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**ECONOMIC REFORMS TAKE HOLD IN THE DOMINICAN REPUBLIC: BUT
OBSTACLES FOR EXPORT SECTORS REMAIN**

After five years of macro-economic reform, including major trade policy changes, the Dominican Republic has managed to curb inflation, decrease its fiscal deficit, record a surplus in its balance of payments and attract more foreign direct investment. According to a WTO Secretariat report on the Dominican Republic's trade policies and practices, the government is continuing its efforts to further integrate the economy into world markets and to make the country's exports more competitive.

Since 1990, the Dominican Republic has also taken a number of steps to reform its highly discretionary and complex trade regime by suspending a large number of trade restrictions. According to the report, these reforms should reduce sectoral distortions in the economy, in particular by reducing the restrictiveness of trade policies for those industrial and agricultural products which compete with imports. Such policies contrast with the country's export activities in the free trade zones and especially in the tourism sector, which has been progressively liberalized. The report states that services such as tourism and proceeds from the free zones have become the most important source of foreign exchange since the mid-1980s, followed by remittances from Dominicans mainly working in the United States. In recent years, exports of agricultural goods, such as sugar, coffee, cocoa, and tobacco - the traditional Dominican exports - have been overtaken by exports of services and manufactured goods, especially clothing.

The government's previous trade regime, which was characterized by a wide range of tariff rates - with some higher than 200 per cent - was reformed in 1990. The current tariff, levied on an ad valorem basis, varies between three and 35 per cent. The report states that tariff escalation still exists, indicating that certain processing industries benefit from relatively high effective protection. As a result of the Uruguay Round, tariffs for agricultural products were bound at 40 per cent. For eight products, i.e. beans, chicken, corn, garlic, milk, onions, rice and sugar, the Dominican Republic wishes to modify the bound rate and enter into negotiations with other WTO members. In the meantime, import licences are still required for these products.

A WTO member since March 1995, the Dominican Republic is currently drafting legislation to promote freer competition in the domestic market and to incorporate WTO commitments such as intellectual property rights, anti-dumping legislation, a new foreign investment law and a new financial code. The latter allows banks, which had been limited to providing only specific financial services, to enter other banking activities. Under the General Agreement on Trade in Services (GATS), the

Dominican Republic made commitments on market access and national treatment, especially in the modes of cross-border supply and commercial presence.

The major trading partner of the Dominican Republic is the United States both in terms of exports and imports. The report states that this dominance can be attributed to two factors: first, the Dominican Republic benefits from duty-free privileges under the Caribbean Basin Initiative (CBI) under which Dominican exports represent around 25 per cent of the goods entering the United States; second, the free zones have specialized in the assembly of clothing to be exported to the United States under the off-shore assembly programme, another preferential régime. The Dominican Republic has been severely affected by the reduction of U.S. sugar import quotas, previously particularly advantageous since in-quota sugar exports to the United States earn twice the world market price.

Since 1990, the Dominican Republic has benefited from the European Communities' ACP preferences under the Lomé Convention, which includes banana exports. The Government's general trade policy objectives have been pursued through multilateral, regional and bilateral trade negotiations, in particular with Caribbean and Central American countries. It has also actively lobbied for the approval by the United States of the extension of NAFTA treatment to Central America and the Caribbean.

The report concludes that the post-Uruguay Round trading regime, as well as the full implementation of NAFTA, will bring some important opportunities and challenges for the Dominican Republic. While some barriers to its exports will be reduced, it will also lose preferential margins for some of its exports. The opening of the economy will, in the longer term, mean some difficult adjustments, especially for import-competing agriculture. These new conditions imply an even greater need to eliminate structural impediments to growth in sectors with export potential.

Notes to Editors:

The WTO Secretariat's report, together with a report prepared by the Dominican Republic will be discussed by the WTO Trade Policy Review Body (TPRB) on 14 and 15 February 1996. The WTO's TPRB conducts a collective evaluation of the full range of trade policies and practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.

Two reports, together with a report of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete Trade Policy Review of the Dominican Republic and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

The reports cover development of all aspects of the Dominican Republic's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector. Since the WTO came into force, the "new areas" of services trade and trade-related aspects of intellectual property rights are also covered. Attached are the summary observations from the Secretariat and government reports. Full reports will be available for journalists from the WTO Secretariat on request.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Costa Rica (1995), Côte d'Ivoire (1995), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel

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(1994), Japan (1990, 1992 and 1995), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989 & 1996), New Zealand (1990), Nigeria (1991), Norway (1991), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uganda (1995), Uruguay (1992) and Zimbabwe (1994).

