

DOMINICAN REPUBLIC

TRADE POLICY FRAMEWORK





DOMINICAN REPUBLIC



FRAMEWORK OF COMMERCIAL POLICY



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This publication has been externally translated in English and edited.

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/DITC/TNCD/2016/4

ACKNOWLEDGEMENTS

This publication presents the results of an analysis of the Dominican Republic's Trade Policy framework carried out by the Government of the Dominican Republic, in collaboration with UNCTAD.

This publication was prepared by a team led by Mina Mashayekhi, Head of UNCTAD trade negotiations and commercial diplomacy branch, which included Luisa Rodriguez, UNCTAD's Economic Affairs Officer, Pavel Isa, from the Dominican Observatory of International Commerce (ODCI); Elka Schecker, specialist in public policy and foreign trade and Vladimir Pimentel, from the Advice, Consultancy and Research Office (OACI).

Katrina Naut, Director General of Foreign Trade and Administration of International Trade Agreements in the Ministry of Industry and Trade, acted as a focal point for this project in the Dominican Republic. Katrina Naut, Patricia Cespedes, Ignacio Ditren, Irina Beliaeva and David Abreu (Department of Foreign Trade and Trade Agreements Administration, DICOEX); Maricell Silvestre (Centre for Export and Investment, CEI-RD); Julissa Ruiz (Office of Agricultural Trade Agreements, OTCA); Ebell de Castro and Daniel Liranzo (National Council of Export Free Zones, NCEFZ); Wilfredo Oliver and Fabrizio Geraldino (PROINDUSTRIA) provided valuable inputs and comments for the preparation of this report.

External comments were provided by Nanno Mulder (Economic Commission for Latin America and the Caribbean, ECLAC) and Jaime Granados (Inter-American Development Bank, IDB).

The translation of the text was carried out by Carolina Saldarriaga. Text editing was carried out by Karen Tucker.

Cover design and desktop publishing by Laura Moresino-Borini.

NOTE

Values are presented in short scale and references to dollars are United States of America dollars, unless otherwise stated.

For further information on the Trade Negotiations and Commercial Diplomacy Branch and its activities, please contact:

Mina Mashayekhi
Head, Trade Negotiations and Commercial Diplomacy Branch
Division of International Trade in Goods and Services, and Commodities
Tel: +41 22 917 56 40
Fax: +41 22 917 00 44
Email: tncdb@unctad.org
www.unctad.org/tradenegotiations

ACRONYMS AND ABBREVIATIONS

AEO	Authorised Economic Operator
APRPIS	Agreements on Reciprocal Promotion and Protection of Investments
BANDEX	Dominican Bank for Export Promotion
BPO	Business Process Outsourcing
CACM	Central American Common Market
CARICOM-FTA RD	Free Trade Agreement with the Caribbean Community
CC	Contact Centre
CCCS	Consultative Council of the Civil Society
CEI-RD	Export and Investment Centre for the Dominican Republic
CIF	Cost, Insurance and Freight
CODOCAL	Dominican Quality Council
CVD	Customs Value Declaration
DGA	General Directorate of Customs
DGCINE	General Directorate of Film
DICOEX	Directorate of Foreign Trade and Administration of Trade Agreements
DR-CAFTA	Free Trade Agreement between Dominican Republic, Central America and United States
DTT	Double Taxation
ECLAC	Economic Commission for Latin America and the Caribbean
EPA	Economic Partnership Agreement (between CARIFORUM Member States and the European Community)
FDI	Foreign Direct Investment
FOB	Free on Board
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
FZ	Free Zones
GDII	General Directorate of Internal Taxes
GDP	Gross Domestic Product
HDI	Human Development Index
HHI	Herfindahl-Hirschman Index
HIV	Human Immunodeficiency Virus
IAGTO	International Association of Golf Tour Operators
ICP	Public-Private Initiative for Competitiveness and Productivity
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INDOCAL	Dominican Institute for Quality
INFOTEP	National Institute of Technical and Vocational Training
ITBIS	Tax on the Transfer of Industrialised Goods and Services
JICA	Japan International Cooperation Agency

LPI	Logistics Performance Index
MDG	Millennium Development Goals
MEPyD	Ministry of Economy, Planning and Development
MESCYT	Ministry of Higher Education, Science and Technology
MIC	Ministry of Industry and Trade
MIREX	Ministry of Foreign Affairs
MFN	Most Favoured Nation
MTA	Medical Tourism Association
NCC	National Competitiveness Council
NCEFZ	National Council of Export Free Zones
NCTN	National Commission for Trade Negotiations
NDS	National Development Strategy
NOIP	National Office of Industrial Property
NPSC	National Plan for Systemic Competitiveness
NTIAC	National Treaty Implementation and Administration Council
ODCA	Dominican Accreditation Body
OPI-RD	Foreign Investment Promotion Agency
PNPSP	National Multiannual Public Sector Plan
PPP	Purchasing Power Parity
PROCOMPETENCIA	National Commission for the Protection of Competition
PROINDUSTRIA	Centre for Competitiveness and Industrial Innovation
RD\$	Dominican Republic dollars
RNC	National Taxpayer Registration
SCD	Single Customs Declaration
SCT	Selective Consumption Taxes
SDG	Sustainable Development Goals
SIDOCAL	Dominican Quality System
SIGA	Integrated Customs Management System
SMEs	Small and Medium-sized Enterprises
TDC	Tourist Development Council
TPC	Trade Protection Commission
TTC	Transferable Tax Credit
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USD	United States of America's dollar
WIR	World Investment Report
WTO	World Trade Organisation

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INTRODUCTION



A. THE CHALLENGE OF DEVELOPING PUBLIC POLICIES ON TRADE ISSUES

Designing public policies on trade issues is a challenging task for all countries, particularly for developing countries. What might seem at first glance as an external exercise involves compromises between domestic agencies. These compromises may entail a delicate balance, for example between efficient export industries and those struggling to be competitive. This is also the case when developing negotiating positions that reconcile fiscal concerns with those linked to job creation. Policy development has become difficult due to the expansion and proliferation of topics covered in trade negotiations. In the current environment, officials in charge of designing and implementing trade policies face issues that are more complex and more difficult to approach, both from a technical and political perspective, than those faced by their predecessors.

Due to this, UNCTAD prepares studies on trade policy frameworks. During the last three years, these studies have been framed within a project entitled 'Capacity building for the formulation and implementation of trade policies oriented towards accelerating and achieving the Millennium Development Goals and to address development challenges'. The ultimate goal of this project is to promote coherence, inclusiveness and consideration of the Millennium Development Goals in designing trade policies that better respond to economic needs and adapt to the international environment of crisis and change.

This project includes several components, namely:

- Analytical support regarding the interlinkages between trade and development
- Capacity-building for policy development, including through consultative processes among local actors
- Advice on the design of trade policy frameworks, including regarding certain products and sectors that may be of interest to the beneficiary country

To date, within the framework of this project, UNCTAD has prepared four trade policy frameworks: Angola, Zambia, Tunisia and Jamaica.¹ Although the terms of reference of each project vary depending on the needs expressed by the beneficiary country, these studies have the following in common:

- Diversifying exports and maximising benefits from trade agreements is a key concern
- Their structure includes (i) an analysis of the relationship between development and trade in the country being studied; (ii) an analysis of the specific context of the country (trade performance, and trade-related policy, institutional and regulatory frameworks); and (iii) an analysis of trade agreements and commitments of the country being studied.

The Government of the Dominican Republic, through the Ministry of Industry and Trade and with the assistance of UNCTAD, initiated this trade policy framework study. This report is the result of an analysis developed in close communication and collaboration with a wide range of actors in the national government, the business sector and civil society.

This document aims to make a contribution to the understanding of the Dominican Republic's trade policy framework, the instruments it uses, its implications and limitations in relation to the challenges posed by the international environment and those presented in the National Development Strategy. Simultaneously, it presents alternative reforms in order to address these deficits. The policy reforms required for productive development and to boost international competitiveness, although they are out of the reach of this document, are also brought into the discussion, as they will enable the further development of a robust export offer.

B. METHODOLOGY

The research process on which the trade policy analysis is based began with a thorough review of literature, statistics, reports and previous studies to identify the problems faced.

This then served as a starting point for a national team of experts to deepen the analysis of these issues. The results of this research were presented at the National Dialogue on Trade Policy in the Dominican Republic for 2016-2020, held in Santo Domingo on 3 and 4 September 2015. Multiple interested actors joined the event. This workshop provided a platform for debate on production and competitiveness, business performance, management and use of trade agreements and the strategies and commercial objectives of the Dominican Republic.

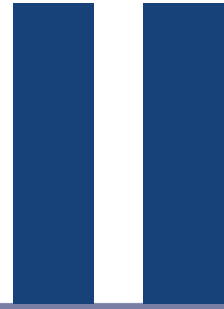
C. REPORT STRUCTURE

Chapters II and III analyse the context in which trade takes place in the Dominican Republic, describing national development objectives and economic performance. Chapter IV deals with trade performance indicators, emphasising the analysis of export dynamism and restructuring patterns.

Chapter V describes instruments related to trade policy, emphasising the dual character of the Dominican framework and the role of trade agreements. It discusses regimes related to the export of goods and services, emphasising new services with relevant implications for international trade, which have shown a remarkable

performance in recent years and suffer from lack of information and recognition. Chapter VI examines the institutional framework related to production and competitiveness, and the one related to trade.

Chapter VII summarises the conclusions and findings from the analysis and contains recommendations regarding lines of action. Annex 1 sets out lines of action and proposals for their implementation. Annex 2 summarises, in table format, all proposals for trade policy reform included in this report. It also suggests a non-exhaustive list of local actors who should be involved in promoting new actions and indicators to measure future progress in the Dominican Republic's trade policy reform.



**MILLENNIUM
DEVELOPMENT GOALS AND
THE NATIONAL DEVELOPMENT
STRATEGY**



The Millennium Development Goals (MDGs)² were a blueprint agreed by all countries of the world and all major global development institutions to frame development efforts for the 2005-2015 period.³ The eight MDGs define a set of goals and critical indicators on social issues related to poverty and hunger, health, education and living conditions of the population. Table 1 details these.

This section discusses the progress of the Dominican Republic with regard to the MDGs and presents highlights of its development strategy, including objectives pertaining to international trade and achievements so far in this particular area.

A. PROGRESS REGARDING SOCIAL PERFORMANCE AND TOWARDS MILLENNIUM DEVELOPMENT GOALS (MDGS) AND SUSTAINABLE DEVELOPMENT GOALS (SDGS)

1. Millennium Development Goals (MDGs)

Over the last decade and a half, the Dominican Republic income level has significantly increased. However, advances in social indicators have remained stagnant in relation to the average income. The result has been that the Human Development Index (HDI)⁴ has improved moderately, while progress in the achievement of some of the MDGs is significantly lagging behind.

In 2000 the per capita gross income estimated for the Dominican Republic was USD 6,003 (2000 PPP) and the HDI was 0.727, number 94 out of 173 countries. In contrast, in 2013 the per capita income achieved was USD 10,844 (2011 PPP), 1.8 times the income in 2000. However, the HDI was 0.700, meaning the DOMINICAN REPUBLIC occupied position 102 out of 187.⁵

With regard to the MDGs, although there have been significant advances in several indicators, the most important goals have only been achieved in two of the eight objectives. Table 1 provides a summary of the objectives and goals and the level of compliance. Cells highlighted in indicate the goals that were not reached.

As shown, achievements regarding the MDGs have been limited. At least four factors could explain this limited progress:

- Fiscal restraint, which continues to limit the state's ability to provide basic social services with sufficient coverage and quality to impact decisively on some of the most important indicators.
- Public policy could be placing an excessive emphasis on conditional and unconditional cash transfer programmes, which have limited effects in strengthening human capacities.
- Some of the most important and critical sectoral reforms to achieve substantive progress in social development have stalled. Reforms concerning health and social security are the most notable example of this.
- A weak commitment by the state and main political actors to the gender equality agenda, which has resulted in very limited policies on this subject.

2. Sustainable Development Goals (SDGs)

The international trade for development includes income-generating opportunities that affect output and employment levels and potentially impact on investment, production and consumption decisions and, in turn, on structural transformation. Trade can also increase the availability, variety and affordability of inputs that increase domestic supply capacity and of other goods and services with development effects, *inter alia*, medicines, vaccines, food and environmental-related goods and services. This importance has been recognised by the 2030 Sustainable Development Agenda (Agenda 2030) and by its Sustainable Development Goals (SDGs) (see table 2).

B. NDS CENTRAL POINTS, INDICATORS AND DEVELOPMENT GOALS

During the last decade the Dominican Republic has adopted a National Development Strategy (NDS) which incorporates precise objectives and goals in terms of international trade in goods and services. It was adopted after an extensive consultative process held between 2008 and 2010. The strategy was converted into law number 1-12 in January 2012,⁶

Table 1. Level of compliance with the main MDG objectives (Circa 2014)

Objectives and main goals	Indicators*	Level of compliance
Goal 1: Eradicate extreme poverty and hunger		
Goal 1.A: To reduce, between 1990 and 2015, the proportion of the population below the national extreme poverty line to half.	Proportion of the population in extreme poverty (%)	1.5 points gap (27.8%)
Goal 1.C: To reduce, between 1990 and 2015, the proportion of people who suffer from hunger by half.	Proportion of the population below the minimum level of dietary energy consumption (%)	Accomplished
Objective 2: To achieve universal primary education		
Goal 2.A: Ensure that, by 2015, all boys and girls complete a full course of primary schooling	Proportion of students who start 1st grade and reach the last grade (eighth) of basic education. Public sector (%)	18 points gap (18%)
Goal 3: To promote gender equality and empower women		
Goal 3.A: Eliminate gender disparity in primary and secondary education by 2005 preferably, and in all levels of education no later than by 2015.	Ratio of girls to boys in primary, secondary and higher education	Gap between 0.07 and 0.56 points (7-56%)
Goal 4: Reduce the mortality of children under 5		
Goal 4.A: Reduce by two thirds, between 1990 and 2015, the mortality of children under 5.	Mortality rate of children under 5 (per thousand live births)	13 points gap (65.7%)
Objective 5: Improve maternal health		
Goal 5.A: Reduce maternal mortality by three quarters between 1990 and 2015.	Maternal mortality rate (per 100,000 live births)	60.8 points gap (129.6%)
Goal 6. Combat HIV/AIDS, malaria and other diseases		
Goal 6.A: Halt and begin to reverse the spread of HIV / AIDS by 2015.	HIV prevalence in people aged 15 to 24 (%)	Accomplished
Goal 7: Ensure environmental sustainability		
Goal 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.	Proportion of households using improved drinking water sources and improved sanitation	Accomplished
Goal 8: Develop a global partnership for development.		

The country did not set quantitative targets related to this specific MDG

Source: Based on <http://www.gob.do> and MEPyD (2015): Report on the fulfilment of the MDGs. Transition to the SDGs. Unpublished.

* Only includes the indicators for which values were set for the corresponding goals.

Table 2. Sustainable Development Goals: selected trade-related goals and targets**Goal 1. End poverty in all its forms everywhere**

1.1 By 2030, eradicate extreme poverty for all people everywhere

Goal 2. End hunger, achieve food security

2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect

Goal 3. Ensure healthy lives

3.b Provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health

Goal 7. Ensure access to affordable reliable, sustainable and modern energy for all

7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

Goal 8. Promote sustained, inclusive and sustainable economic growth

8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation

8.a Increase Aid for Trade support for developing countries ... including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries

Goal 9. Build resilient infrastructure

9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure

9.3 Increase the access of small-scale industrial and other enterprises to financial services

Goal 10. Reduce inequality within and among countries

10.a Implement the principle special and differential treatment for developing countries

10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances

Goal 14. Conserve and sustainably use the oceans

14.6 By 2020, prohibit certain forms of fisheries subsidies

Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda

17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020

17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

Source: General Assembly of the United Nations A / RES / 70/1.

to guarantee commitments made by the state are compulsory and ensure goals transcend government administrations.⁷

The NDS contains the vision the nation hoped to be achieved by 2030. It explicitly incorporates economic ties with the rest of the world: ‘a prosperous country, where people live in dignity, in line with ethical values and in a participatory democracy that guarantees the social and democratic rule of law and promotes equity, equal opportunities, social justice and which manages and uses its resources to develop in an innovative, sustainable and territorially balanced and integrated way and is inserted competitively in the global economy’.

To achieve this vision, the NDS has four strategic areas, which define society’s aspirations and what is needed to achieve the said vision. The four areas are:

- A social and democratic rule of law
- A society with equal rights and opportunities
- A sustainable, inclusive and competitive economy
- A society of production and consumption which is environmentally sustainable and adapts to climate change

Each area has general objectives encompassing specific objectives. At the same time, each specific objective has lines of action that will help achieve them. Every area has indicators to track its progress and five-year goals,⁸ which can be associated both with general and specific objectives. Finally, the

strategy defines seven cross-cutting policies for each area and line of action, namely: human rights, gender, environmental sustainability, territorial cohesion, social participation, use of information and communications technology, and institutional responsibility.

The third area, which aims to achieve a more productive and competitive economy, contains a set of general objectives that seek to comprehensively address the issue of productive transformation and employment. This area addresses the issues of trade and development. Two of its general objectives refer directly and explicitly to the issue of integration into the international trading system, trade and development: 3.1⁹ and 3.5.

C. TRADE IN THE NDS: GOALS, LINES OF ACTION, TARGETS AND INDICATORS

General Objective 3.5 covers six specific objectives and relevant lines of action in terms of trade. Table 4 details them.

These lines of action show that the priority areas of intervention in the NDS in terms of trade are: export financing, export facilitation and tax treatment of exports, export promotion, development of new markets, export diversification towards products with higher value added, the administration of trade agreements and the exploration of new agreements, trade-related inter-institutional coordination and the development of the country brand.

Table 3. Third area of NDS 2030: general objectives related to trade

Third area	General objectives
Seeks ‘A Sustainable, Integrative and Competitive Economy’, which means ‘a territorially and sectorally integrated, innovative, diversified, plural, quality-oriented and environmentally sustainable economy, which creates and decentralises wealth, generates high and sustained growth with equity and decent employment, harnesses and strengthens local market opportunities and is a competitive player in the global economy.’	3.1. EA more integrated, innovative and environmentally sustainable economy, with a productive structure that generates high and sustained growth with dignified employment, which has a competitive role in the global economy 3.2. Reliable, efficient and environmentally sustainable energy 3.3. Competitiveness and innovation in an environment that favours cooperation and social responsibility 3.4. Sufficient and decent jobs 3.5. Sectorally productive and territorially articulated structure, competitively integrated into the global economy and that takes advantage of local market opportunities.

Source: Ministry of Economy, Planning and Development (MEPyD)

Finally, the NDS includes seven monitoring indicators related to trade, and each indicator has five-year goals to assess its progress. Table 5 breaks them down and presents the five-year goals for each.¹⁰

These indicators and related targets suggest that the NDS is aiming at achieving a robust export performance and an improvement in global competitiveness and tourism indexes.

D. THE 2013-2017 MULTIANNUAL PUBLIC SECTOR PLAN AND FOREIGN TRADE

The 2013-2017 National Multiannual Public Sector Plan (PNPSP) is one of the most concrete expressions of the NDS. It includes a set of prioritised actions to advance the fulfilment of goals. One of the objectives included in the 2013-2017 PNPSP defines the contributions made by the public sector to the 'Promotion of production that is integrated competitively into the global economy'. This goal has two specific objectives, detailed in table 6.

For each of these specific objectives, the PNPSP has set a number of priority policies and production measures.

E. EVALUATION OF NDS PROGRESS IN FOREIGN TRADE

In late 2014, the Ministry of Economy, Planning and Development (MEPyD) presented a second follow-up report to the National Development Strategy (2030).¹¹ With regard to the progress indicators for area 3 (sustainable, inclusive and competitive economy), the report reveals mixed results for the years 2012 and 2013. In 2012, four out of the seven indicators had setbacks, two had moderate gains and one had no information. In 2013, one showed promising development, three showed moderate advances, and three showed setbacks, as indicated in table 7.

The report also presents the public production evaluation results relative to the development of export capacities, including the execution

percentage of planned production. Six out of the eight production items showed under-performance. This included items such as: number of new exporters, new target markets, new export products, number of buyers contacted, number of exporters (or potential exporters) trained and number of products ready for quality certification. Only one item (concretised business opportunities) showed better results than expected. Four out of the six items with low execution were below 50 per cent. In short, in almost all indicators related to foreign trade, setbacks or insufficient progress is observed, especially concerning market shares that are declining or show modest progress.

Progress in implementing the NDS measured by general indicators that measure progress in area three (sustainable, inclusive and competitive economy) and those specific to the strengthening of export capacity and trade results, show that there are still significant deficits in achieving the established goals.

Several factors explain the limited progress in this area. First, very low priority has been given to productive development policies and to the promotion of quality employment. Interventions in this area continue to be limited to tax incentive schemes and other smaller sectoral reforms, resulting in scarce transformation of the productive apparatus. This has meant that policies or reforms have not had a big impact on productivity, competitiveness and international trade.¹²

Second, the NDS has not been fully endorsed by state and public institutions. As discussed further below, the implementation of plans and policies regarding competitiveness and the strengthening of the industrial sector's capacities have been cut short because they demand fiscal resources or institutional changes and power arrangements that have not been fully assumed.

Third, these limited achievements can also be attributed to the fact that although the NDS clearly states goals and indicators, and that all institutions related to foreign trade refer to these, these institutions do not execute NDS guidelines, they do not have specific responsibilities in achieving them and they do not measure results specifically arising from the NDS. This is discussed later.

Table 4. Third area of NDS 2030: specific objectives and lines of action related to trade

Objectives	Lines of action
Specific objectives (of General Objective 3.5)	<p>3.5.1. Boost export development on the basis of competitive integration into international markets</p> <p>3.5.2. Create the (physical and institutional) infrastructure for standardisation, metrology, technical regulations and accreditation, to ensure compliance with the requirements of global markets and a commitment to excellence.</p> <p>3.5.3. Increase productivity, competitiveness and environmental and financial sustainability of agricultural production chains, in order to contribute to food security, maximise export potential and generate employment and income for the rural population.</p> <p>3.5.4. Develop a manufacturing sector which articulates the national productive sector, which is environmentally sustainable and integrated into global markets and adds value in value chains.</p> <p>3.5.5. Support the competitiveness, diversification and sustainability of the tourism sector.</p> <p>3.5.6. Consolidate an appropriate environment that encourages investment for the sustainable development of the mining sector.</p>
Lines of action (associated with specific objective 3.5.1 ¹³)	<p>3.5.1.1. Develop institutions and programmes that facilitate access to the competitive and timely financing of exports, including export credit insurance.</p> <p>3.5.1.2. Develop expeditious facilitation mechanisms for export-related businesses, including fast implementation of instruments for return of tax advances.</p> <p>3.5.1.3. Strengthen the promotion of exports of goods and services, with emphasis on market diversification and the expansion of export products with high value added.</p> <p>3.5.1.4. Perform, through public-private partnerships, continuous research on target markets and segments to develop marketing plans, prioritising export goods and services where the country has a clear competitive potential.</p> <p>3.5.1.5. Consolidate and monitor the network of treaties and trade agreements signed by the country and evaluate, in a participatory manner, their potential expansion and improved use in favour of the development of productive sectors.</p> <p>3.5.1.6. Design and improve inter-institutional coordination to increase the effectiveness of initiatives in support of exports, including the Presidential Committee for the Promotion of Exports and official delegations of the country abroad.</p> <p>3.5.1.7. Create a country brand for goods and services of guaranteed quality to support the promotion of exports and investments.</p>

Source: Ministry of Economy, Planning and Development (MEPyD).

Table 5. Indicators and goals for the third area of the NDS related to international trade

Indicator	Unit / scale	Base line year	Baseline value	Goal 2015	Goal 2020	Goal 2025	Goal 2030
Global Competitiveness Index ¹⁴	1 to 7 where the higher the value the more competitive the sector	2010	3.9	4.2	4.4	4.7	5
Travel and Tourism Competitiveness Index ¹⁵	1 to 7 where the higher the value the more competitive the sector	2009	4.0	4.2	4.3	4.4	4.5
Share of exports in global exports of goods	%	2006-2007 average	0.097	0.119	0.132	0.149	0.170
Share of Dominican exports in global exports of manufactures	%	2006-2007 average	0.055	0.082	0.082	0.113	0.144
Share of Dominican exports in global exports of agricultural products	%	2006-2007 average	0.097	0.119	0.132	0.149	0.166
Exports per capita	Constant 2009 USD	2009	1,070	2,680.9	4,032.2	5,365.6	6,708
Ratio exports of goods and services over imports of goods and services	Ratio	2005-2010	0.75	0.85	1.0	>1.0	>1.0

Source: Ministry of Economy, Planning and Development (MEPyD).

Table 6: Objectives and goals related to trade in the 2013-2017 - Multiannual Public Sector Plan

Specific objective	Goals
No. 25, on export development proposes 'to boost export development on the basis of a more competitive insertion into dynamic international markets.'	<ul style="list-style-type: none"> - To increase Dominican exports from USD 8,500 million in 2010 to USD 14,700 in 2016 - To improve the efficiency and competitiveness of exporters and/or potential Dominican exporters, increasing the number of exporters and/or potential trained exporters from 2,980 in 2010 to 4,395 in 2016
No. 28, on sustainable tourism proposes 'supporting competitiveness, diversification and sustainability of the tourism sector.'	<ul style="list-style-type: none"> - The 'Revitalization of the tourism sector by diversifying the supply', with the following goals: <ul style="list-style-type: none"> -- Increasing the growth rate of number of tourists from 4.27% in 2010 to 10.0% in 2016 -- Increasing the growth rate of the average spending by visitors - Increase the tourism sector capacity to boost economic growth, investment and employment, with the following goals: <ul style="list-style-type: none"> -- Increase the contribution of the tourism sector to GDP -- Increase the contribution of the tourism sector to total FDI -- Increase the contribution of the tourism sector to total employment

Source: Ministry of Economy, Planning and Development (MEPyD).

Table 7. Summary of results of NDS area three indicators relating to foreign trade

Indicator	2012	2013
Global Competitiveness Index	Setback	Moderate progress
General Travel and Tourism Index Report	No Information	Setback
Share of exports in global exports of goods	Moderate progress	Moderate progress
Percentage of Dominican Republic exports in global manufacture exports	Setback	Setback
Percentage of Dominican Republic exports in world agricultural product exports	Setback	Setback
Exports per capita	Moderate progress	Moderate progress
Exports of goods and services / imports of goods and services	Setback	Promising progress

Source: Prepared with data from MEPyD (2014).



DOMINICAN REPUBLIC ECONOMIC PERFORMANCE



A. ECONOMIC GROWTH AND SECTORAL PERFORMANCE¹⁶

Over the past 15 years, the Dominican economy has registered a relatively robust growth rate. Between 2000 and 2014 it grew at an average annual rate of 4.6 per cent. However, as shown in figure 1, the level of activity has fluctuated significantly, with a notable contraction in 2003, as a result of the financial crisis of that year, followed by a strong recovery from 2005 taking the annual GDP growth rate over 9 per cent for two consecutive years.

Between 2008 and 2012 growth declined partly because of the international crisis and high oil prices, except for 2010 when growth was accelerated due to tax incentives. From 2013 on, activity increased as the international environment became more favourable and domestic demand stimulated growth.

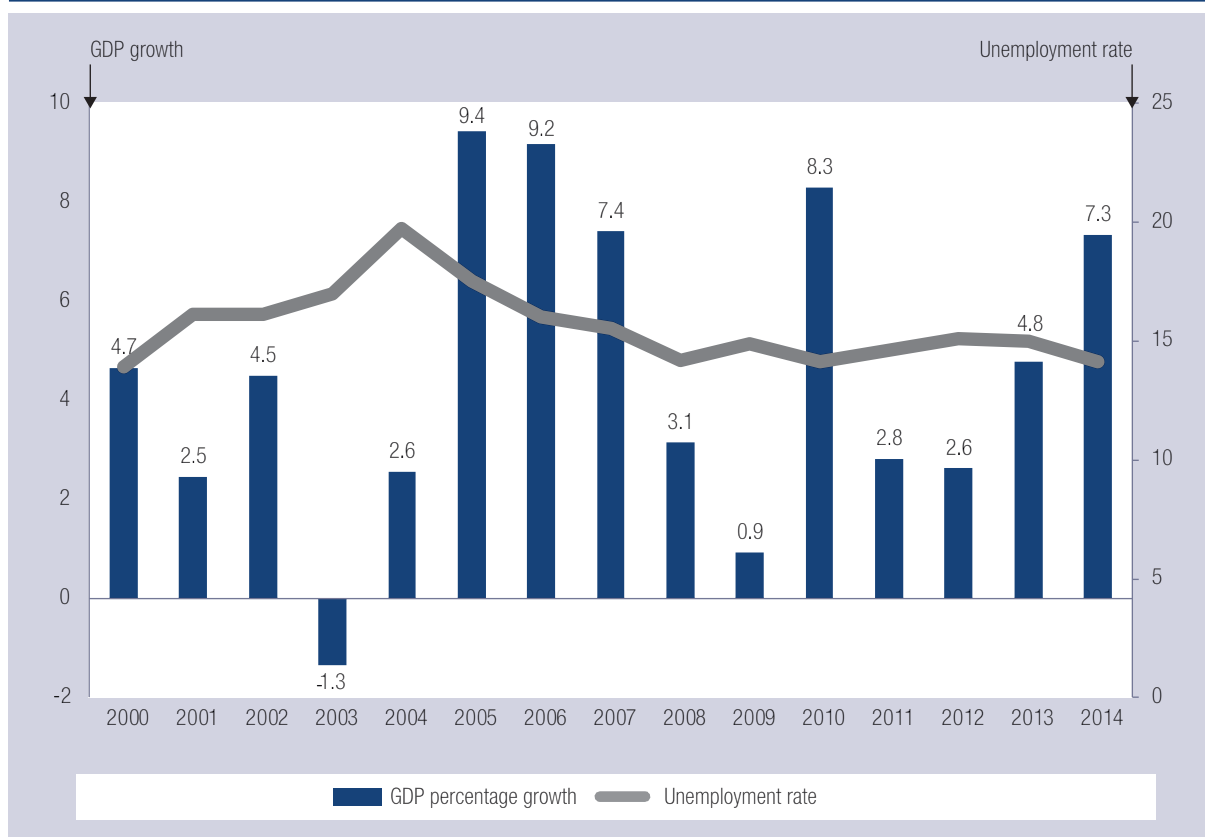
This favourable economic activity performance was led by the service sector. Although its growth was similar to the average of the other sectors, it represented

more than 58 per cent of the total production growth in the period between 2000 and 2013. Within the service sector, the contribution of the following sectors are worth highlighting: communications (29 per cent), which recorded an average annual growth rate of 15.2 per cent; financial intermediation, which grew at an average rate of 7.8 per cent and mining (mining and quarrying), which grew at an average rate of 18.5 per cent.

Education, health, public administration and other services also grew at rates slightly higher than the national average. Activities that are closely associated with tourism such as hotels, bars and restaurants only grew at an annual average rate of 3.7 per cent and contributed 5.6 per cent of the total growth in the period (see table 8). The tourism sector stands out due to its importance for the external sector.

Agricultural activities also grew at an annual rate similar to the aggregate economic growth, however industrial activities grew below this level, which reduced their contribution to GDP. The relatively low growth of

Figure 1. Real GDP annual growth and broad unemployment rate (percentage change from previous year)



Source: Central Bank of the Dominican Republic.

manufacturing activities in both domestic and free zones is worth highlighting. The former grew at an average rate of 3.5 per cent per year and the latter at a rate of 1.2 per cent. The latter was negatively affected by a significant reduction in textile exports to the United States of America market due to reduced access barriers for garments from countries external to the Caribbean Basin, particularly from Asian countries, resulting in a loss of market shares. Meanwhile, the construction sector has the same behaviour as the national average.

Although the local manufacturing sector grew below the national average due to its relative size, it was

the second sector, after telecommunications, which contributed the most to accumulated production growth. It accounted for 13.1 per cent of total growth between 2000 and 2013, bringing the whole industrial sector's contribution up to 16.3 per cent. This is due to the relatively high importance of the sector in total GDP. In 2014 it accounted for 25 per cent of GDP.

In short, throughout the entire period, the most dynamic sectors were non-tradable services or services with limited connection to international trade, such as commerce, rent, construction and real estate trade, while tradable production grew in a less vigorous manner.

Table 8. Average annual GDP growth rate by sector of origin, contribution to growth and GDP (percentage)

	2000-2014 average annual growth rate	2000-2013 contribution to cumulative growth	2014 contribution to GDP
Agricultural	4.8	6.7	5.8
Industries	3.8	16.3	25.0
Mining and quarrying	18.5	1.6	1.6
Local manufacturing	3.5	13.1	11.3
Free zone manufacturing	1.2	-0.7	3.1
Construction	4.4	2.2	9.0
Services	4.8	58.2	62.1
Energy and water	3.7	0.8	1.7
Commerce	4.1	6.6	9.5
Hotels, bars and restaurants	3.7	5.6	7.5
Transportation and storage	3.9	3.1	9.0
Communications	15.2	29.2	1.6
Financial intermediation, insurance	7.8	2.4	3.8
Real estate and rent activities	3.6	3.6	8.8
Teaching	4.9	0.9	4.5
Health	4.9	0.8	2.8
Other service activities	5.2	4.6	8.1
Public administration, defence, and social security	4.9	0.7	4.9
Added value	4.4	81.1	92.9
Taxes on net production subsidies	7.2	18.9	7.1
Gross domestic product	4.6	100.0	100.0

Source: prepared with data from the Central Bank of the Dominican Republic.

B. EMPLOYMENT AND LABOUR MARKET¹⁷

Despite the dynamic behaviour of economic activity, unemployment remained relatively rigid throughout the period, showing moderate fluctuations in response to the cycle. In 2004 the unemployment rate reached a peak of 19.7 per cent as a result of the sharp fall in the level of activity in 2003 and 2004, and then decreased to a rate of 14.2 per cent as the economy returned to a phase of expansion in 2008. However, from this year onward, it has remained very stable, with an average rate of 14.5 per cent. In 2014 it fell to 14.1 per cent despite registering a GDP growth rate above 7 per cent.

