Punta Cana) highway this year.

The country is also home to eleven –state-owned- maritime ports, whereas the private sector is an active participant in the construction of a multi-modal port.[14] The construction work at the Multimodal Terminal at Punta Caucedo has advanced significantly, with partial operation of the country's first terminal of mega-ship capacity expected to begin by the end of 2003. The 50-hectare Caucedo Terminal will provide extensive container handling capability to and from the Dominican Republic. The port's location in the center of North-South and East-West trade lanes is expected to competitively position the Caucedo port as a transshipment hub of the Caribbean. The country will also greatly benefit from lower freight rates. Currently, the cost of shipping a container from Santo Domingo to Miami is US$2,800, from Costa Rica to Miami it is US$2,000 and from Honduras, it amounts to US$1,800.[15]

A new international tourist docking facility opened in the Port of La Romana in December 2002. About US$12 million dollars were invested in the new wharfs and an estimated 147,000 vacationers, traveling on 67 cruise ships, are expected to use this facility during the 2002-2003 year.

It takes five to ten hours for a good to clear customs. On average, it will take the Dominican from one day to one and a half day to take possession of his good. There is a system that allows the company to pay the necessary charges before the shipment arrives at port. With respect to exported goods, it may take up to five days (goods to the United States) or as little as one day and half (Puerto Rico) for a shipment to reach the premises of the importer after the ship has docked in the port. Fees and charges (other than duties and applicable taxes) imposed on or in connection with imports are the commission of 4.75 percent on foreign-exchange transactions; the fee to Hispaniola Dispatch, which fluctuates depending on the time the ship is docked in the port, the storage fee calculated per week with a minimum of $400 Dominican pesos a week for a minimum of 1,000 kilos. If the shipment is in transit, the importer only pays for the time the ship stays in the port, which is an average of $0.45 cents for each 100 kilos stored.

*Air Transport*

The Dominican Republic has ten major airports. The airports of Santo Domingo (Las Americas), Punta Cana, La Romana and Puerto Plata are served by national airlines, numerous charters, and major international airlines. As a result of the Government's privatization policy, six airports were granted in concession to Aerodom, an international consortium, for 25 years until 2024. The concession requires Aerodom to expand and renovate airport facilities.

Air transport is governed by the Civil Aviation Law (Law No. 505) of November 10, 1969, and Law No. 8 of November 19, 1978, establishing the Airport Commission to manage all Dominican airports. While national air transport is reserved for companies that are owned by natural Dominicans, international air transport is subject to concession.

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[14] The Dominican Republic has been a member of the International Maritime Organization since 1953 and has signed several conventions regarding maritime transport.

[15] Maritime transport is governed by Law No. 3003 of July 12, 1951, Law No. 70 of December 18, 1970, and a number of decrees.

Open skies agreements with Chile, Central American countries, and the United States (signed but not ratified) have also been concluded.

*Telecommunications*
With respect to the communication system, it is worth noting that the Government has launched a number of initiatives aimed at enhancing that system. For instance, it is allocating 60 percent of a 2 percent excise tax on communication services to improve access to telephone and other communication services. The level of penetration of phone service keeps increasing in the country, from 9 telephone lines for every 100 residents in 1996 to 18.7 telephone lines for every 100 residents by the end of 2000. It takes 10 to 20 days for a line to be granted and installed. Moreover, fixed wire and cellular phones had reached 2.225 million by the end of 2001. Internet access also increased in recent years, by an average of 75 percent.

The telecommunications sectors is regulated by the Telecommunications Law[16] and regulations issued by INDOTEL, the Dominican Institute of Telecommunications. INDOTEL promotes investment in the sector and supervises service providers who are free to set rates for telecommunications services, albeit INDOTEL can intervene if it estimates that market conditions do not ensure competition.

*Electricity*
The surge in electricity demand fueled by the strong growth in the Dominican economy has not been met by a similar increase in generating capacity despite the record level in FDI in that sector. In fact, insufficient investment in generating capacity and an overburdened transmission and distribution system have resulted in blackouts. To avoid suffering from the effects of these blackouts which are less frequent but still occurring, several companies have opted to install their own power generation, to ensure reliable electricity supplies. It is worth noting that despite existing problems, private firms have been investing heavily in the country's electricity infrastructure.[17]

## 2.3 Human Capital

The Dominican labor force is large, young, and very urban. Labor laws do not prohibit strikes or the establishment of trade unions, and the labor code expressly indicates that 80 percent of the employees in each firm must be Dominican.

In recent years, GDP growth has had a positive impact on the unemployment rate in the country, as it fell from 16.7 percent in 1996 to 13.9 percent in 2000. The key sectors in terms of employment are wholesale and retail trade, construction, manufacturing and agriculture, as show in Table 14.

[16] *Ley General de Telecomunicaciones* (Law No. 153-98) of May 27, 1998.

[17] The Mejía Administration has recently attempted without success to end the blackouts by raising electricity tariffs.

Low-skilled labor is available and the Dominican work force is known for being highly "competent, trainable, and cooperative," but skilled workers are a scarce resource. When international competitiveness depends on labor costs, the Dominican Republic is more competitive than Costa Rica and Jamaica. However, hourly-wage rates are higher in the Dominican Republic than in Guatemala and Mexico, without an equivalent increase in labor productivity.

Investment in education, which currently represents only 2.5 percent of GDP, would contribute greatly to increase the supply of technically skilled labor, and help enhance the Dominican Republic's efforts to attract foreign investment. Measures to better train workers would also have long lasting benefit for the domestic economy. Well-targeted training programs could serve to improve prospects for employment and raise the productivity of workers so as to meet the needs of businesses.