TRADE POLICY REVIEW BODY

THE DOMINICAN REPUBLIC

Report by the Secretariat - Summary observations

(1) Introduction

In 1990, after several years of stagflation, the Dominican Republic began a programme of reforms to restore macroeconomic stability and growth. As a result of the programme, inflation and the fiscal deficit have decreased; GDP has started to grow; and the balance of payments has moved into surplus. Confidence stemming from the strong performance of the economy has been reflected in capital repatriation and an increase in foreign direct investment.

To complement the macroeconomic programme, since 1990 there has also been an important reform of trade policies and practices, as well as of the legal and institutional framework. These are intended to achieve a more neutral régime which should enhance international competitiveness and reduce anti-export bias. These reforms should also help to reduce sectoral divergences in the Dominican economy, where import-competing segments of industry and agriculture and traditional, mainly farm, exports have suffered from restrictive trade legislation, while export activities in the free zones and the tourism sector have become the engines of growth.

Under the reform programme, trade policy has become more open and competition has been encouraged. A large number of trade restrictions have been suspended in important effort to reform a highly discretionary and complex trade régime. However, the legislative framework has not yet been completely revised; thus, laws, decrees and resolutions governing foreign trade appear to have little consistency and transparency. The rationalization of this legislation, currently in hand, will enhance the predictability of the trade régime and provide greater certainty for business.

Fiscal, including tariff, reforms were among the key elements of the structural measures taken in 1990. The fiscal reform simplified the tax code in order to improve the efficiency of tax collection. It also abolished all fiscal incentives, with the exception of those granted to the free zones, in order to make the system more neutral. The tariff reform partially simplified the trade régime. Tariff exemptions were eliminated and the level and dispersion of the tariff rates decreased; tariffs range from 3 to 35 per cent. However, there is still some tariff escalation, and effective rates of protection in certain sectors remain high. The reduction of tariffs, coinciding with other trade reforms, led to an import response which in turn increased tariff revenues; tariffs remain one of the most important sources of fiscal revenue.

Financial reform is still under way. Major changes include the authorization of multi-service banks and the approval of a new prudential law. Further reforms are contemplated in the draft Monetary

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and Financial Code, now before Congress. New legislation should reduce the costs of financial intermediation caused by the risk involved in investing in what has been perceived as an unstable banking system. As the financial reforms continue and the system becomes more efficient, interest rates should also decline, making credit more affordable to small- and medium-scale entrepreneurs.

Foreign direct investment has become increasingly important, especially in the free zones and in the tourism sector. However, unexploited opportunities still remain in several areas of the economy. According to the authorities, a new FDI law has recently been approved by the Congress (since the completion of the main part of this report). This would grant national treatment, liberalize profit remittances, and eliminate inconsistencies between the present legislation and the Dominican Republic's Schedule on Specific Commitments on services.

Since the beginning of the 1970s, resources have been shifted from the traditional farming base of the economy towards the production of services. Although the performance of the agricultural sector has been poor due to both domestic and external factors, it continues to be the major employer. The services sector, led by tourism, has become economically dominant. Manufacture of clothing in the free zones has also become an important activity. The informal sector appears substantial, but, by its nature, is difficult to assess. On the demand side, private consumption has developed strongly since the beginning of the 1970s.

The private sector plays an important rôle especially in the free zones and the tourism sector, although the State still has a significant share in the economy. Privatization has not expanded as rapidly as it has in some other Latin American countries despite the financial burden of public enterprises.

(2) The Dominican Republic in World Trade

The major trading partner of the Dominican Republic is the United States both in terms of exports and imports. This dominance can be attributed to two factors. First, the Dominican Republic benefits from duty-free privileges under the Caribbean Basin Initiative (CBI); Dominican exports represent around 25 per cent of the goods entering the United States under the CBI scheme. Second, the free zones have specialized in the assembly of clothing to be exported to the United States under the off-shore assembly programme, another preferential régime. The Dominican Republic has been severely affected by the reduction of U.S. sugar import quotas, previously particularly advantageous since in-quota sugar exports to the United States earn twice the world market price.

Since 1990, the Dominican Republic has benefited from ACP preferences under the Lomé Convention, including for bananas. However, until recently this has not had a major impact on trade with the European Union.