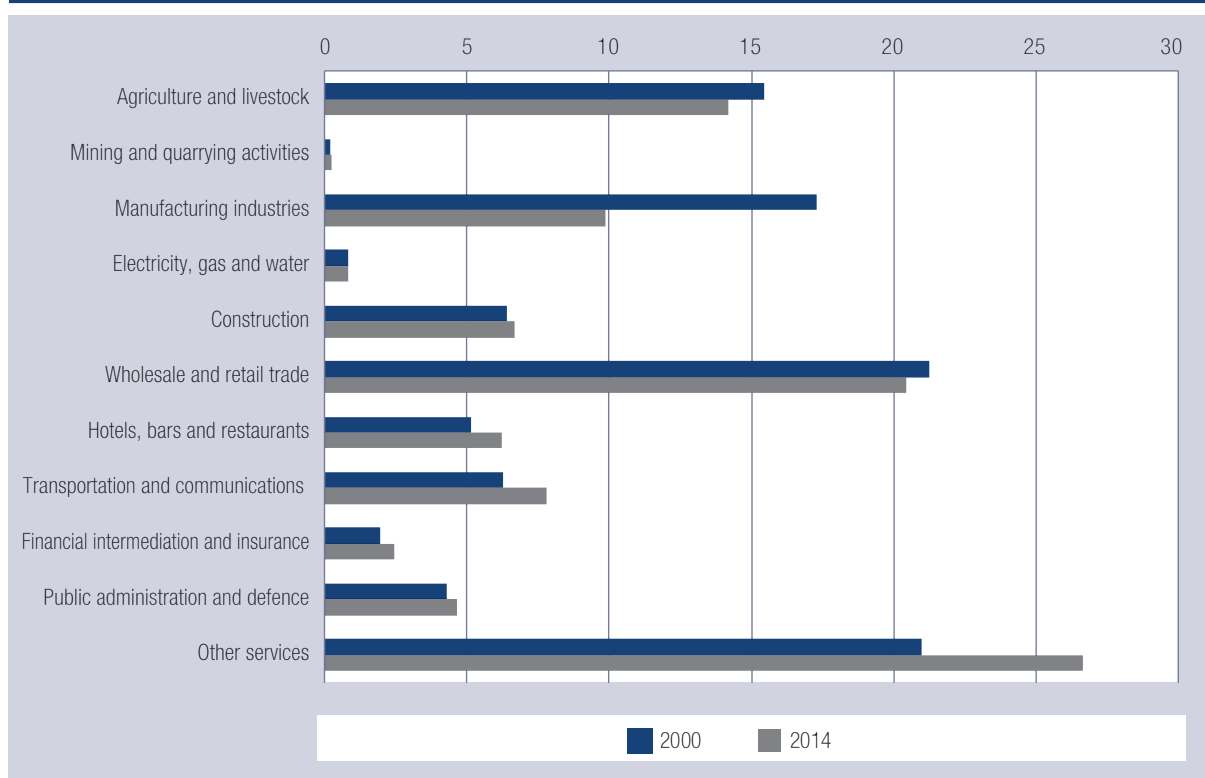
The precarious impact of growth in the labour market is associated in part with the fact that some of the most dynamic sectors tend to demand a relatively low job volume, while lagging sectors have the largest number of jobs. In fact, out of the four activities that in 2000 employed the highest proportion of the employed labour force, i.e. agriculture, manufacturing, trade¹⁸ and other services,¹⁹ the second and third activities grew below the national average. They accounted for

38 per cent of total employment that year. In contrast, communications, which is part of the ‘transport and communications’ activity in the classification of labour market accounts, recorded a huge growth during the period but accounted for just 6.3 per cent of the total employment.

On the other hand, employment behaviour statistics by activity sector suggest that along with economic restructuring, a reduction in employment in formal activities and an increase in informal activities, often precarious, has occurred.²⁰ Figure 2 shows that employment in manufacturing industries declined from 17.3 per cent of total employment in 2000 to 9.9 per cent in 2014, while in ‘other services’, which are usually activities undertaken in precarious and informal conditions, employment increased as a proportion of total employment from 21 to 26.6 per cent.

As shown, for the remaining activities changes were relatively small. The decline in employment in manufacturing is associated, in part, with the decline suffered by textile garment export activities from very labour-intensive free zones, and the relatively slow growth shown by the local manufacturing industry,

Figure 2. Structure of paid employment by economic activity (percentage of total employment)



Source: Prepared with data from the Central Bank of the Dominican Republic.

where competition has intensified in the context of increasing trade liberalisation.

In this way, despite economic growth, unemployment has barely declined during this period. This means that the pace of job creation has been lower than the growth of the workforce. At the same time, data from the National Workforce Survey (ENFT) reveals that most of the jobs created were in the informal sector, which has meant a moderate setback in the contribution of formal employment to total employment.

C. BALANCE OF PAYMENTS AND FOREIGN TRADE^{21,22}

Over the last decade and a half, the behaviour of the Current Account balance of the Balance of Payments has shown significant fluctuations. The trade deficit has increased, associated with a strong growth of imports and an insufficient expansion of exports. Three stages can be clearly identified, as shown in figure 3:

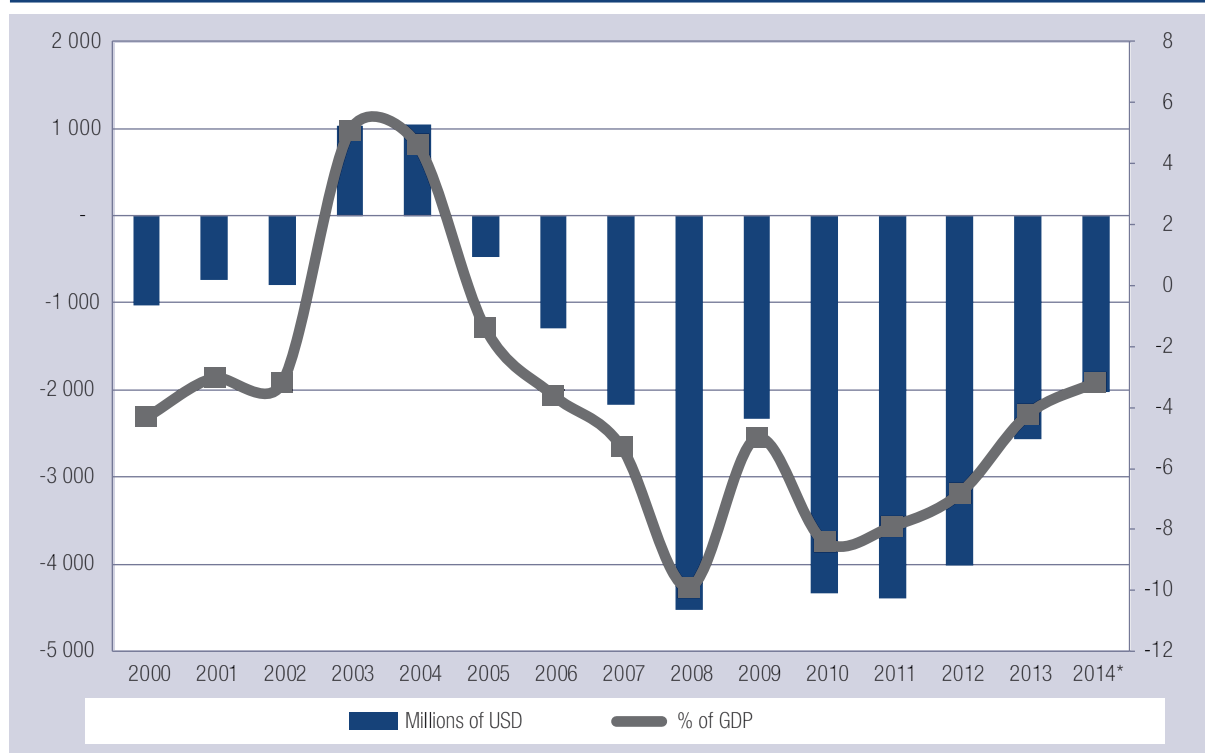
1. Between 2000 and 2006 the Current Account of the Balance of Payments showed relatively

low deficits and surpluses. They ranged between a deficit equivalent to 4.3 per cent of GDP and a surplus equivalent to 5 per cent of GDP, with an annual average of -0.8 per cent. Two years during that period, 2003 and 2004, were marked by a macroeconomic and financial crisis that drastically reduced demand and imports, resulting in current account surpluses.

2. From 2007 to 2013, the current account deficit significantly increased to a maximum of 9.9 per cent of GDP in 2008, reaching an annual average rate equivalent to 6.8 per cent of GDP.
3. In 2014 a period of lower external imbalance seems to start. The current account recorded the lowest deficit observed in 9 years, reaching the equivalent of 3.2 per cent of GDP and is expected to close at only 2 per cent in 2015.

As noted above, the behaviour of the current account's balance is highly influenced by the balance of goods. As shown in figure 4, the correlation between the two is very high. This is due to the fact that the services balance, current transfers and income balance are relatively stable, although increasing,

Figure 3. Current account deficit in the current account of the balance of payments, 2000-2014 (percentage)



Source: Prepared with data from the Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual and with 2007 as GDP year of reference.

throughout the period whereas the trade balance fluctuates considerably. The services balance and current transfers (see figure 5) have been relatively high and positive due to tourism revenues and family remittances respectively.²³

In contrast, the trade balance has been systematically negative and with a clear growing trend in the long term. This is strongly correlated with the behaviour of imports, which are sensitive to domestic demand.

As shown in figure 6, over the last decade imports have been much more dynamic than exports. On average, between 2000 and 2014, imports exceeded exports at a ratio of 1.83 to 1.²⁴ Excluding oil imports, which have a significant impact on the trade balance, the average ratio was 1.43. At the same time, the graph shows that despite the importance of hydrocarbon imports, fluctuations in the imports/exports ratio do not derive primarily from these imports but from the other import items.

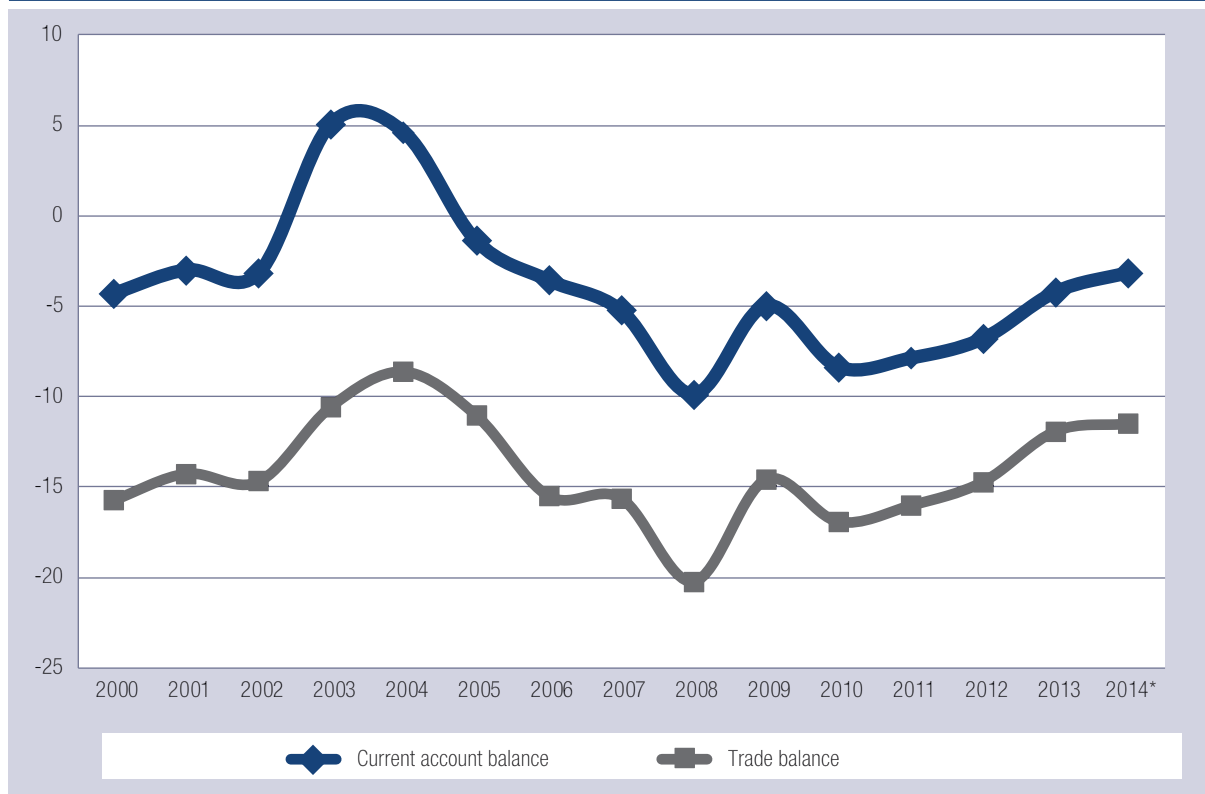
The surplus in the financial account has financed the current account deficit. Figure 7 shows how one

balance is practically a reflection of the other. At the same time, it reveals that foreign direct investment (FDI) has had a high impact in the financial account's income. Other items in the financial account, i.e. credits to the public sector and portfolio investment, have complemented the income, helping finance the current account deficits.

In short, between 2000 and 2014 a strong increase in imports along with relatively slow growth in exports translated into an expansion of the current account deficit which is being financed by the financial account, especially by FDI and foreign loans, given particularly to the public sector.

The expansion of imports has been associated with how sensitive they are in relation to domestic demand growth in a context of economic growth and increasing trade liberalisation. In contrast, moderate export growth is associated, among other factors, with the need to further increase the competitive capabilities of Dominican exporters.

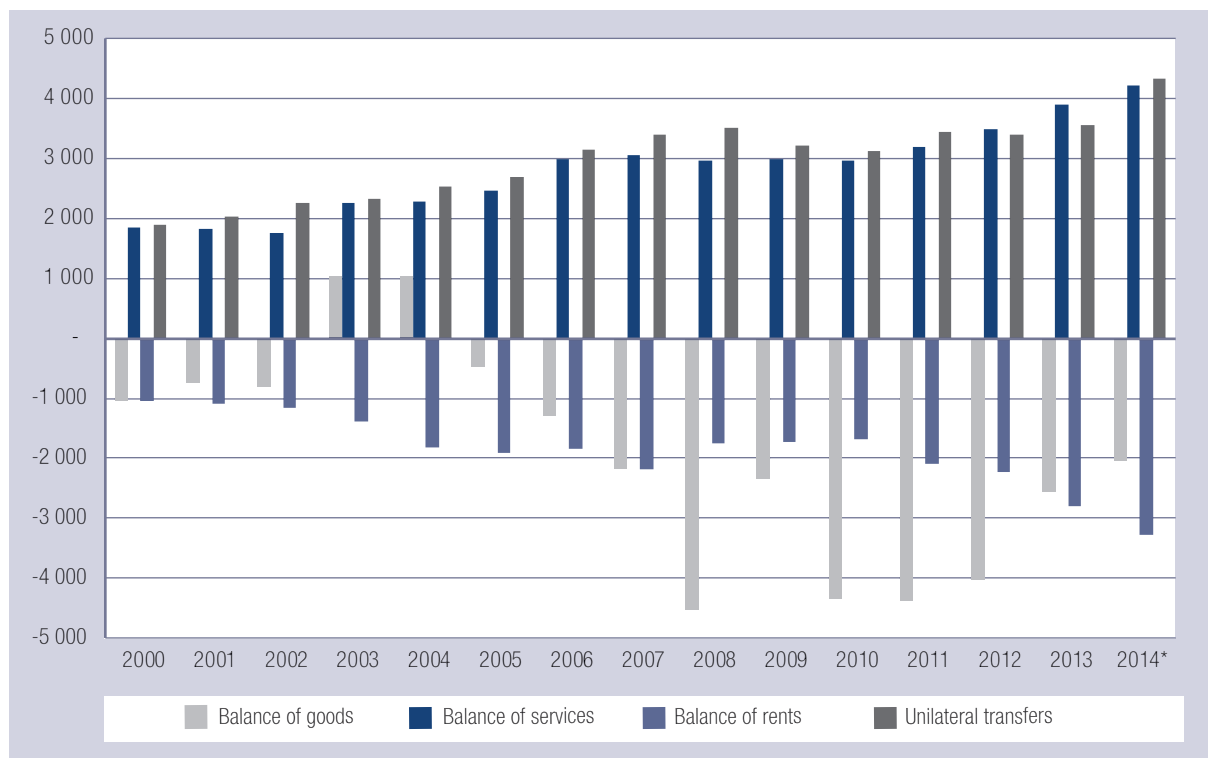
Figure 4. Current account and trade balance, 2000-2014 (percentage of GDP)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

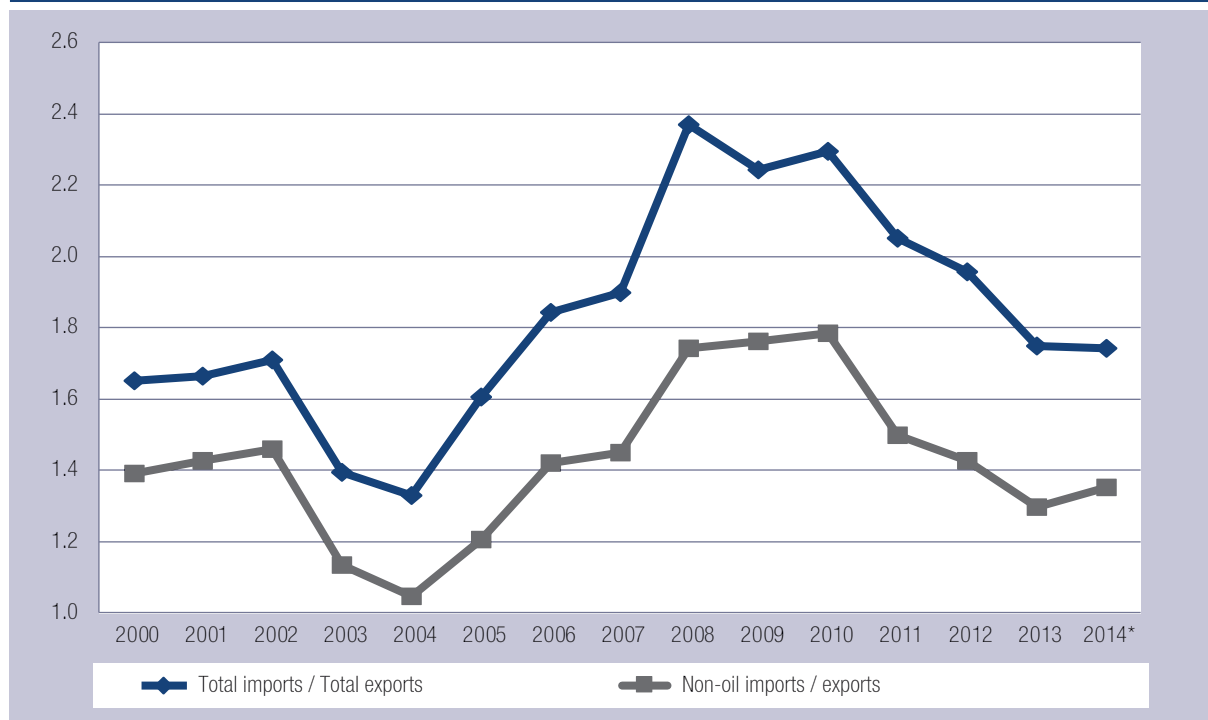
Figure 5. Balance of goods, services, rents and transfers from the balance of payments, 2000-2014 (in millions of USD)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

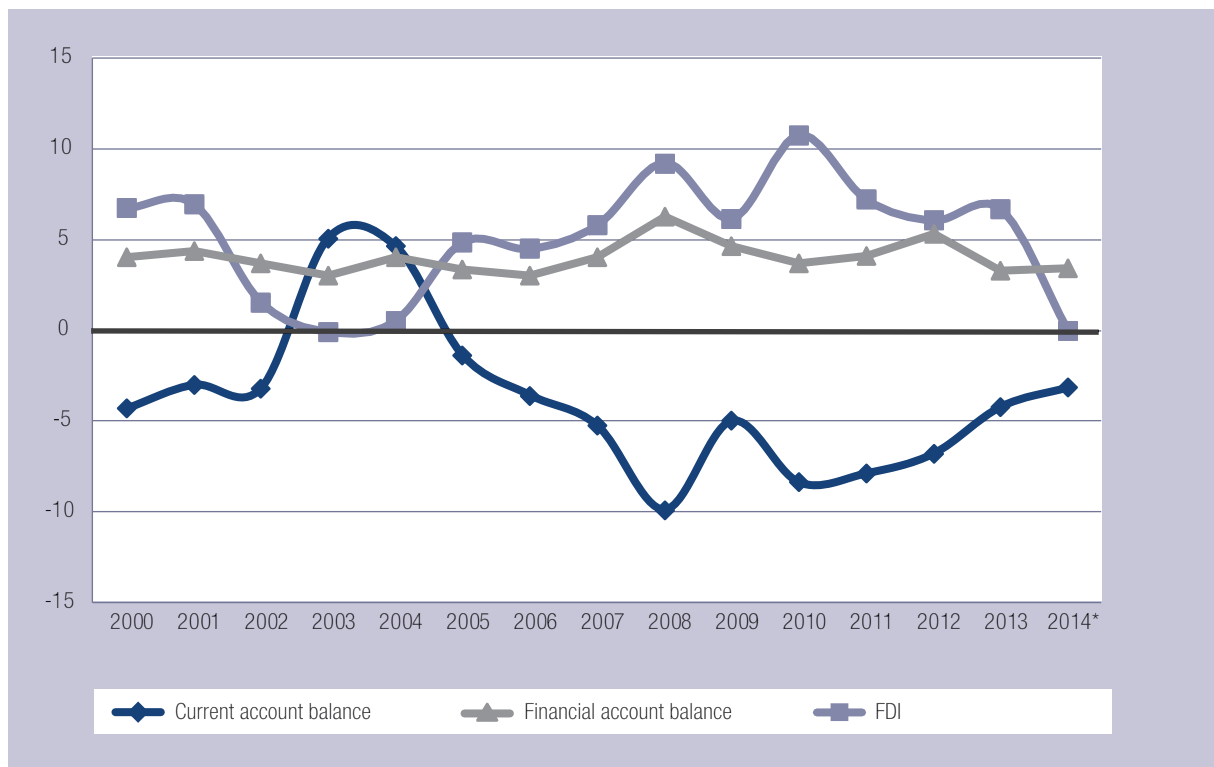
Figure 6. Ratio of imports of goods to exports of goods, 2000-2014



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

Figure 7. Evolution of the current account, financial account and foreign direct investment (FDI) in the balance of payments, 2000-2014 (percentage of GDP)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual and with 2007 as GDP year of reference.

IV

COMMERCIAL PERFORMANCE AND RESTRUCTURING OF EXPORTS



A. BEHAVIOUR AND RESTRUCTURING OF EXPORTS OF GOODS

Goods exports continue to represent the highest proportion of total export revenues, notwithstanding the significant importance of service revenues, particularly from tourism. On average, between 2000 and 2014, they accounted for 60.2 per cent of total exports, remaining relatively stable over the period. It is very important to analyse the performance of these exports during the period and highlight the most important changes.

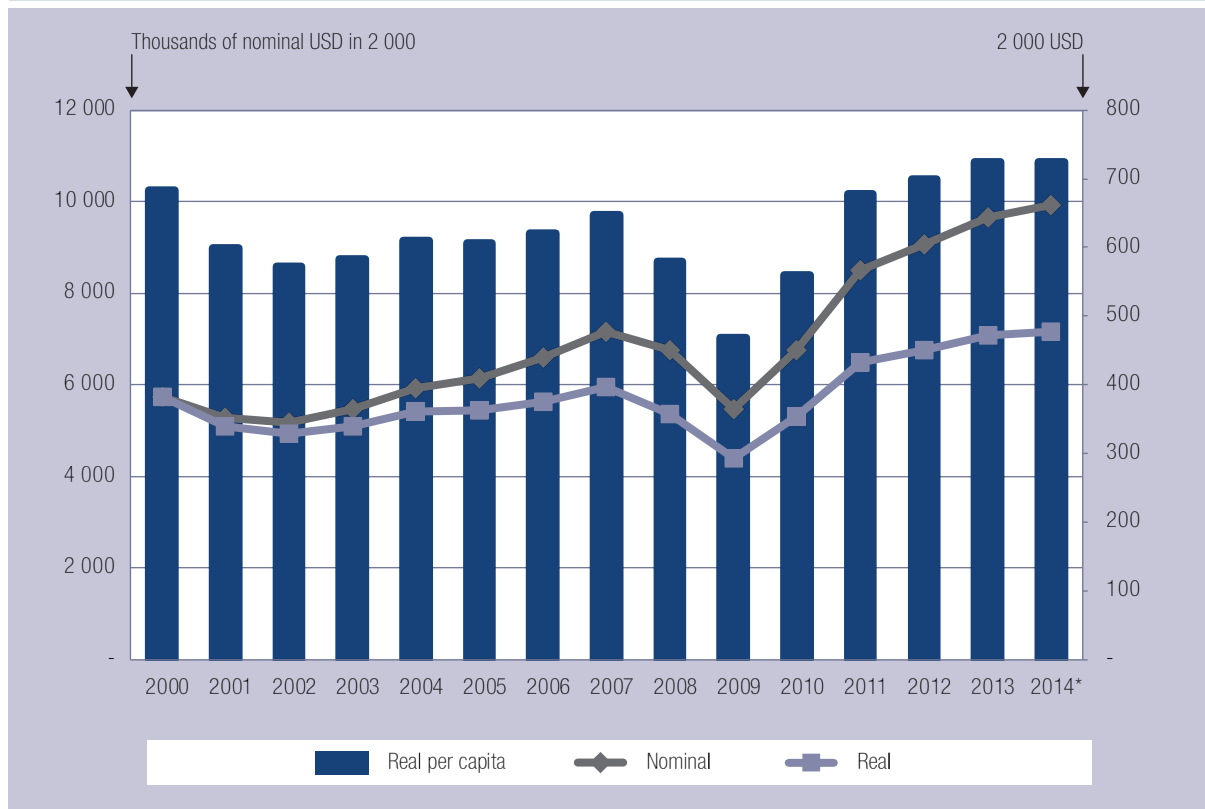
Between 2000 and 2014, exports of goods in nominal terms went from USD 5,736.7 million to USD 9,651.9 million, registering a cumulative growth of 73 per cent. The average annual growth rate was 4.6 per cent, although a period of significant decline between 2008 and 2009 can be understood as a result of the international crisis, followed by a subsequent recovery. In real terms, the cumulative

growth was 25 per cent and the per capita rate was 16 per cent, going from USD 1,067 to USD 1,240 at 2000 prices (see figure 8).

On the other hand, excluding mining exports (see figure 9), which are very sensitive to price fluctuations in international market values, performance has been less dynamic. The cumulative nominal export growth in the period was 51 per cent, while actual growth was 9 per cent and real per capita growth fell by 7 per cent.

This long-term performance has contributed to two things. Firstly, it has contributed to a remarkable decline in the contribution of foreign trade to GDP. Exports of goods as a percentage of GDP went from 22.1 per cent in 2000-2002 to 15.6 per cent in 2002-2014, while exports of services went from 12.8 per cent to 10.3 per cent (see figure 10). However, it should be noted that the dynamic growth of GDP, driven by domestic demand, and the growth of non-tradable sectors also contributed to this behaviour.

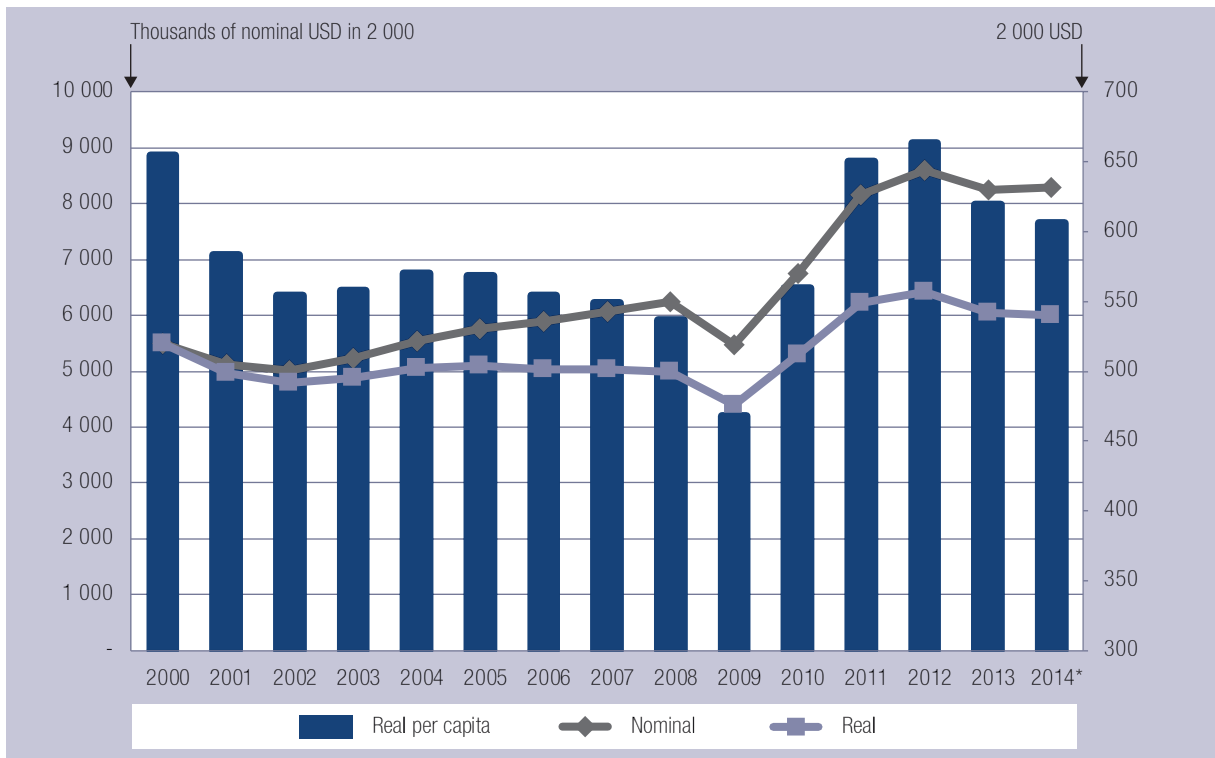
Figure 8. Nominal, real and real per capita value of exports of goods, 2000-2014



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

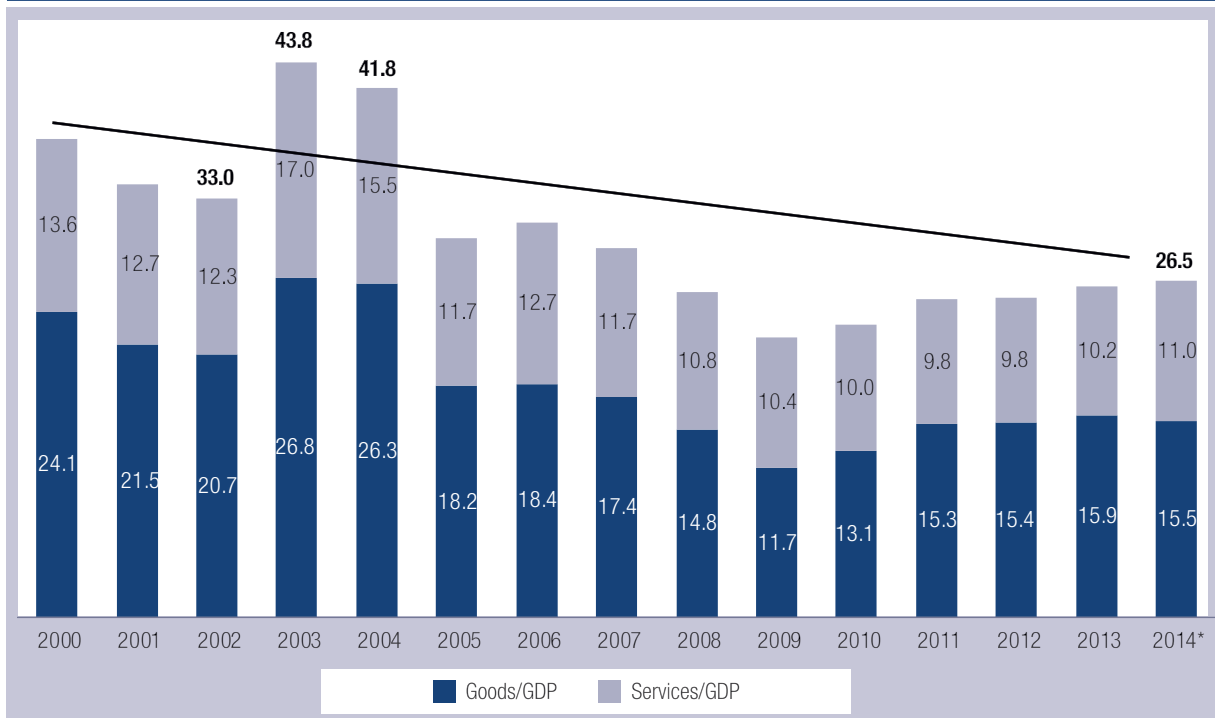
Figure 9. Nominal, real and real per capita value for non-mining exports, 2000-2014



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

Figure 10. Exports of goods and services, 2000-2014 (percentage of GDP)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual and with 2007 as GDP year of reference.

Secondly, it contributed to a dramatic loss of share of Dominican Republic total exports in world exports, which decreased from 0.086 per cent in 2000 to 0.042 per cent in 2008. From that year onward, a moderate recovery can be perceived. In 2014 it reached 0.053 per cent.