**Table 14**
**Employment**
**(Percentage by Sector)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Agriculture, livestock, fishing and forestry…. | 19.9 | 20.0 | 17.1 | 17.5 | 16.3 |
| Mining………………………………………. | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 |
| Manufacturing………………………………. | 18.5 | 17.9 | 18.4 | 17.4 | 17.0 |
| Construction………………………………… | 6.7 | 6.8 | 6.9 | 7.2 | 6.3 |
| Electricity, gas and water…………………… | 0.5 | 0.5 | 0.5 | 0.4 | 0.8 |
| Transportation and communications………... | 6.7 | 7.0 | 6.9 | 7.3 | 6.2 |
| Wholesale and retail trade…………………... | 19.8 | 20.0 | 21.7 | 21.9 | 21.7 |
| Financial services…………………………… | 1.4 | 1.3 | 1.3 | 1.3 | 1.9 |
| Public administration and defense………….. | 4.0 | 3.8 | 3.6 | 3.6 | 4.2 |
| Hotels, bars and restaurants…………………. | 4.8 | 4.8 | 4.8 | 4.8 | 5.2 |
| Other services……………………………….. | 17.5 | 17.6 | 18.3 | 18.3 | 20.4 |
| Total……………………………………... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source:* Central Bank.

The education system consists of public and private schools which offer pre-school, primary and secondary education. Approximately 85 percent of Dominican children aged 6 to 13 are enrolled in primary school. The level for secondary school is 65 percent.

The country is home to one public university, the *Universidad Autónoma de Santo Domingo*, founded in 1538 and the oldest university in the Americas, numerous (more than 30) private universities, as well as seven institutes of higher education. The average tuition fee for an undergraduate degree is of US$300, whereas the average cost to obtain a diploma from an institution of higher education is approximately US$3,600.

The adult literacy rate is 84.5 percent, whereas it is 86 percent in Jamaica and 91 percent in Colombia, Mexico and Panama, and 95 percent in Costa Rica.

## 2.4 Public Governance: Transparency, Integrity, and Rule of Law

Many sectors of the Dominican economy -mostly export-oriented industries- have enjoyed a high degree of transparency in their relationship with government agencies. While in those cases red tape is almost non existent and the use of permits and paperwork minimal, progress is being made to ensure that the other sectors of the economy share the same benefits. One key element of the Mejía program is to end the so-called *grado a grado* (step by step) system, whereby Government contracts may be awarded without recourse to a competitive bidding process. This system is widely held to be the major source of public corruption. The government procurement system of the country is currently under review. A new law adopted in February 2001 (Law No. 27-01) prohibits the Government from buying imported goods and services, should a national product exists. Government procurement is also regulated by Law No. 295 of June 30, 1966 and a decree adopted in 1998. Essentially, these laws and regulations stipulate that purchases by public enterprises are not covered and that public bidding must take place, provided that preference is given to domestic suppliers. For purchases below RD$100,000, five offers should be invited. For purchases above RD$100,000 but below RD$3 million, at least ten enterprises must be invited to bid. Finally, direct contracting is used for smaller purchases.

For the first time in 2001, the Dominican Republic was included in the Corruption Perceptions Index of Transparency International. The country ranked 63th out of 91 countries in 2001 and improved its score in 2002 ranking 59$^{th}$ out of 102 countries, ahead of Guatemala, Venezuela, Honduras, Nicaragua, Ecuador, and Bolivia but behind Chile, Trinidad and Tobago, Uruguay, Costa Rica, Colombia and Mexico (Table 15).

**Table 15**
**Corruption Perceptions Index for Latin American and Caribbean Countries**

| | **Rank in 2001** | **Rank in 2002** |
|---|---|---|
| Chile | 18 | 17 |
| Uruguay | 35 | 32 |
| Trinidad and Tobago | 32 | 33 |
| Costa Rica | 40 | 40 |
| Peru | 44 | 45 |
| Brazil | 46 | 45 |
| Colombia | 50 | 57 |
| Mexico | 51 | 57 |
| **Dominican Republic** | **63** | **59** |
| El Salvador | 55 | 62 |
| Panama | 52 | 67 |
| Argentina | 57 | 70 |
| Honduras | 71 | 71 |
| Guatemala | 65 | 81 |
| Venezuela | 70 | 81 |
| Nicaragua | 78 | 81 |
| Ecuador | 79 | 89 |
| Bolivia | 85 | 89 |

*Source*: Transparency International (www.transparency.org)

Article 102 of the Constitution provides for the sanction of acts of corruption. The Penal, Labor and Tributary Codes and the laws and regulations of the Secretaries of State (State Ministries) punish the acts of corruption. There have been twelve well-known cases involving high Government officials charged with corruption; seven belong to the past Government administration and five to the current administration. All are still pending in courts.

It is worth emphasizing that since January 1, 2003, a person applying for a public sector job under the Civil Services and Administrative Career Law is required to compete for posts based on his/her merits and work experience. This measure will undoubtedly contribute to reducing corruption and favoritism in the public sector.

In February 2003, President Mejia also announced that he was sending bills to Congress aimed at fighting against government corruption. One of the bills would transfer the power to appoint the national controller to the Senate, instead of the Executive Branch. When introducing the proposal, the President said the intent was to make the position of controller independent from the Executive Branch. President Mejia also tabled a bill that would create a department —*Fiscalia Anticorrupción*— to fight corruption. A third project would oblige officers to indicate the source of any increased wealth after their term in government. Finally, the President announced that he would resubmit another bill to Congress, which would guarantee the press free access to government information. The *Ley de Acceso a la Información Pública* would oblige Government officials to reveal information they commonly refuse to make public today.

The Dominican Republic does not have a competition policy law, albeit legislation on consumer protection and competition was tabled before Congress in 1998, but not adopted. A new draft law is in the making. Competition provisions are contained in the Constitution, the Penal Code, the Copyright Law, and the Industrial Property Law. For instance, Article 8 of the Constitution protects the exercise of free enterprise and prohibits monopolies of private corporations; albeit it allows state monopolies and those provided for by law. The Penal Code prohibits collusion among business executives, particularly with respect to price setting. Moreover, Law No.13 of April 1963 permits price controls for certain basic articles and services with a view to protecting consumers, whereas Law No. 112-00 of November 2000 allows the Ministry of Industry and Trade to determine retail prices for petroleum and petroleum products on a weekly basis.[18]

It takes on average 45 to 60 days for an administrative dispute settlement procedure to reach a final decision regarding a particular measure. However, the parties could ask for ten days in each instance to deposit documents, which can postpone the process for 30 additional days.

All laws regulating sectors of the economy establish deadlines or specific timeframes to grant permits and licenses. In practice, however, they are rarely observed, but the silence of management should not be understood as implicit authorization. The *litigious*

[18] See WTO document WT/TPR/S/105, September 9, 2002.