In recent years, exports of agricultural goods, such as sugar, coffee, cocoa, and tobacco - the traditional Dominican exports, have become secondary; while exports of non-factor services and manufactured goods, especially clothing, have increased. Non-factor services such as tourism, and proceeds from the free zones have become the most important source of foreign exchange since the mid-1980s, followed by remittances from Dominicans mainly working in the United States.

(3) Institutional Framework

Although official responsibility for trade and trade policy is spread among a large number of government ministries and institutions in the Dominican Republic, the Ministry of Foreign Affairs has the primary rôle in trade negotiations, being responsible for negotiating and signing trade agreements. Also under its mandate are other bodies dealing with specific aspects of foreign trade: these include

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the Foreign Trade Commission (Comisión de Comercio Exterior), which advises the Government on the formulation and implementation of trade policies, and the National GATT Commission (Comisión Nacional del GATT), which studies all WTO/GATT-related issues and advises on the negotiating position of the Dominican Republic.

The Government also consults on a regular basis with the private sector through many official committees that are entrusted with the formulation or implementation of trade policies.

(4) Trade Policy Features and Trends

The general trade policy objectives of the Dominican Republic include moving towards a more outward-oriented trade régime, strengthening and increasing overseas market access for Dominican products, and achieving the further integration of the Dominican Republic into the world economy.

The Dominican Republic acceded to the GATT in 1950. It was observer to two Tokyo Round Agreements (Government Procurement and Import Licensing). The Dominican Republic became a member of the WTO in March 1995, having signed the Final Act of the Uruguay Round and the Marrakesh Agreement establishing the World Trade Organization. Under the Single Undertaking, all Uruguay Round Agreements, except the four plurilateral agreements, became binding on the Dominican Republic.

The Government's general trade policy objectives have been pursued through multilateral, regional and bilateral trade negotiations, in particular with Caribbean and Central American countries. The Dominican Republic has applied to enter CARICOM, where it currently has observer status. The Dominican Republic also participated actively in the establishment of the Association of Caribbean States (ACS), which seeks to promote the economic integration of the region through the liberalization of trade, investment and transport. The Government is also interested in participating in the work programme for a hemispheric free-trade area, following the Summit of the Americas in December 1994. It also actively lobbied for the approval by the United States of the extension of NAFTA treatment to Central America and the Caribbean.

(i) Evolution of trade policies and instruments

The previous trade régime was characterized by a wide range of tariff rates. In some cases, nominal rates exceeded 200 per cent, and effective protection was considerably higher for certain sectors. Import prohibitions and quantitative restrictions also provided virtually insurmountable levels of protection to domestic industries. The allocation of resources was distorted, and an anti-export bias created, by the high levels of protection.

Following the tariff reform, tariffs, levied on an ad valorem basis vary between 3 and 35 per cent; tariff escalation still exists, indicating that certain processing industries benefit from higher effective protection than is evident from the nominal rates. The tariff reform eliminated other levies and taxes on imports; the additional charges that remain are the foreign exchange commission, and consular fees.

Imports are allowed concessional entry only under the free zones and temporary admissions régimes. Since 1993, any other concessional entry for imports must be approved by Congress. Tariff preferences are granted only to Costa Rica, under a preferential trade agreement established in May 1981.

In 1990, all import quotas and most import licences and prohibitions were eliminated; import licences were replaced by tariffs, providing greater transparency to the system. Sanitary and phytosanitary requirements seem to apply equally to domestic and imported products.

As a result of the Uruguay Round Agreement on Agriculture, tariff rates for all agricultural products were bound at 40 per cent. For eight products (beans, chicken, corn, garlic, milk, onions, rice and sugar) the Dominican Government is seeking to modify the bound rate; negotiations have not yet started, and import licences are still required for these products.

Imports are subject to a value-added type tax (Transfer of Industrialized Goods and Services, Impuesto a las Transferencias de Bienes y Servicios, ITBIS). Some products are exempt from this tax, and, in some cases, the tax exemptions benefit domestic products only. The ISC (Selective Consumption Tax, Impuesto Selectivo al Consumo) is levied mainly on alcoholic beverages, tobacco products and imported luxury items.

Public procurement is regulated by law; however, in practice government agencies and State enterprises follow their own guidelines. Foreign suppliers must be associated with a domestic company in order to participate in public bids.