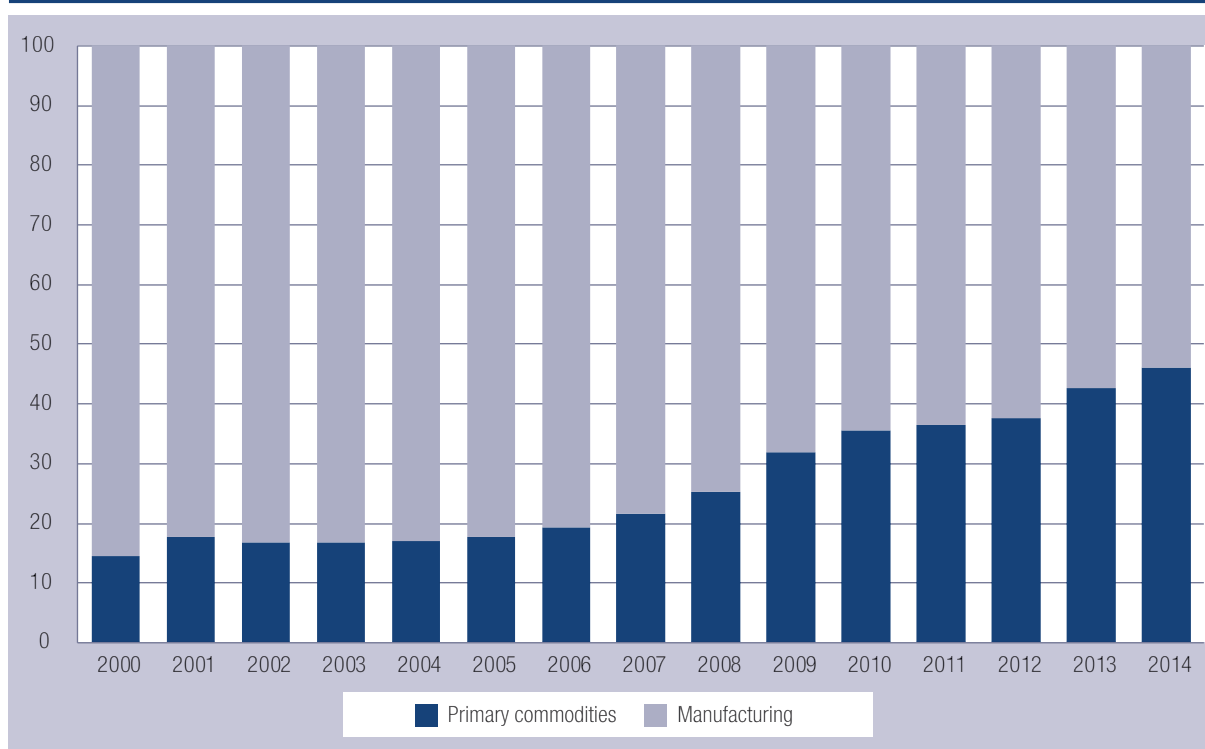
However, it must be noted that in this period, exports of goods have performed very positively in six ways. First, exports of primary commodities have shown dynamism and have significantly increased their importance in total exports. Second, domestic exports have increased compared with those of free zones, and have increased their contribution to total exports of goods.²⁵ Third, exports of manufactured goods that are technology- and high skills-intensive have gained ground, while those that are intensive in resources, labour and low technology skills have had a setback. Fourth, exports have diversified considerably, and the degree of product concentration has decreased. Fifth, markets have diversified. Sixth, exports of goods from free zones have been more dynamic in very recent years.

Indeed, the value of exports of commodities multiplied by 5.5 between 2000 and 2014, while manufacturing, which in past decades replaced commodities, only multiplied by 1.1. This led to commodities reaching 42 per cent of total exports between 2012 and 2014, whereas between 2000 and 2002 they accounted for 16.4 per cent, as shown in figure 11.

The dynamism of products such as bananas and other fruits, vegetables and cocoa explains the dynamism of commodity exports. As a counterpart, the behaviour of manufactured exports was negatively influenced by the performance of textile manufacturing, which declined between 2005 and the end of 2009 as a result of a change in international trade rules, specifically the dismantling of the textile quota system foreseen under the WTO Agreement on Textiles and Clothing.

Similarly, domestic exports multiplied by 4.8 compared with those from free zones, which grew by only 5.4 per cent during this period, driven by the behaviour of commodity and apparel and textile exports (see figure 12). This led to the contribution of the former to go from representing 16 per cent of total exports between 2000

Figure 11. Composition of exports of goods by type of product, 2000-2014 (percentage of goods exports)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

and 2002 to representing 47 per cent between 2012 and 2014, and to those from free zones to go from 84 per cent to 53 per cent in the same periods.

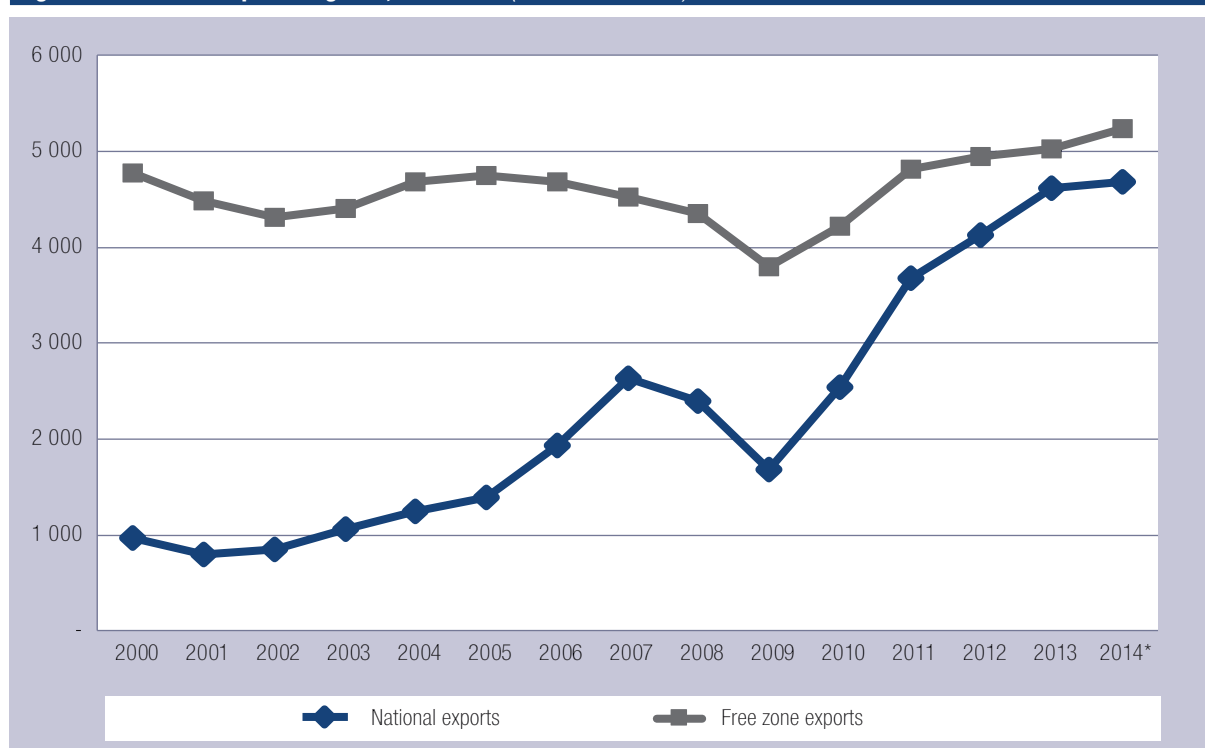
This trend with free zones began to be reversed in very recent years. In the last three years (2013-2015), the contribution of free zone exports to total exports increased from 52.5 per cent in 2013 to 53.2 per cent in 2014, and to 57.9 per cent in 2015. In addition, excluding gold and oil product exports and limiting the comparison to agricultural and manufacturing goods, the contribution of free zones in recent years has been 65.8 per cent in 2013, 67.6 per cent in 2014 and 70 per cent in 2015 (NCEFZ).

Manufacturing exports were restructured during the period mentioned above. Figure 13 shows that manufactured goods that are intensive in high technology and skills more than doubled since 2000, going from around 15 per cent in 2000-2002 to over 30 per cent in 2012-2014. Similarly, exports that are intensive in technology and in average skills also doubled from around 10 per cent to over 20 per cent. In contrast, the contribution of exports that are resource-

and labour-intensive, which dominated manufacturing exports since the 1990s particularly due to the role of clothing from free zones, declined from an annual average of 65.7 per cent between 2000 and 2002 to 38.4 per cent between 2012 and 2014.

An alternative classification methodology for the technological level of manufacturing exports from ECLAC considers three groups of products: high technology, medium technology and low technology. The export performance of these three types of products shows similar results as those obtained using the classification by technological intensity and skill. Between 2000 and 2014, the contribution of high-tech exports to the total exports increased from about 20 per cent at the beginning of the last decade to about 35 per cent in 2013 and 2014 (see figure 14). The contribution of medium technology exports has also increased, reaching more than 5 per cent of total manufacturing exports. Conversely, low-tech exports have declined as a proportion of total exports, going from about 80 per cent to less than 60 per cent in recent years.

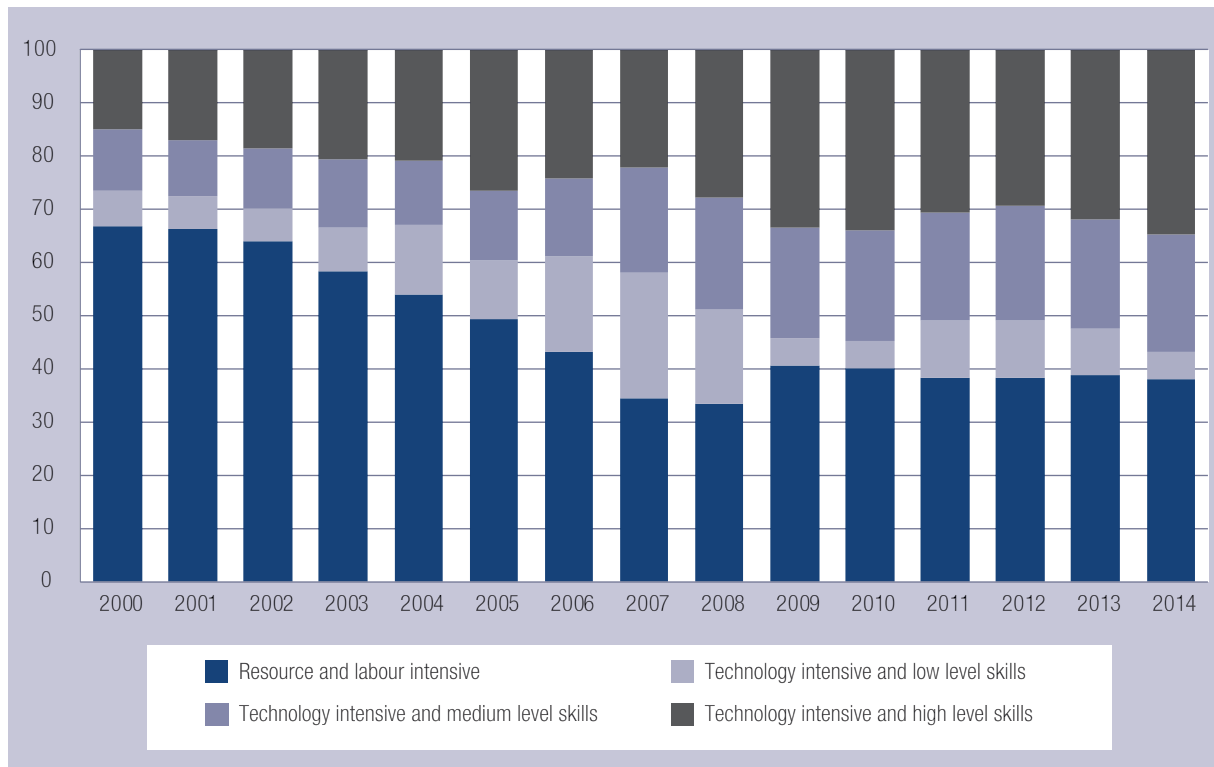
Figure 12. Value of exports of goods, 2000-2014 (thousands of USD)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.

Figure 13. Composition of manufacturing exports by technology and skills (percentage of the value of manufacturing exports)



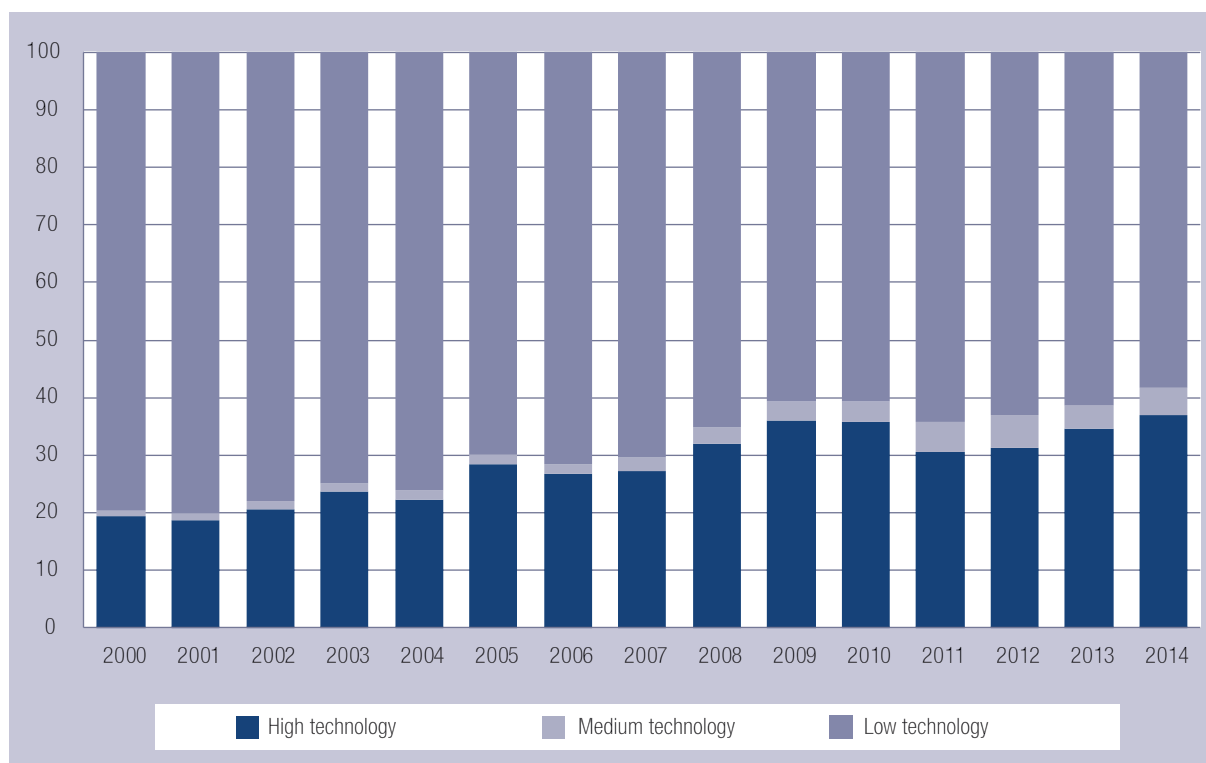
Source: Prepared with UNCTADSTAT data.

The decrease in the contribution of textile apparel exports, along with the increase in the contribution of commodity exports and the emergence of new export products inside and outside the free zones, have contributed to export diversification. This is reflected in the Herfindahl-Hirschman Index (HHI)²⁶ which measures concentration by product. This index declined significantly since the beginning of the last decade and until 2012, as shown in figure 15. The index is estimated at two and four digits in the Harmonised Commodity Description and Coding System in order to flag if changes in the level of concentration are due to concentration/diversification processes within specific product groups or rather to changes in the contribution of product groups, which is tantamount to a global restructuring. The comparative evolution of both indicators suggest the latter, namely, the reduction in the contribution of some product groups (HS chapters) and an increase in the contribution of new chapters.

A detailed look reveals that the restructuring is due to the following, some of which are mentioned above:

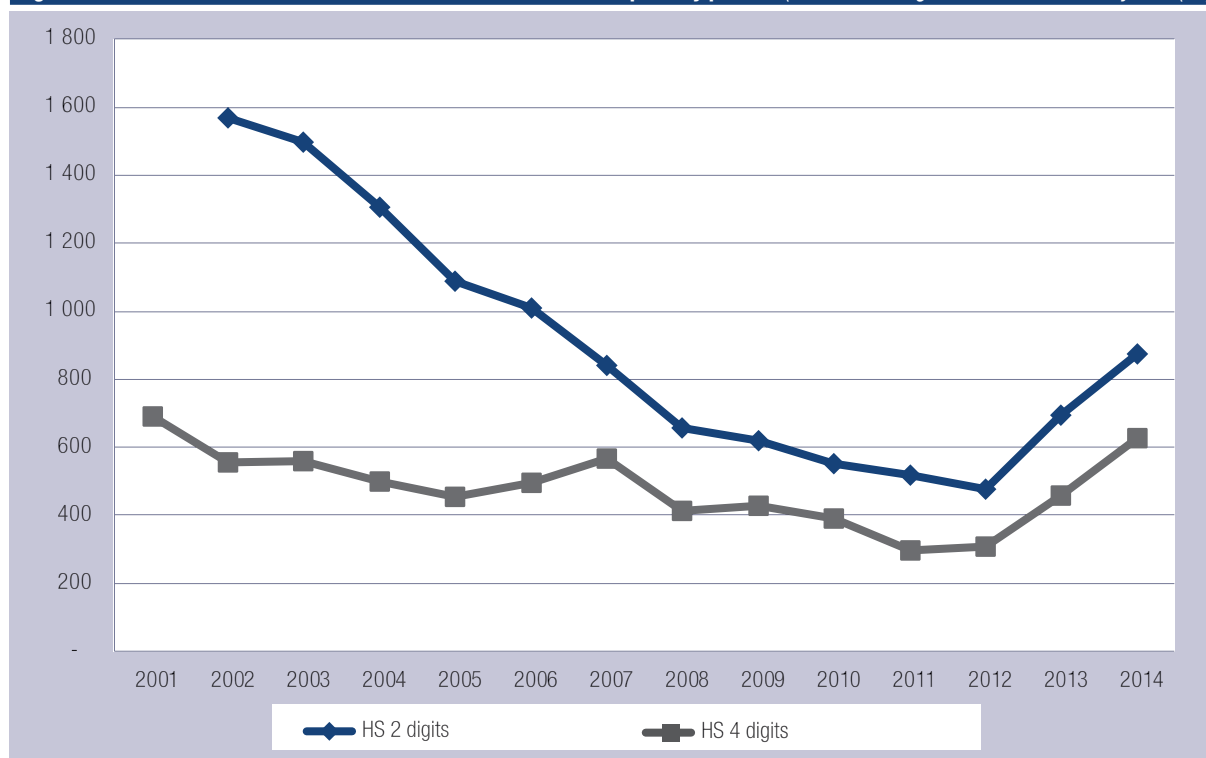
- A reduction in the contribution of textile apparel exports due to the change in global textile trade rules that reduced access barriers to Asian suppliers in the United States of America market. Thus, the value of exports classified under Chapter 62 of the Harmonised System went from the first position in total exports in 2003-2004 to eighth place in 2013-2014. At the same time, this also explains the reduction in the contribution of low-tech manufacturing exports.
- A significant increase in gold exports starting in 2013 as a result of a new mining project which started operations. This led to these mining exports taking first place in the list of export products.
- A sustained increase in exports of products from free zones, particularly medical products and devices, tobacco and tobacco substitutes, and electrical appliances. The growth of some of these, such as medical devices, explains the increase in contribution of technology and high skills-intensive products.

Figure 14. Composition of manufacturing export by technology grade (percentage of the value of manufacturing exports)



Source: Prepared with UNCTADSTAT data.

Figure 15. Herfindahl-Hirschman Index for the concentration of exports by product (two and four digits in the Harmonised System (HS))



Source: Prepared with TradeMap data.

- An increase in new export products from companies that operate under the national scheme, particularly fruits and vegetables, cocoa and manufactured products which have been successfully exploited by the Haitian market. The performance of banana exports and some vegetables like peppers and cocoa helped boost the importance of commodities in the export basket. This and the dynamic growth registered in products other than textiles from companies operating under the free zone regime explain the diversification of products discussed above.
- An increase in exports of textiles from Dominican free zones to Haitian free zones to transform products into finished textile products for export to the United States.

As shown in table 9, gold exports accounted for more than 19 per cent of exports of goods in 2013-2014 due to a strong expansion registered in 2013 and 2014. Exports of medical instruments and devices accounted

for 12.4 per cent and are the result of a sustained expansion over the past 12 years; cigars and cigarettes (tobacco and substitutes) accounted for 7.4 per cent of the total and electrical appliances for 7 per cent.

In addition, a re-concentration process occurred between 2013 and 2014. This is associated with the strong growth in gold exports, whose contribution to total exports is significant and has changed the global concentration indicator.

In addition to the reduction in the concentration of products, there has been a de-concentration in destination markets. As exports to the United States of America lost ground as a result of the reduction in exports of textile apparel, those going to Haiti, countries in the European Union (EU 28), Central America and other markets in general (see table 10) particularly increased, denoting greater diversification. As a result, the Herfindahl Index for concentration of exports by destination market was reduced, establishing a downward trend (see figure 16).

Table 9. Main export products (HS chapters): contribution of total exports and average annual growth rate (percentage)

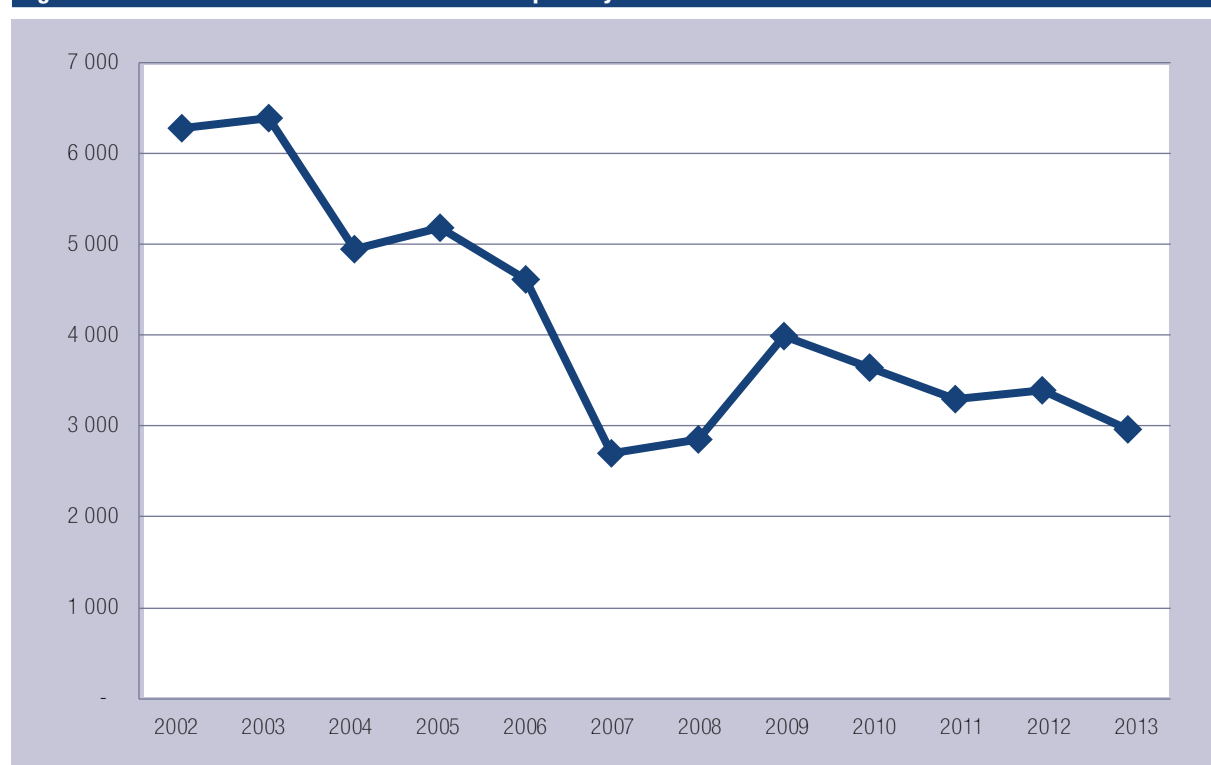
Chapter	All products	Percentage of the	Annual average growth rate		
		2013-2014 total	2003-2014	2010-2014	2013-2014
		100.0	5.3	14.8	9.8
71	Pearls, precious stones (incl. gold)	19.3	32.7	84.1	190.6
90	Optical, photography, measurement and control instruments	12.4	10.4	15.9	34.8
24	Tobacco and manufactured tobacco substitutes	7.4	7.5	21.3	11.4
85	Electrical machinery and equipment	7.0	3.9	11.3	14.0
61	Clothing apparel and accessories, knitted or crocheted	4.6	10.1	35.2	8.0
08	Edible fruits	4.3	20.4	31.9	63.4
64	Footwear, gaiters and the like	4.2	8.8	21.7	12.6
62	Clothing apparel, except knitted and crocheted	3.8	-10.6	0.8	14.5
30	Pharmaceutical products	3.6	56.7	81.3	-12.1
39	Artificial resins and plastic materials	3.5	19.8	12.8	-2.5
72	Articles of iron or steel	2.8	24.0	31.0	0.0
18	Cocoa and cocoa preparations	2.5	14.2	11.1	19.4
52	Cotton, including fabrics	2.3	69.3	-10.2	0.0

Source: UNCOMTRADE.

Table 10. Composition of exports by country of destination, 2002-2004 and 2012-2014 (percentage)

Imports	2002-2004	2012-2014		
United States	75.0	51.4		
Haiti	2.0	14.0		
European Union	5.0	8.5		
Central America	0.6	2.2		
Others	17.4	24.0		
Of which:				
	Republic of Korea	1.0	China	1.5
	Canada	1.0	Republic of Korea	0.9
	Japan	0.6	Canada	0.8
	Brazil	0.5	Japan	0.4
	Jamaica	0.2	Brazil	0.4

Source: Prepared with UNCOMTRADE data.

Figure 16. Herfindahl Index for concentration of exports by destination market

Source: Prepared with UNCOMTRADE data.

Exports to countries with and without trade agreements

In the first decade of this century (2000-2010), the Dominican Republic signed trade agreements, generally free trade agreements, with several of its major trading partners and countries from the Central America and the Caribbean Community (CARICOM). Exports to these markets (United States, the countries of the European Union, Central America, Panama and CARICOM) represented more than 80 per cent of all exports between 2000 and 2010.

However, the growth of exports to these markets has been very limited. As explained in a previous section, there has been a significant increase in imports from these markets and from others, as well as in the trade deficit balance and Current Account of the Balance of Payments. This combination of events has led to a major questioning on the part of Dominican society, especially the business sector, regarding the effectiveness of agreements to boost exports, and to increased resistance to exploring new agreements.

Between 2003 and 2013 the average annual growth rate of exports to these countries was only 2 per cent, compared with 20 per cent for exports towards countries without agreements. Of the latter, Haiti is worth highlighting since it has significantly increased its contribution to total exports over the past decade and during the early years of this decade.

However, the lack of dynamism of exports to markets of countries with trade agreements was largely due to the reduction in exports to the United States, which is the Dominican Republic's main commercial partner. This decline was specifically due to the fall in textile apparel exports associated with the erosion of United States of America market preferences. Therefore, this leads us to infer that this was due to an external factor that the trade agreement could hardly have reversed.

Additionally, it is relevant to point out that the agreement with the United States of America and Central America, and with the countries of the European Union and CARIFORUM, did not involve substantial changes in access conditions to these markets since the country already enjoyed a significant level of access before the agreements. This partly explains the slow growth of exports towards these markets.

In contrast, as shown in figure 17, the value of exports towards certain countries with no free trade agreements (Central American Common Market,

CACM and CARICOM countries) grew at high annual average rates. However, their contribution to total exports is low, which means their effect on aggregate figures is also low.

In contrast, during this period there was a strong growth of exports towards Haiti (both from the domestic manufacturing industry and the free zones), a country with which there is no trade agreement. Between 2002-2004 and 2012-2014, the average annual value of exports towards this country multiplied by 3.85, more than three times the value observed for total exports. This is what mainly explains the strong growth in exports to countries without agreements. However, exports to other countries with which there are no trade agreements also saw a significant growth, although the total values are relatively small. In that period, the average annual value of exports to China increased by 23.6, to India by 3.3, to Venezuela (Bolivarian Republic of) by 4.8 and to Colombia by 6.

In short, although trade with countries that have enacted trade agreements reflect a very high percentage of the country's total trade, they appear to have a reduced impact on trade flows and exports. Meanwhile, trade with countries with which there are no preferential agreements has a significantly higher performance.

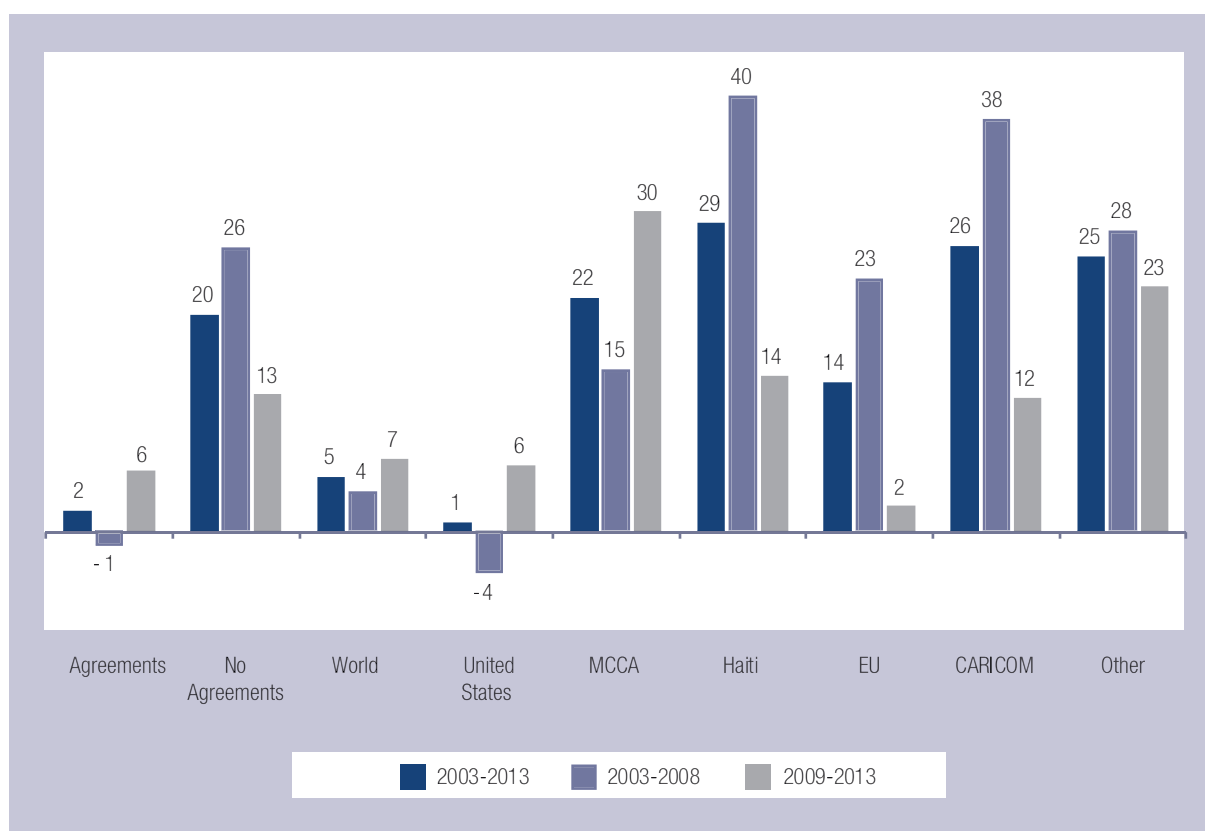
This means that the source of the restriction on the country's export performance is not market access conditions but competitive capabilities and structural and other factors that hamper the use of available opportunities.

B. THE BEHAVIOUR OF IMPORTS OF GOODS

Between 2001 and 2014, total imports grew at an average annual rate of 5.4 per cent compared to the 4.6 per cent recorded by exports. This led to total imports multiplying by 2.3 between 2000-2002 and 2012-2014, actual imports multiplying by 1.79, and real per capita imports multiplying by 1.47.

However, when imports between domestic and free zones are²⁷ observed separately, the former, which responds to domestic demand, grew at a rate of 7.2 per cent, which is 1.33 times faster than the average.

As shown above, this intense growth in imports of goods goes a long way towards explaining the strong growth in the negative trade balance and the current

Figure 17. Average annual growth of the value of exports by partners and selected partner groups (percentage)

Source: Prepared with TradeMap data.

account of the balance of payments, since exports have behaved in a relatively stable fashion over the last decade and a half.²⁸

Furthermore, over the last 15 years a moderate restructuring of imports was realised in several ways:

- Imports of commodities increased their importance from less than 30 per cent at the beginning of the last decade, to more than 40 per cent from 2011 onwards. Oil and other commodities such as food contributed to this.
- The reduction in free zone imports, together with increased free zone exports, suggests a greater use of domestic inputs by free zones,²⁹ which represents an increase in the national added value in this sector's exports.
- Manufactured goods that are intensive in skills and high technology increased their share at the expense of those intensive in resources, labour and technology and medium skills. This is consistent

with the increase of technological products in global trade, and with increased exports of high-technology products from free zones, which supposes the import of these types of products as inputs.

- The origin of imports was diversified. In particular, the United States' contribution declined from 49.4 per cent in 2001-2003 to 39.3 per cent in 2012-2014, and China's increased from 2.9 per cent to 10.7 per cent.

C. SERVICE EXPORTS: TOURISM AND MORE

The Dominican Republic has developed trade in services under liberalisation and FDI attraction schemes. With the exception of professional services, most tradable services have been the subject of incentives and special legislation to promote their development through private

participation (domestic or foreign). This has resulted in a significant improvement in infrastructure and telecommunications, financial, port and airport concession services, and in the development of hotels that has made tourism one of the sub-sectors with greatest weight in the national economy and the balance of payments.