*administrative* procedure mandates conciliation before a claim can be brought but it does not contemplate any type of arbitration. If all three instances are pursued it can take from three to five years for an administrative dispute to be adjudicated in domestic courts.

The Constitution does not establish that international obligations have a higher status that domestic legislation. An international treaty needs to be ratified by Congress in order to be implemented in the country. The Constitution does not establish that private parties can invoke international agreement as applicable law in domestic courts but when international agreements enter into force, they acquire force of law and can be used/argued in national courts just as the domestic legislation.

## 2.5 Trade Regime

In recent years, the Dominican Republic has moved forward and liberalized its trade regime, becoming one of the most open economies in Latin America, as a result of relatively low effective average import tariffs and the establishment of free trade zones. In fact, trade played a significant role in the increase in the gross domestic product (GDP) during the 1990s. As Table 16 shows, exports accounted for approximately 30 percent of annual GDP growth with the notable exception of 1992. Moreover, the high level of openness of the Dominican economy is reflected in high imports and exports of goods and services to GDP ratio, which reached 100.5 percent in 2000.

**Table 16**
**Export to GDP Ratio**
**(Million of U.S. Dollars and Percentage)**

| Year | Exports | GDP | Exports/GDP |
|---|---|---|---|
| 1990 | 1,584.7 | 5,537.7 | 28.6 |
| 1991 | 1,711.2 | 7,479.3 | 22.9 |
| 1992 | 1,757.7 | 8,901.9 | 19.7 |
| 1993 | 3,211.0 | 9,690.4 | 33.1 |
| 1994 | 3,452.5 | 10,697.2 | 32.3 |
| 1995 | 3,779.5 | 11,994.3 | 31.5 |
| 1996 | 4,052.8 | 13,335.4 | 30.4 |
| 1997 | 4,613.8 | 15,081.5 | 30.6 |
| 1998 | 4,980.5 | 15,873.2 | 31.4 |
| 1999 | 5,136.7 | 17,363.5 | 29.6 |
| 2000 | 5,736.7 | 19,711.0 | 29.1 |

*Source*: Central Bank of the Dominican Republic

As shown in Table 17, the United States is the single most important export market for Dominican products. In 2000, 72 percent of all exports from the Dominican Republic were destined to the United States. Puerto Rico came second with 15.5 percent of all Dominican exports, whereas neighboring Haiti accounted for 2 percent. North America's (including Mexico) share totaled 88 percent, whereas Latin America and the Caribbean's (excluding Mexico) share was of 4.2 percent, Europe's 6.2 percent, Asia's 1.3 percent, and Africa's 0.1 percent.

**Table 17**
**Exports by Country of Destination, 1997-2000**
**(Thousands of U.S. Dollars)**

| Countries | 1997 | 1998 | 1999 | 2000* |
|---|---|---|---|---|
| United States | 3,089,232 | 3,391,232 | 3,704,447 | 4,116,836 |
| Puerto Rico | 888,658 | 946,448 | 843,514 | 886,902 |
| Haití | 35,995 | 35,441 | 67,860 | 114,114 |
| Belgium | 133,539 | 102,733 | 106,222 | 99,905 |
| The Netherlands | 30,588 | 44,314 | 50,989 | 63,188 |
| United Kingdom | 59,069 | 102,259 | 38,306 | 41,272 |
| Canada | 36,224 | 41,875 | 46,399 | 40,865 |
| Germany | 19,957 | 27,914 | 22,870 | 37,214 |
| France | 16,414 | 21,504 | 17,898 | 35,329 |
| Korea | 51,436 | 27,480 | 34,355 | 27,691 |
| Italy | 28,924 | 27,150 | 19,374 | 27,246 |
| Spain | 18,927 | 18,463 | 15,201 | 23,314 |
| Honduras | 23,042 | 17,049 | 12,852 | 19,571 |
| Japan | 28,166 | 19,807 | 12,434 | 11,738 |
| Jamaica | 16,049 | 17,309 | 9,601 | 11,461 |

*: Preliminary Data
*Source*: Central Bank of the Dominican Republic; International Department; Balance of Payments Sub-Direction; Export and Import Analysis Division

As exports from FTZs represent the bulk of all Dominican exports, accounting for 83.2 percent of total exports in 2000 (see Annex 1), in practice, as noted by the WTO in its Trade Policy Review of the Dominican Republic published in September 2002, "most of the Dominican Republic's merchandise trade is not governed by the rules of its general trade regime. This reflects the recognition that the [general] regime still creates an anti-export bias despite continuing liberalization, and the desire to assist exports by offering exporters special rules, notably under the free-trade zone regime."[19] Further trade liberalization is therefore needed, albeit the tariff reform approved in December 2000 cut the maximum import tariff from 35 percent to 20 percent, and the number of tariffs from nine (35 percent, 30 percent, 25 percent, 20 percent, 15 percent, 10 percent, 5 percent, 1.5 percent, and 0 percent) to five (20 percent, 14 percent, 8 percent, 3 percent, and 0 percent). The 2000 tariff reform was the second to be implemented by the country in recent years. In 1990, the Dominican Republic had reduced its maximum tariff to 35 percent from a tariff exceeding 200 percent.

The current import tariff structure is as follows:

a) 20 percent tariff applies to most consumer goods;
b) 14 percent tariff applies to certain intermediate goods;
c) 8 percent tariff applies primarily to raw materials and capital goods;
d) 3 percent tariff applies primarily to supplies, machinery and equipment used in the textile, agricultural and livestock sectors, and education materials.

In 2000, the effective average import tariff was of 16.9 percent.

[19] See WTO document WT/TPR/S/105, September 9, 2002.

In February 2003, the Government imposed by decree a 10-percent surcharge on all imports –except food, medicines, raw materials and capital goods-- for a period of 90 days, as part of a series of measures to promote austerity in an attempt to curb the depreciation of the exchange rate.

Textiles at 43.5 percent, electronics at 9.9 percent, and jewelry at 8 percent are the key components of FTZ exports. Traditional exports (sugar and related products, coffee, cocoa, tobacco, and nickel-iron) represented only 7.5 percent of all Dominican exports in 2000. Non-traditional exports such as beer and fruits have been growing over the past few years. In 2000, they accounted for 6.1 percent of total exports.