Domestic standards in the Dominican Republic are based on international standards but adapted to domestic conditions. They are applied equally to domestic and imported goods.

In 1992, most export restrictions such as licensing were abolished by decree. No special registration or documentation is now required for most exports, other than a statistical declaration. Export permits are still required for products affecting the environment, and for agricultural goods for sanitary reasons and quality control. Internal taxes are not levied on exports. In 1990, export taxes on agricultural goods were abolished. Although the Government is aware that export cartels exist, they are not regulated.

Historically, a number of measures affecting exports were implemented through a mixture of laws, decrees, regulations and resolutions. To remedy the situation, the Government is currently planning to simplify the export régime. The credibility of the new régime would also be enhanced if it were enshrined in law.

Free zones have become one of the most important and dynamic sectors in the Dominican economy for the generation of employment and foreign exchange. The success of the scheme can be attributed to the stability, transparency and coherence of the overall policies regulating the free zones. Exports from free zones have increased continuously at times when other exports have decreased. However, the export base is narrow, specializing in clothing and exporting mainly to the United States; and value added is very low.

Up to 1992, the Institute of Price Stabilization (INESPRE) was responsible for administering prices for agricultural goods. Since then, however, price surveillance has been maintained only for a few items. Following the approval of the Tax Code in 1992, most production subsidies and tax concessions were eliminated. However, the Dominican Government is empowered to provide temporary assistance to specific sectors through price support mechanisms. For instance, cocoa and coffee producers have at times been compensated for price falls in the international market.

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(ii) New initiatives

The Dominican Government, aware of the importance of reforming the economy and of a clearer legal framework to support these reforms, is in the process of drafting laws that would supersede current legislation, regulations and decrees in various areas of the economy. Legislation incorporating the new multilateral commitments on intellectual property rights is being drafted, as well as legislation to promote free competition in the domestic market. Several draft laws are currently being discussed in Congress, including an anti-dumping law, a new foreign direct investment law, a new electricity law, and a new Financial Code.

(5) Conclusion

The post-Uruguay Round era, as well as the full implementation of NAFTA, will bring some important opportunities and challenges for the Dominican Republic. While some barriers to its exports will be reduced, it will also lose preferential margins for some of its exports. The opening of the economy will, in the longer term, mean some difficult adjustments, especially for import-competing agriculture. These new conditions imply an even greater need to eliminate structural impediments to growth in sectors with export potential by continuing and enhancing the trade liberalization process through the fiscal, financial, institutional, and legal reforms already under way.

The success of the tourism industry in the Dominican Republic has proved that the country is well able to compete in the international market and exploit its comparative advantage. The sector was initially developed under a temporary protection régime, but continued to prosper as the régime was phased out. The free zones still operating under a preferential régime, have also been successful. Progress in these two sectors, relative to the import-competing and traditional export sectors, clearly points up the dualism of the Dominican economy. The liberalization of the economy, by reducing this dualism, should allow the expansion of other potentially competitive sectors.

TRADE POLICY REVIEW BODY

THE DOMINICAN REPUBLIC

Report by the Government - Summary Extracts

Trade Policy in the Dominican Republic during the Period 1990-1995

I. BACKGROUND

The Dominican Republic is a developing country, in the tropical zone, with an open economy. Over the past five years its foreign trade has represented an average of 33.1 per cent of the annual gross domestic product. It covers an area of approximately 48,700 km² and has a population of 7.3 million. Since independence in 1844, its foreign trade flows have been relatively important, and throughout most of its history its economy has been based on the export of primary products and the import of machinery and equipment.

Over the past 15 years, the Dominican Republic's trade policy has been conducted within a changing economic environment. Following a period of strong growth in the 1970s, when the economy expanded at an annual average rate of 9 per cent while prices increased at the moderate rate of 8 per cent annually, the Dominican Republic started to show serious macroeconomic imbalances that led to a

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large deficit in the external accounts, a rapid increase in foreign debt and high inflation and exchange rates.

In the early 1980s, the economy started to display serious structural defects that were exacerbated by unfavourable changes in the external environment. The prices of traditional exports became unstable and volatile, the hike in petroleum prices led to higher expenditure on imports, exports suffered the negative effects of the recession in developed countries, and higher interest rates on international markets raised the cost of servicing the debt. These external problems were compounded by expansionary fiscal and monetary policies, steep import and export tariffs, and domestic price controls. The internal and external imbalances led to higher inflation, stagnation of production and employment, and serious imbalances in the balance of payments in the form of growing arrears in the external debt service, lower international reserves of the Central Bank and exchange rate instability.