Since the late 1990s, exports of services and in particular tourism revenues have had a significant importance for total exports of goods and services. Between 2000 and 2014, on average, services exports accounted for nearly 40 per cent of total exports, showing a slight upward trend (see figure 18). On average, during that period, tourism was responsible for about 86 per cent of total revenue, while 16 per cent was generated by other service activities.

Tourism revenues behaved dynamically during that period. Between 2000 and 2002 they accounted, on average, for USD 2.796 million per year. In contrast, between 2012 and 2014 they represented USD

5.164 million, which implies an average that is 1.84 times higher and an average annual growth rate of 5.1 per cent.

However, in recent years, the revenue generated by service activities other than tourism has shown great dynamism, increasing their contribution to total service revenues. While between 2000 and 2002, these revenues reached an annual average of USD 340 million, in the period 2012-2014 they reached USD 1,387 million.³⁰ This means, as shown in figure 19, that their contribution to total service revenues increased from 10.8 per cent in 2000-2002 to 17.7 per cent in 2011-2013. Using the IMF's Sixth Edition of the Balance of Payments Manual, this contribution was estimated at 21.3 per cent between 2012 and 2014.

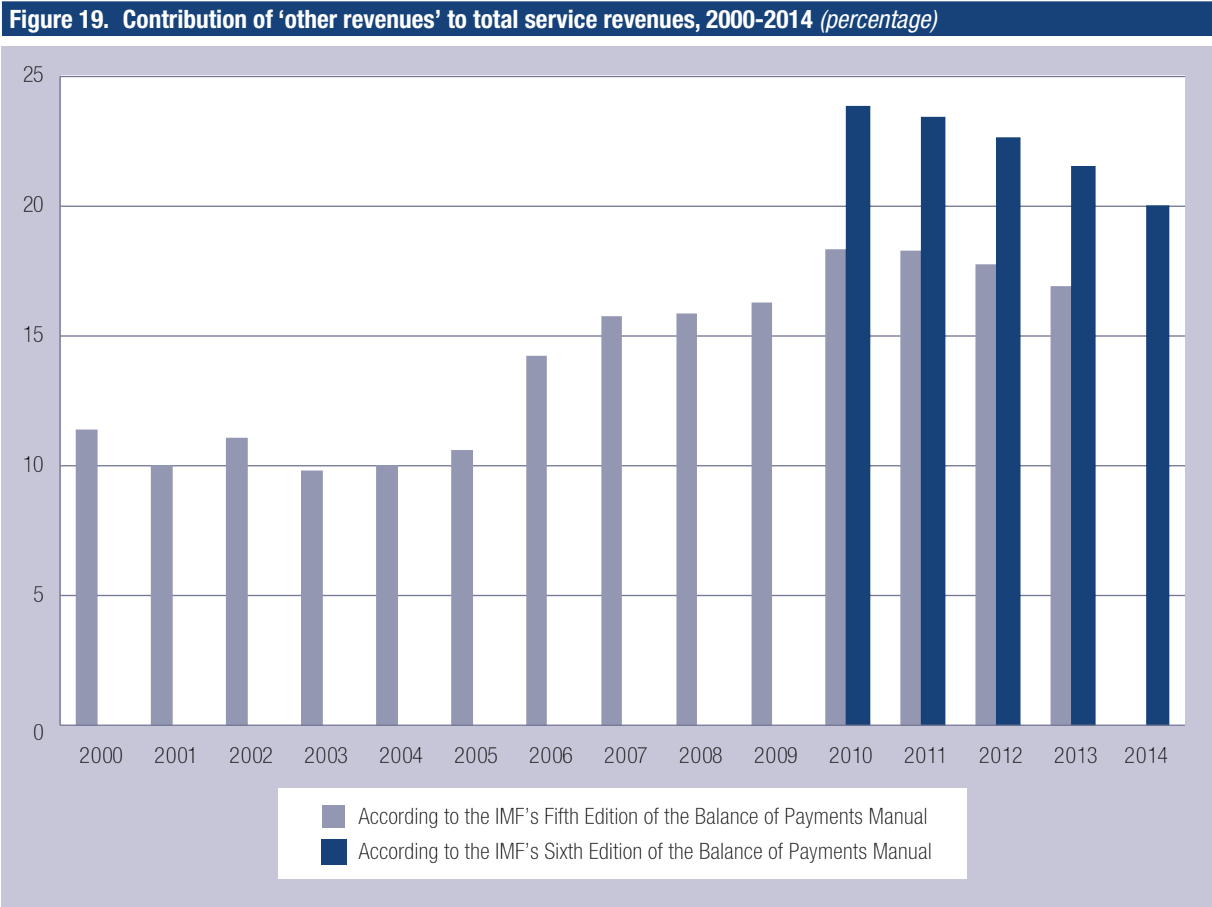
Although the Central Bank of the Dominican Republic does not disaggregate all contributions within the service sector, it is possible to distinguish, in addition to tourism, contributions from the telecommunications, transport, insurance and fuel sectors.

Figure 18. Contribution of service revenues to total revenues for goods and services, 2000-2014 (percentage)



Source: Central Bank of the Dominican Republic.

* In accordance with the IMF's Sixth Edition of the Balance of Payments Manual.



Source: Prepared with Central Bank of the Dominican Republic data.

V

INSTRUMENTS RELATED TO TRADE POLICY



This section covers policies, initiatives and programmes aimed at boosting productivity and competitiveness as well as those strictly concerning trade policies.

A. INSTRUMENTS RELATED TO PRODUCTION AND COMPETITIVENESS

The National Plan for Systemic Competitiveness (NPSC)³¹ is the main instrument to boost competitiveness. It was developed in 2006 (before the discussion and approval of the NDS). The vision of the country's future in this field defines industry as the engine for growth and prioritises the promotion of exports. The plan:

- Presents a strategy and industrial policy for systemic competitiveness in free trade zones and export promotion
- Presents a Small and Medium Enterprises Competitiveness Programme
- Presents strategies, programmes and projects to strengthen the competitive development of strategic clusters
- Proposes the creation of a National System for Innovation and Technological Development
- Proposes a strategy for government competitiveness
- Makes proposals in terms of logistic competitiveness, and proposes an implementation plan

The NPSC recommends changes in order to impact on six levels: the microeconomic level, that is to say in companies; the mesoeconomic or sectoral level; the macroeconomic level; the international level; the institutional level, meaning markets and the state; and the political and social level.

At the sectoral level the plan includes:

- An industrial policy and strategy for systemic competitiveness
- A competitiveness policy and strategy for free zones
- A strategy and policy for competitive export promotion

- A programme to boost the competitiveness of micro, small and medium enterprises (MSME)
- A plan to boost the competitiveness of tourism
- A plan to boost agribusiness clusters and reach competitiveness in agro-industrial value chains of banana, avocado, mango, pineapple and tobacco
- A plan to promote manufacturing value addition, with special attention to textiles and footwear
- A plan to create a National System of Innovation and Development
- A National Quality System
- A proposal to further strengthen the competitive and innovative capacities of the public sector
- A plan to strengthen competitiveness in infrastructure and logistics

B. INSTRUMENTS RELATED TO TRADE POLICY

1. Trade negotiations and agreements

Between 1996 and 2000, the Dominican Republic pursued a proactive regional integration strategy. In this context, during this period, all trade negotiation processes took place under the umbrella of regional trade agreements.

In 2004, the Dominican Republic signed a free trade agreement with the United States of America and Central America (-CAFTA) and in 2006 it began negotiating reciprocal benefits with the European Union countries and CARICOM countries, which concluded in 2008 with the Economic Partnership Agreement (EPA). Both negotiations sought to maintain and deepen preferential access in major export markets, which run the risk of being eroded.³² These were conditional or reactive negotiation processes with countries that already had few entry barriers.

In general terms, the result of these processes was a consolidation and very limited expansion of already relatively broad access to major export markets, which nevertheless recorded limited growth. By contrast, emerging markets, with high growth compared to the rest of the world, have been put aside and access to them is not covered by bilateral or regional trade agreements.

Since signing the EPA, the Dominican Republic has not negotiated new preferential trade agreements but has expressed interest in using better available instruments and in improving the competitiveness of its companies.

However, in 2015 the Ministry of Foreign Affairs and the National Commission for Trade Negotiations (NCTN) prepared a 2015 Trade Integration Strategy, whose base document states: 'The Dominican trade agenda should not be guided by reactive positions to third countries' initiatives, but rather should be governed by its own strategic route, previously formulated based on a logical framework in order to establish offensive priorities and defensive positions that take into account national sensitivities.'³³

The strategy proposes three lines of action to concentrate the efforts of trade policy:

- i) Maximising access that has already been negotiated, supporting export sectors and working on the internal competitiveness agenda.
- ii) Developing a logical framework with a strategic-offensive approach that opens new markets for export sectors, taking into account internal productive sensibilities.
- iii) Defining the architecture (in terms of design and content) of future trade agreements, based on the texts already approved in various agreements.

These action lines propose two strategic approaches, which respond to the concerns expressed by Dominican productive sectors³⁴ and that help foster a constructive dialogue to relaunch the agenda for future trade negotiations:

- i) A geo-centric approach, which seeks to consolidate trade access resulting from existing agreements and to better use these markets to reduce the inherent risks of concentration in the United States of America market, increasing exports to Central America, Panama and European Union and CARICOM countries.
- ii) A product-centric approach, which consists of promoting the export of 'star products', with the aim of facilitating access to markets where there are proven comparative advantages.

The strategic route map adopted by MIREX and CTCN suggests the early adoption of action plans consistent with the suggestions made below:

- Impact studies and measurement/evaluation of the ex-ante and ex post impact on productive sectors and of the so-called 'star' products that will guide the product-centric trade negotiations agenda.
- Improved capacities regarding trade negotiations (Ministry of Foreign Affairs-CTCN) and greater stability in the technical team responsible for the administration of trade agreements (Ministry of Industry and Trade DICOEX).
- Evaluation of alternative models for future negotiations, such as Partial Scope or Economic Complementarity Agreements including commitments related to real opportunities for the parties, encompassing areas such as mutual cooperation, mutual recognition, equivalence and regulatory convergence.
- Improved information flow to the general public about developments in negotiations and trade agreements. For example, the work that MIREX/CTCN has been doing within the framework of the Trade Integration Strategy design and the criteria to undertake further negotiations are not public knowledge. A good strategy and communications campaign can help improve perception about global insertion opportunities.

There is a relatively broad consensus in the country about the fact that trade negotiations are insufficient to achieve better export performance and that more effective interventions are required, such as those aimed at strengthening productive capacities and competitiveness and at enhancing trade promotion policies.³⁵ This is an important requirement to maximise the benefits of existing trade agreements while laying more robust foundations to access other markets within the framework of new agreements or specific trade initiatives.

2. Trade agreements: an overview

At the end of 2015 the Dominican Republic had five trade agreements in force. Central American or Caribbean countries are involved in all of them, and the United States of America and the European Union are involved in two of them. Table 11 shows these agreements, their effective date and the number of countries involved. All agreements came into effect in the 2000s, although several of them were signed in the late 1990s and in the case of the agreement with Panama as early as the mid-1980s.

Table 11. The Dominican Republic's trade agreements

Agreement/trade partner	Effective date	Number of countries
(1) Partial Scope Agreement with Panama	November 2003	1
(2) Free Trade Agreement with CARICOM countries	February 2002	13
(3) Free Trade Agreement with Central American countries	March 2002	5
(4) Free Trade Agreement between Central America and the Dominican Republic (DR-CAFTA)	March 2007	6
(5) Economic Partnership Agreement (EPA) between the European Union and CARIFORUM countries	January 2009	43

Source: MIC/DICOEX. Based on data from the General Directorate of Customs (DGA).

Table 12. Structure of trade in goods by country or groups of countries, 2012-2014 (Percentage)

	Exports	Imports
Total	100.0	100.0
Countries with agreements	64.3	58.8
United States of America	51.4	39.3
Central America	2.2	3.0
EU (European Union 27)	8.5	9.6
CARICOM	1.9	6.5
Panama	0.4	0.4
Countries without agreements	35.7	41.2
Main export destinations		
Haiti	14.0	...
Canada	7.8	...
China	3.0	...
Switzerland	1.2	...
India	0.6	...
Others	9.1	...
Main sources of imports		
China	...	10.7
Bolivarian Republic of Venezuela	...	6.4
Mexico	...	5.9
Brazil	...	2.4
Japan	...	1.9
Others	...	13.9

Source: Prepared with UNCOMTRADE data.

The implementation of several of these agreements, especially the ones involving the United States of America and the European Union, has required great effort by the Dominican government in terms of strengthening the capacity to implement them. To achieve this objective both agreements foresaw external cooperation clauses and initiatives.³⁶ As a result, advances in modernisation and harmonisation with international standards for the facilitation and development of activities related to imports are recognised. However, strengthening commercial utilisation, i.e. developing export capacity to those markets, still remains pending.

As shown in table 12, during 2014 the main destination and origin of exports and imports was the United States. Haiti was the second destination for Dominican exports and the European Union was the second source of imports.

Despite not contributing significantly, available figures show that between Central America and CARICOM, the former is more important for Dominican exports, with 4.2 per cent of total exports, while the latter is more important from the import perspective, with 1.5 per cent of the total value of imports.

Finally, it is worth mentioning that according to the recent WTO Trade Policy Review on the Dominican Republic, talks are underway to explore the possibility

of reaching new trade agreements at the very least with Colombia, Chile, Mexico, Canada and Taiwan Province of China.

3. Promotion of foreign investment

Attracting high quality investment that creates decent and good quality jobs for the Dominican population and that contributes to foreign currency creation is key for the Dominican Republic's goal of reaching desired levels of development. Thus, FDI attraction is interlinked with the eradication of extreme poverty and hunger in the country (first MDG), and with the third area of the NDS, which seeks a sustainable, inclusive and competitive economy. The Dominican government's strategy in this area encompasses an extensive menu that shows the degree of openness to FDI.

In 1997³⁷ the Dominican Republic eliminated restrictions on foreign investment and limits on dividend repatriation to promote the attraction of Foreign Direct Investment (FDI). Since then, the competent national agency³⁸ has been promoting the country as an attractive investment destination through a comprehensive and strategic approach that highlights its political and macroeconomic stability, trade integration through free trade agreements and competitive labour costs.

Table 13. Foreign direct investment by sector, 2008-2014 (millions of USD)

	2008	2009	2010	2011	2012	2013	2014*	Total
Total	2 870	2 166	2 023	2 278	3 142	1 993	2 275	16 747
Electricity	113	121	108	259	305	450	386	1 742
Trade industry	574	280	566	355	1,257	404	641	4 077
Real estate	527	436	264	160	203	274	306	2 170
Tourism	228	186	180	108	162	257	301	1 422
Telecommunications	213	181	500	54	-21	188	257	1 372
Financial	168	137	93	134	159	152	205	1 048
Free zones	45	67	72	148	163	150	191	836
Mining	357	758	240	1,060	1,169	93	-39	3 638
Transportation	645	0	0	0	-255	25	27	442

Source: Central Bank of the Dominican Republic.

Note: sectors with negative values correspond to operational and/or divestment losses.

* Preliminary figures.

Sectoral incentive laws provide a view of priority sectors for the Dominican Republic. These include tourism, where the objective is to develop new poles and boost complementary supply and diversification,³⁹ the film and audio-visual industry and financial services. Other sectors that authorities promote as a priority for investment include telecommunications, energy, manufacturing (textiles and footwear), agriculture, agribusiness, infrastructure and mining.⁴⁰

Foreign Direct Investment (FDI) in the Dominican Republic amounted to USD 2,221.5 million during 2015 as a result of increased investment in tourism, real estate, trade and industry and telecommunications. During the period between 2010 and 2015, FDI in the country exceeded USD 13,800 billion, consolidating the Dominican Republic as the largest recipient of foreign investment in the Caribbean and as one of the largest recipients in Latin America.

FDI in the Dominican Republic tends to focus on services, following liberalisation processes in sectors that were controlled by the state such as energy, telecommunications, financial services, management of ports and airports and the exploitation of natural resources (i.e. tourism and mining).

Main FDI sources during the 2008-2014 period included Canada (24.7 per cent of total flows), United States of America (19.8 per cent), Mexico (12.3 per cent), Spain (5 per cent) and the United Kingdom (4 per cent). France, the Netherlands and Italy contributed 3.6 per cent of the total FDI flows received by the Dominican Republic during this period.⁴¹ Asian countries, who have been the biggest global investors in the recent past, have registered no investment in Dominican Republic, a trend which appears to continue.

The Dominican Republic has also concluded Agreements on the Promotion and Reciprocal Protection of Investments (APRPIS) which establish a number of provisions seeking to guarantee the investment climate and provide greater legal certainty to investors. Between 1999 and 2006 about 13 APRPIS were signed.⁴² Since 2006 the country has stopped signing APRPIS, but has concluded foreign investment protection chapters in the DR-CAFTA and EPA.

Law 8-90 is another important instrument to promote investment. It established export free zones and tax exemptions, which allowed capturing important investments for textiles, footwear, medical devices and jewellery and export services (such as call centres).

Fiscal incentives are important instruments in the Dominican Republic's policy to attract investment. They are present in the establishment of free zones, logistics operations, infrastructure, renewable energy, tourism or audio-visuals. According to UNCTAD's World Investment Report (WIR) 2015, tax exemptions are a key determinant in influencing decisions about the location of investments. According to the 2015 WIR, such incentives are widely used as instruments to promote sustainable development and attract investment linked to development goals.

In addition to incentives, the Dominican government, through CEI-RD, provides important services to investors which can significantly influence their decision to invest in the country. Among these, free technical assistance and personalised support offered during their investment processes. In addition, CEI-RD administers the Dominican Republic's Single Window for Investment (VUI-RD), through which investors can obtain, in one place, all permits required by various institutions for the installation of their projects. Furthermore, once investment projects have been initiated, the CEI-RD has a post-investment attention unit to provide investors with continued assistance and facilitate their expansion processes.

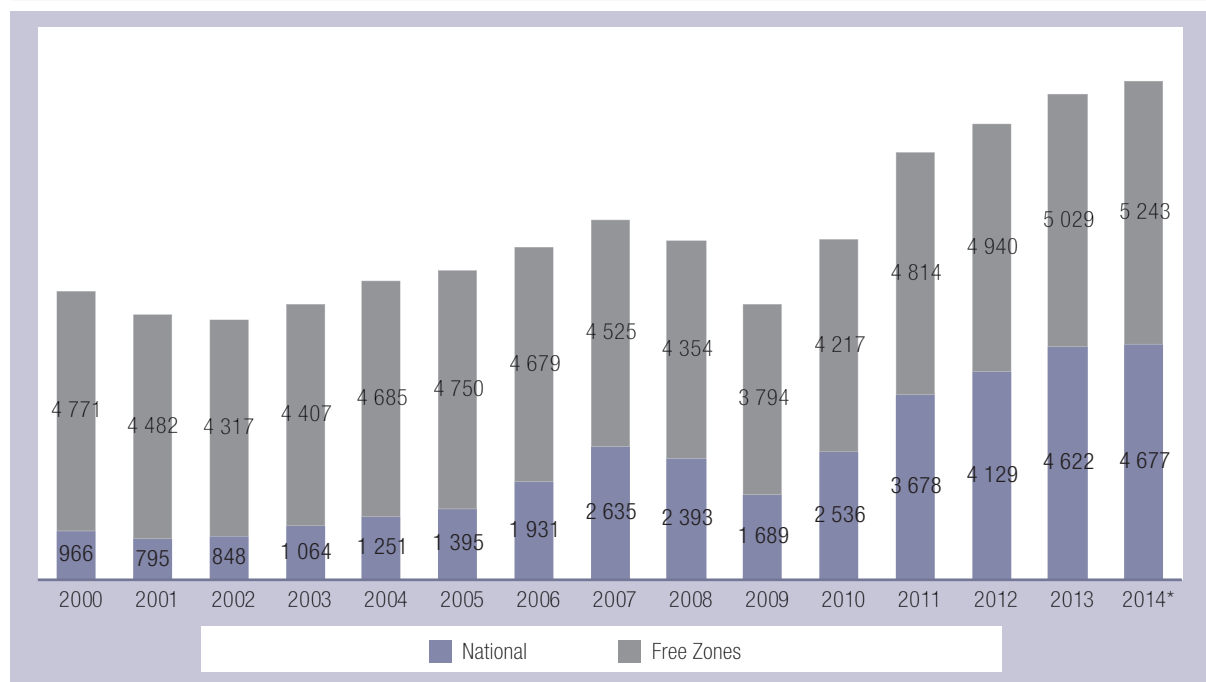
4. Export promotion

The Dominican Republic has a dual trade regime, where free zone commercial activities coexist with industries or sectors undertaking foreign trade activities outside the free zones, also known as the national regime.

4.1. Free zones

The free zone regime established in 1969 is considered the most important for export promotion and investment attraction in the country. It is regulated by Law 8-90,⁴³ which provides exceptional institutional and tax treatment to companies who are exporting.⁴⁴

In particular, companies are exempted from paying most taxes (including custom fees and Tax on the Transfer of Industrialized Goods and Services, ITBIS) and tax charges both for traded goods (import, export and purchases in the local market) and for revenues that result from their operations. At the same time, they enjoy expedited trade procedures, and a lower minimum wage than the one applicable to the specific sector for companies operating under the domestic regime.⁴⁵ Companies may benefit from this treatment

Figure 20. National and free zone exports, 2000-2014 (millions of USD)

Source: Central Bank of the Dominican Republic, IMF's 5th Edition of Balance of Payments Manual Methodology.
 * Projection according to the IMF's Sixth Edition of the Balance of Payments Manual methodology.

when they are located in previously designated free zone parks or when, because of exceptional conditions, they are declared 'special free trade zones'.

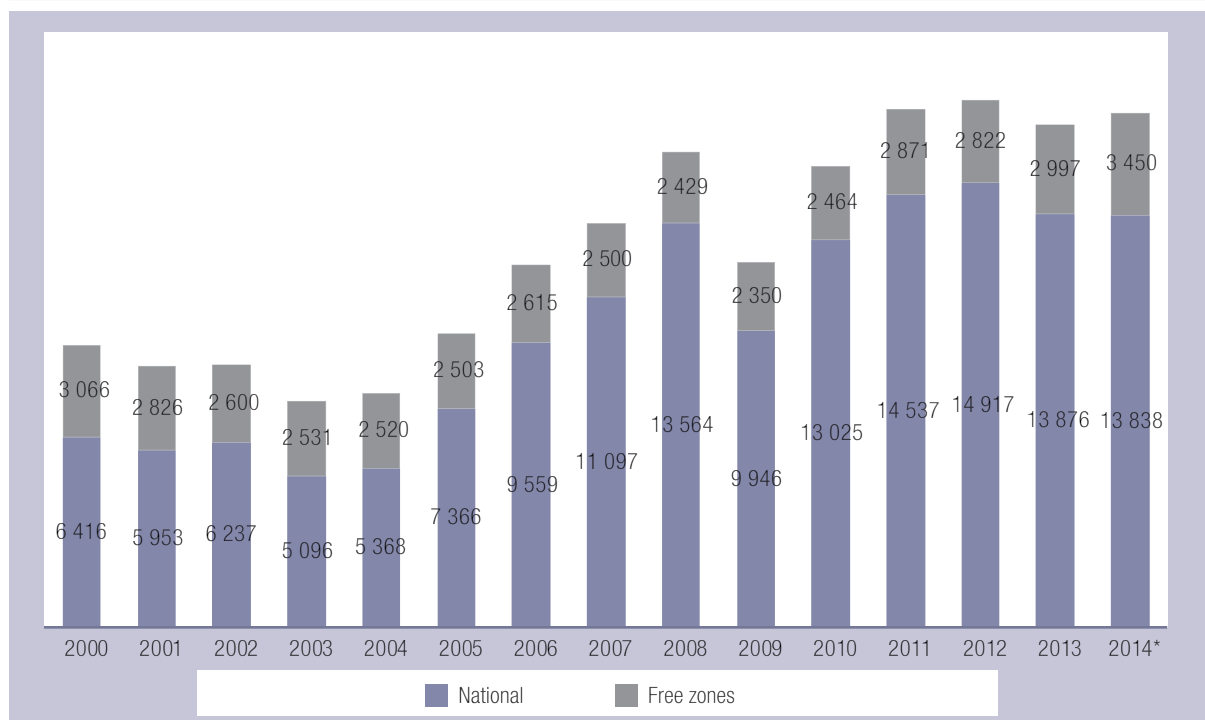
Since the early 1990s, exports of goods originating in the free zones have exceeded domestic exports, accounting for about 80 per cent of the total during some years. As seen earlier, after suffering a decline during the second half of the 2000s, the export performance for companies benefiting from this regime improved at the beginning of this decade and, as shown in figure 20, the export value has been growing steadily. However, in very recent years, their contribution to total exports has decreased because exports of companies under the domestic regime have behaved more dynamically and have gained ground. This is partly because of the importance of gold exports since 2013 due to the operational start-up of a major mining project. In 2014, exports from free zones represented 53 per cent of total exports, compared with 60 per cent in 2010.

The opposite result is seen in relation to imports, as shown in figure 21. Free trade zone imports have increased their contribution to total imports, going from 17 per cent to 20 per cent between 2010 and

2014. This was due to a sharp decline in the value of domestic imports, associated partly with reduced oil prices. A slow but steady decline can be observed in terms of contribution to GDP, going from 5.4 per cent in 2000 to 3.1 per cent in 2014.⁴⁶

According to Ministry of Finance figures,⁴⁷ the main beneficiaries of tax expenditures in the Dominican Republic are (i) widespread exemptions applied to individuals, followed by (ii) the free zone sector. In 2015 tax exemptions to this sector⁴⁸ were estimated to be RD\$ 37,741.4 million,⁴⁹ equivalent to 18.7 per cent of the total estimated tax expenditure or 0.8 per cent of GDP. Out of this total, the most significant are other Selective Consumption Taxes (SCT), which means selective taxes other than hydrocarbon SCT, tariffs and Income Tax. As shown in table 14, Income Tax exemptions for free zones accounted for 55 per cent of the total tax expenditure, tariffs for 76 per cent and other SCT for 75.5 per cent.⁵⁰

Despite a reduction in relative contribution, the number of free zone companies attained its highest figure in 2014, with 614 companies and 60 parks. At the same time, employment levels reached 153,342 jobs, a level not seen since 2005, according to figures from the National Council of Export Free Zones (NCEFZ).⁵¹

Figure 21. National and free zone imports (millions of USD)

Source: Central Bank of the Dominican Republic, IMF's 5th Edition of Balance of Payments Manual Methodology.

* Projection according to the IMF's Sixth Edition of the Balance of Payments Manual methodology.

Table 14. Free zone area tax expenditure (millions of RD\$ and percentage)

Detail	Income Tax	Hydrocarbons SCT	Other SCT	Tariffs	Equity	Total
Tax expenditure in free trade zones	12 803.3	271.8	7 699.9	14 149.2	2 817.3	37 741.5
Percentage sacrifice by free zones	55.1	1.0	76.5	76.0	11.1	18.7
Total tax expenditure	23 241.9	28 182.6	10 070.8	18 622.0	25 408.3	201 751.9

Source: General Directorate of Internal Taxes (GDII). 2015 Estimated Tax Expenditure Report.

4.2. The reactivation and export promotion law

After free zones, the second most important trade regime is the one related to Reactivation and Export Promotion and its Regulation, established by Act 84-99 (Decree No. 213-00). This law is essentially about tax compensation for export companies through three mechanisms:

1. A drawback system for the reimbursement of tariffs and other charges on the import of inputs in general.

2. Compensation of up to 3 per cent of the FOB value of exported goods, whose total value shall not exceed the value of the custom duties paid.
3. A temporary admission regime for inward processing. This allows the suspension of tariff and ITBIS payment⁵² on some imported products, including those from free zones, which must be processed and re-exported within 18 months of being traded.

However, neither the reimbursement nor the compensation mechanisms (1. and 2.) have been

implemented, the only mechanism that is operating effectively is number 3.

4.3. The law for competitiveness and industrial innovation

Under Law 392-07,⁵³ known as the PROINDUSTRIA Law, all previously classified companies that do not operate under the free zone regime enjoy a number of facilities that allow them, among other things, to modernise, innovate, rapidly depreciate their equipment and perform deferred ITBIS payments. An assessment carried out by PROINDUSTRIA in 2014 revealed that between 2008 and 2013, exporters received a refund of RD\$ 754 million (equivalent to USD 20.8 million, or 0.11 per cent of national exports), 8,000 new jobs were created in manufacturing (2 per cent of total employment in the sector) and the industrial machinery park was renovated with a deduction due to investment that amounted to RD\$ 8,659 million (equivalent to USD 229.4 million, or 1.2 per cent of domestic exports).⁵⁴

To summarise, the trade regime duality that exists in the Dominican Republic consists of the co-existence

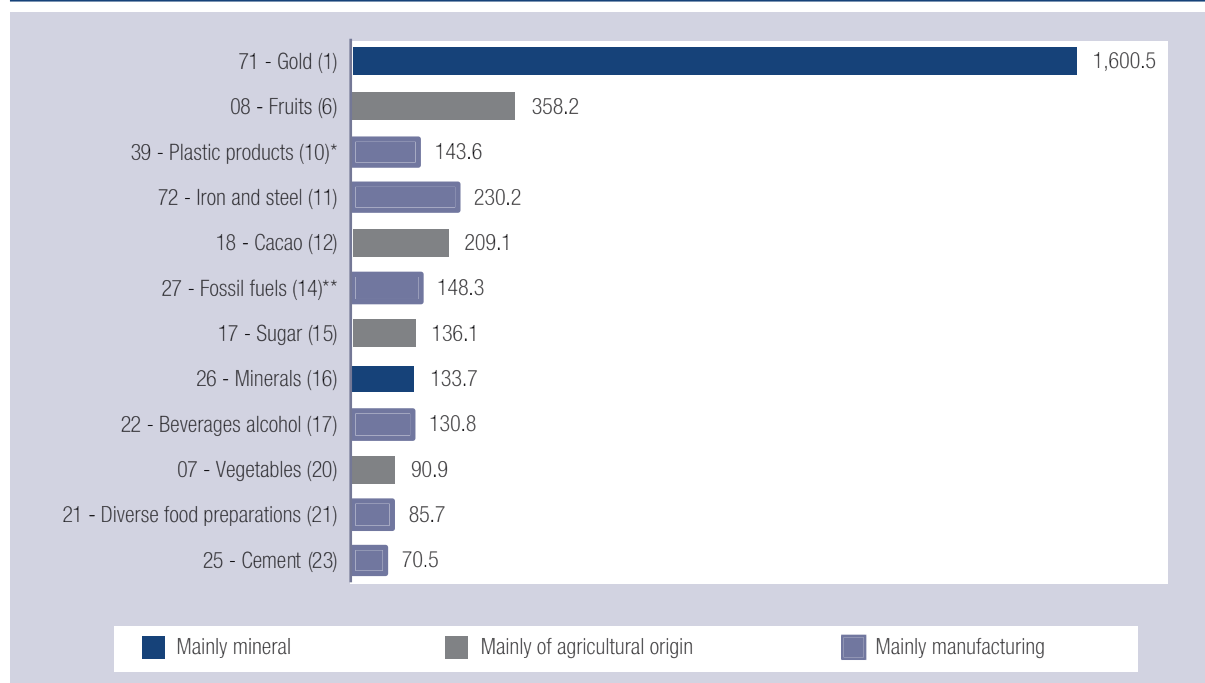
of: (i) a free zone regime where companies linked to global value chains operate free of many charges, with exceptional institutional treatment and reduced linkages with the national productive apparatus; and (ii) a national system which operates half-heartedly and has not been able to provide an advantageous tax treatment for exports.

4.4. An assessment of incentive schemes for the export of goods

One of the most controversial subjects in the debate about the impact of trade policies on development is the effectiveness of tax incentive schemes for investment, exports and employment. The main controversy revolves around whether the tax cost associated with such schemes is more than compensated by the social benefits it generates. The debate is particularly intense in the case of free zones regimes where companies benefit from a broad regime of exemptions, as described above.

Unfortunately, the evidence on the characteristics of general export activities in terms of added value, productive linkages, quantity and quality of jobs

Figure 22. Value of main exports under the national regime, 2013-2014 annual average (millions of USD)



Source: Developed with UNCOMTRADE data.

Note: the number on the left of the description corresponds to the HS chapter, and the number to the right in parenthesis to the place occupied by the chapter in the total value of exports, both national and from free zones. The description was simplified to reference the most important product or products within the chapter.

* Export of plastic products (Ch. 39) exclusively carried out by companies under the national regime.

** Sales carried out in ports, especially for the replenishment of airplanes and boats.

and tax contributions is very limited, particularly for those outside the free zones. The same applies to measurements about the net effect of incentives.

Export activities under the national system⁵⁵ are diverse and combine the production of commodities, including mining, and manufacturing. Hence, their characteristics in terms of added value, production chains and quantity and quality of jobs are very different. As discussed elsewhere, exports under the national scheme (or national exports) account for less than 50 per cent of total exports. On average between 2013 and 2014, they were equivalent to USD 4,576 million. Manufacturing accounted for 49 per cent of these (USD 2,235.1 million), minerals for 33 per cent (USD 1,517 million), and products of agricultural origin for 22 per cent (USD 824 million).⁵⁶ Figure 22 shows the 12 chapters where domestic exports represent all or a very high proportion of total exports.

For the most part, domestic manufacturing exports are carried out by import-substitution companies that produce or have produced mainly for the domestic market but have expanded sales to foreign markets, particularly regional ones, Haiti being the main one. In most cases, external markets are not their most important market. Industrial enterprises are located primarily in urban areas of the capital Santo Domingo, on the southern coast, and Santiago, which is the country's second largest urban centre in the north. Available statistics on the manufacturing sector are limited, and beyond the exported value by type of product, they are not disaggregated by target market (domestic or external).