The dependency of the Dominican Republic on the North American market is not as pronounced in the case of imports. In 2000, North America accounted for 65.7 percent of all Dominican imports, whereas Latin America and the Caribbean's share reached 16.9 percent, Europe's 8.7 percent, and Asia's 8.3 percent. As shown in Table 18, the five most important trading partners on the import side were the United States (52.5 percent), Venezuela (10.4 percent), Puerto Rico (7.9 percent), Mexico (4.7 percent) and Japan (3 percent). Spain –the largest foreign investor in the country during the second half of the 1990s– ranked sixth with 2.7 percent of all Dominican imports, and captured only 0.4 percent of all Dominican exports.

Although the import share of FTZs has slightly fallen in relative terms during the second part of the 1990s, it remains fairly significant representing 32.3 percent of all imports into the Dominican Republic in 2000 (see Annex 2).

**Table 18**
**Imports by Country of Origin, 1997-2000**
**(Thousands of U.S. Dollars)**

| **Countries** | **1997** | **1998** | **1999** | **2000** |
|---|---|---|---|---|
| United States | 3,779,567 | 4,251,469 | 4,148,521 | 4,981,228 |
| Venezuela | 507,518 | 443,093 | 671,060 | 981,269 |
| Puerto Rico | 509,550 | 706,515 | 1,094,685 | 752,431 |
| Mexico | 312,497 | 300,084 | 265,331 | 447,974 |
| Japan | 191,910 | 219,609 | 240,907 | 280,857 |
| Spain | 98,877 | 175,694 | 217,390 | 252,844 |
| Panama | 119,901 | 111,959 | 122,323 | 160,798 |
| Germany | 57,847 | 81,365 | 122,245 | 151,985 |
| South Korea | 47,839 | 110,790 | 178,119 | 149,678 |
| Taiwan | 78,559 | 112,037 | 88,316 | 124,426 |
| Brazil | 48,184 | 83,069 | 82,790 | 96,262 |
| Italy | 51,733 | 74,587 | 47,936 | 82,828 |
| Colombia | 64,243 | 64,064 | 68,634 | 77,609 |
| France | 44,802 | 28,494 | 32,819 | 64,289 |
| Denmark | 54,230 | 52,742 | 41,267 | 48,809 |

***:** Preliminary Data
--Note: Countries of destination and origin are determined on the basis of declarations made by each importer to the General Customs Administration.
*Source*: Central Bank of the Dominican Republic; International Department; Balance of Payments Sub-Direction; Export and Import Analysis Division.

The services sector is also a key element of the Dominican Republic's foreign trade. Tourism is the single most important component of the country's services trade. In 2000, income from tourism reached US$ 2.9 billion.

The Dominican Republic joined the General Agreement on Tariffs and Trade (GATT) in 1950 and has been a member of the World Trade Organization since its inception. It has also been an active participant in the Free Trade Area of the Americas (FTAA) process since 1994. In addition, the country is participating in a number of other trade initiatives. In April 1998, it signed a free trade agreement with the members of the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). In August 1998, a trade agreement was signed with CARICOM members. Moreover, since 1983, the Dominican Republic has been one of the twenty-four beneficiaries of the Caribbean Basin Initiative, which was enhanced by the Caribbean Basin Trade Partnership Act. Exports under both programs reached US$2.4 billion in 2001. The country has also been party to the Cotonou Agreement, formerly known as the Lomé Convention, under which the European Union offers economic cooperation and assistance to partner countries in Africa, the Caribbean and the Pacific. Dominican agricultural goods, textiles and electronic components are granted preferential access under that agreement. Moreover, the Dominican Republic benefits from the Generalized System of Preferences granted by several countries.[20] Finally, in 2002, the Dominican Republic expressed interest in negotiating a bilateral free trade agreement with the United States and Canada. More recently, in February 2003, the Dominican Republic signed a free trade agreement with Panama.

## 2.6 Investment Regime

The Dominican Republic has put in place an investment and investor-friendly regime. The Foreign Investment Law (No 16-95) was enacted in December 1995. With the exception of a few state-owned monopolies (such as hydroelectric power), the country allows foreign investment in nearly all sectors of the economy. Exceptions include disposal and storage of toxic, hazardous or radioactive waste not produced in the country; activities affecting public health and the ecological equilibrium of the country; and the production of materials and equipment directly linked to national security without authorization from the president. Other laws affecting certain sectors (such as banking and insurance) discriminate between domestic and foreign investment and remain applicable. For instance, there are sectors such as transportation, banking and insurance where foreign investment is limited to less than 50 percent ownership but where domestic investment is fully allowed. FDI are subject to approval in specific sectors only, whereas in other sectors such as construction, joint ventures are mandatory.[21]

[20] Australia, Bulgaria, Canada, the Czech Republic, the European Union, Hungary, Japan, New Zealand, Norway, Poland, Russia, the Slovak Republic, Switzerland, and the United States. See UNCTAD document UNCTAD/ITCD/TSB/Misc. 62 of June 22, 2001.

[21] An inventory of non-conforming (i.e. discriminatory) measures is being prepared by the Dominican Republic in the context of the Caribbean Rim Investment Initiative.

There are several cases of investors who have been involved in expropriation disputes. The Government of the Dominican Republic has committed itself to review these cases with a view to resolving them.

Although the Foreign Investment Law establishes a deadline for the registration of FDI, there is also no penalty for not registering or for being late since the registration mechanism is for statistical purposes only. The Central Bank and the Office for Promotion of Foreign Investment register the investments without previous evaluation.

*The Tax Regime*

The Dominican Republic is one of the few Latin American countries, which has successfully implemented a comprehensive tax reform in recent years (*Ley de Reforma Tributaria* -Law No. 147-00- of December 27, 2000). While many other countries in the region had to abandon, postpone or scale back their reforms, the Dominican Republic adopted in 2000 a flat tax on fuel, raised the value-added tax (ITBIS-Tax on the Transfer of Industrialized Goods and Services) rate from 8 percent to 12 percent, and increased selective excise taxes on tobacco and alcohol, which have also contributed to raise tax receipts. As mentioned in the section on the trade regime, the tax reform was accompanied by a tariff reform that slashed the number of tariffs by half and the maximum tariff from 35 percent to 20 percent *Ley de Reforma Arancelaria* -Law No. 146-00- of December 27, 2000). However, in February 2003, the Government imposed by decree a 10-percent surcharge on all imports –except food, medicines, raw materials and capital goods— for a period of 90 days, as part of a series of measures to promote austerity in an attempt to curb the depreciation of the exchange rate.