In the second half of the 1980s, there was an increase in production and employment boosted by higher public and private spending and this was reflected in a significant external imbalance at the end of the decade. The expansion in production came to an end in 1990 when inflation reached 79.9 per cent, GDP growth fell by 5 per cent and international reserves were only sufficient to cover one week's imports.

In August 1990, the Government introduced a series of measures to halt the deterioration in the macroeconomic situation. These included reducing the budget deficit, devaluing the exchange rate on the official market, liberalizing interest rates, abolishing price controls, liberalizing prices of public enterprises and curbing the money supply. At the same time, the Government adopted measures to remedy the structural defects in the country's economy. Reforms were implemented in four areas: foreign trade, the tax system, the financial system and labour.

II. ECONOMIC AND TRADE ENVIRONMENT

The results of the stabilization and structural reform policy were felt immediately. Inflation fell from 79.9 per cent in 1990 to 7.9 per cent in 1991. The exchange rate was stabilized at RD\$12.50/dollar and GDP rose by 7.6 per cent in 1992. As a result of the reforms, in the first half of the 1990s, the Dominican Republic's inflation rate has been one of the lowest in the hemisphere, GDP growth has remained above the average for Latin America and the Caribbean, unemployment has fallen significantly, productivity has risen in the most open sectors i.e. the free zones and tourism, there has been prudent management of monetary policy, and interest rates have dropped. The economy's increased focus on foreign markets as a result of the commitments adopted under the Uruguay Round of multilateral negotiations will reinforce the impact on the economy and enterprises of the stabilization measures and the structural reform implemented by the Government.

(i) Trade policy developments

Over the past five years, the major developments in the area of trade policy have been the tariff reforms of 1990 and 1993, participation in the Caribbean Basin Initiative, the signing and implementation of agreements under the Uruguay Round of Multilateral Trade Negotiations, and participation in regional integration agreements such as the Caribbean Community, the Free Trade Area for the Americas and the Association of Caribbean States.

Policies to liberalize international trade in goods and services have helped to diversify and strengthen the Dominican Republic's export potential as well as to increase import penetration in the domestic market. Exports of goods, including those from free zones, grew at an average rate of 5.9 per cent during the period 1990-1994, and exports of services increased at an average rate of 11.2 per

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cent over the same period. Furthermore, the composition of exports has shifted from primary goods towards manufactured goods, the share of the former falling from 22.3 per cent in 1990 to 14.4 per cent in 1994. In the case of imports, the value and volume of imports of goods rose at an annual average rate of 3.7 per cent, and increased to 22.6 per cent as a proportion of GDP in 1994.

(ii) Unilateral opening and reform

As mentioned, in 1990 the Government of the Dominican Republic embarked upon an economic reform process with the aim of achieving more effective allocation of resources, eliminating the anti-export bias in the economy, promoting greater participation by the private sector in all branches of the economy, and promoting competition in markets. The following are some of the most important measures:

- reduction of existing tariff levels that varied between 0 per cent and 200 per cent to nine tariffs, ranging from 0 per cent to 35 per cent, and of their dispersion;
- replacement of specific duties by ad valorem levies;
- import valuation on the basis of market rates rather than different rates for various types of goods;
- application of tariffs based on c.i.f. value (cost, insurance, freight) for goods instead of f.o.b. value;
- elimination of prohibitions, quotas and other types of quantitative restrictions for most imports;
- elimination of tariff exceptions and exemptions granted to sectors under special agreements with the State or under promotion legislation;
- elimination of multiple exchange rates;
- introduction of a new customs nomenclature;
- modernization of the customs service through computerization of customs offices and simplification of clearance procedures;
- abolition of discrimination in the application of the selective consumption tax on alcohol, tobacco and beer;
- reduction of marginal rates of personal income tax to three rates between 15 per cent and 25 per cent. Under the previous system, the maximum marginal tax rate was 75 per cent;
- establishment of a single rate of 25 per cent for profits tax and abolition of tax exemptions;
- abolition of price controls;
- approval by Congress of a new Foreign Direct Investment Law that abolishes the ban on foreign investment in certain sectors of the Dominican Republic's economy, allows

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the repatriation of profits and the capital invested, as well as the channelling of long-term loans;