As is common in small economies, these types of businesses tend to import a high portion of their inputs and capital goods, although some activities like the production of some processed foods or furniture manufacturing are part of national production chains and help shape a relatively dense economic fabric. Others such as cement manufacturing contribute to short or vertically integrated chains within the same company. This means that their knock-on effect on other productive activities is limited, although probably greater than that of free trade zone companies.⁵⁷

Finally, given that export manufacturing companies also produce for the domestic market, it is difficult to discern the impact that trade has had on employment in this sector. In 2014, the manufacturing sector as a whole employed 417,000 people, or 9.9 per cent

of total employed people, of which just over 250,000 were employed in the domestic industry, that is, outside the free zones. This accounted for 6 per cent of the total working population.

Meanwhile, in recent years, exports of minerals have consisted of gold and silver mainly from a particularly large-scale mining project developed by a transnational mining corporation in partnership with the state in the centre of the country, although in the past the extraction of ferronickel was noteworthy. Due to their nature, these are very capital-intensive activities, with few jobs available and few domestic productive linkages, although they generate important tax revenues associated with tax levies and state involvement in the aforementioned project.⁵⁸

Finally, export products of agricultural origin consist mainly of fruits, particularly bananas, cocoa and raw sugar, and vegetables. Their levels of 'backward' linkages are reduced, and although there are no disaggregated statistics, the employment level is very variable,⁵⁹ with the banana industry generating most jobs, which are mainly located in the north western region of the country.

We must insist on the fact that the national system offers export activities fewer advantages than the free zone regime. Hence, the fiscal cost is not even measured because the only mechanism operating is 'temporary import of goods' which is understood as an advantage with regard to customs processes, not as a tax incentive.

Meanwhile, the free zone regime has received much more attention and because of their situation of institutional exceptionality, there is a higher volume of information than in the case of the national system. Between 2013 and 2014, the average annual value of exports of goods under this regime was USD 5,098 million, half of all exports of goods, and all of them were from the manufacturing sector. In that period, the contribution of these activities to the GDP was, on average, 3.1 per cent.⁶⁰

At the same time, there are now more than 600 companies under the regime, which creates a significant number of jobs. After the significant reduction experienced due to the decline of textile manufacturing activities in the mid 2000s, total employment has recovered significantly, especially during this decade. 2015 closed with a total of 161,257 jobs, with almost half being held by women (CNZFE 2016).

In 2013 and 2014, products of greater importance in terms of export value were:

- medical appliances and devices (USD 1,029 million per year or 20.2 per cent of export value), which consist of items such as catheters and feed tubes
- cigarettes and cigars (USD 616 million or 12.1 per cent)
- electrical machinery and apparatus (USD 579 million, 11.4 per cent) consisting of electrical devices such as switches and control devices
- knitted and non-knitted garments and clothing accessories (USD 695.6 million or 13.7 per cent)
- footwear and similar articles (USD 352 million or 6.9 per cent)
- pharmaceuticals (USD 302 million or 5.9 per cent)

Except for some subsectors,⁶¹ the activities of companies under the free zone regime have relatively few linkages with the rest of the economy. These are limited to the payment of wages and compulsory social security contributions, and payment of basic services such as energy, water from the public network, telecommunications and others. Indeed, as shown in table 15, local expenses remained stable over the past decade, while the contribution to the GDP declined significantly from 6.1 per cent between 2000 and 2004, to 4 per cent between 2005 and 2009, and to 3.2 per cent of GDP between 2010 and 2014.

However, it should be noted that between 2010 and 2014 local expenses increased nominally by 42 per cent, and that between 2000 and 2014, expenditure per worker grew from USD 5,217 to USD 8,922 for a cumulative growth of 71 per cent. Expressed as a percentage of exports they remained stable between 2000 and 2008, with an average ratio of 20.8 per cent, rising to 25.8 per cent between 2009 and 2014 (see figure 23).

In general, the activities operating under the free zone regime are part of global value chains, and often the companies involved are part of transnational corporations that locate part of their operations in suitable territories for cost reasons and the quality of resources (e.g. labour force), time and frequency of transportation and tax treatment. This is the case for companies engaged in the manufacturing of devices and medical⁶² gear and the manufacturing of electrical machinery and devices. In other activities, such as the manufacturing of garments and clothing accessories,

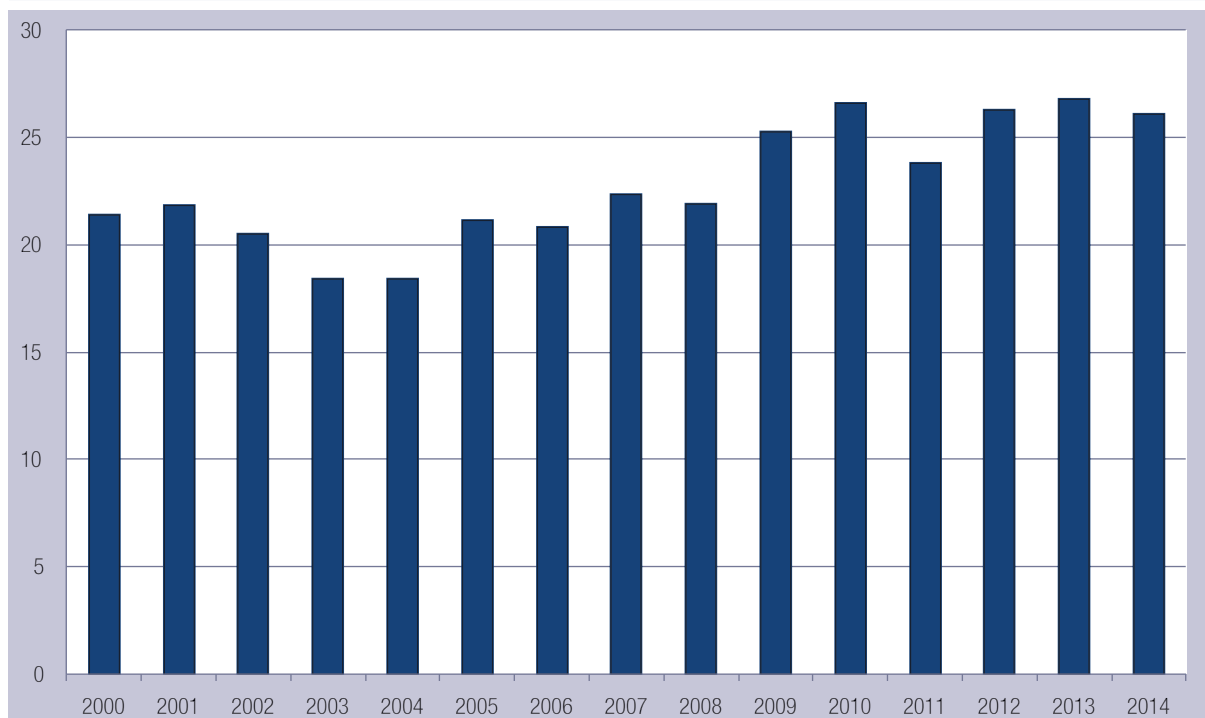
there are subsidiaries for corporations and individual companies working under contract for such corporations. Although there are no available statistics on the corporate links and shareholding structure of the sector's companies, in 2014, 78 per cent of the cumulative investment in the sector was foreign, and 49 per cent had the United States of America as its origin (CNZFE 2015).

As noted above, the assessment of the tax treatment net effect of free zones companies is controversial. A recent study by the consulting firm Analytica, sponsored by the Dominican Association of Free Zones (ADOZONA), found that companies in the sector showed a tendency towards diversification of activities⁶³ and an increase in the quality of jobs associated with that diversification.⁶⁴ In addition, companies in the sector, measured by number of employees, have a significantly larger average size than other companies in the country and create 0.8 indirect jobs for every direct job, which means that in addition to the direct contribution to the GDP equivalent to 3.2 per cent, they have an indirect contribution of 2.1 per cent, and make significant indirect tax contributions, in particular due to payment of income taxes and contributions to social security. The study estimated

Table 15. Contribution to GDP, number of jobs and local expenses of free trade zone companies, 2000-2014

Year	Percentage of GDP (percentage)	Number of jobs	Local expenses (million USD)
2000	5.1	195 262	1 018.6
2001	5.1	175 078	977.9
2002	5.4	170 833	886.5
2003	7.5	173 367	810.8
2004	7.3	189 853	863.4
2005	4.8	154 781	1 005.4
2006	4.5	148 411	973.7
2007	4	128 002	1 010.9
2008	3.5	124 517	954.3
2009	3.2	112 618	959.0
2010	3.1	121 001	1 123.0
2011	3.3	125 117	1 163.5
2012	3.2	134 226	1 298.2
2013	3.2	144 383	1 326.0
2014	3.1	153 342	1 368.1

Source: CNZFE (2015).

Figure 23. Local expenses of free zone export companies, 2000-2014 (percentage of exports)

Source: Prepared using data from CNZFE (2015).

that the sector's total net profits in the form of wages, indirect tax contributions and local investment is 4.8 times the value of tax expenditures (exemptions) that it benefits from (Analytica 2015). However, it should be noted that the analysis was aggregated and comparative, and therefore cannot account for the effect of the exemptions on companies and their performance.

In contrast, using company-level microdata, Artana and Templado (2015), sought to test the hypothesis that tax exemptions have positive effects on the performance of companies in three countries: Costa Rica, El Salvador and the Dominican Republic. Performance was measured by sales and rates of return, comparing free zone companies and companies outside them (with exemption benefits and without them, respectively). Overall, they found that there is a high risk that income tax exemptions have favoured highly profitable projects that would have probably taken place regardless of the exemptions.

In the case of the Dominican Republic, the results were mixed. It was not found that the tax treatment for free zones had a positive effect on pre-tax profits. However, free zone companies were found to be more

labour-intensive and their income more dynamic, suggesting positive impacts on employment and sales.

5. Instruments concerning imports

The regime covering import activity in the Dominican Republic is also dual, treating imports from countries with whom there are no trade agreements differently (Most Favoured Nation Treaty MFNT, or simply MFN) from countries with whom there are trade agreements, depending on specific agreement provisions.

5.1. Trade barriers under MFN

The main trade barrier applicable to goods originating from member countries of the World Trade Organisation (WTO) which are not part of any trade agreement is the customs tariff established under Law 146-00,⁶⁵ which specifies five tariff rates, 0 per cent, 3 per cent, 8 per cent, 14 per cent and 20 per cent, applied to almost all of the 7,048 tariff lines.

The rate applicable depends on the degree of elaboration. In general, the lower rates of 0 per cent and 3 per cent are applied to machinery and

equipment and basic agricultural or industrial inputs, encompassing 58 per cent of all tariff lines (3,778 lines with 0 per cent rates and 289 with 3 per cent rates). Rates of 8 per cent and 14 per cent are applied on intermediate or semi-processed products (902 lines) and of 20 per cent on finished products (2,002 lines). A few lines⁶⁶ are subject to tariffs rates of 40 per cent.

The average MFN tariff of the Dominican Republic is 7.8 per cent, with an average tariff of 14.2 per cent on agricultural products and of 6 per cent on manufactured goods. Notably, most of the lines are subject to a rate of 0 per cent or 20 per cent, suggesting a polarised tariff structure. Of the total lines, 53.6 per cent are subject to a tariff rate of 0 per cent, while 28.4 per cent of them are subject to a tariff rate of 20 per cent (see figure 24).

5.2. Import barriers under trade agreements

In 2015, 97.2 per cent of tariff lines were fully untaxed for imports originating in the DR-CAFTA countries. In the case of the EPA, this was the case for 74.1 per cent of all lines.

5.3. Customs procedures and technical barriers

In recent years, three important advances have allowed customs procedures to become more modern and

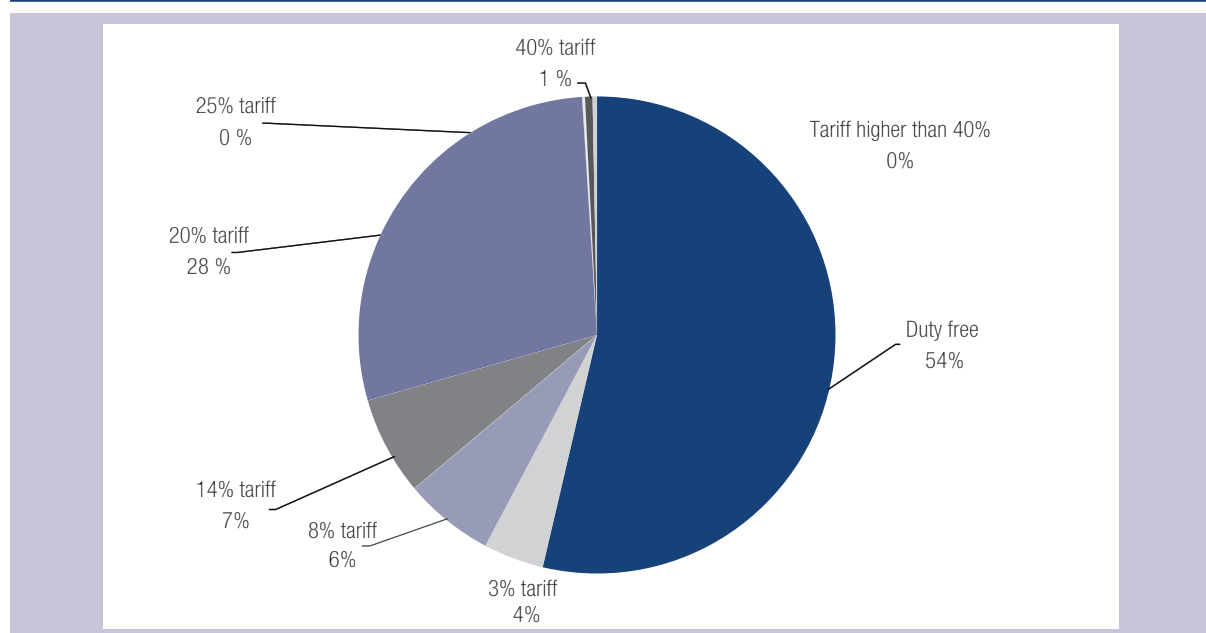
simpler in the Dominican Republic: the establishment of the Single Customs Declaration; the creation of the Integrated Customs Management System (SIGA), which institutes the electronic customs declaration; and the Authorised Economic Operator, a facility that allows any recognised economic agent to act as process and customs control operator (see table 17).

Moreover, one of the most important requirements for economic operators to engage in foreign trade activities (exports and imports) is being registered in the National Taxpayer Register (RNC). In addition, legal entities must be registered in the Mercantile Registry. Individuals must have their identity card. However, there is no registration requirement for imports.

For imports above USD 2,000 the importer must submit:

- Single Customs Declaration (SCD)
- Commercial invoice, original and translated into Spanish
- Customs Value Declaration (CVD)
- Shipping documents
- Certificate of origin, if a preferential regime is applicable
- Import license, No Objection Guide or phytosanitary or animal health certificate (if applicable)

Figure 24. Distribution of MFN tariffs, 2014 (percentage of tariff lines)



Source: WTO (2014). Trade Policy Review of the Dominican Republic.

Table 16. Number of reduced tariff lines in the DR-CAFTA and the EPA and year of tax reduction

Tariff reduction schedule (*year of entry into force of the agreement)		Tariff lines (products at HS-8 digit level)		Tariff line (percentage)	
DR-CAFTA	EPA	DR-CAFTA	EPA	DR-CAFTA	EPA
2007*	2009*	5 181	4 529	76.3	66.7
2009	2013	2	104	0	8.3
2010	2018	407	565	6	0.1
2015	2022	1 016	8	15	11.1
2017	2023	32	757	0.5	1.5
2020	2028	143	187	2.1	2.8
2025	2033	12	101	0.2	1.5

Source: WTO (2015), Trade Policy Review of the Dominican Republic.

* Year of entry into force of the agreement.

Table 17. Innovations in border management in the Dominican Republic

Advance	Result
Single Customs Declaration	Widespread use of this declaration
Integrated Customs Management System ⁶⁸	Implementation of this system at the national level, which allows customs to be declared electronically
Authorised Economic Operator (AEO) ⁶⁹	A facility allowing all economic operators (that participate in the trade logistics chain) that are recognised by the General Directorate of Customs to benefit from simplified customs procedures and controls. Adopted since 2012

Source: WTO (2015), Trade Policy Review of the Dominican Republic.

All these documents must be submitted online through the Integrated Customs Management System (SIGA).⁶⁷

Moreover, a set of selected products are subject to bans or permits. As shown in table 18, the prohibitions include certain firearms, parts and ammunition; wild birds; used household appliances; certain types of pesticides and insecticides; plants of various types; used clothes; right-hand-drive vehicles; rescue vehicles (involved in accidents); and light vehicles manufactured more than five years ago. Products subject to import permits are weapons and ammunition; bulbs, seeds, live plants, fruits, fertilisers and pesticides, and other live animals; certain medicines; livestock and fresh meat; substances that deplete the ozone layer; telecommunications equipment; medicine and personal hygiene products;

agricultural products; seeds; and plant protection and veterinary products.

Finally, imports are subject to at least three additional charges besides tariffs, one of which affects imports only under certain conditions. The other two are applied to all goods in a non-discriminatory manner, irrespective of their origin. The first one is the Charge for Custom Services. This is paid if after submitting the customs declaration the clearance of goods takes less than 24 hours. In case of exceeding this time the importer is exempt of this charge. Table 19 presents the charges.

The other two are:

- i) Tax on the Transfer of Industrialised Goods and Services (ITBIS). ITBIS is a value-added tax, and is applied to all imported products based

on their CIF value, plus the corresponding tariff and other import duties. Currently, this tax is at 18 per cent, except for some goods with a rate of 16 per cent.

- ii) Selective Consumption Tax (SCT). This tax is applied to certain luxury goods, alcoholic beverages and products derived from tobacco. The SCT rate is 20 per cent with the exception of some products that are 10 per cent, 78 per cent and 130 per cent.

In short, barriers to imports should be understood in two groups: those for countries who have trade agreements with the Dominican Republic and those for countries who do not. In the first case, with the exception of very specific products or technical barriers, they are in a process of gradual reduction that will end by eliminating almost all of them in a few years. In the second case, there is a tariff regime that mainly protects manufacturing production with an average nominal rate of 20 per cent, generating tax revenues of medium significance and applying low rates to imports of machinery, equipment and basic manufacturing and agriculture inputs.

6. Policy instruments for trade specific services

Despite weaknesses in capturing statistical data related to other services, the Dominican Republic is committed to the development of new services and this is clear in the third area of its NDS, which includes the following specific objectives:

- Expanding the coverage and improving the quality and competitiveness of infrastructure and transport and logistics services, to facilitate integrating productive sectors within the territory, supporting their development and competitive insertion into international markets.
- Turning the country into a regional logistics centre, taking advantage of its geographic location.
- Supporting the competitiveness, diversification and sustainability of the tourism sector.
- Promoting the development of the cultural industry and the projection of the tangible and intangible heritage of the nation.

Table 18. Product-specific restrictive measures (products prohibited and subject to permits)

Banned products	Subject to permits
Firearms, parts and ammunition	Weapons and munitions
Wild birds	Bulbs and seeds, fruits, spices, live plants, fertilisers and pesticides, meat products, fish and shellfish, live animals, products and by-products of animal origin
Used household appliances	Certain medicines for human and animal use and chemicals products
Pesticides and insecticides	Livestock and fresh meat
Cocoa plants, fruits, seeds and their parts; and musaceae plants (bananas) and their parts	Gases and substances that deplete the ozone layer
Used clothing	Imports of telecommunications equipment
Right-hand-drive vehicles	Medicine, health and personal care products, pharmaceuticals, natural products that are marketed for therapeutic purposes, and household hygiene products
Rescue vehicles (that have been in accidents)	Agricultural products
Light vehicles over five years old	Seeds
Heavy vehicles over 15 years old	Substances for plant protection and veterinary products

Source: WTO (2015), Trade Policy Review of the Dominican Republic.

Table 19. Customs service fee (by type of cargo)

Load type	Payable service fee (USD)
20 foot containers	75
40-45 foot containers	100
Consolidated shipment*	0.25 per kilo or fraction of a kilo. Limit of 60 per boarding pass.
Loose or bulk goods	0.50 per metric tonne. Limit of 500 per boarding pass.
Motor vehicles, equipment and machinery	100 per unit
Express courier	0.25 per kilo or fraction of a kilo. Limit of 10 for each guide issued.

Source: Decree No. 627-06.

* Excludes those sent via express courier.

This section presents the most relevant policies and instruments adopted to achieve these objectives. It seeks to establish the legal framework and recent performance of new services with export potential identified in the National Development Strategy. They require action aimed at collecting quantitative data and in-depth studies in order to boost growth and expansion.

6.1. Logistics

Logistics is a value chain encompassing cargo transportation, storage and dispatch at the border (ports and airports), and payment systems and functions outsourced to service providers by producers and merchants. Although logistics are carried out mainly by private operators, it has become a concern for national governments and regional and international organisations due to its impact on border trade facilitation.

Since 2006, and following the work carried out under the programme of competitive advantages that led to the creation of the National Competitiveness Council, logistics were considered a key activity for turning comparative into competitive advantages. The great comparative advantage of the Dominican Republic is its closeness to the world's largest consumer market, the United States. However, this cannot be exploited unless there is a transport, ports and telecommunications infrastructure and efficiently coordinated logistics that can turn this comparative advantage into a sustainable competitive advantage.

The Dominican industrial sector bet on this potential advantage by promoting an industrial strategy based on a model of fast delivery, identifying the market segments in each industry that were willing to pay a price for speed and flexibility.⁷⁰ To this end, adjustments to internal production processes, a good transportation system, air and shipping ports and an efficient and agile customs system were required.

In this regard, during the First Industrial Congress held in 2007 the following urgent actions to improve logistics services related to international trade were identified:

- Reducing the percentage of containers subject to physical inspection
- Substantially improving port services, separating the role of regulatory authority from the role of port operator
- Strengthening customs procedures through automated and integrated information systems
- Increasing security in ports and harmonising it with international standards
- Having a zero risk registry of companies certified by the government in order to provide them with more beneficial treatment with regard to tax and customs processes
- Having a comprehensive automated customs system, in order to standardise information to generate foreign trade statistics

- Modernising the logistics system to provide a comprehensive set of services where both the importer and the exporter have access to a catalogue of companies related to foreign trade

In July 2014, the Ministry of Economy, Planning and Development and the Inter-American Development Bank (IDB) prepared a Strategic Agenda for Competitiveness Logistics proposing the implementation of a National Logistics System which included a detailed plan of actions and investments.

Legal framework and incentives

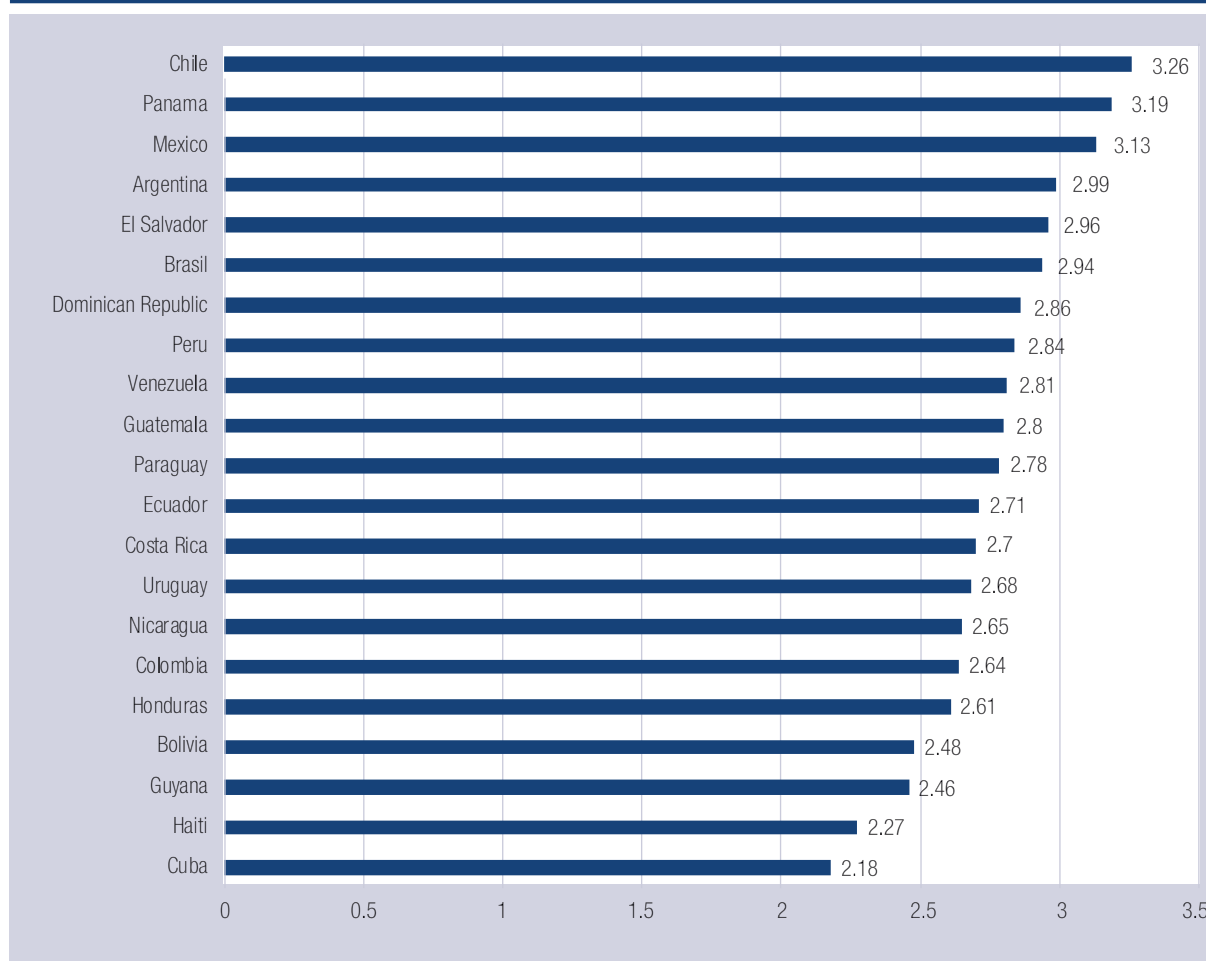
Decree 262-15 dated 3 September 2015 promulgates the Regulation of Logistics Centres and Logistics Operating Companies.⁷¹ It is the result of efforts that have been taking shape for more than 10 years and lays the foundation for the continued expansion of facilitated transit and minimum transformations of

goods being exported.

Decree 262-15 creates the role of Operator for Logistics Centre and Logistics Service Companies, organises the legal framework for logistics centres, consolidating the dispersed legal framework and covering various services in the logistics supply chain. This legal framework includes the 1954 General Customs Act (pending modification); port and airport concessions; and the general export free zone law (which covers operations of free zone companies but is also applicable to logistic companies under port and airport management).

As for incentives, no new exemptions are introduced in addition to those already enjoyed by companies under the free zone regime that already provided services as logistics centres. The 3.5 per cent tax on the value of sales to the domestic market is ratified as presumed income.

Figure 25. Logistics Performance Index for Latin America and the Caribbean, 2014



Source: World Bank, 2014 Logistics Performance Report.

The new legislation organises and regulates an expanding activity demonstrative of the interest of positioning the Dominican Republic as a 'regional logistics centre, taking advantage of its geographical location advantages'. Due to its recent publication it is not possible to measure its impact.

Recent performance

The Doing Business index⁷² published annually by the World Bank and the International Finance Corporation consistently gives the Dominican Republic positive reports in the 'Cross-border trade' indicator. In the 2014 edition, the country held position 39 out of 189 economies and in the 2015 edition it had an improvement of 15 points, located in position 24.

The World Bank has also developed a Logistics Performance Index⁷³ (LPI) that measures logistics, or rather, the efficiency of supply chains in each country and their behaviour concerning trade with other countries (trade partners). Figure 25 details the LPI ranking for several countries in Latin America and the Caribbean.

The Dominican Republic has had fluctuations in its performance over the years. Although 2014 saw an improvement in the index relative to 2012, its positioning deteriorated compared to 2010. The country has comparative advantages in terms of location, but should improve in the index components of punctuality,

tracking and tracing, which according to the latest report have deteriorated compared to 2010.

Challenges

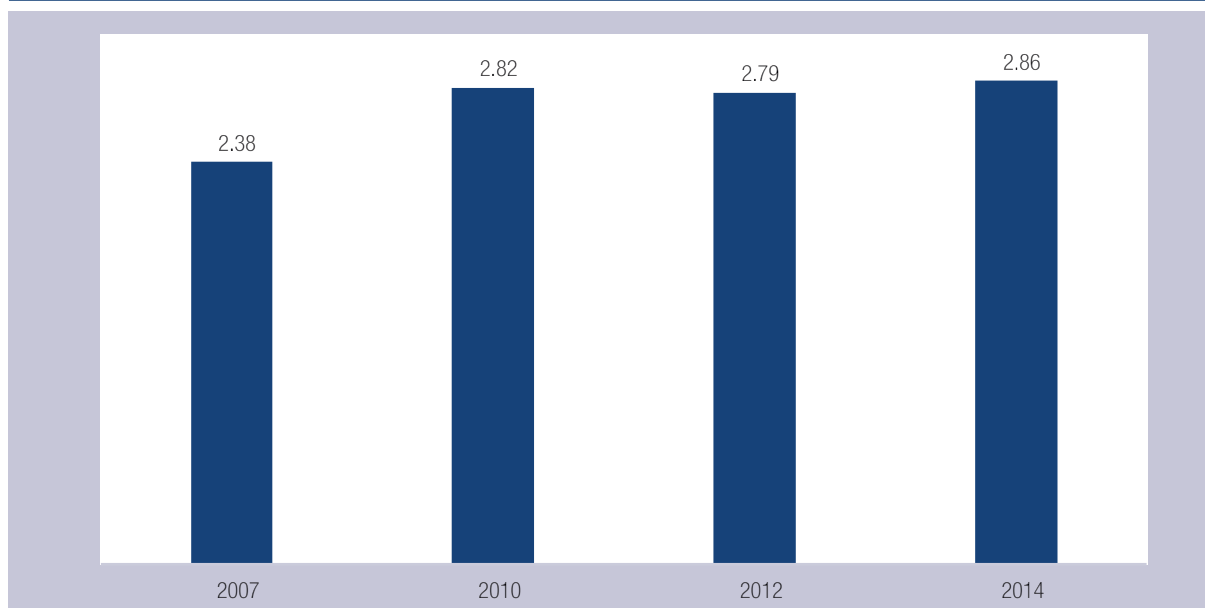
The Dominican Republic has very fluctuating indicators in terms of logistics competitiveness measured by the LPI, with customs management, tracking and punctuality the elements with least consistency. The proposed creation of a National Logistics System can help address these issues in an integral way and coordinate scattered initiatives that both the public and private sectors are carrying out.

Other problems identified by the private sector⁷⁴ as limiting export competitiveness and use of Dominican Republic's geographical position to become a regional logistics centre are: (i) the monopoly of freight transport, which prevents free recruitment of services and makes the transfer of goods more expensive, and (ii) selective taxes, applicable ships and aircraft fuel, and airline tickets. These make the country an expensive choice for maritime and air operations.

6.2. Tourism

The Dominican Republic is recognised in the region for its wide range of hotels, infrastructure and the sale of 'all inclusive' packages that have made tourism the main source of currency generator and employment in the economy.

Figure 26. Logistics Performance Index for the Dominican Republic for 2007, 2010, 2012 and 2014



Source: World Bank, 2014 Logistics Performance Report.

Regulatory framework and incentives

The traditional sun and beach offer led to the emergence and successful development of the tourist areas of Puerto Plata-Sosúa and Bávaro-Punta Cana in the 1980s and 1990s. In 2001 the Dominican Republic enacted a new law on tax incentives for the tourism sector, structuring tourism poles across the national territory and offering incentives for the development of a complementary offer as a means to diversification.

Law No. 158-01 for Tourism Development,⁷⁵ amended by Law 195-13, promotes the expansion of the tourism industry by granting large tax incentives for conducting tourism activities across the country for a period of 15 years. This law and its regulations grant an exemption of 100 per cent applicable to the following items: income tax, national and municipal taxes, property tax or taxes on assets. To apply these incentives, tourism projects must be approved by the Ministry of Tourism's Council for Tourism Promotion (CONFOTUR). This law was extended and expanded in 2013 to extend benefits to up to 15 years from the moment the operation of the project⁷⁶ starts.

The tariff incentives apply only to the import of capital goods required for the implementation of the project, as long as local production is not of 'sufficient quality'. The regime also allows companies to deduct from their taxable net income up to 20 per cent of the investment made. In 2014, 33 companies benefited from the scheme of incentives for tourism development.

The priority for the sector's development is to bring communities closer to tourism activities, meaning that greater economic benefits reach more people. For this purpose, since 2008 the number of so-called 'tourist clusters' has increased in order to promote non-traditional attractions in various provinces. There are currently 13 registered tourist clusters in the National Competitiveness Council (NCC) receiving support in designing strategic plans.⁷⁷ However, there is a lack of studies that measure their impact on the increase in visits.⁷⁸

The non-traditional tourism segments that are being developed include:

- Ecotourism. The Dominican Republic has a variety of ecological zones being promoted domestically and internationally as an experience that complements the traditional offer of the sun and beach holiday. Although no official statistics

are kept, the National Hotels and Restaurants Association (ASONAHORES)⁷⁹ keeps track of foreign visits to national parks, ecological reserves and protected areas. The figures collected between 2010-2014 show a progressive increase in foreign visitors, for a 22 per cent growth in the last year (see table 20).