Key aspects of the Dominican tax regime include the following:

- Fiscal Amnesty: In 2001, a law on fiscal amnesty entered into effect. It allows companies and individuals to benefit from a fiscal amnesty for the payment of taxes (income tax, ITBIS and Specific Consumption Taxes) owed during the previous three years. Companies that do not take advantage of this amnesty and are found to have under reported their revenue, and hence paid less in taxes, may be subject to a fine.

- Advanced Payments: Companies must make a 1.5 percent advance payment on the gross income tax they owe for the current year (this is payable monthly on the basis of gross monthly income). Companies specializing in agriculture (including livestock) are exempted from these payments, as well as companies with average annual earnings of less than RD$6 million pesos.

- Simplified Tax Estimation System: Companies or business people with income of less than RD$6 million a year may apply to benefit from a simplified tax estimation system, which seeks to make payment procedures easier. Under this regime, companies need to pay a monthly tax on income generated in the country. The tax rate amounts to 0.75 percent on income of up to RD$2 million a year, 1

percent on income between RD$2 to RD$4 million a year, and 1.12 percent on between RD$4 to RD$6 million. Payments are to be made every three months.

- Income tax: The tax rate for juridical persons is currently 25 percent. Individuals benefit from a tax exemption for income of up to RD$120,000 per year. Above this amount, the tax rate increases in proportion to the income, and as follows: 15 percent for income from RD$120,000.01 to RD$200,000.00; 20 percent for income from RD$200,000.01 to RD$300,000.00; and 25 percent for income exceeding RD$300,000.01 per year. The employer must withhold this tax from the salary paid to the employee. These amounts are subject to inflation adjustments based on the Consumer Price Index calculated by the Central Bank. A tax rate of 10 percent must be paid on income obtained in the course of business activities such as on fees and commissions. The tax rate is of 15 percent for income from lottery games and 20 percent for income from lease of property.

- ITBIS (Tax on the Transfer of Industrialized Goods and Services): This value-added tax applies to all goods and services, unless otherwise specified. For imports, it is levied on the c.i.f. value of goods plus customs duties plus the ISC (see below). For domestic products, the tax base is the net selling price plus related services, such as transport and packaging. As mentioned above, the Tax Reform of 2000 increased the ITBIS rate from 8 percent to 12 percent. Advertising services are taxed with a lower rate of 6 percent. A wide range of agricultural and livestock products have been exempted from the payment of ITBIS, such as living animals, meat, fish for reproduction, milk products, vegetables and fruits for public consumption, coffee, corns, milled products, sugar, cacao, fuel and energy, books and magazines, as well as personal computers and accessories. Services excluded are education, culture, health, financial (excluding insurance), pension plans, ground transportation, electricity, water and garbage collection, rent of house, and personal care.

- Specific Consumption Tax (ISC): Various goods are subject to this consumption tax, which ranges from 5 percent to 80 percent. These goods include alcoholic drinks (beer, wine, etc.); carpets and rugs; caviar; luxury watches; electric household goods; electronic products; jewellery, etc. The ISC is levied on the c.i.f. value of goods plus customs duties.

*The FTZ Legal Regime and Incentives*

The FTZ legal regime is the most important component of the Dominican Republic's investment promotion strategy. Firms are tax exempted with respect to all domestic taxes, tariff exempted for all raw materials, equipment and machineries or any other type of tax during 20 years, and are granted a 50 percent reduction for the payment of transit and use of ports and airports. Companies already established or which will soon establish themselves in those regions are granted a 50 percent reduction for any other tax during the period of their 20 year tax exemption. FTZ-made finished goods are exported to the United States and the European Union duty free or with preferential duties under the Caribbean Basin Initiative and the Cotonou Agreement.

In an effort to diversify the type of investment the country has been receiving, the Government has licensed new zone franchises to private developers. One such example is the Itabo zone, where Westinghouse was offered to be both owner and exporter. Other examples include the San Isidro zone, built around GTE (now Verizon) and aimed at attracting firms in the electronics sector, and the Las Americas zone on information services.[22]

With respect to special incentives or "allowances" to corporations based on location (special economic zone), participation in a special scheme or compliance with a performance requirement, it should be noted that Law 28-01 of February 1, 2001 creates the Special Zone of Border Development and comprises the provinces of Pedernales, Independencia, Elías Piña, Dajabón, Montecristi, Santiago Rodríguez and Bahoruco.

The Tourism Development Promotion Act is an example of Dominican legislation aimed at fostering foreign direct investment because it provides for the promotion of tourism development in the areas and regions of the Dominican Republic which had previously only been marginally promoted as tourism hubs, and for the development of new tourism destinations in the provinces and localities that have great potential for tourism development. Law 158-01 also creates the Tourism Promotion Trust Fund.[23] Companies doing business in the Dominican Republic, and to which this legislation applies, are granted a 100 percent tax exemption as follows:

a) National and municipal taxes for the use and issuance of construction permits, including the purchase of real estate, inasmuch as these are directly associated with the objectives of Law No. 158-01;

b) Import tax and other levies, duties, and surcharges, including the value-added tax known as ITBIS (Tax on the Transfer of Industrial Goods and Services) as may be assessed against or applied to equipment, materials, fixtures and furniture necessary for the infrastructure that will facilitate the launching of the specified tourism project or venture;

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[22] See Moran, p. 34.