- submission to Congress of a Law on Reform of the Electricity Sector to enable participation by the private sector in power generation and distribution;
- liberalization of interest rates for deposits and loans;
- introduction of uniform reserve requirements at a level of 20 per cent, compared with the previous system of multiple rates depending on the sectoral allocation of the credit and the type of deposit;
- establishment of a prudential framework that guarantees the solidity of financial institutions and the transformation of the present system of specialized banks into one of multiple banking;
- submission to Congress of a Monetary and Financial Code to strengthen the independence of the Monetary Board, the Central Bank and the Superintendency of Banks, establish the levels of capital required in relation to the amount and risk of assets and the limits on related assets held by financial bodies, as well as the penalties to be imposed if the requirements are not fulfilled;
- implementation of the Monetary Board's Decision on banking rules and prudential measures in accordance with the Basel Agreements;
- strengthening of the Superintendency of Banks.

The Government of the Dominican Republic has implemented economic reform gradually but systematically, respecting its commitment to dismantle and eliminate the exchange surcharge on imports, the 1.3, 1.2 and 1.1 multipliers for basic tariffs and other trade barriers within the specified period.

The Government is currently preparing new legislation for further reform, including a draft General Customs Law, an Export Promotion Law, and laws on the stock market and implementation of Articles 13 and 26 of the Agreements on Dumping and Subsidies, respectively.

(iii) The Dominican Republic and the Uruguay Round

The reforms put into effect in 1991 began a process of reorganization of the economy in order to give renewed impetus to the opening up of markets, reinforce the integration of the domestic economy in regional and global markets and improve the country's production efficiency and competitiveness. As a result, the Dominican Republic took an active part in the negotiations that led to the establishment of the World Trade Organization, the successor to GATT, in which member countries tried to create a broader and more transparent legal framework for the development of international trade.

From 1990 onwards, the Government implemented a stabilization programme following widespread consultations with the country's economic and social base, and this led to a social pact on economic solidarity and the signing of a stand-by agreement with the International Monetary Fund (IMF). The stabilization programme focused on the fiscal sector and included a number of measures on aggregate public spending, imposing severe restrictions on demand and promoting tax reform in the area of fiscal revenue. In the money sector, the money supply remained under strict control and the rate of increase of the money stock fell by almost half. Interest and exchange rates were liberalized

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so that they could be determined by market forces. In addition, the Dominican Republic undertook not to impose additional import restrictions for balance-of-payments reasons.

The Government of the Dominican Republic signed the 1994 Uruguay Round Agreements and is determined to pursue economic policies directed towards structural reform and the opening up of trade, which are essential for the efficient allocation of resources from private investment in the economy and the search for new foreign markets. In conformity with these policies, the Government will make every effort to keep inflation at levels similar to those in industrialized countries and will pursue its endeavours to maintain a viable balance of payments. Its strategy is based on adherence to the principle of free enterprise, an open trade regime so as to increase exports, continued participation in international financing organizations as an active member and greater efficiency in public spending so as to increase the rate of growth of earnings and improve their distribution.

The continuity of the policy described in the preceding sections in credit, foreign exchange and fiscal matters has allowed the Dominican Republic to pursue the process of liberalizing its markets, thus helping to stabilize domestic prices of goods and services and exchange rates. In addition, the Dominican Republic is pursuing its efforts to obtain Congressional approval of a package of laws on the modernization and internal reorganization of the country so that it can adapt to the new world situation resulting from the globalization of the economy and markets. The Law on the Reform of the Energy Sector, the new Monetary and Financial Code and reorganization of the judicial sector are awaiting Congressional approval. The National Congress has already approved the new law on foreign direct investment, which allows the repatriation of the totality of capital and profits and opens up all sectors of the economy to foreign investment with the sole exception of those related to national defence and ecology, and has signed the Agreement on the World Bank's Multilateral Investment Guarantee Agency (MIGA). At present, there is a public discussion on further tariff and tax reform.

The objective of reform in the financial sector was to provide a permanent legal structure for financial institutions to enter and leave the system and prudential and banking rules to regulate it. Work is also going on to improve the legal and regulatory framework for financial policy, to establish and ensure compliance with the prudential and banking regulations so as to improve the solvency of financial institutions, lessen the excessive segmentation of the system so as to enhance its efficiency, strengthen institutional capacity to supervise the sector and ensure that State banks are subject to the same prudential regulations as private banks. The provisions of the new Monetary and Financial Code on banking and prudential regulations are already being applied in the form of decisions by the Monetary Board, which give foreign banks treatment similar to that of national banks and establish multibanking as a way of lowering the operating costs of financial institutions. The reform process begun in 1992 and is expected to last some six years up until 1998.