- Golf tourism. The Dominican Republic was recognised by the International Association of Golf Tour Operators (IAGTO) as the top golf destination in the Caribbean and Latin America. According to industry reports, its contribution to the Dominican economy is about USD 200 million based on the arrival of 140,000 golfers in 2014, representing a growth of 10 per cent in comparison to the previous year.⁸⁰
- Second homes (real estate development). Incentives for the tourism industry have enabled the design and development of real estate projects offered as second homes for foreigners. Although the Dominican Republic was portrayed as a cheap holiday destination for many years, it has managed to attract a high-level segment to invest in real estate projects such as Casa de Campo, Cap Cana, Punta Cana, Metro and Playa Grande.
- Cruise tourism. During 2014, the country received 435,500 tourists through the ports of Santo Domingo, La Romana and Samana.⁸¹
- Medical tourism. The Dominican Republic is trying to develop this market segment by promoting its health centres for high-demand procedures such as heart operations, gastric procedures and aesthetic and dental surgery. To this date, most people visiting the country in pursuit of these services have been Dominicans living abroad or with dual nationality. There is no statistical data about the impact of these activities on the trade balance.

Recent performance

The contribution of the tourism sector to the Dominican economy has maintained a steady growth rate, reaching the figure of USD 5,638.1 million in 2014, USD 574.6 million more than those received during 2013, according to figures from the Dominican Republic Central Bank. During 2014, hotel business activities in the country reached 68,840 rooms, equivalent to an occupancy rate of 74.8 per cent, reflecting an increase of 3.1 points compared to 2013.

Table 20. Foreign visitors to protected and biodiverse areas in the Dominican Republic, 2010-2014

Protected areas	2010	2011	2012	2013	2014	2014-2013
National parks						
Armando Bermúdez	335	394	-	222	890	300.9
José del Carmen Ramírez	-	-	-	-	-	0.0
Nalga de Maco	-	-	-	-	-	0.0
Juan B. Pérez (Valle Nuevo)	-	-	-	632	2 075	228.3
Sierra de Bahoruco (Pelempito)	917	-	-	63	15	-76.2
Donald Dod (Bahoruco)	-	-	110	-	-	0.0
P.N. Los Haitises	17 888	17 888	3 152	-	22 103	100.0
Montecristi (Estero Hondo)	14 862	-	3 100	-	35 248	100.0
Parque Nacional del Este	385 160	576 647	557 256	529 546	606 799	14.6
Submarino La Caleta	-	-	9	109	4 430	3 964.2
Jaragua National Park	1 337	2 365	1 283	87 912	5,108	-94.2
Isla Cabritos / Lago Enriquillo	1 251	636	956	989	13	-98.7
Cabo Francés Viejo	1 900	-	-	800	-	-100.0
Histórico La Vega Vieja	-	-	-	-	-	0.0
Histórico La Isabela	-	-	-	-	-	0.0
Subtotal	423 650	597 930	565 866	620 273	676 681	9.1
Scientific reserves						
Villa Elisa	-	-	-	-	-	0.0
Ébano Verde	51	-	71	63	-	-100.0
Loma Quita Espuela	39	21	-	56	-	-100.0
Laguna Redonda y Limón	200	-	-	-	99	100.0
Loma de Guaconejo	13	-	46	-	-	0.0
Subtotal	303	21	117	119	99	-16.8
Natural monuments						
Isabel de Torres	-	-	-	-	-	0.0
Bahía de Las Calderas	20	-	-	294	448	52.4
Isla Catalina	37 534	85 646	91 865	88 810	124 027	39.7
Cabarete y G. (El Choco)	871	432	-	-	1 282	100.0
Pico Diego de Ocampo	40	40	-	-	-	0.0
Albufera de Mamón	230	154	-	613	450	-26.6
Saltos de Damajagua	13 583	882	38 573	39 455	40 274	2.1
Salto del Limón (Samaná)	30 948	29 424	3 572	41 965	60 719	44.7
Salto de Jimenoa (Bol. 2010)	-	-	1 538	12 559	2 101	-83.3
Subtotal	83 226	116 578	135 548	183 696	229 301	24.8

Table 20. Foreign visitors to protected and biodiverse areas in the Dominican Republic, 2010-2014 (cont'd)

Protected areas	2010	2011	2012	2013	2014	2014-2013
Anthropological reserves						
Cueva de Las Maravillas	16 263	18 224	23 451	25 803	24 246	-6.0
Cuevas Borbón o del Pomier	-	-	214	402	266	-33.8
Subtotal	16 263	18 224	23 665	26 205	24 512	-6.5
Wildlife Refuges						
Santuario de Mamíf Marinos Samaná	-	-	-	-	-	0.0
Santuario Banco de la Plata	13 972	13 972	21 532	29 531	94 137	218.8
Laguna Cabral o Rincón	5	-	18	-	3	100.0
Subtotal	13 977	13 972	21 550	29 531	94 140	218.8
Urban parks						
Los Tres Ojos	83 318	89 994	94 508	94 228	137 047	45.4
Urban parks subtotal	83 318	89 994	94 508	94 228	137 047	45.4
Total	620 737	836 719	841 254	954 052	1 161 780	21.8

Source: Statistics generated by the Ministry of Environment's Department of Protected Areas, 2014.

According to estimates by the World Economic Forum in its '2015 Travel and Tourism Competitiveness Index', the Dominican Republic occupies position 81 out of 144 countries analysed through the performance of sub-indexes: i) an enabling environment, ii) policies and factors that favour travel and tourism, iii) infrastructure and iv) natural and cultural resources.

Challenges and Opportunities

Tourism will continue to be an important sector of the Dominican economy despite the increase in regional competition due to the resumption of relations between Cuba and the United States. The main challenge is overcoming the differences between the all-inclusive resorts and the rest of the country, to promote experiences with a higher added value where the tourist is integrated into the life of Dominican communities and cities. Efforts to diversify supply attracting other market segments and expanding visitor experiences should be continued and deepened, with greater inter-institutional coordination and collaboration between the Ministries of Culture, Tourism, Environment and CEI-RD.

Regarding ecotourism, it is worth noting that in 2010 a National Strategy for Ecotourism Development

was designed by the Ministries of Tourism and Environment, which contains detailed objectives and activities. However, this guide is not being implemented and the interministerial coordination has been discontinued. Nevertheless, the Ministry of Tourism has continued to develop initiatives such as: The Tourism Technical Roundtable in collaboration with JICA; the promotion of ecotourism through e-marketing; national promotion campaigns, the plan for revitalising the colonial city, and reconstruction of access roads leading to tourist attractions.⁸² This has increased local tourism and foreign visits to natural and environmental reserves.

Concerning medical tourism, the recent formation of the Dominican Association of Health Tourism⁸³ brings together twelve accredited professional medical services and specialist centres and is already recognised by European insurance companies. This confirms the growing tendency to provide medical services for foreigners, including referrals from other countries in the region.⁸⁴

According to the World Medical Tourism Association (MTA), medical services represent more than 60 billion dollars in annual sales with an estimated annual growth of 30 per cent, generating 2.5 per cent of total

air travel. To maximise potential benefits from this service trade, the Dominican Republic must better manage endemic diseases (dengue, cholera, malaria) that threaten the country's projection as a reliable place to receive medical treatment.

There are still opportunities that have not been explored enough such as multi-destination tourism to multiply tourism to the Caribbean region, as in the case of European and some Asian countries that offer package tours to visit several countries. The opening of trade and diplomatic relations between Cuba and the United States of America may result in an opportunity to turn a competitor into a strategic ally.

Moreover, despite deepening the trade framework with CARICOM countries, regional initiatives are still deficient. This is the case, for example, with developing multi-destination tourism and improving coordination with regard to visa requirements, facilities and other complementary measures to promote niche multi-destination opportunities, including those related to yacht and sailboat tourism. Developing schemes to promote multi-destination visits within the island could also be of interest, for instance to attract segments interested in discovering Haiti's cultural attractions.

6.3. Call centres and back offices

The contact centres and BPO industry represents an activity of great performance and dynamism in the Dominican Republic, with companies generating more than 40,000 direct jobs and an estimated 33,000 seats.

Globally, contact centres and BPOs emerged in response to the needs of large United States of America companies to give attention to their customers and promote sales strategies and mass marketing by phone. They reached the Dominican Republic in the mid-1990s attracted by the existing telecommunications platform, geographic location, cost and the population's ability to learn languages.⁸⁵ The average growth of call centres was 11 per cent between 2009 and 2013, maintaining a steady and significant growth. From 2000 to 2012 employment levels grew by 823 per cent, the highest positive variation among all activity branches in the free zones.

The accelerated expansion process has led to the creation of a cluster for service supplier companies that aims to promote their development and make them more competitive.

Regulatory framework and incentives

Companies offering services related to call centres, customer support and outsourcing of business operations (contact centres and BPO) operate as Special Free Trade Zones,⁸⁶ which exonerates them from paying 100 per cent of the following taxes:

- Income tax
- Tax on the Transfer of Industrialised Goods and Services (ITBIS)
- Import taxes, customs tariffs, customs duties and other related taxes on raw materials, machinery and transport equipment
- Patent fees on assets or equity
- Export or re-export taxes
- Municipal taxes

These companies also benefit from Specialised INFOTEP training programs for free zones and simplified customs processes.

The Dominican government, through the Ministry of Higher Education in Science and Technology (MESCYT) with the support of CEI-RD, has been running an English immersion programme for 10 years to meet the needs of contact centres. As of December 2014, according to CEI-RD reports, more than 60,000 students had graduated from the programme and have been successfully inserted into the labour market.

In addition, the call centre and BPO business cluster has received support from the National Competitiveness Council in the form of a subsidy to obtain quality and competence certifications to accredit this industry internationally.

Recent performance

The contact centre and BPO industry is one of the fastest growing in the Dominican Republic. According to Export and Investment Centre (CEI-RD) records, in 2006 there were 37 companies with a total of 3,800 seats and 4,543 agents. By 2014, the CEI-RD reported the existence of 100 out of 112 established companies, with an estimated 27,000 seats. The Dominican Republic Central Bank's projection is that by 2016 they will reach 50,000 seats.⁸⁷

In 2016, 88 per cent of contact centres installed in the Dominican Republic were in Santo Domingo and the remaining 11 per cent had operations in the northern region of the country, achieving greater

concentration in the province of Santiago and with one company in the city of La Romana. According to the CEI-RD update for 2015, it is estimated that this industry has generated more than 3,000 jobs in the north and 28,000 jobs in the rest of the country, and more than 25,000 in the city of Santo Domingo. Today, the industry generates an estimated 40,000 jobs nationwide, and provides services in English, Spanish, French, Portuguese and Italian.

Approximately two thirds (64.5 per cent) of all contact centre activities are dedicated to providing services related to incoming or inbound calls from the United States, 23.5 per cent of their work is outgoing or outbound calls, and 10.9 per cent is outsourcing some business or BPO processes. Most operations are purely call centre activities because there are not enough professionals in accounting, information technology, human resources, medicine and other professions related to business processes being outsourced to promote BPOs.⁸⁸

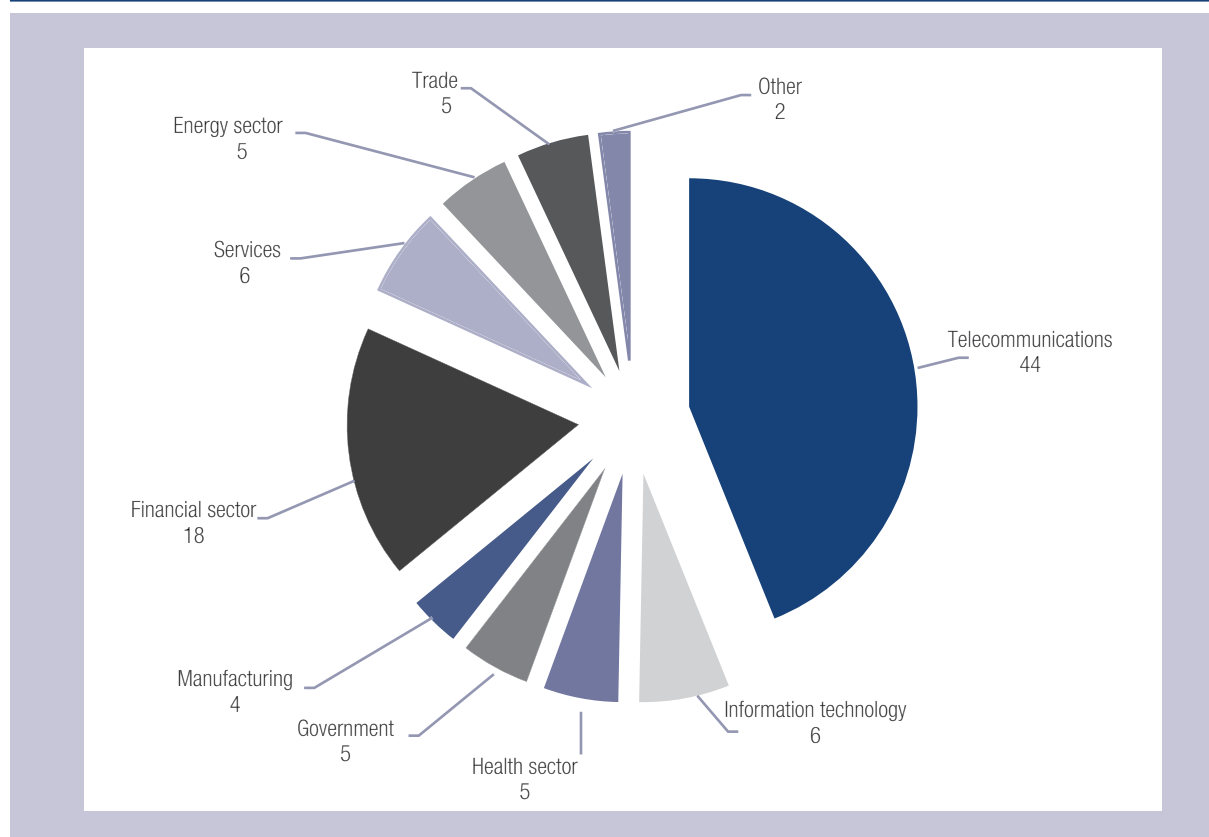
Call centres offer a diverse range of services, among which medical interpretations, telecommunications

services, computer services and trade are worth highlighting.

Their main contribution is to generate better quality, well-paid and added-value jobs, which have allowed more than 25,000 young people to finance their higher education. The National Labour Force Survey includes call centres in the category 'Transport and Communications', representing 5 per cent of jobs produced in the formal sector. According to the Central Bank of the Dominican Republic report 'Impact of Call Centres in the Dominican Republic', they represent a contribution of 33 per cent in said category.⁸⁹

The industry has a base salary 2.3 times higher than the non-sectorised minimum wage. Staff in call centres typically spend between two and four years in the industry because it is perceived as a transitional space to acquire experience and financial support to complete higher education. The call centre industry is focused on utility maximisation which leads to a careful monitoring of employees, who are evaluated and compensated for their productivity and efficiency. According to the International Juncture Analysis

Figure 27. Demand for call centre services according to sector, 2014



Source: CEI-RD, 2014 Call Centre Dossier.

prepared by the Central Bank of the Dominican Republic, this creates an unmeasurable impact on the development of a work culture oriented towards planning, evaluation and competition.

Challenges and opportunities

In order to give the sector visibility and design strategies for its better use, it is essential to have better statistical data capturing more than the number of jobs created. Currently, the Central Bank of the Dominican Republic and the National Free Zone Council are evaluating a mandatory survey in order to obtain relevant data to better recognise the contributions of this sector to the economy.

According to Erick Pérez, President of the CC & BPO Cluster, one of the industry's main challenges is accessing qualified staff with sufficient language and technology skills to meet the growing service demand. Despite government support through the English immersion programme and the fact that the Dominican Republic ranks second in Latin America as the country with the best command of English as a second language,⁹⁰ the level of language sophistication required in call centres has not been reached. The high demand for human resources has led the industry into a war to capture personnel which increases operating costs in the Dominican Republic.⁹¹

Promoting business opportunities in Spanish, where there is greater staff availability, has been a recent strategy in the sector. At least one company has increased its business with this strategy, attracting customers from Puerto Rico. However, in order to compete at the regional level in this segment, it will be necessary to invest in re-training on language skills, modular pronunciation and accent, as the Dominican accent, not distinct when speaking English, is very strong in Spanish, where Colombian and Central American accents are favoured.

The call centre and office processes service industry continues to grow. The Dominican Republic has already positioned itself in the United States of America market as a provider of these services. Competing with countries such as Mexico, India, Colombia, Singapore and China will depend on its ability to find niches and maintain a growing pool of people with language proficiency.

To do this it is necessary to rethink English as a second language, as it must be learned in school in

addition to in immersion programmes, which serve as a specialisation for those interested in working in the call centre and BPO industry.

6.4. Creative audio-visual industries

UNESCO defines 'Cultural and Creative Industries' as the sum of economic sectors related to creativity in all its forms, its production and its marketing. These include the publishing, audio-visual, phonographic and music industries, visual and performing arts, cultural tourism, advertising and design.

According to the National Study on Cultural and Creative Industries in the Dominican Republic, which prepared a first study assessing this industry⁹², culture has become a very important economic sector, employing a high percentage of workers in the Dominican formal sector. The study asserts that cultural industries have a greater economic weight than hotels and restaurants, banking, transport or the construction industry as it is estimated that this sector made up 7.39 per cent of the formal workforce in the Dominican Republic up to 2009.

Within this vibrant sector we have chosen to analyse the audio-visual subsector because it has been the subject of a special legislation. This suggests a commitment and a strategy aimed at promoting this novel industry, which has a potential link with foreign trade through co-productions and foreign audio-visual filming.

The law is completed with the creation of an institution (General Film Department) responsible for promoting the development of the film industry as well as establishing and managing policies for cinematographic and audio-visual activities, seeking the internationalisation of the domestic film industry. In addition, a cluster for the cinematographic industry is registered and supported by the National Competitiveness Council (NCC).

Regulatory framework and incentives

Law No. 108-10 for the Promotion of the Film Industry in the Dominican Republic was enacted in 2010, after a 10-year discussion about what the objectives to be pursued should be: the development of the national industry or attracting investment. The resulting law combines both objectives and presents various incentives aimed at promoting them:

- Art. 34 fiscal stimuli for investment in national cinematography. This incentive is set up specifically

to promote the production of Dominican films, allowing legal Dominican persons to invest in their production and then deduct 100 per cent of their investment from their Income Tax payment, provided that the amount invested does not exceed 25 per cent of what the investor must pay as Income Tax. This is the most important and most used incentive since the existence of the Film Law, which has allowed increasing production of Dominican films.

- Art. 35 tax stimulus for reinvestment in the film industry. This allows cinematography agents to reinvest part of the income obtained to develop new productions, benefiting from a 100 per cent income tax exemption. This incentive has never been used. It is valid for 10 years and has five years left.
- Art. 39 transferable tax credit. This article allows producers of audio-visual plays to benefit from a Transferable Tax Credit (TTC) equivalent to 25 per cent of all expenses incurred in the Dominican Republic that are directly related to the stages of pre-production, production and post-production under certain requirements. One of these requirements is that the amount spent should exceed USD 500,000, which may be spent on either one or several projects, provided that this is done in the same fiscal year. Since the TTC is transferable, it is usually sold in the local market to be applied to the income tax payment of any legal person.
- Art. 40 tax exemptions on technical services. This is a 100 per cent exemption from income tax payment given to suppliers of specialised technical services for 10 years, as long as the services provided are exclusively for audio-visual productions approved by the DGCINE. Similarly, it allows for all goods, services and/or leases directly related to pre-production, production and post-production of films and audio-visual plays to be free of ITBIs.

Other incentives encourage the construction of theatres, film or recording studios and the temporary tax-free import of equipment required for foreign productions.

The law also establishes a Film Promotion Fund (FONPROCINE) offering financial support for up to 70 per cent of the budget for producers, distributors, exhibitors and marketers of national films.

Recent performance

Although the act has only been in place for five years and effectively implemented for four, and formal statistical compilation has just been established, there is no doubt that the sub-sector has had an exponential growth in terms of number of local productions, number of foreign films, number of movie theatres and job creation.

According to information provided by the General Directorate of Film (DGCINE) related to film production: eight new Dominican films were released in 2012, out of which three benefited from the film law incentives; 14 Dominican films were released in 2013, out of which 12 benefited from the incentives; 20 Dominican films were released in 2014, out of which 17 benefited from the law incentives. For 2015 13 national films and five foreign productions are expected to be released.

Although the number of productions has practically doubled every year, box office revenues have not grown in the same proportion, which could indicate that market demand has not grown as expected. While total sales amounted to RD\$ 191.6 million in 2012, they reached RD\$ 246 million in 2014, even though the number of films was more than double. It must be taken into account that national films compete with foreign blockbusters; that there are not a lot of movie theatres across the country but rather a high concentration of them in Santo Domingo (66 per cent) and Santiago (28 per cent); that the cost of a movie ticket is on average USD 4; and that the calculation of box office sales is affected by numerous promotional offers that reduce the cost of tickets on certain days of the week.

It is noteworthy to mention that although Dominican productions only represent 7 per cent of films shown, they represent 33 per cent of total box office sales. By 2014 a total of 1.4 million people had attended theatres to see local productions.

From an investment point of view, out of the two established film studios, one of them is a million dollar joint venture with British film studios (Lantica-Pinewood), which includes the only water tank in the Caribbean and Central America.

With less visibility and promotion, reality show recordings in national territory are worth noting. This activity entails the arrival of foreign filming teams who significantly mobilise the local economy, resulting in constant recruitment of national equipment and talent. Such is the case of *Survivor Turkey*, a reality show that has been

filmed for three years in Las Terrenas (Samaná) with a production valued at 126 million pesos.

Challenges and opportunities

The audio-visual and film production industry is just emerging and therefore it would be counterproductive and premature to consider scrapping incentives. Furthermore, this sector has been the subject of particular attention in the CARIFORUM-EU Economic Partnership Agreement (EPA) framework. Protocol III of the Agreement contains provisions on cultural cooperation and section II contains several articles about cooperation in specific sectors, encompassing the audio-visual field including cinematography.

This cooperation is based on promoting the negotiation of co-production agreements between one

or more European Union countries and one or more CARIFORUM countries. This has been insufficiently explored, disseminated and exploited.

Currently, the challenge for Dominican industry is developing better export products, which can be done by promoting co-productions. Co-production agreements are made between one or more countries or institutions and they explain in detail the regime applicable to film production in terms of access to finance, credit and distribution.

It is necessary to make these advantages known at a national and international level, specially towards large production markets such as the United States of America, Spain, Mexico, Argentina and Colombia in order to increase the audio-visual sector's export potential.

VI

TRADE POLICY INSTITUTIONAL FRAMEWORK



Since the enactment of the National Development Strategy Law in 2011, trade policy must be an integral part of development policy. This requires the effective integration of policies in the areas of (i) productivity, competitiveness and quality and (ii) trade policy in the Dominican Republic. This chapter examines the institutional framework for these two policy spheres.

A. INSTITUTIONAL ENVIRONMENT FOR PRODUCTION AND COMPETITIVENESS

In the Dominican Republic, there are at least two institutions that have direct responsibilities in terms of productive development and competitiveness: the Ministry of Industry and Commerce (MIC) and the National Competitiveness Council (NCC).

The role of the former⁹³ is establishing the country's industrial policy which includes, among other things: 'programming industrial development, promoting industrial development, identifying failure to comply with industrial development policies and monitoring implementation of industry laws and standards'.⁹⁴ It is also responsible for establishing foreign trade policy, promoting foreign trade, recommending tariff policies and controlling the implementation of laws and regulations on foreign trade.

However, it should be noted that since this law was enacted in 1966, a set of institutional, legal and political developments have changed the ministry's scope in terms of productive development. In particular, opportunities to provide tax incentives and trade protection, especially as a result of free trade agreements, have been reduced. However, the range of non-discriminatory or horizontal industrial policies and policies aimed at stimulating increased productivity and innovation have been expanded (IDB 2014).

On the other hand, the National Competitiveness Council (NCC), a government entity with private participation established by Act No.1-06 of 2006,⁹⁵ aims to 'formulate, implement and develop competitive strategies of vital productive sectors of the economy, in order to structure a national policy to meet the challenges of globalisation and trade liberalisation'.⁹⁶ The NCC seeks to diversify and strengthen the main productive sectors by implementing the National Plan for Systemic Competitiveness (NPSC), by promoting: partnerships and development of clusters, public-private dialogue for policy discussion, improvements in

the business environment, reform and modernisation of legal frameworks, and monitoring and tracking competitive performance.

A third newly created public institution whose objectives are directly linked to competitiveness is the Centre for Development and Industrial Competitiveness (PROINDUSTRIA). It is responsible for the implementation of Law 392-07, known as the Industrial Competitiveness Act. Although PROINDUSTRIA has no direct responsibility for foreign trade, its actions should have important commercial implications since its objective is 'the development of a competitive domestic manufacturing industry, proposing policies and support programmes that encourage industrial renewal and innovation in order to achieve the diversification of the country's productive apparatus, industrial chains through the promotion of parks, industrial districts and linkage to international markets'.

Moreover, the Export and Investment Centre for the Dominican Republic (CEI-RD) has responsibility for protecting and promoting Dominican exports and investments, as well as promoting productivity and competitiveness at a sectoral level. The Ministries of Agriculture and Tourism also promote these objectives. The Ministry of Economy, Planning and Development, through the Vice-Ministry of National Competitiveness Management, is responsible for 'studying, managing and facilitating the coordination of policies, plans, programmes, strategies and competitiveness actions and a solid mandate relating to the monitoring and evaluation of competitiveness policies'.⁹⁷

In addition to the aforementioned institutions, in the last two years three spaces have been created to strengthen coordination between the public and private sectors:

- The Inter-institutional Agency for the Monitoring of the Proposals made by the Second Congress of Industry (Decree No. 157-14)
- The Agency for National Competitiveness (Decree No. 158-14)
- The Productivity and National Competitiveness Initiative (Decree No. 237-15)

These spaces have been created in response to the private sector's requirements to strengthen export dynamism and to progress towards productive development policy reform, notwithstanding the detailed National Systemic Competitiveness Plan that has existed since 2007.

Challenges identified in this area

The institutional dimension is key to understanding certain flaws in the implementation of the NPSC. In this area, the NCC had a coordinating role but had no budget or mandate to implement institutional actions recommended in the plan. Some actions also required impulse from competent institutions, legal reforms or creating new institutions, in the absence of which implementation was delayed.

This is the case with the Dominican Quality System (SIDOCAL), created⁹⁸ in 2012 for the development of quality assurance. Its objectives include protecting health and the environment and providing specialised technical services in terms of quality, as well as strengthening the competitiveness and productivity of businesses and national organisations, facilitating compliance with international commitments on conformity assessment and of other aspects of quality infrastructure.

Quality has been identified as one of the most relevant obstacles that Dominican exports face (World Bank 2014). Weaknesses regarding enforcement of regulations, specifically compliance with safety and quality requirements in domestic and

international markets, and regarding responsibilities in standardisation, metrology, inspection and testing, certification and accreditation have limited Dominican commercial performance.

B. FOREIGN TRADE INSTITUTIONAL FRAMEWORK

In the Dominican Republic, there are many actors and institutions involved directly in the formulation and implementation of trade policy. In this context, trade policy can be understood as a set of strategies for trade relationships with other countries, encompassing: trade negotiations and implementation of commitments under trade agreements; export promotion; foreign investment and tariff and non-tariff barriers.

Until 1996, the Dominican Republic had clear limits, from an institutional point of view, regarding trade-related matters. The Secretariat of Industry and Trade (today Ministry of Industry and Trade) was the governing institution on industrial and commercial matters, with competence to regulate internal and foreign trade.

Table 21. Trade policy institutions in the Dominican Republic and their roles in relation to trade agreements

	Negotiation	Implementation*	Administration*	Utilisation
Institutions involved	NTNC, MIREX (Vice Ministry of Economic Affairs and Trade Negotiations, VMEATN) Institutions responsible for negotiation issues: DGA, Finance, MIC, NCEFZ, CEI-RD, Agriculture, Central Bank of the Dominican Republic, NOIP, private sector (consultative)	All institutions with commitments in the agreements: DGA, Agriculture, Public Health, NOIP, Environment, Finance, Government Procurement (CONIAT)	DICOEX	CEI-RD, Agriculture, NCEFZ, MIC, MIREX (commercial diplomacy) Private sector
Leader or Coordinator	MIREX (VMAENC)	DICOEX	DICOEX	CEI-RD

Source: Own elaboration of the consultants.

* The implementation of a trade agreement is the execution of its provisions by government agencies with responsibility for each of them. For example, the General Directorate of Customs is responsible for implementing annual tariff reductions following the tariff elimination schedule. In contrast, administering trade agreements is function related to supervision and intervention expressly delegated in a governmental entity to ensure that agreements are applied in a comprehensive manner. In the Dominican Republic this entity is the DICOEX, according to Decree No.610-05.

In 1996 a new foreign policy was established in order to position the country as a strategic centre to bring together Central America and the Caribbean countries and United States of America and European markets.⁹⁹ The tool used was commercial integration through (i) free trade agreements with Central America and the Caribbean Community (CARICOM) in the late 1990s, and (ii) active participation in negotiation rounds for the Free Trade Area of the Americas (FTAA).¹⁰⁰ The National Trade Negotiations Commission (NTNC) was created in 1997, to develop Dominican Republic's international trade agenda.¹⁰¹ NTNC is an inter-ministerial body chaired by the Minister of Foreign Affairs (MIREX) and is responsible for designing the country's global negotiation strategy and leading the processes of trade negotiations.

Table 21 shows that at least three institutions share responsibility for leading the stages of negotiation, administration and utilisation of trade agreements, though there is no dependence, subordination or coordination relationship between them in order to ensure order between these processes: MIREX, MIC and CEI-RD.

1. The National Commission for Trade Negotiations and the Ministry of Foreign Affairs

NCTN leads trade negotiations at the bilateral, regional or multilateral level. The executive branch granted it a negotiating mandate in accordance with the Dominican constitution, and structured it as an inter-institutional space. This means that when a trade negotiation starts, high-level political support exists, which helps bring together the various institutions around this coordinating entity.

MIREX presides over and coordinates NCTN. Negotiating teams belong to different state agencies, for example, Ministry of Finance, Central Bank of the Dominican Republic, Ministry of Environment, CEI-RD and NOIP. The responsibility for negotiating contents of provisions with trade agreements is assigned according to expertise or through special laws.

In 2005, the Executive Secretariat for the NCTN was given autonomy, creating a 'Coordinating Office for the NCTN' which reports to the President of the Republic and the President of the NCTN (the Minister of Foreign Affairs). Decree No. 618-05, which creates the Coordinating Office for the NCTN states: 'the Ambassador in charge of Trade Negotiations will be

responsible for the direction and coordination of all trade negotiations and for proposals to define the country's trade policy, prior approval of the Executive Power and other NCTN members'.

Currently, due to logistics and budget reasons, the Coordinating Office and Ambassador in charge of trade negotiations operate within MIREX and appear within its organisational structure, specifically as part of the Vice Ministry for Economic Affairs and Trade Negotiations (VMEATNC). This de facto organisation is legally sanctioned in the Ministry of Foreign Affairs Organic Draft Law¹⁰² which would repeal the autonomy granted by Decree 618-05.

MIREX,¹⁰³ in addition to chairing NCTN, is responsible for promoting diplomacy, and to this end it provides direct support to the Export and Investment Centre for the Dominican Republic (CEI-RD) in all matters concerning objectives related to the utilisation of trade agreements and promotion of exports.

2. The Ministry of Industry and Commerce (MIC)¹⁰⁴ and the Directorate of Foreign Trade and Administration of International Trade Agreements (DICOEX)

MIC, through DICOEX, is responsible for the administration of trade agreements. This means it is the authority within the Dominican government with the power to coordinate with other governmental institutions and trade partners on matters related to the management and implementation of commitments from trade agreements signed by the country. It also acts as the state's official counterpart in relation to other trade partners when issues arise about the application or interpretation of a free trade agreement. Furthermore, MIC has an important leadership role in trade negotiations within the NCTN framework, as it occupies its vice presidency¹⁰⁵

MIC developed an Institutional Strategic Plan (MIC 2013-2017),¹⁰⁶ which included important matters in connection with trade policy. One of MIC's strategic goals is to 'formulate and implement foreign trade policies and strategies to facilitate access of national domestic goods and services to international markets.' To achieve this objective, four strategies are foreseen, which propose specific outcomes, monitoring indicators, specific goals and means of verification. The strategies and results are set out in table 22.

Table 22. Strategies and results of the Ministry of Industry and Trade, according to the Institutional Strategic Plan (MIC 2013-2017)

Strategies	Results
Strengthening the regulatory environment	'country without dispute cases'
Strengthening export capacities of the productive sectors	'increased export of Dominican products'
Information and training mechanisms on existing trade agreements and foreign trade	'productive sectors able to take advantage of trade agreements'
Information and communication systems on trade agreements	'trade agreements are utilised'

Source: Prepared with data from MIC.

Box 1. MIREX, MIC and the conducting of trade policy

Between 2000 and 2004, the creation of a Ministry of Foreign Trade was discussed in the Dominican Republic to address the complexity and monitoring of trade negotiations demanded by the proposed Free Trade Area of the Americas project and afterwards, by DR-CAFTA. The idea was to overcome the confrontation between MIREX and MIC with regard to the conducting of trade policy.

However, nowadays the option has been discarded and both institutions' organic laws are being reformed. In this context, the institutional allocation of international trade negotiations was debated again due to the fact that it is at the heart of foreign trade policies, and the Ministry of Foreign Affairs is perceived as a structure that is not very oriented towards participation and interaction with productive and trade sectors.

In 2015 MIC and MIREX agreed to maintain the organic separation between the institution that leads and coordinates trade negotiations (MIREX) and the institution responsible for administering agreements and ensuring their adequate implementation (MIC). Personnel involved in both processes benefit from the advice and expertise of officials from different institutions involved in the implementation of international commitments.

3. Export and Investment Centre for the Dominican Republic (CEI-RD)

Created by Law No. 98-03, CEI-RD is responsible for promoting the competitive insertion of the country into international markets in goods and services. This objective includes defining the Dominican Republic's export policy and export promotion strategies, promoting domestic and foreign investment and creating and disseminating a country brand for the Dominican Republic.

Its organic law enables CEI-RD to execute its functions in conjunction with the planning agencies of the central government and other relevant authorities. For these purposes, it uses different coordination and collaboration mechanisms with the public and private sectors, as detailed in table 23.