[23] Tourism Area No.4, Jarabacoa and Constanza (Decree Nos.1157 and 2729 of July 31, 1975 and September 2, 1977 respectively); Tourism Area IV Extension: Barahona, Bahoruco, Independencia and Pedernales; (Decree No. 322-91 of August 21, 1991); Tourism Area V Extension: Montecristi, Dajabón, Santiago Rodríguez and Valverde (Decree No. 16-93 of January 22, 1993); Tourism Area VIII Extension: Province of San Cristóbal and the Municipality of Palenque; the Provinces Peravia and Azua de Compostela; Tourism Area comprising the Municipalities of Nagua and Cabrera (Decree No.199-99); Tourism Area comprising the Province of Samaná (Decree No.91-94 of March 31, 1994); and The Province of Hato Mayor and its municipalities; the Province of El Seybo and its municipalities; the Province of San Pedro de Macorís and its municipalities; the Province of Espaillat and its municipalities: Higüerito, José Contreras, Villa Trina and Jamao al Norte; the Provinces of Sánchez Ramírez and Monseñor Nouel; the Municipality of San José de Las Matas; the Province of Monte Plata; and Guiguí, La Vega.

c) National and international financing, if these are tax-exempt, will not be subject to penalties or taxation on the interests that may be generated;

d) Natural persons and legal entities will be able to deduct or reduce taxes up to 20 percent of their annual profits, as long as they are reinvested in a project related to this act;

e) The machinery and equipment necessary to achieve a high quality product (ovens, incubators, production and treatment plants, among others) will remain exempt from the moment of implementation of this legislation;

f) No new taxes, arbitrary charges or levies will be imposed during the tax exemption period; and

g) The benefits and incentives mentioned in this act are limited to projects that are implemented and/or constructed after this act has been passed;

Qualifying tourism projects, businesses or companies will enjoy a tax-exemption period of ten years, beginning from the date when construction work commences until such a time that the entire project is ready and the incentives can be implemented. There is a three-year deadline for initiation of permanent and uninterrupted operations of the approved project.

To be eligible for the incentives and benefits outlined in this act, all project proposals must provide documented proof of the following:

a) An environmental impact study that takes into account the type of project, the required infrastructure, the impact zone, and the environmental effect on the area. Small-scale tourism projects are exempt from this requirement.

b) A project blueprint as well as the preliminary engineering details of the same, prepared by a professional or by a certified firm of Dominican professionals. The counseling, consultations or participation of foreign specialists must be offered through local professional firms, which must be duly authorized and which will be legally responsible for the foreign expert.

c) Projects that involve the handling of large amounts of petrochemicals, and/or large-scale maritime transportation of same, must have a contingency plan to prevent and control any spillage.

d) Urban and municipal planning institutions and offices in the specified development jurisdictional areas must authorize such projects. In addition, applicants must submit a bank warranty to cover the expenses associated with environmental recovery if, through the project promoter's negligence, any harm is caused to the environment. Finally, no project may be located in any of the protected areas in the national parks, unless a study confirms that such a project does not endanger the preservation of natural resources or

threaten the natural flora and fauna.

The businesses that are established in accordance with the benefits and incentives of this act must guarantee the preservation of all natural resources and due protection for the environment.

The State Agency for Tourism is responsible for ensuring and enforcing compliance with all provisions pertaining to the preservation of all natural resources and the environment during the construction and operational phases of the project. It is also responsible for informing firms should they fail to maintain service quality and quantity levels that allow these firms to enjoy the tax exemption status, and may make due recommendations for the suspension of the aforementioned incentives and benefits as necessary.

*Bilateral Investment and Double Taxation Treaties*
In addition to the Foreign Investment Law and the numerous incentives available to the investors, the Dominican Republic has signed several bilateral investment treaties to improve the investment climate in the country and provide legal certainty to the foreign investor and his investment. The country has agreements in force with Argentina, Chile, CARICOM, Central American countries, China, Cuba, Ecuador, and Finland, as well as double taxation treaties with Canada and the United States. The country is also a member of the Multilateral Investment Guarantee Agency (MIGA) and the Overseas Private Investment Corporation (OPIC). Moreover, the country has ratified the Convention on Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention), which provides courts a mechanism to enforce international arbitral awards. It entered into force in 2002. In March 2000, the Dominican Republic signed the Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID) but has yet to ratify it. The country has also signed but not ratified the Inter-American Convention on International Commercial Arbitration.

## 2.7 Promotion of Exports and Investment: The Center for Export and Investment

In February 2003, President Mejía announced the formation of the Center for Export and Investment (CEI), as the product of the merger between the Center for the Promotion of Exports (CEDOPEX) and the Office for the Promotion of Investments (OPI-RD). As of April 2003, the formal creation of the new CEI was awaiting approval by Congress. The Center will count on the support of 22 commercial attachés in embassies abroad. The CEI takes over CEDOPEX, whose operating budget was increased from RD$14 million to RD$50 million, not including the RD$15 million it generates in revenues; and OPI's independent budget of RD$52 million. The new institution will find RD$117 million per year at its command for the promotion of exports and investments in the country.

OPI-RD, the Office for the Promotion of Investments of the Dominican Republic, was set up in 1997 with the mandate to attract both foreign and national investment in the country. It was created by an Executive Power Decree as an institution with administrative autonomy assigned to the Presidency of the Republic, which is in charge

of the promotion of foreign investment in the country. OPI's main activities and functions are to promote and stimulate foreign and national investment in the Dominican Republic, as a means to contribute to the economic development of the country. OPI also directs investment toward those economic sectors declared as priorities by the Government or that are considered of priority and high benefit for the development and economic growth of the country. The Office works with the public and private sector of the Dominican Republic to design, finance, coordinate, supervise and evaluate new promotion plans with the purpose of increasing investment flows. It also recommends to the Executive Branch the adoption of measures to improve the investment climate such as changes to laws or regulations. OPI also conducts studies on FDI flows and trends, and on the impact of multinational companies on improving the international competitiveness of the Dominican Republic. OPI serves as a one-stop shop, a central point of contact for potential investors. Finally, OPI is also very active in negotiating investment agreements aimed at improving the investment climate of the country, and providing a stable legal framework for foreign investments and investors.

In an effort to reap the benefits of the synergy between trade and investment, the Dominican Government is in the process of revising Law No. 137-71, which created CEDOPEX in 1970. Merging CEDOPEX and OPI into a single institution encompassing both trade and investment will help optimize the strategies to increase investment and trade opportunities. The Government will be able to put in place a policy framework, which will foster the increase in FDI and exports, and encourage linkages between foreign investors and local exporters.

