

**TRADE POLICY REVIEW**

**DOMINICAN REPUBLIC**

**Report by the Secretariat**

This report, prepared for the first Trade Policy Review of Dominican Republic has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Dominican Republic on its trade policies and practices.

Document WT/TPR/G/11 contains the policy statement submitted by the Government of Dominican Republic.

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**Note:** This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Dominican Republic.



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# LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific States
ACS	Association of Caribbean States
AFCONAGRO	Domestic Producer Association of Fruit and Vegetable Preserves ( <i>Asociación de Fábricas de Conservas de Frutas y Vegetales</i> )
ALADI	Latin American Integration Association ( <i>Asociación Latinoamericana de Integración</i> )
CAP	Common Agriculture Policy
CARICOM	Caribbean Common Market
CAT	Tax credit certificate ( <i>Certificado de abono tributario</i> )
CBI	Caribbean Basin Initiative
CDE	Dominican Electricity Corporation ( <i>Corporación Dominicana de Electricidad</i> )
CEA	State Sugar Council ( <i>Consejo Estatal del Azúcar</i> )
CEDOPEX	Dominican Centre For Export Promotion ( <i>Centro Dominicano de Promoción de Exportaciones</i> )
CODETEL	Dominican Telephone Company
CONAPROPE	Swine Commission of the National Production Council
CORDE	Dominican Corporation of State Enterprises ( <i>Corporación Dominicana de Empresas Estatales</i> )
DIGENOR	Standards and Quality System Division ( <i>Dirección General de Normas y Sistemas de Calidad</i> )
EDT	Total External Debt
EU	European Union
FDA	Federal Department of Agriculture (U.S.)
FDI	Foreign direct investment
GALS	Guaranteed Access Levels
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
HS	Harmonized System
IMF	International Monetary Fund
INAZUCAR	National Sugar Institute ( <i>Instituto Nacional del Azúcar</i> )
INESPRE	National Price Stabilization Institute ( <i>Instituto Nacional de Estabilización de Precios</i> )
ISC	Selective Consumption Tax, ( <i>Impuesto Selectivo al Consumo</i> )
ISO	International Organization for Standardization
ITBIS	Tax on the transfer of industrialized goods and services ( <i>Impuesto a las transferencias de bienes industrializados y servicios</i> )
MFA	Multifibre Agreement
NAFTA	North American Free Trade Agreement
NEP	New Economic Programme
NFS	Non-factor services

NORDOM	Dominican Standards ( <i>Normas Técnicas Dominicanas</i> )
PROFINEX	Export Financing Programme ( <i>Programa de Financiamiento a las Exportaciones</i> )
REFIDOMSA	Dominican Refinery ( <i>Refinería Dominicana S.A.</i> )
RES	Reserves, excluding gold
SEA	Secretary of Agriculture
SECTUR	Secretary of Tourism ( <i>Secretaría de Turismo</i> )
SEIC	Secretary of Industry and Commerce
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	U.N. Conference on Trade and Development
UNDP	United Nations Development Programme
USTR	United States Trade Representative
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
XGS	Exports of Goods and Services

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## 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 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 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.*

(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.*

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