Similarly, CEI-RD can advise the public and private sectors and collaborate with them in the adoption or improvement of policies, regulations, mechanisms

or actions that contribute to competitiveness in production, exports and investments, as well as actively participate in the implementation of funding and technical assistance programmes to achieve these objectives. An example of this work is training programmes for producers regarding quality and safety. These programmes aim to develop the capacity to implement quality management, in accordance with national and international standards for small and medium enterprises in order for their products to be certified and access more demanding markets. Another example is detailed below.

4. Other institutions linked to foreign trade

The mission of the Regulatory Commission on Unfair Trade Practices and Safeguard Measures or Trade Protection Commission (TPC)¹⁰⁷ is to defend national production against import surges and unfair practices in international trade. It must undertake, under request or ex officio, investigations for the

Table 23. Collaboration mechanisms of CEI-RD with the public and private sectors

Public-private Advisory Board	Presidential Committee for Export Promotion*
<p>Established by: Law 98-03 (2003)</p> <p>Functions: Provides consultation, advice and support to CEI-RD activities relating to national policy definition for the promotion of exports of goods and services and investments</p> <p>Composed of:</p> <ul style="list-style-type: none"> • The Secretary of State for Industry and Commerce, who presides • The Technical Secretary for the Presidency, who serves as vice president. <p>Members include:</p> <ul style="list-style-type: none"> • The Secretary of State for Finances; • The Secretary of State for Agriculture; e) the Secretary of State for Foreign Affairs; • The Executive Director for the NCEFZ; • The Executive Director of the Industrial Development Corporation (today known as Proindustria); • The Executive Director of the National Competitiveness Plan (today known as the National Competitiveness Council); • The President for the Association of Foreign Investment Enterprises (ASIEX); • The President of the Chamber of Commerce and Production of Santo Domingo; • The President of the Chamber of Commerce and Production of Santiago; • The President of the Dominican Exporter Association (ADOEXPO); • The President of the Dominican Agribusiness Board (JAD); • The President of the Private Enterprise National Council (CONEP); • The President of the Dominican Confederation of Small and Medium Companies (CODOPYME) and • The President of the Dominican Association of Free Trade Areas (ADOZONA). 	<p>Established by: Decree No.174-09 (2009)</p> <p>Objective: To consolidate export policy</p> <p>Composed of:</p> <p><i>Members of the public sector:</i></p> <ul style="list-style-type: none"> • The President of the Republic, who serves as Chairman of the Board; • The Minister of Economy, Planning and Development, who serves as Vicepresident of the Board; • The Executive Director of the Export and Investment Centre for the Dominican Republic (CEI-RD), who serves as Executive Secretary of the Board; • The Minister of Finance; • The Minister of Industry and Commerce; f) the Minister of Foreign Affairs; • The Minister of Agriculture; • The Minister of Tourism; • The Minister of Labour; • The Minister of the National Competitiveness Council (NCC); • The Director General of the Centre of Industrial Development and Competitiveness (PROINDUSTRIA); • The Executive Director of the National Council of Free Trade Export Zones (NCFEZ); • The Director General of the General Directorate of Internal Taxes (DGII); • The Director General of the General Directorate of Customs (DGA) and • National Institute for Technical and Vocational Training (INFOTEV). <p><i>Members of the private sector:</i></p> <ul style="list-style-type: none"> • The President of CONEP; • The President of ADOZONA; • The President of ADOEXPO; • The President of JAD; • The President of AIRD; • The President of ASONAHORES; • The President of FEDOCAMARAS and • The President of CODOPYME..

Source: Elaboration by the consultants.

* The first Presidential Committee for Export Promotion meeting was held on 29 July 2015, to work towards consensus on a comprehensive policy to support exports.

Box 2. CEI-RD strengthens MIREX's abilities to promote exports and investment

One of the priority goals of CEI-RD is 'Trade and Investment Promotion Abroad' through embassies and consulates. To achieve this objective, CEI-RD coordinates various initiatives to streamline the use of diplomatic and consular missions abroad so that they become true agents for business opportunities, promoting export growth and investment flows into the country.

To this end, an interagency agreement between CEI-RD and MIREX was signed in order for CEI-RD to coordinate promotion activities through the Foreign Service. Seeking to advance with the development of this goal and its results, in 2015 CEI-RD designed a new Foreign Service Action and Monitoring Plan that was shared with Ministry of Foreign Affairs staff. This plan covers planning on export promotion and investment attraction for the 12 months of 2015, including specific goals and a work schedule to be achieved by missions in their host country.

This Action Plan for 2015 was the result of analysis based on best promotion practices from the main Latin American agencies and based on the relaunch of external relations under MIREX guidelines. The plan included integration and a series of specialised tools designed with the objective of supporting the daily functions of promoting the country and guaranteeing that this promotion is carried out on a regular and ongoing basis.

These tools, especially developed for the Dominican Foreign Service by CEI-RD to facilitate their duty to promote the Dominican Republic in 2015 are summarised below:

- a) **Manual for the Promotion of Exports and Investment of the Dominican Republic.** Support guide containing the main information about major export sectors and priorities for attracting investment, as well as functions, services, relationships and direct assistance that must be managed through each Embassy and Consulate to ensure promotion objectives.
- b) **Promotional video of the Dominican Republic:** Promotional tool showing an overview of the Dominican Republic. Available in three languages (Spanish, English and French). Part of an integrated promotional dissemination plan.
- c) **Dominican Republic Investment Guide.** This guide shows business information aimed at investors who wish to establish themselves in the country. It provides information about services at their disposal, as well as testimonials and experiences. It is available digitally in English and Spanish and generates interest and encourages the search for more detailed information.
- d) **CEI-RD web page.** This has been restructured to facilitate a more detailed search for information related to statistics, studies, sectors of interest, events, training, services and contacts. It contains up-to-date and detailed information about main economic figures and incentives available to facilitate trade and investment promotion.
- e) **Country profile.** As part of the work carried out and the support tools, CEI-RD gave each embassy and consulate a commercial profile of each country. It includes main products with export potential in each destination country, main international fairs, as well as information related to incentives, utilisation of trade agreements and entry requirements in different countries.
- f) **Priority investment sectors in the Dominican Republic.** As part of the tools for attracting investment, CEI-RD provided sectoral reports containing relevant information including incentives. It also designed the Investor Profile Guide Form, which provides a basis for identifying real needs in a potential investment and for coordinating, with the support of the CEI-RD investment team, trade missions to explore the investor's opportunities of interest.
- g) **Presentation model.** The presentation contains information relevant to the promotion of the Dominican Republic that can be used in different scenarios, such as: investment forums, business meetings and commercial meetings with buyers or any event in the host country. It is available in Spanish and English, and contains information on commercial positioning and sectors of interest for export and investment.

This action plan, as well as the programme's measurement and promotional tools portfolio created by CEI-RD for Foreign Services were formally presented to MIREX officials on 14 January 2015. CEI-RD shared printed material and digital tools and documents with Dominican embassies abroad to facilitate their role in promoting the country.

application of 'anti-dumping' duties, countervailing duties and safeguards. The TPC also coordinates the representation of the Dominican state in WTO dispute settlement procedures. Its biggest challenge is to ensure that the tools and trade remedies are known and used by the national productive sectors. It is worth noting that after 10 years of implementation of agreements related to these trade instruments, the average number of cases handled by this institution is not even one case per year.¹⁰⁸ In addition, cases are mostly limited to requests for safeguarding measures and not related to unfair trade practices.

The National Council for Export Free Zones (NCEFZ) is the institution responsible for ensuring the correct application of Law 8-90. This legal framework gives the NCEFZ the power to: a) define a comprehensive promotion and development policy for the free zones sector; b) participate in negotiations, agreements and treaties that relate to the operations and activities of export processing zones, and manage statistics, procedures and controls necessary to fully comply with the agreements and negotiations. The NCEFZ is a member of the NCTN and participates in various trade committees coordinated by MIC/DICOEX.

The Ministry of Agriculture, through the Office of Agricultural Trade Agreements (OATA) is responsible for the negotiation and implementation of obligations in agriculture, including the allocation of quotas and quotas negotiated in trade agreements. OATA acts as Executive Secretariat for the Commission on Agricultural Imports,¹⁰⁹ which manages the DR-CAFTA and WTO quotas.

The Ministry of Finance is responsible for defining and negotiating matters relating to tariff policy. The Tariff Analysis Commission is responsible for tariff assessments and determinations: its main mission is to propose tariff amendments (to the executive branch) that are necessary to adapt the Dominican tariff to the needs of international trade. The Ministry of Finance leads this commission, which is composed of the Ministries of Foreign Affairs, Industry and Trade and Agriculture, as well as the General Directorate of Customs.

The General Directorate of Customs (DGA) is in charge of implementing international commitments under agreements related to: market access for goods; implementation of border measures and determination of rules of origin, regional content and accumulation for the purposes of proving origin in accordance with rules under different trade agreements.

Other institutions participating both in the negotiation and implementation phases are the Legal Counsel for the Executive Branch, which must ensure coherence in the legal provisions assumed, the Ministry of Labour, the Ministry of Environment and Natural Resources, the Ministry of Energy and Mines, the National Industrial Property Office, the National Copyright Office and the Dominican Republic Central Bank as responsible for the negotiation and implementation of financial services commitments.

The National Council for Treaty Implementation and Administration (CONIAT) was established in 2005¹¹⁰ to respond to the complex implementation of the free trade agreement signed in 2004 between the Dominican Republic, Central America and the United States of America (DR-CAFTA). This inter-institutional body, chaired by MIC, is responsible for overseeing trade agreements signed by the Dominican Republic. In this decree, the coordination of the Council is given to the MIC's Directorate on Foreign Trade. To date, this Council has never been called upon.

Civil society is involved in international trade negotiations through the Consultative Council of Civil Society (CCCS). The council, established by the Regulation of Decree No. 74-97, advises the government on the negotiation of trade agreements, assists in the monitoring and compliance of agreements and provides opinions regarding the development of trade policy.

Challenges identified in this area

Interviews and analysis conducted during the preparation of this study suggest that the structure of the institutional framework for trade in the Dominican Republic does not facilitate the achievement of objectives related to global competitive insertion and to NDS. This is mainly because:

- The process of trade policy formulation does not follow a clear hierarchical structure, which means that the hierarchical competence of a coordinating institution is not recognised.
- There is a high number of institutions involved in international trade policy, and a proliferation of ad hoc spaces, working groups and strategic plans where the same issues are assigned to different institutions. For example, certain tasks related to trade promotion are being undertaken individually by various institutions. This is perceived to be diverting personnel and resources from activities

considered to be exclusively the responsibility of CEI-RD.

- Although institutional mandates provide for coordinated actions, the coordination of tasks between various agencies and departments does not occur.¹¹¹ This is due to a lack of clarity regarding allocation of responsibilities for implementation and systems to monitor performance and

achievements of stakeholders that would enable adjustments in implementation to be introduced when required.

This situation leads to ineffective trade management coordination,¹¹² duplication of efforts and erosion of confidence of stakeholders in consultations, particularly private sector actors, who are consulted repeatedly by various government bodies.

VII

CONCLUSIONS AND RECOMMENDATIONS



For the Dominican Republic, trade plays a key role in advancing towards national economic and development objectives. This role is based on the recognition of the importance of a dynamic and competitive insertion into international markets to achieve overall development and welfare objectives, particularly for a small economy.

This importance is reflected in the National Development Strategy (NDS), which seeks (in its third area) to achieve a more productive and competitive economy. The NDS contains a set of general objectives that seek to comprehensively address the issue of productive transformation and employment. One of them refers directly and explicitly to the issue of international integration, trade and development, namely: 'Sectorally-productive and territorially-articulated structure, competitively integrated into the global economy and that takes advantage of local market opportunities'.

According to this strategy, boosting export development on the basis of competitive insertion into international markets implies that the Dominican Republic must intervene in the following areas: export financing, facilitating exports and their tax treatment, export promotion, development of new markets, export diversification towards higher value-added products, the administration of trade agreements and the exploration of new agreements, inter-institutional coordination regarding trade and development of a country brand.

Of the indicators and targets related to the NDS, it is expected that intervention in the areas mentioned

above will lead to a robust export performance and an escalation in global competitiveness and tourism indexes. An assessment by the Ministry of Economy, Planning and Development (MEPyD) in 2014 showed that the implementation of the NDS (measured by general progress indicators on Area No. 3 and by specific progress relative to the strengthening of productive capacity and commercial results) has significant deficits.

A. IDENTIFICATION OF THE CENTRAL PROBLEM, ITS CAUSES AND EFFECTS

Central problem: difficulty to maximise or take full advantage of trade opportunities for development.

The results of research on these points are summarised below using the following structure: (i) analysis of missing elements or deficiencies with respect to the current situation and strategy, and (ii) proposed lines of action. The point about institutional weaknesses or 'gaps in the involvement and coordination of local stakeholders in trade policy design, implementation and monitoring' is analysed in each of the other three sections related to causes.

Annex 1 provides more details on the proposed lines of action and proposals for their implementation and Annex 2 summarises all the propositional elements in this report (namely: action lines) in a table format.

Table 24. Causes and effects of the central problem identified in this report

Causes	Effects
<ul style="list-style-type: none"> • Pending agenda in terms of production and competitiveness • Deficiencies in terms of trade intelligence • Deficiencies in links between productive sectors geared towards the domestic market and exporters • Deficiencies in the involvement and coordination of local actors in designing, implementing and monitoring trade policy 	<ul style="list-style-type: none"> • Weak competitive capacity preventing progress towards achieving a dynamic export sector, dynamic and competitive insertion into international markets and an advantageous participation in global value chains • Insufficient export dynamism

B. CAUSES AND LINES OF ACTION PROPOSED

1. Pending agenda in terms of production and competitiveness

Missing elements, strategy deficiencies and current situation

The analysis of indicators related to the Dominican Republic's international positioning on issues related to competitiveness suggest that problematic issues include: the Law on Commercial Restructuring and Liquidation of Companies (affecting the viability of new business activities), energy costs, transportation costs, weaknesses in technical training (which have an impact on labour productivity), labour market rigidities, the cost of social security, access to financing for productive activities, the tax burden, unfair competition and smuggling. The Dominican Republic has strategies, plans and institutional frameworks to solve these problems.

This study concluded that the country's limited competitive capacities regarding the supply of goods and services is the main obstacle to achieving outstanding trade performance that contributes to achieving desirable development goals and collective welfare. This is associated with relatively low productivity levels, high costs and quality shortcomings.

In this sense, the promotion of a dynamic export sector, dynamic and competitive insertion into international markets and an advantageous participation in global value chains means that it is necessary to continue working on an important and long agenda of pending matters in terms of production and competitiveness that go beyond the scope of trade frameworks. However, it is critical that trade policy reform be consistent with the broader development objectives and that it is part of the instruments to achieve them.

Proposed lines of action

Overcoming this pending agenda requires addressing horizontal priority issues in order to achieve productive and export diversification, or to promote export competitiveness, namely:

- Achieving effective progress in policies destined to promote competitiveness and quality, especially in sectors linked to exports under the national regime

- Reviewing tax incentives to maximise impact in terms of productive development and development, opening the national discussion on the exports incentive system
- Mobilising resources (including investment attraction) for the development of productive and trade capacities
- Improving the business environment and entrepreneurial and business abilities
- Overcoming institutional weaknesses, specifically:
 - Weak coordination of the institutions responsible for productivity, competitiveness and quality, namely: (i) between entities responsible for policy design (for example NCC for competitiveness) and implementation, and (ii) between public institutions and the private sector, notwithstanding existing consultative and deliberative spaces
 - Those related to quality, particularly in the area of standardisation and metrology
 - Those related to investment incentives

2. Deficiencies in terms of trade intelligence

Missing elements, strategy deficiencies and current situation

Analysis of business performance over the last decade showed:

- A decline in the importance of foreign trade in GDP growth
- A trend towards growth of the balance of trade deficit and the current account of the balance of payments, associated with strong import growth and insufficient export expansion
- A modest advance or decline in market shares, particularly in countries with which the Dominican Republic has trade agreements

This has led to an important questioning in some sectors of Dominican society, especially the business sector, of the effectiveness of the agreements to boost exports, and to increased resistance to exploring new ones.

This study suggests that to a large extent, the lack of dynamism and the deficiency in the use of trade

agreements are due to weaknesses in business intelligence, specifically in relation to:

- Systematically identifying sectors (both in the area of goods and services) and markets of interest to expand access
- Defining penetration strategies for these products/services in those markets, identifying and eliminating trade barriers in markets of interest
- Underutilisation of access to markets, in terms provided under existing trade agreements
- Institutional weaknesses, concretely:
 - Weak articulation between: (i) entities associated with the formulation of trade policy, and (ii) those engaged in productive development policies (particularly institutions responsible for productivity, competitiveness and quality issues) and development policies
 - Lack of clarity on the hierarchical competence of the institution that coordinates trade policy, which results in a lack of performance monitoring, accountability and coordination of tasks among different agencies responsible for implementation and duplicity of institutional strategic plans
 - Lack of operational synergy in the negotiation, implementation and use of trade agreements given that three institutions (MIREX, CEI-RD and MIC) share responsibility for leading the stages of negotiation, implementation and exploitation of trade agreements without relationships of dependence, subordination or coordination to connect these processes
 - Weaknesses in trade diplomacy, which translates into staff with limited capacity to promote products, identify trade and investment opportunities and contribute proactively to the increase of national exports and generate business intelligence for the country
 - Proliferation of ad hoc advisory spaces that generate dispersion and duplicate efforts

Proposed lines of action

In order to expand the current level of trade and generate new opportunities in priority markets, the following interventions are proposed:

- Strengthening trade intelligence capabilities to promote exports:

- Defining a systematic methodology to identify potential ‘star’ products or services
- Raising awareness and making business opportunities in services more visible
- Identifying potential partners or markets of interest to expand access
- Deepening market penetration and trade promotion strategies
- Assessing trade agreements to monitor their use and decide on new negotiations
- Strengthening the institutional framework:
 - Clarifying competencies related to the articulation of trade policy with the NDS and with the coordination of trade policy
 - Defining coordination mechanisms and monitoring of set goals, and detailing accountability responsibilities in the implementation of the NDS
 - Promoting greater coherence between productive development and trade promotion strategies
 - Improving coherence between different dimensions of trade-related policies:
 - Streamlining and making consultative and deliberative spaces more transparent
 - Strengthening the institutional framework linked to business intelligence

3. Deficiencies in links between productive sectors geared towards the domestic market and exporters

Missing elements, strategy deficiencies and current situation

The study concluded that there were flaws in linkages between domestic productive sectors and exporters and that this had a significant effect on the ability of trade to generate profits from a development perspective. Failures relate specifically to:

- A dual regime between:
 - Commercial activities in free zones, with more value added, but declining in terms of contribution to total exports, with companies linked to global value chains, free of taxes and with an exceptional institutional treatment and reduced links with the national productive apparatus

- Industries or sectors outside of the free zones in the national regime, characterised by basic/primary mining and agricultural export products, whose importance for total exports is increasing, but that do not have an advantageous tax treatment for exports
- Export activities not necessarily linked to the generation of quality employment (formal)

The study identified the need to create more links within the economy, including productive sectors oriented towards the domestic market, exporters (under the national regime) and exporters (under the free trade zone regime)

The analysis evaluated the potential for linkages by sector in the following way:

- In the mining sector this potential was considered to be low
- In the agricultural sector, employment generation potential was identified (particularly in the banana sector)
- For manufactured goods produced in free zones (namely: medical devices, electronics, footwear, jewellery and tobacco) there is a potential for development, measured in terms of number of jobs generated, quality jobs, proportion of women's jobs generated and value added
- In manufacturing produced under the national regime (for example: furniture and cement manufacturing), a high capacity to link with other productive activities was identified. It is even greater than that of free zone companies

Points of intervention proposed

To develop closer coordination between national and international chains, it is proposed:

- To promote the inclusion of domestic enterprises of various sizes in the supply chains of free zone companies
 - To use mechanisms to promote closer linkages between exporting companies (whether under a free trade zone or under the national regime) and domestic suppliers (with emphasis on SMEs)
 - To seize opportunities to promote productive linkage initiatives at the regional level
-

ANNEX 1
**Elements of a strategy/
sectoral action plan for
industry and trade in
the Dominican Republic**



This annex details the lines of action proposed in Section VI (conclusions and recommendations). This information could nurture a future strategy or sector plan for industry and trade in the Dominican Republic. It is expected that it will help articulate discussions about strategy and future actions among local actors, and determine the actions and responsibilities of different institutions in terms of implementation. It is suggested that consultations with relevant actors or a workshop be organised to achieve this goal.

Annex 1 should be read in conjunction with Annex 2, which proposes a non-exhaustive list of local actors who should be involved in promoting new actions and indicators to measure future progress in the Dominican Republic's trade policy reform.

1. Towards a new strategy: defining goals, objectives and indicators to measure progress in trade linked to the NDS

A strategy aiming to achieve a dynamic export sector, dynamic and competitive insertion into international markets and an advantageous participation in global value chains is proposed through three specific objectives:

- Increasing production, competitiveness and exports of goods and services with high value added (of priority sectors from the perspective of export and development)
- Expanding access to global and regional markets for Dominican goods and services
- Strengthening the impact trade has on development

A possible breakdown of trade policy goals related to the NDS could include:

- Dynamic exports that grow at relatively high annual rates helping to raise their contribution to GDP and total trade
- Increased participation in dynamic global value chains
- Exports that are increasingly more intensive in terms of more qualified jobs
- Foreign direct investment with sustainability criteria, linked to the local value chain and the global value chain, with government efforts focused on attracting investment in strategic sectors with long-term prospects
- An export sector characterised by significant productive linkages and export companies with increasingly dense domestic productive linkages
- Increasingly diversified export products and markets that help diversify risks and take better advantage of market opportunities
- An exporter and foreign investment sector that contributes directly and indirectly to the state treasury
- Export activities that have high economic impact and create jobs in territories with social priority

2. Goal 1: Increase production, competitiveness and exports of goods and services with high added value (for export and development sectors with high priority)

2.1. Generating competitiveness and promoting quality

This study identifies policy areas and actions needed, linked to productive development and international competitiveness, in order to develop a robust export supply:

- Implementing the NPSC, which contains a critical mass of actions that help boost competitiveness and productivity
 - Developing initiatives to align the skills and training of the workforce with the needs of productive sectors and promote investment in educational infrastructure and technical and vocational training to improve the supply of human resources
-

- Increased visibility of the service component in strategies for improving productive capacity in order to provide public services at competitive prices and improvements in key infrastructure services. In this regard, in this study the following key services, which provide important inputs for export activity and with high impact on competitiveness, were identified:
 - Services related to information technology
 - Energy services (to improve cost and quality)
 - Transportation services (to improve cost). Currently they have a high cost derived from (i) selective taxes that apply to ships and aircraft fuel, as well as to airfares, and (ii) the monopoly of freight transportation (which prevents the free contracting of services and makes the transfer of goods more expensive). These aspects affect export competitiveness and capacity to use the country's geographical position to become a regional logistics hub with more maritime and air operations
- Promote targeted actions to promote quality improvement in specific activities with high export potential, in order to raise the standard of those activities. These activities could include, for example, agricultural and agro-industrial products (which have difficulty complying with quality standards such as certifications, traceability and pesticide content) and have a high degree of shipment returns. They could also include activities such as tourism, manufacturing of furniture, manufacturing of artisan products and the production of rum.

2.2. Rethinking the system of export incentives

The problem in this area lies in the proliferation and diversity of incentives (for exports and investment), which do not result in a strategic vision or channelling of systematic and consistent efforts to promote productive development. Additionally, the persistent duality of incentive schemes prevents equal treatment to all exports. The evaluation in the study suggests that these schemes have not been effective in terms of generating value-added production chains, quantity and quality of jobs and tax contributions, particularly for activities outside the free zones.

In this regard, reflection should be directed towards redesigning incentives following two specific areas:

- a. To stimulate selected activities from the perspective of development objectives and quality improvements in productive activity. The guidelines for redesigning incentives should derive from an assessment of the strategic value of incentives (according to priority activities for sustainable development), led by entities with competence in designing sectoral or productive development policies.

Concrete elements that could be considered in the incentive evaluation and redesign process could include migrating incentive regimes that promote unqualified exports to ones that specifically promote:

- Employment and its qualification
 - Production chains
 - The location of operations and job creation in selected territories, generally disadvantaged territories
 - Participation in dynamic value chains
 - Adding value
 - Environmentally desirable practices
- b. Incorporating the notion of temporary incentives to reduce their economic and fiscal costs. Currently, tax incentives have no effective time limits. This creates a situation of perennial tax exceptionality with limited dynamic effects and significant tax costs. In addition to putting time limits on (tax-related) incentives, it would be advisable to introduce inter-agency mechanisms for assessing their impact over time, as well as devices to prevent unnecessary prolongation of incentives.

2.3. Mobilising resources (including investment attraction) for the development of productive and trade capacities

- Maximise the strategic value of incentives by aligning them with priority activities for sustainable development, using the objectives mentioned above to redesign export incentives.

Some areas of interest identified in this study to encourage investments include: quality infrastructure (laboratories, certification authorities, safety processes and environmental sustainability); logistics infrastructure (linked to maritime and land transportation and customs logistics management to improve timeliness and tracking) and investment linked to productive development with a vision to export.¹¹³

It is recommended that these new incentives be translated into a new investment law that presents an array of options that are accessible in terms of entrepreneurship contribution to development goals (instead of being applicable to any type of entrepreneurship).

It is also suggested:

- To negotiate double taxation agreements with priority partners (such as Mexico and Colombia) in order to harmonise tax commitments on foreign investment and transnational corporations with responsibilities towards the recipient country
- To link the needs identified for the development of productive and trade capacities with proactive actions towards entities providing financing (such as regional agencies, foreign development cooperation agencies and other potential donors)

2.4. Improving the business environment and entrepreneurial skills

The ability of companies (especially SMEs¹¹⁴) to compete in foreign markets can be improved through actions aimed at developing their productive and export capabilities such as:

- Strengthening entrepreneurial skills for internationalisation, through:
 - Support programmes for market penetration to guide companies on the route to follow to reach and effectively compete in priority sectors and markets
 - Diagnostic and support services for the development of export capacities, aimed at updating their capacity to comply with standards and with requirements in target markets and ensuring continued access to these markets
 - Promoting partnership between SMEs to generate complementarities, producing at a larger scale and increasing chances of having sustained success in exporting
- Access to export financing, for example funding to participate in events abroad (such as business conferences and trade shows) and financing focused on SMEs and higher value-added activities
- Trade facilitation, facilitating procedures and introducing regulatory adjustments that contribute to address challenges that affect the ability of companies to compete in international markets, for example:
 - Facilitation of: business visas, establishment procedures for potential investors and procedures related to corporate law (for example related to tax authorities, commercial registry and industrial property)
 - Further progress in centralising services related to export proceedings through ‘express windows’,¹¹⁵ further simplifying export processes, for example by developing flowcharts of processes used and having constant feedback from companies to the public sector on (factors affecting) their performance abroad

2.5. Strengthening the institutional framework

2.5.1. Institutional framework related to the development of productive capacities

The following actions are proposed in order to improve: (i) effective implementation, (ii) monitoring of results of existing strategies (such as those embodied in the NDS and the NPSC), and (iii) creating synergies and greater coherence in actions by different entities:

- Implement a system and flow chart that horizontally aligns the actors without generating resistance, for example through a technological platform that generates a flow of real-time information on (i) strategies, objectives and indicators, and (ii) entities responsible for the status of their implementation and compliance.
- Institutionalise a coordination mechanism that constitutes a periodic and frequent coordination space (for example monthly) to critically assess the implementation performance of the strategies mentioned above to enable progress. It is suggested that the responsibility for leading this mechanism rotate between agencies. This mechanism should enable discussions about the evolution of (non-sectoral) cross-cutting issues such as: productivity (implementing production policies) innovation and competitiveness, human capital and linkages for export.
- Strengthen mechanisms to monitor and evaluate results. In this regard, it is proposed to:
 - Monitor the NDS based on management indicators that are broader than those currently included in the legal framework, in order to cover the performance of sectoral plans. This is the perfect time to establish indicators, responsibilities and performance benchmarks given that, according to the law, the first five years of the NDS must be evaluated in 2016 and at that time necessary adjustments could be introduced.
 - The NDS should be revised annually by the Office of President of the Republic or the Minister of the Presidency.
- Develop methodologies for better collection and analysis of statistical data related to the impact of trade and investment incentives, which would provide feedback for the design and monitoring of objectives and goals linked to production policies.

2.5.2 Institutional framework for quality

The full setting up and entry into operation of the Dominican Quality Management System (SIDOCAL) is suggested, which requires the following in particular:

- Providing the necessary financial resources for its operation
- Preparing sectoral institutions (ministries and directorates) who have specific responsibilities
- Implementing accountability mechanisms for each of them in relation to their role in the system

2.5.3 Institutional framework related to investment incentives

- Redefine CEI-RD's institutional role in relation to the institutions engaged in promoting and attracting sectoral investment, such as the Ministry of Tourism, the Dominican Institute of Telecommunications, NCEFZ and the Directorate General of Film
- Defining the scope of each entity's responsibilities would render scattered efforts more coherent and mutually supportive

3. Goal 2: Expanding access to global and regional markets for Dominican goods and services

In order to expand the current level of trade and generate new opportunities in priority markets, the following interventions are proposed:

3.1. Strengthening trade business intelligence capabilities to promote exports

In order to generate new opportunities and develop export strategies in new markets and new products, information such as market research, investment needs, Dominican export capacity and relevant developments in terms of trade in destination countries is required. In order to strengthen the capacity to generate and use this information strategically, it is suggested to:

3.1.1 Define a systematic methodology to identify potential 'star' products or services

This methodology could: identify products (and services) in which the Dominican Republic has a revealed comparative advantage as well as those derived from or related to products that the Dominican Republic is currently exporting successfully. The study revealed that current potential 'star products' which are dynamic include: medical instruments, cigarettes, electric appliances, footwear, tropical fruits and rum.

The definition of star products/services must be based on continuous study. The significant contraction in textile exports, the star product in the 1990s and early 2000s, is an example of how difficult it is to project the permanent leadership of a product for the purpose of conditioning trade policy. The search or placement of star products should not be a goal that defines trade policies, but rather routine activities carried out by the institution promoting exports.

3.1.2 Raising awareness and making business opportunities in services more visible

In the area of services it is necessary to generate more information, providing greater visibility to this component of export promotion strategies. The recent dynamism of activities such as call centres and creative services is a wake-up call about the potential that services can have in making up an export basket that is more robust and has greater development impact.

For example, the study found that there is a lack of key information to guide the design of export promotion strategies in services that have been behaving dynamically and have non-tourist tradable commercial potential. The type of information required includes disaggregated statistics to measure performance and inform policy-making and measuring the impact of incentives and other initiatives in exports and development (for example in the tourism sector to evaluate the effect of 'spill over benefits' to local communities and the effectiveness of tourism clusters).

In order to design and promote policies to strengthen export services with high development impact (for example, better quality jobs, effects or learning and production chains), the following actions are proposed:

- Identifying services with dynamic behaviour in international trade, and among these, those in which the country may have potential and advantages in production and international trade.
- As in the case of trade in goods, for services that comply with these conditions it is necessary to identify policy actions that would have the capacity to mobilise resources to take advantage of market opportunities. Responsibilities in this matter should rest with the Ministry of Industry and Trade and its dependencies and in some cases on sectoral entities.
- Mapping different initiatives and tools offered by different institutions in priority sectors in order to coordinate actions.

3.1.3. Identify potential partners or markets of interest to expand access

The current methodology for identifying potential partners or markets of interest favours countries with existing trade agreements, as well as countries with which there are mandates or integration plans. However, little attention has been given to emerging markets with high compared growth. The study also identified potential markets from an export perspective (Haiti, Canada, China, Switzerland, India) or imports (China, Venezuela, Mexico, Brazil, Japan). Possible variables that could be considered in this future methodology to prioritise markets in order to expand access could include:

- Countries showing dynamism in terms of domestic market and growth of trade in sectors identified as a priority ('star')
 - Markets where tariff protection is considered to be high
 - Markets with complementary trade patterns
 - Countries that currently have a wide network of trade agreements
-

- Countries that represent investment and cooperation opportunities for the development of productive capacities, for example in the areas of: technology transfer, innovation, infrastructure development, competitiveness and institutional development. This would require prioritising partners based on an empirical analysis (of complementarities, ease of doing business, import profiles, potential for attracting FDI and cooperation) and an extensive dialogue with the private sector and civil society, to build consensus.

3.1.4. Deepening market penetration and trade promotion strategies

A logical framework with a strategic-offensive approach aimed at opening markets for export sectors is recommended, taking into account internal production sensibilities. This would require:

- Identifying non-tariff barriers, technical barriers and regulations affecting trade in markets of interest and adopting a systematic approach for their elimination, which could involve approaches covering areas of mutual cooperation, equivalence and regulatory convergence.
- It could also involve adopting a strategy of targeting niches in those mature and more developed markets.

As an example, the study identified potential interest in developing niche markets in tourism services, namely in multi-destination tourism and yacht and sailboat tourism. Regulatory cooperation at the CARICOM level in relation to visa requirements could contribute to this goal.

3.1.5 Assessing trade agreements to monitor their use and decide on new negotiations

It is suggested that impact studies be carried out to measure and assess ex ante and ex post effects in specific productive sectors of alternative scenarios of national trade liberalisation and foreign markets. It is suggested to make use of methodologies and quantitative tools¹¹⁶ for these impact studies.

Domestically, the use of simulation methodologies (for example models of computable general equilibrium like GTAP) could serve to identify potential results strictly related to trade as well as its direct and indirect contribution to development goals. This means that, in addition to measuring impact on trade policy, tariffs and composition of exports, it could also measure impact in terms of welfare, sectoral gains, and effects on the environment, employment and income distribution. This would also allow commercial sensitivities and demands for the establishment of active policies to boost their productivity and competitiveness to be identified.