## PART III
## Investor Perceptions

Investor perceptions of the Dominican Republic as a location for investment are quite positive. The state-of-the-art telecommunications infrastructure, which is one of the most advanced systems in Latin America, openness to foreign investment, political and macroeconomic stability, and access to global and regional markets are factors identified by investors as the key elements contributing to attract FDI. The country's geographic location is also considered a major source of competitive advantage by export-oriented firms such as those located in FTZs, which regard the country's access to regional and global markets as a strategic element in choosing the Dominican Republic as a location for investment. These firms have identified export incentives and FTZs, labor costs and worker productivity as strong factors attracting FDI to the Dominican Republic. For firms, which are market-seeking, the size of the Dominican market is one important factor. Moreover, investors recognize that there have been marked improvements, in general, over the past few years in the areas of crime (both street and organized), taxes, regulations, and "helpfulness" of the Government to the business community.

Among factors that need to be improved, investors indicate the high cost of electricity and the shortage of skilled workers and supervisors. Foreign market-seeking firms located outside the FTZs identified the education level of workers as a major weakness. Both elements can be addressed with appropriate reforms and in securing the resources necessary to carry out such reforms. They would contribute to attract more FDI and would also clearly benefit domestic investors. The enactment of the Electricity Law in 2001 was an important step in improving the framework for a more competitive electricity sector but as demand for power in this fast-growing economy doubled over the past decade, increased investment is much needed in power generation capacity and in the overburdened transmission and distribution systems. With respect to the labor force, the increase in the skill level of the Dominican work force, which is perceived by investors as being "competent, trainable and cooperative," would help the Dominican Republic to compete for higher value-added foreign direct investment.

Other factors affecting the Dominican Republic's competitiveness for investment are government's regulations and taxes, including the unpredictability of Government's economic policy. The creation of a mechanism by which the private sector could provide continuous feedback regarding regulatory burdens investors are facing would help alleviate this problem. The enactment of a modern Commercial Code (currently before Congress), eliminating burdensome requirements for the establishment of a business, and the removal of administrative barriers with respect to land titling and registration, and customs administration are other elements, which would improve the business environment for investors. Finally, corruption is another issue that should continue to be addressed, as it continues to impose significant costs on firms and makes business operations in the Dominican Republic difficult.

Table 19 provides a summary of investor perceptions in the Dominican Republic by investment location decision factors. The findings are based on a survey of 95 domestic

and foreign investors in the Dominican Republic conducted by the firm SIGMA-DOS, with the cooperation of OPI-RD and FIAS (Foreign Investment Advisory Service) in 2001. All in all, 77 percent of all respondents and 70 percent of all foreign-owed firms interviewed for the survey declared that the Dominican Republic is an attractive or very attractive location for investment when compared to other countries in Central America and the Caribbean Basin. A significant number of respondents, however, 21 percent, consider the Dominican Republic to be relatively attractive but perceive high risks and/or costs.

**Table 19**
**Summary of Investor Perceptions in the Dominican Republic**
**by Investment Location Decision Factor***

| Investment Factors | | | Ownership | | Location | | Sales Orientation | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Overall | Foreign | Domestic | Free Zone | Non-Free Zone | Fully Export | Part Export-Part Domestic | Fully Domestic |
| **Key Elements** | Openness to Foreign Investment | 3.8 | 3.7 | 3.8 | 3.9 | 3.7 | 4.0 | 3.8 | 3.7 |
| | Political Stability | 3.6 | 3.5 | 3.8 | 3.9 | 3.5 | 4.1 | 3.7 | 3.4 |
| | Economic Stability | 3.3 | 3.1 | 3.6 | 3.4 | 3.3 | 3.4 | 3.5 | 3.2 |
| | FTZ Incentives | 3.2 | 3.0 | 3.4 | 3.7 | 3.0 | 3.7 | 2.9 | 3.1 |
| | Overall Incentives | 2.9 | 2.7 | 3.1 | 3.1 | 2.8 | 3.4 | 2.7 | 2.8 |
| | Predictability of Govt Policy | 2.7 | 2.5 | 3.0 | 2.7 | 2.7 | 2.9 | 2.7 | 2.6 |
| **Regulations** | Labor Regulations | 3.1 | 3.0 | 3.2 | 2.9 | 3.1 | 2.8 | 2.9 | 3.2 |
| | Commercial Legal Framework | 3.0 | 2.9 | 3.2 | 3.1 | 3.0 | 3.2 | 3.0 | 2.9 |
| **Infrastructure** | Infrastructure--Telecommunications | 4.3 | 4.1 | 4.7 | 4.5 | 4.3 | 4.6 | 4.3 | 4.2 |
| | Infrastructure--Roads/Ports | 3.2 | 2.9 | 3.6 | 3.2 | 3.2 | 3.4 | 3.1 | 3.2 |
| | Infrastructure--Electricity | 1.9 | 1.8 | 2.0 | 2.3 | 1.8 | 2.5 | 1.9 | 1.7 |
| **Competitiv.** | Access to Regional Mkt | 3.4 | 3.3 | 3.6 | 3.7 | 3.3 | 3.8 | 3.4 | 3.3 |
| | Access to Global Mkt | 3.4 | 3.1 | 3.8 | 3.6 | 3.3 | 3.8 | 3.4 | 3.2 |
| | Domestic Market Size | 3.4 | 3.2 | 3.6 | 2.8 | 3.5 | 2.6 | 3.4 | 3.5 |
| | Labor Cost | 3.3 | 3.3 | 3.4 | 3.6 | 3.3 | 3.6 | 3.3 | 3.3 |
| | Labor Skills | 3.0 | 2.9 | 3.2 | 3.4 | 2.9 | 3.6 | 2.9 | 2.9 |
| | Cost of Raw Materials | 2.9 | 3.0 | 2.9 | 2.9 | 2.9 | 3.1 | 2.8 | 2.9 |
| | Productivity and Work abits of Workers | 2.9 | 2.7 | 3.1 | 3.5 | 2.7 | 3.7 | 2.9 | 2.6 |
| | Education Level of Workers | 2.5 | 2.4 | 2.6 | 2.7 | 2.4 | 2.9 | 2.5 | 2.4 |