(iv) Integration

Although the Dominican Republic is not a member of any economic integration grouping at present, since 1991 it has made increased efforts to develop its relations with the various integration schemes that are viable from the point of view of national interests. In this connection, it has set up three bodies to promote economic integration. In 1992, the Commission for the Follow-Up of Integration Schemes was created, subsequently the Joint Standing Commission for the Follow-Up of Bilateral Agreements was strengthened and, lastly, the National Commission for the Follow-Up of Commitments by the Summit of the Americas was established. The Dominican Republic participated at the highest level - the President of the Republic - in the Summit of American Heads of State and signed the Action Plan. At the meeting held in Denver, Colorado, the Government participated at ministerial level, together with the private sector and associations of business groups, highlighting its keen interest in the Free Trade Area for the Americas (FTAA) and a commitment to implement the Plan of Action.

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In addition, the Dominican Republic has participated in the reciprocal payments and credit agreement of the Latin American Integration Association (LAIA) since the organization was founded in 1980. This mechanism allows the Dominican Republic to have access to financing for trade operations with member countries of LAIA. During the 1980s, the mechanism was increasingly used to finance such operations. In the early 1990s, it was almost exclusively used to meet prior commitments, but the Dominican Republic has now modified the procedure for use of such financing and this has been favourably received by commercial banks.

In 1989, the Dominican Republic acceded to the IVth Lomé Convention, initiating a process of rapprochement with CARICOM, of which it became an observer, taking an active part in the various functional cooperation mechanisms in areas such as health, education, agriculture, etc. The end of 1992 saw the creation of the Association of Caribbean States (ACS), of which the Dominican Republic is a founder member, only awaiting ratification by Congress of the Organization's constituent agreement. In addition to these multilateral agreements, the Dominican Republic has concluded bilateral agreements with Costa Rica and agreements of intent with other countries, for example, Ecuador and Panama.

In the immediate future, the Dominican Republic intends to finalize and amplify the reforms initiated in 1990 so as to enhance the competitiveness of the economy, promote trade with the rest of the world and make use of the advantages offered by international trade to improve the living conditions of its population.

(v) The Dominican Republic's participation in preferential schemes

Foreign trade plays an important role in the Dominican Republic's economic policy, accounting for a high percentage of its GDP. In the dynamics of foreign trade, domestic exports and exports from free zones have received strong support from the various preferential trade schemes. Among these are the programmes under the Caribbean Basin Initiative (CBI), concluded by the United States and the Central American and Caribbean Region in 1983, and the Lomé IV Convention signed between 15 European Union States and 69 ACP States (Africa, Caribbean and Pacific) in 1989, as well as the Generalized System of Preferences (GSP), which has 26 different schemes under which developed countries grant preferences to developing countries.

Since 1980, the Dominican Republic has also been a beneficiary of the San José Agreement signed by petroleum-importing Central American and Caribbean countries, Mexico and Venezuela. This Agreement gives the Dominican Republic access to lines of credit for approximately 20 per cent of the cost of petroleum supplied by Mexico and Venezuela. These funds can be used to finance economic development projects in production sectors on preferential terms.

The implementation of the mechanisms mentioned above has allowed the Dominican Republic to expand the coverage of its exports, including activities in free zones, by 6.6 per cent annually over the period 1990-1994. The value of exports to the North American market under the preferential programme of the CBI and the GSP has grown at an annual rate of over 20 per cent during the same period, making the Dominican Republic the leader among Caribbean and Central American countries, accounting for 25 per cent of the region's exports to this market. Under the Lomé IV Convention the value of domestic exports and exports from free zones to Europe has grown by 2.4 per cent annually, while their volume has shown an annual increase of 6.5 per cent.

The preferential margins under these trade schemes will be affected by the establishment of both the WTO and NAFTA and the creation of a Free Trade Area for the Americas (FTAA), which will be set up in 2005. Exports of goods such as made-up clothing and shoe uppers, in particular, will lose their access advantages as a result of the opening-up of trade in the North American market.

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Among Latin American countries, the Dominican Republic is the main supplier of both these exports to the North American market. It is aware of the impetus provided by the opening-up and globalization of the economy and hopes to achieve a higher level of integration of its production, as well as the necessary rationalization of its operating costs so as to be more competitive.

In addition, and particularly in connection with NAFTA, the Dominican Republic, together with other countries of the Caribbean and Central American region, is trying to get the United States Administration to agree to an equilibrium under a programme of parity with the NAFTA Agreement in order to maintain tariff preferences. For the next few years, it is estimated that the average foreign trade coefficient, in relation to GDP, will rise to 35 per cent and, with the process of opening-up, exports of goods classified into traditional products, non-traditional products and minerals are expected to grow at a rate of 6.5 per cent until 2005, and activities in the free zones by over 7 per cent.

III. LEGISLATIVE ADJUSTMENTS FOLLOWING THE URUGUAY ROUND AGREEMENTS

The Government of the Dominican Republic has set up an inter-agency technical team to follow up on the commitments undertaken as a signatory to the Uruguay Round Agreements. Its work has included identifying the legal provisions that are inconsistent with the Agreements, whether administrative or resulting from application of legislation. In this connection, non-tariff barriers to trade in agricultural products are being eliminated and discretionary import licences are being identified so that they can be eliminated or replaced by automatic licences.

Legislation is also being drawn up on rules of origin, and the existing phytosanitary provisions have been revised to harmonize them with the provisions in effect in its major trade partners. The Dominican Republic is also preparing a law to define the institutional framework for application of the Uruguay Round Agreements on unfair trade practices and safeguard measures. Under the Dominican Republic's legal system, once international agreements have been ratified by the National Congress they have force of law. Consequently, the agreements on dumping, subsidies and countervailing measures, and safeguards have already been incorporated into the law, the only pending issue being the identification of the Government authorities responsible for investigating such procedures, reviewing decisions (judicial review mechanism) and applying the measures.

Legislative adjustment also includes the annulment of the legal provisions that are contrary to the commitments undertaken in the Dominican Republic's schedule of services, which is an integral part of the Final Act of the Uruguay Round. A number of these provisions have already been annulled in the new Foreign Direct Investment Law, adopted in November 1995 by both legislative chambers. Reform of the telecommunications regime has already started in order to modernize the legal, institutional and regulatory framework in this sector. When the process is completed, there will be an independent, participatory regulatory body with administrative and financial autonomy, whose main objective will be the effective regulation of this sector so as to guarantee universal service, and promote competition, quality of service and the user's right of choice.

In the area of intellectual property, the Government considers that legislative reform should take place in the context of a competitive regime that will have to be created in order to guarantee the operation of market forces in the context of the increased opening-up of the economy over the next decade. It therefore supplemented the new draft Industrial Property Law with legislation for the promotion of competition, consumer protection and repression of unfair practices. For this purpose, all the regulatory functions under this regime were entrusted to a new State body. Like the regulatory body for telecommunications, it will have financial autonomy and administrative independence from other State bodies.

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Other institutional reforms resulting from the Uruguay Round concern the functioning of the Directorate-General of Customs. The implementation of reform of this body is currently at an advanced stage in order to ensure that it functions effectively in compliance with the Customs Valuation Code of the Uruguay Round. The transposition of Schedule XXIII of the tariff bindings prior to the Uruguay Round has been carried out, reflecting in domestic legislation the ad valorem levels that have been bound in successive negotiations since 1952. A draft decree has also been sent to the Executive repealing four provisions that have not been applied since 1986, which established non-tariff restrictions on trade in textile products that were contrary to the Agreement on Textiles and Clothing.

As far as the foreign trade regime is concerned, it is planned to merge responsibilities conferred by law in a single State institution so as to end the legal and administrative conflicts that have occurred up until now. The Government also intends to reform the rights of users of maritime transport by acceding to major international agreements such as the Hamburg Rules, the United Nations Convention on International Multimodal Transport of Goods and United Nations Convention on a Code of Conduct for Liner Conferences. In order to promote greater efficiency in this sector, these activities will be included in the competition regime to be established from 1996 onwards. Law No. 70 on the port authority of the Dominican Republic will be modified in order to establish a regime for the private operation of national ports through concessions awarded to eligible enterprises and the granting of national treatment. Finally, the Dominican Republic wishes to underline its firm commitment to open commerce and foreign trade as a means of improving the quality of life of its population.

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