*Average ratings on a scale of 1 (very weak) to 5 (very strong)*

## Recommendations

Within the next twelve months, a number of concrete measures could be implemented by the Government of the Dominican Republic, in the context of the National Competitiveness Plan launched in 2001 and with the support of international organizations such as the IADB and the OECD, to improve the investment climate in the country. These measures should include:

a) the enactment of a modern Commercial Code, which would eliminate the burdensome requirements for the establishment of a business;

b) the removal of administrative barriers with respect to land titling and registration, and customs administration;

c) the review of the incentive packages for investors, taking into account that the Dominican Republic may have to eliminate its export subsidy programs under the WTO Agreement on Subsidies and Countervailing Duties by the end of 2007 (unless WTO members agree on further postponement of the deadline to a later date). Such review should be undertaken using a cost-benefit analysis to assess the use and provision of these incentives in the country;

d) the establishment of an annual benchmark survey of investors views on critical issues affecting investment decisions; and

e) the establishment of a clearing house where small and medium-sized local companies meeting some well-defined standards of performance would register and could become suppliers of the foreign (and local) companies operating in FTZs. Such a mechanism would encourage backward linkages.

Reducing corruption is another issue that should continue to be addressed, as it imposes costs on firms. The announcement in early 2003 of the creation of a new department – *Fiscalia Anticorrupción*— as well as other Government initiatives aimed at curbing corruption are welcomed steps.

# Annex 1

**Exports**
(in millions of US$ and as % of total exports)

| | 1996 | | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|---|---|
| | US$ | % | US$ | % | US$ | % | US$ | % |
| Free trade zones: | | | | | | | | |
| Textiles | 1,753.5 | 43.3 | 2,185.0 | 47.4 | 2,349.0 | 47.2 | 2,393.4 | 46.6 |
| Footwear | 264.6 | 6.5 | 310.6 | 6.7 | 348.5 | 7.0 | 357.9 | 7.0 |
| Electronics | 241.3 | 6.0 | 300.2 | 6.5 | 362.3 | 7.3 | 445.7 | 8.7 |
| Tobacco manufacturing | 235.5 | 5.8 | 280.6 | 6.1 | 329.4 | 6.6 | 320.4 | 6.2 |
| Jewelry | 145.4 | 3.6 | 178.9 | 3.9 | 239.8 | 4.8 | 280.5 | 5.5 |
| Medical drug products | 154.1 | 3.8 | 190.6 | 4.1 | 228.5 | 4.6 | 270.5 | 5.3 |
| Other | 313.0 | 7.7 | 150.5 | 3.3 | 242.7 | 4.9 | 263.1 | 5.1 |
| Total free trade zones | 3,107.4 | 76.7 | 3,596.4 | 78.0 | 4,100.2 | 82.3 | 4,331.5 | 84.3 |
| Traditional: | | | | | | | | |
| Sugar and related products | 175.8 | 4.3 | 203.8 | 4.4 | 142.2 | 2.9 | 89.6 | 1.7 |
| Coffee | 64.1 | 1.6 | 67.9 | 1.5 | 67.1 | 1.3 | 23.8 | 0.5 |
| Cocoa | 64.7 | 1.6 | 61.0 | 1.3 | 87.1 | 1.7 | 24.7 | 0.5 |
| Tobacco | 51.8 | 1.3 | 91.2 | 2.0 | 63.3 | 1.3 | 53.8 | 1.0 |
| Nickel-iron | 218.8 | 5.4 | 216.5 | 4.7 | 132.1 | 2.7 | 143.9 | 2.8 |
| *Doré* | 48.7 | 1.2 | 27.3 | 0.6 | 15.5 | 0.3 | 6.9 | 0.1 |
| Total traditional | 623.9 | 15.4 | 667.7 | 14.5 | 507.3 | 10.2 | 342.7 | 6.7 |
| Total non-traditional | 205.3 | 5.1 | 216.8 | 4.7 | 232.4 | 4.7 | 284.8 | 5.5 |
| Total other[(2)] | 116.3 | 2.9 | 132.8 | 2.9 | 140.6 | 2.8 | 177.6 | 3.5 |
| Total exports | 4,052.9 | 100.0 | 4,613.7 | 100.0 | 4,980.5 | 100.0 | 5,136.6 | 100.0 |

(1) Preliminary data.
(2) Includes goods sold at port.
*Source*: IMF and Central Bank.

# Annex 2

**Imports**
(in millions of US$ and as % of total imports)

| | 1996 | | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|---|---|
| | US$ | % | US$ | % | US$ | % | US$ | % |
| Consumer goods: | | | | | | | | |
| Durable goods | 380.6 | 6.6 | 425.3 | 6.4 | 541.1 | 7.1 | 542.8 | 6.8 |
| Refined petroleum products | 470.1 | 8.2 | 520.3 | 7.9 | 453.8 | 6.0 | 615.7 | 7.7 |
| Other | 871.5 | 15.2 | 1,080.6 | 16.4 | 1,173.6 | 15.4 | 1,210.4 | 15.1 |
| Total consumer goods | 1,722.2 | 30.1 | 2,026.2 | 30.7 | 2,168.5 | 28.5 | 2,368.9 | 29.5 |
| Intermediate goods: | | | | | | | | |
| Crude oil and reconstituted fuel | 297.5 | 5.2 | 293.9 | 4.4 | 194.1 | 2.6 | 255.3 | 3.2 |
| Other | 1,002.7 | 17.5 | 1,175.5 | 17.8 | 1,452.0 | 19.1 | 1,532.1 | 19.1 |
| Total intermediate goods | 1,300.2 | 22.7 | 1,469.4 | 22.2 | 1,646.1 | 21.7 | 1,787.4 | 22.2 |
| Capital goods | 558.3 | 9.7 | 696.2 | 10.5 | 1,082.1 | 14.2 | 1,050.5 | 13.1 |
| Imports into the free trade zones | 2,146.3 | 37.5 | 2,416.7 | 36.6 | 2,700.7 | 35.5 | 2,834.3 | 35.2 |
| Total imports | 5,727.0 | 100.0 | 6,608.5 | 100.0 | 7,597.4 | 100.0 | 8,041.1 | 100.0 |

(1) Preliminary data.
*Source*: IMF and Central Bank.