This type of analysis would:

- Serve as a basis to effectively identify opportunities involved in new trade agreements and to determine the appropriate configuration of these new agreements (partial agreements or economic complementarity).
- Evaluate the pros and cons of new negotiations and generate convergence in debates between local actors to decide on starting new negotiations.
- Provide inputs to boost a communication strategy to raise public awareness about the opportunities and potential benefits of achieving selective trade agreements that are advantageous and assessed before-hand.

3.2. Strengthening the institutional framework

3.2.1. Clarifying competencies related to the articulation of trade policy with the NDS and with the coordination of trade policy

The NDS provides a range of commercial (and development) objectives that have been agreed on. However, the absence of responsibilities and accountability mechanisms in the implementation of the NDS has hindered the opportunity to achieve them. This has reduced the NDS to a set of aspirations and goals unlinked from government plans.

Properly articulating sectoral productive development and commercial strategies will allow for efforts in one area to help achieve success in other areas, creating virtuous circles of productivity, competitiveness and business performance, which can also help deepen productive linkages and deepen economic fabric around exports.

In order to convert the NDS into a genuine national development strategy and overcome the problems described above it is suggested to:

- Define coordination and monitoring mechanisms for the goals that have been set, detailing accountability responsibilities in the implementation of the NDS. Coordination must involve monitoring performance, which requires developing mechanisms that all parties recognise and commit to following. It is proposed that, under the current law and the ongoing draft, the coordination responsibility regarding NDS objectives and commercial goals is clearly assigned to MIC. This would mean that MIC would be responsible for:
 - Identification of competences and responsibilities of the various institutions linked to the achievement of commercial objectives in the NDS
 - Assigning tasks, goals and indicators to the institutions involved that should govern their operational, institutional and sectoral plans
 - Performance monitoring, that is to say monitoring the responsibilities and goals of the institutions involved and on that basis measuring their performance at regular intervals
- Promote greater coherence between productive development strategies and trade promotion, articulating productive development strategies, developing plans and actions for products and services with potential for commercial success (identified as ‘star’) in the short, medium and/or long term. This would require improving interinstitutional coordination in the design, implementation and monitoring of priority issues related to productive development policies affecting trade opportunities. For example, in this study, call centres/BPO services were identified as having potential in terms of exports. To meet the growing demand for services and compete at the regional level, it is necessary to increase the supply of qualified personnel (in terms of language but not only this), which involves joint strategies, plans and actions related to training programmes to provide these services. This would require developing specific goals related to the export performance of ‘star’ products and services.

3.2.2. Improving coherence between different dimensions of trade-related policies

Another institutional problem that affects the performance of trade policy is the dispersion and fragmentation of initiatives in the field of trade policy, which stems from insufficient will and effective and systematic efforts to adhere to institutional mandates. Ensuring adequate inter-agency coordination and establishing monitoring and timely adjustment mechanisms is thus key to ensure proper implementation of the commercial strategy and the proper utilisation of trade instruments.

Currently there are two major ongoing organic law projects, MIREX and MIC. In order to improve the coherence between different dimensions of trade-related policies, these laws should clearly set the following within their content:

- Exclusive responsibility for trade policy design and monitoring should be given to MIC. In fact, this responsibility has never been attributed to the Foreign Ministry. A series of circumstances and a Decree led to the creation in 1997 of a collegial and inter-institutional entity aimed at coordinating trade negotiations due to the many subjects and institutions involved. This committee is chaired by MIREX, but that does not mean that this Ministry should take the lead in international trade matters. This is why clear and decisive language is required within the law to avoid further confusion.
- The responsibility for executing different components of trade policy should be given to the appropriate entities, subject to monitoring and performance evaluation by MIC. Permanent coordination between the agency that plays the key role in the design and those implementing trade policies is crucial.
- The policy design attributions of implementing agencies such as CEI-RD or PROINDUSTRIA should be repealed in accordance with the Republic’s new constitution and public administration law which exclusively attributes the design of public policies to the Ministries on issues under their jurisdiction.

- On the other hand, in order to maximise the use of access opportunities derived from existing preferential markets and provide greater access to new markets, it is necessary to significantly improve operational synergies between the three areas related to trade agreements: negotiations, implementation and utilisation, since all three need to connect to exploit business and trade opportunities. It is suggested that the Ministry of Commerce be the one to articulate the entities involved in the three areas concerning trade agreements, coordinating:
 - Inter-institutional actions that promote productive national development and the necessary conditions for the competitive internationalisation of private companies.
 - Regular consultations with local stakeholders, particularly the private sector and representatives of productive sectors, to monitor the exploitation of negotiated accesses, for the monitoring and verification of compliance with existing commitments and identifying issues and concerns that may arise during implementation (such as potential conflicts that could affect national interests or needs in terms of trade defence).
 - For example, in this study the creative/audio-visual industries were identified as having export potential in terms of: box office revenues, the potential for joint ventures and co-productions and impact assessment on the local economy. In this regard, there is a potential for cooperation under the EPA CARIFORUM framework to promote co-productions, which has not been fully utilised.
 - Streamline and make consultative and deliberative spaces more transparent. It is suggested that the practice of creating more ad hoc spaces be suspended and that those already created be inserted within the appropriate institutional channels, mainly coordinated by MIC, since under Organic Law on Public Administration No. 247-12 of 2012, any state entity, whether or not decentralised, must be attached to the Ministry related to its mission and powers which will be the controlling entity (articles 24, 25, 51 and 52). In that sense, MIC should:
 - Map existing spaces, whether they are consultative or deliberative, their scope and how they lead to concrete results in the context of initiatives being promoted. This mapping could serve to identify whether duplications exist, leading to distortions or dispersion in actions related to foreign trade.
 - Assess whether there are public-private consultation spaces within the existing institutional framework¹¹⁷ aimed at achieving similar results. If there are, it is suggested to promote the proper functioning of the existing institutional mechanisms.
 - If it is deemed convenient to keep certain working groups that are not linked to the institutional framework, integrate them under the guidance of the institution leading the execution of specific initiatives.
 - The institutional framework linked to trade intelligence should be strengthened. Trade intelligence is crucial for promoting exports and developing new markets since it leads to understanding the market and business environment. This requires establishing permanent capacities for analysing trade and opportunities in international markets, which implies developing data collection methods, investing in new platforms and training staff and setting up a professional development process. In this regard, it is suggested to:
 - Incorporate CEI-RD and DICOEX into the trade and economic intelligence unit that is currently being developed by the Trade Negotiations Vice Minister and the Secretariat of the NCTN. These institutions may provide an important support role, considering the complexity of the analysis required.
 - Develop monitoring mechanisms and information exchange that allow greater cooperation between public and private actors to generate information about the issues they face in key export markets.
 - Significantly strengthen the trade capacities of diplomatic staff and design a work and information exchange system so that commercial diplomacy staff become part of the country's trade intelligence system, providing strategic information on the market environment and barriers that might exist for specific products in markets of interest. This implies:
-

- Developing an ongoing training programme for diplomats to enable their increasing specialisation
- Incorporating diplomatic personnel specialised in trade issues into the civil service and the state's administrative pathway to ensure continuity and permanence of such staff
- Promoting the development of work programmes for these personnel, with priority objectives and specific and verifiable goals (related to specific countries and high priority products/services that have export potential) to develop a system of accountability.

Creating and maintaining capabilities to undertake trade analysis tasks continuously and permanently requires significant resources. Therefore, tasks shared between MIREX, MIC and CEI-RD would ensure not only the financing of these tasks, but coherence between the negotiations, implementation and use of the agreements.

4. Goal 3: Strengthen the impact that trade has on development

To develop closer coordination between national and international value chains, the following strategies are proposed:

4.1. Promoting the inclusion of domestic enterprises of various sizes in the supply chains of free zone companies

Promoting the inclusion of domestic enterprises of various sizes in the supply chains of free zone companies would imply developing actions such as:

- Identifying goods and services that free zone companies are currently importing where there is domestic production with potential to supply to these companies. This implies knowing the value chains in which those free zone companies participate and the production processes involved
- Identifying supply deficits (in terms of quantity and/or quality) prevailing in the selected sectors
- Identifying policy actions that can contribute to closing these deficits and develop specific sectoral programmes

4.2. Using mechanisms to promote closer links between export companies and domestic suppliers (with emphasis on SMEs)

Closer links between exporting companies (whether under a free trade zone or under national regime) can be promoted by:

- Intra-exporter supplier fairs, where exporting companies (buyers), are presented to several dozens of local suppliers
- Linking exporting companies, investors and local suppliers through IT platforms, to facilitate the identification by exporters of goods and services that could be provided by local suppliers
- Cluster development initiatives between exporting companies and local suppliers
- Supplier development projects, incorporating components of capacity diagnostics and assessments as well as capacity-building for local suppliers on issues related to certification, innovation, quality and human capital development
- Establishing a specific programme for the development of free zone suppliers
- Promotion of academic research, oriented towards the design of public policies, about the Dominican Republic's export performance in global value chains in priority sectors

4.3. Seizing opportunities to promote productive linkage initiatives at the regional level

Opportunities to promote productive linkage initiatives at the regional level should be promoted. Examples of such linkages include the one between the Dominican Republic and Haiti in the production and export of textile

apparel, and the one that existed between the Dominican Republic and Puerto Rico in the manufacture of footwear. In that sense, Cuba could offer opportunities to develop such initiatives. This would involve developing a trade and productive intelligence effort to:

- Identify activities with potential to develop regional production chains
 - Determine the commercial potential of these chains by type of market, for example: regional, hemispheric, global, by groups of countries with similar income levels, and submarkets, for example, by income levels or preferences
-

ANNEX 2

**Table summarising weaknesses,
goals, objectives and lines
of action, possible
quantitative goals and
accountable institutions**



Deficiencies	Goal	Objective	Lines of action	Possible quantitative goals to measure progress in this area	Responsible institution or institutions
Pending agenda in terms of production and competitiveness	Increase production, competitiveness and exports of goods and services with high value added (in priority sectors for development)	Generate competitiveness and promote quality	<ul style="list-style-type: none"> • Implement the NPSC • Initiatives to align skills and training of the workforce with the productive sector's needs • Strategies to improve production capacity in services • Targeted actions to promote quality improvements in specific activities with export potential 	---	MEPyD, MIC, Ministry of Finance and sectoral agencies
		Rethink the system of export incentives	<p>Redesign incentives by considering:</p> <ul style="list-style-type: none"> • Encouraging priority activities from the perspective of (i) development objectives and (ii) quality improvements in productive activity • Incorporating the notion of temporary incentives to reduce their economic and fiscal costs 	<p>Increase at the end of the period/year:</p> <ul style="list-style-type: none"> • Employment levels associated with exports • Exports of goods/services with higher value added 	CEI-RD, Ministry of Finance, MEPyD, ministries and sectoral agencies, MIREX
		Mobilise resources (including investment attraction) for the development of productive capacities	<ul style="list-style-type: none"> • Maximise the strategic value of incentives, aligning them with priority activities for sustainable development • Negotiate double taxation agreements with priority partners • Link the needs identified for the development of productive and trade capacities with actions towards entities that provide financing (regional agencies, foreign development cooperation agencies and other potential donors) 	<p>Increase at the end of the period/year:</p> <ul style="list-style-type: none"> • Investments associated with exports • Investments associated with quality infrastructure and transport and logistics services • Sectoral variations in FDI by priority trading partner 	CEI-RD, MIREX, MEPyD, ministries and sectoral agencies, MIREX

Deficiencies	Goal	Objective	Lines of action	Possible quantitative goals to measure progress in this area	Responsible institution or institutions
		Improve the business environment and entrepreneurial skills	<ul style="list-style-type: none"> Strengthen entrepreneurial skills for internationalisation Access export financing Trade facilitation 	<p>Increase at end of period/year:</p> <ul style="list-style-type: none"> exporting SMEs' contribution to employment 	<p>CEI-RD, DGA, MIC, PROINDUSTRIA, Ministry of Finance, representatives of the private sector</p>
		Strengthen the following institutional frameworks: <ul style="list-style-type: none"> Those related to the development of productive capacities Those related to the promotion of quality Those related to investment incentives 	<ul style="list-style-type: none"> Improve: (i) effective implementation; (ii) monitoring of the results of existing strategies (such as those embodied in the NDS and the NPSC) and (iii) promoting of synergies and greater coherence in actions of different entities Full implementation of the Dominican Quality Management System (SIDOCAL) Redefine the institutional role of CEI-RD with regard to institutions engaged in the promotion and attraction of sectorial investments 	---	<ul style="list-style-type: none"> MEPYD Presidency, Ministries with competence in the design and implementation of production policies, MIC, CEI-RD CODOCA, INDOCAL, ODAC, Ministry of Agriculture CEI-RD, Ministry of Tourism, Dominican Institute of Telecommunications, CNZFE, General Directorate of Film
Deficiencies in terms of trade intelligence	Expand access to global and regional markets for Dominican goods and services	Strengthen trade intelligence capabilities to promote exports	<p>Define a systematic methodology to identify potential 'star' products or services, which means:</p> <ul style="list-style-type: none"> Raising awareness and making the nature of and business opportunities in services more visible Identifying potential partners or markets of interest to expand access Developing market penetration and trade promotion strategies Assessing trade agreements to monitor their use and decide on new negotiations 	<p>Variations (at end of period and year) in export volumes (and import) by target market and sector (compare against established goals and identify possible causes that explain variations)</p>	<ul style="list-style-type: none"> NTNC, CEI-RD, DICOEX Academic and research institutions (for the item on research and impact studies linked to trade agreements)

Deficiencies	Goal	Objective	Lines of action	Possible quantitative goals to measure progress in this area	Responsible institution or institutions
		<p>Strengthen the institutional framework:</p> <ul style="list-style-type: none"> • Clarify competencies related to the articulation of trade policy with the NDS • Improve coherence between different dimensions of trade-related policies 	<ul style="list-style-type: none"> • Define coordination and monitoring mechanisms for existing goals, detailing accountability responsibilities in the implementation of the NDS • Promote greater coherence between productive development and trade promotion strategies • Modify legal instruments related to the definition of mandates and responsibilities between entities such as MIC, MIREX, CEI-RD, PROINDUSTRIA • Improve operational synergies between negotiation, implementation and use of agreements • Rationalise consultative and deliberative spaces • Promote the development and retention of skills for analysis of trade and opportunities in international markets 		<p>Presidency, MIREX, MIC, CEI-RD, MIEPYD, ministries with sectoral responsibilities (particularly those related to 'star' products or services), PROINDUSTRIA, private sector, representatives of productive sectors, ADOEXPO, AIRD, ANJE, ADOZONA, AEIH, AIREN, Chambers of Commerce</p>
Deficiencies in links between productive sectors geared towards the domestic market and exporters	Strengthen the impact trade has on development	Promote the inclusion of domestic enterprises of various sizes in the supply chains of free zone companies	<ul style="list-style-type: none"> • Identify goods and services that free zone companies are currently importing where there is domestic production with the potential to supply these companies • Identify supply deficits (in terms of quantity and/or quality) prevailing in the selected sectors • Identify policy actions that can contribute to closing these deficits and developing specific sectoral programmes 	<p>Increase at end of period/year:</p> <ul style="list-style-type: none"> • value of productive links between local suppliers and export companies 	CNFFE, CEI-RD, MIC, PROINDUSTRIA

Deficiencies	Goal	Objective	Lines of action	Possible quantitative goals to measure progress in this area	Responsible institution or institutions
		<p>Use mechanisms to promote closer links between export companies and domestic suppliers (with emphasis on SMEs)</p>	<ul style="list-style-type: none"> • Intra-exporter supplier fairs • Link between export companies, investors and local suppliers through IT platform • Cluster development initiatives between exporting companies and local suppliers • Supplier development projects, incorporating components of (i) capacity diagnostics and assessment, and (ii) capacity-building of local suppliers in issues related to certification, innovation, quality and human capital development • Promotion of academic research, oriented towards the design of public policies, about the Dominican Republic's export performance in global value chains in priority sectors 		
		<p>Seize opportunities to promote productive linkages at the regional level</p>	<p>Undertake trade and productive intelligence efforts to:</p> <ul style="list-style-type: none"> • Identify activities with potential to develop regional production chains • Determine the commercial potential of these chains by type of market (regional, hemispheric and global), by groups of countries with similar income levels, and submarkets (by income level or preferences) 		

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- Cesar Dargam, Vice Minister for Economic Affairs and International Negotiations, Ministry of Foreign Affairs
- Luis Omar Fernandez, Secretary of the National Trade Negotiations Commission (NTNC)
- Alexandra Guerrero, Director of SIRECINE and Bonnie Guerrero, Film Registry System, General Directorate of Film (DGCINE)
- Letty Gutierrez, Kadir González and Huáscar Jiménez, International Department, Dominican Republic Central Bank
- Mariam Mateo, Eco Tourism Director, Ministry of Tourism (MITUR)
- Katrina Naut, DICOEX Director
- María de Lourdes Núñez, Coordinator of Logistics and Transport, National Competitiveness Council (NCC)
- Erik Perez, Dominican Republic Contact Centre & BPO Cluster President
- Marcelo Puello, Vice Minister in charge of Free Zones and Special Regimes, MIC
- Maricell Silvestre, CEI-RD
- Tamara Vázquez, Coordinator of Tourism, Innovation and Entrepreneurship for the National Competitiveness Council (NCC)

FOOTNOTES PAGE

- ¹ Available here: <http://unctad.org/en/Pages/DITC/TNCD/Trade-Policy-Framework-Reviews.aspx>
 - ² <http://www.un.org/es/millenniumgoals/>
 - ³ A new set of 17 goals (Sustainable Development Goals) was adopted in 2015, to frame development efforts until 2030. They are available at <https://sustainabledevelopment.un.org>
 - ⁴ <http://hdr.undp.org/en/content/human-development-index-hdi>
 - ⁵ UNDP, 2002 and 2015 Human Development Reports.
 - ⁶ <http://economia.gob.do/mepyd/wpcontent/uploads/archivos/end/marco-legal/ley-estrategia-nacional-de-desarrollo.pdf>
 - ⁷ There is an Implementing Regulation, established by decree No. 134-14. http://economia.gob.do/mepyd/wp-content/uploads/archivos/end/marco-legal/decreto_134-14.pdf
 - ⁸ Proposed indicators and targets: <http://economia.gob.do/mepyd/wp-content/uploads/archivos/end/propuesta-indicadores-metas-cuantitativas.pdf>
 - ⁹ General Objective 3.1 reads ‘Develop an innovative and environmentally sustainable economy, with a productive structure that generates high and sustained growth with decent work conditions, which is inserted competitively in the global economy’. However, its specific objectives focus on issues related to macroeconomic performance, public finances and the financial sector.
 - ¹⁰ Two of the indicators, the Global Competitiveness Index and the Travel and Tourism Report General Index are calculated by international institutions and the other five can be calculated with information available to the public. The latter are basic quotients showing the behaviour of the country’s exports in respect to global exports, population and imports.
 - ¹¹ 2nd NDS follow-up report: <http://economia.gob.do/mepyd/publicacion/segundo-informe-anual-de-avance-en-la-implementacion-de-la-estrategia-nacional-de-desarrollo-2030-y-cumplimiento-de-the-targets-and-goals-plan-multi-the-industry-public>
 - ¹² National Dialogue on Trade Policy, held in the context of this project, in Santo Domingo on 3 and 4 September 2015.
 - ¹³ Although five out of six specific objectives talk about exports, participation in global markets or international competitiveness, Specific Objective 3.5.1 is dedicated exclusively to international trade and competitive insertion (‘Boosting export development on the basis of a competitive position in international markets’).
 - ¹⁴ Information on the Global Competitiveness Index (English): <http://reports.weforum.org/global-competitiveness-report-2015-2016/>
 - ¹⁵ World Economic Forum Travel and Tourism General Index Reports (English): <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/>
 - ¹⁶ http://www.bancentral.gov.do/estadisticas_economicas/real/
 - ¹⁷ http://www.bancentral.gov.do/estadisticas_economicas/mercado_trabajo/
 - ¹⁸ ‘Trade, as an economic activity, refers to the resale (sale without transformation) of new and used products. Trade comprises those establishments whose sales are destined to the general public for consumption or personal use. It is mostly composed of supermarket and department store sales, hardware item sales, appliances, furniture, household items, textiles, clothing, footwear, pharmaceuticals, among others.’ Central Bank of the Dominican Republic. National Accounts of the Dominican Republic Year of Reference 2007 Methodological Document, p. 72
 - ¹⁹ ‘This activity is grouped into two products within the NNPA: recreational, cultural and sporting services, which is composed of film productions, radio, recordings, artistic services, sports clubs, gambling services,
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zoos and botanical gardens; and other services, including veterinary services, library services, residential care service, social services with accommodation, rehabilitation services, sanitation, laundry, cemetery and funeral services.' Ibid, p. 94.

- ²⁰ According to results from the National Workforce Survey (ENFT) by the Central Bank of the Dominican Republic, in 2000 formal employment accounted for 47.1 per cent of total employment while in 2014 it accounted for 44.4 per cent. In turn, the contribution of informal employment increased from 52.9 to 55.6 per cent during that period.
- ²¹ Balance of Payments and International Investment Position Manual, 6th Edition (BPM6). International Monetary Fund, <https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>
- ²² External Sector Statistics: http://www.bancentral.gov.do/estadisticas_economicas/externo/
- ²³ In the case of services, the average surplus throughout the period was equivalent to 7.3% of GDP, while for current transfers it was 7.9%. Meanwhile, the income balance is consistently negative due to the importance of foreign investment in the country, which generates transfers abroad that are associated with repatriation of profits. On average, it reached the equivalent of 4.8% of GDP.
- ²⁴ This means that for every USD 1.00 exported, the Dominican Republic imported the equivalent of USD 1.83.
- ²⁵ The country has two export regimes: (1) free zones, which usually are delimited territories in which businesses operate free of all tax charges and also enjoy an expeditious trade regime; and (2) domestic exports, in which businesses can receive some tax incentives and compensation. Chapter V offers a detailed description of both regimes.
- ²⁶ Duran and Alvarez (2008) divide the level of trade concentration into three groups: an HHI > 0.18 is considered to be a 'concentrated' market; an HHI between 0.10 and 0.18 is designated as 'moderately concentrated'; and an HHI between 0.0 and 0.10 is considered to be 'diversified'. Following this classification, between 2002 and 2014 exports coded with two-digits of the Harmonised System (HS) went from a level considered to be 'concentrated' to one considered 'diversified'. However, those coded with 4 digits saw that their level of concentration was reduced but did not change category.
- ²⁷ These are almost 100 per cent composed of inputs and capital goods.
- ²⁸ Except for 2008 and 2009, when there was a major setback due to the crisis.
- ²⁹ In the period between 2009-2015, the local costs of the free zones increased by 49.6 per cent (CNZFE).
- ³⁰ There are however, methodological differences in the estimation of both incomes. While the former results from the IMF's Fifth Edition of Balance of Payments Manual which has data available until 2013, the second originates in the method proposed by the Sixth Edition Manual. From data resulting from the first, the average annual income between 2011 and 2013 was USD 1,019 million.
- ³¹ <http://www.competitividad.org.do/wp-content/uploads/2009/01/plan-nacional-de-competitividad-sistemica-pncs.pdf>
- ³² It was thought that the free trade agreement announced in 2002 by Central America and the United States could undermine the Dominican Republic's advantages over its regional partners if the country did not to join the process. On the other hand, due to commitments the European Union made in the World Trade Organisation, it had to replace unilateral tariff preferences offered to ACP countries under the Cotonú agreement for two-way free trade agreements in line with WTO rules.
- ³³ Agenda and Trade Integration Strategy. Working Paper. Ministry of Foreign Affairs and National Commission for Trade Negotiations. October 2015.
- ³⁴ Working group with productive sectors, 4 September 2015. Dicoex.
- ³⁵ It is worth noting that this vision is widely shared by stakeholders who participated in the consultations carried out with the public and private sectors during the preparation of this document.

- ³⁶ Cooperation programmes with the most outreach were the DR-CAFTA IPR funded by USAID in support of DICOEX, USAID's DR-CAFTA RTP for trade facilitation, especially in the General Directorate of Customs (DGA) and the European Union's ISPRI with technical assistance for the DICOEX and the Ministry of Foreign Affairs (MIREX).
- ³⁷ Through Law No.16-95.
- ³⁸ The Foreign Investment Promotion Agency (OPI-RD), which merged in 2003 with the Dominican Centre for Export Promotion (CEDOPEX) to become the Export and Investment Center for the Dominican Republic (CEI-RD).
- ³⁹ Law 153-01 (amended in 2013 to extend its benefits) relaunches tourism incentives expressly promoting: construction of facilities for conventions, trade shows, international conferences, festivals, shows and concerts; cruise activities which establish any of the ports specified in the law as the port for the origin and final destination of their vessels; construction and operation of amusement parks and/or ecological parks and/or theme parks; construction and/or operation of port and maritime infrastructure serving tourism, such as sports ports and seaports; construction and/or operation of tourism infrastructure, such as aquariums, restaurants, golf courses, sports facilities, and any other that may be classified as an establishment belonging to tourist activities (article 3).
- ⁴⁰ CEI-RD online information: <http://www.cei-rd.gov.do/ceird/VUI.aspx>
- ⁴¹ Dominican Republic Central Bank Figures. Trade Policy Review WTO 2014 (TPR 2014).
- ⁴² Argentina (2001), Chile (2000), Republic of Korea (2006), Ecuador (1998), Spain (1995), Finland (2001), France (1999), Italy (2006), Morocco (2002), The Netherlands (2006), Panama (2003), Switzerland (2004) and Chinese Taipei (1999).
- ⁴³ Regulated by Law no. 8-90 and its Regulation, established by Decree 366-97 of August 31 1997. Laws 139-11 and 253-12 modified the taxation treatment in some respects. The National Free Zones Council is the body responsible for implementing regulations concerning the sector: www.cnzfe.gob.do
- ⁴⁴ Free zone companies are allowed to sell in the domestic market under certain conditions, forcing the fulfillment of certain tax conditions that seek to standardise their situation in relation to those operating under the national scheme.
- ⁴⁵ However, free zone local sales and personal rent are taxed. According to a study by ANALYTICA, in 2014 the direct contribution of the Free Trade Zones was of RD\$ 2,777 million, while the indirect contribution (indirect ISR and indirect consumption taxes) amounted to RD\$ 7,338 million, for a total of RD\$ 10,115 billion.
- ⁴⁶ GDP figures are from the Central Bank of the Dominican Republic: www.bancentral.gov.do
- ⁴⁷ Figures for tax expenditure estimates are published annually by the Ministry of Finance and are an integral part of the state's annual budget law.
- ⁴⁸ Exemptions are applied to taxes on the import of raw materials, equipment and machinery; ITBIS; income tax (ISR); taxes on the constitution of companies; and other specific charges.
- ⁴⁹ Tax Expenditure Estimation for the 2015 budget: <https://www.dgii.gov.do/informacionTributaria/publicaciones/estudios/Documents/EstimacionGastoTributario2015.pdf>
- ⁵⁰ It should be noted, however, that the methodological robustness for measuring the tax expenditure for the sector has been questioned. See Analytica (2015).
- ⁵¹ Free Trade Zones Sector Statistical Report 2014. <http://www.cnzfe.gob.do/images/transparencia/Estadisticas/InfEst2014Esp.pdf>
- ⁵² Tax on the Transfer of Industrialised Goods and Services (ITBIS) is the official name of the Value Added Tax (VAT).
- ⁵³ Administered by the Centre for Development and Industrial Competitiveness PROINDUSTRIA (2014), <http://www.proindustria.gob.do/>
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- ⁵⁴ PROINDUSTRIA institutional presentation. Puerto Plata Investment Forum, September 2015.
- ⁵⁵ In practical terms, their activities under the national regime are defined in relation to free zone activities, meaning these activities are those not undertaken under the free zone regime.
- ⁵⁶ Grouping each chapter's classification (two digits from the Harmonised System) into these three categories is based on own elaboration. Although the relatively high level of aggregation may lead to inaccuracies, it is a reasonably good approach for the purposes of analysis to inform this discussion.
- ⁵⁷ However, some free zone sub-sectors such as footwear and tobacco show strong links with companies established in the country.
- ⁵⁸ The approved budget law for 2016 estimates mining revenues of USD 383 million, equivalent to 4.3 per cent of total tax revenue.
- ⁵⁹ As seen earlier, in 2014 total employment in agriculture was less than 15 per cent of total employment.
- ⁶⁰ Based on NCEFZ information (2015).
- ⁶¹ For example, the production of cigarettes and cigars demands a significant amount of local inputs, including tobacco leaves (Isa-Contreras, 2014). The domestic added value for footwear exports is 57 per cent, for medical products 48 per cent and electrical products 47 per cent (NCEFZ).
- ⁶² See Isa-Contreras (2014a).
- ⁶³ De Leon, Isa-Contreras and Melo (2013) arrived at a similar finding.
- ⁶⁴ The proportion of technical staff increased from 12.7 per cent in 2010 to 19.1 per cent in 2014.
- ⁶⁵ https://www.aduanas.gob.do/descargas/files/leyes/aduaneras/14600_De_Reforma_Arancelaria.pdf
- ⁶⁶ Which include, for example, some meat products.
- ⁶⁷ This system will have a Single Window for Foreign Trade.
- ⁶⁸ DUA Help Manual: https://www.aduanas.gob.do/Descargas/files/instructivos/Manual_DUA_SIGA.pdf
- ⁶⁹ <https://www.aduanas.gob.do/oea/index.html>
- ⁷⁰ Industrial Innovation Program: Competing on Speed and Flexibility (financed by the IDB).
- ⁷¹ <http://www.consultoria.gov.do/spaw2/uploads/files/Decreto%20262-15.pdf>
- ⁷² <http://www.doingbusiness.org/>
- ⁷³ <http://lpi.worldbank.org/>
- ⁷⁴ Group break-out sessions during the National Dialogue on Trade Policy in the Dominican Republic for 2016-2020, held in Santo Domingo on 3 and 4 September 2015.
- ⁷⁵ <http://www.dgii.gov.do/legislacion/leyesTributarias/Documents/158-01.pdf>
- ⁷⁶ Law No. 195-13 amending Law No. 158-01 on the promotion of tourism in less developed regions expanded the application of the benefits to the entire Dominican territory and amended the tax exemption period to 15 years from the conclusion of the installation work. This provision applies to existing beneficiaries.
- ⁷⁷ Interview with Tamara Vasquez, Coordinator of Tourism, CNC.
- ⁷⁸ Interview with Tamara Vasquez, Coordinator of Tourism, CNC.
- ⁷⁹ <http://www.asonahores.com/>
- ⁸⁰ International Association of Golf Tour Operators (IAGTO-North America) published in the newspaper Diario Libre, 9 September 2015 p. 25.
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- ⁸¹ Such as Royal Caribbean, Norwegian Cruise Aída, Holland American, Costa Cruiselines, CarnivalCruise, AzamaraCruise, MSC, Searbound, TheWorld, Silver Cloud, Regent, Oceania, SilverSea and Club Med, with passengers coming mostly from the United States, Germany and France. In October 2015 a private cruise port was inaugurated in the province of Puerto Plata, which includes an amusement park developed by CarnivalCruise.
- ⁸² Interview with Mariam Matias, Director of Ecotourism, Ministry of Tourism.
- ⁸³ www.adtusalud.org
- ⁸⁴ <http://www.diariolibre.com/noticias/afirman-el-turismo-de-salud-avanza-en-repblica-dominicana-DHDL783671>
- ⁸⁵ Dominican Republic Central Bank, Impact of Call Centers in the DR. ACI No.31.
- ⁸⁶ According to Law No. 8-90 for Export Free Zones.
- ⁸⁷ Dominican Republic Central Bank International Department, Analysis of International Juncture No.31, April of 2014 Impact of Call Centers in the Dominican Republic.
- ⁸⁸ Interview with Erik Perez, President of Dominican Republic's CC & BPO Cluster.
- ⁸⁹ Analysis of International Conjuncture No. 31, April of 2014 Dominican Republic Central Bank, International Department.
- ⁹⁰ According to the 2015 English Index Level
- ⁹¹ Interview with Erick Perez, President of the Dominican Republic's CC & BPO Cluster.
- ⁹² Ministry of Culture. National Study on cultural and creative industries in the Dominican Republic.
- ⁹³ According to its organic law No. 290 of 1966
- ⁹⁴ State Secretary for Industry and Trade Organic Law (290-66) of June 30, 1966.
- ⁹⁵ The NCC is chaired by the President of the Republic and is composed of the Ministers of Economy, Planning and Development, Industry and Trade, Agriculture and Tourism, among others.
- ⁹⁶ <http://www.cnc.gob.do/index.php/sobre-nosotros/quienes-somos>
- ⁹⁷ <http://economia.gob.do/mepyd/viceministerios/competitividad/>
- ⁹⁸ By Law 166-12
- ⁹⁹ See 'The new Dominican Foreign Policy and International Relations Issues' Vol. I and II on the explicit proposal of Dominican Trade Policy for 1996-2000.
- ¹⁰⁰ http://www.ftaa-alca.org/alca_s.asp
- ¹⁰¹ By Decree No. 74-97.
- ¹⁰² Currently in the Dominican Congress.
- ¹⁰³ <http://www.mirex.gob.do/>
- ¹⁰⁴ <http://www.seic.gov.do/>
- ¹⁰⁵ Under Decree No. Decree 52-99.
- ¹⁰⁶ <http://www.seic.gov.do/media/407472/plan%20estrat%C3%A9gico%20institucional%202013-2017.pdf>
- ¹⁰⁷ Created by Law 1-02, 2002.
- ¹⁰⁸ During the period between 2008 and 2014, the Dominican Republic started two anti-dumping investigations concerning steel rods and five safeguard investigations. There were no investigations concerning subsidies. (WTO, Trade Policy Review, 2014).
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- ¹⁰⁹ Composed of the Ministry of Agriculture, MIC and DGA, in accordance with the provisions of Decree 705-10 and 569-12.
- ¹¹⁰ By Decree 610-05.
- ¹¹¹ The decree establishing CONIAT has not been implemented or promoted by MIC.
- ¹¹² Findings of the Second Industrial Congress of the Dominican Republic, validated by the Dialogue on Trade Policy held on 3 and 4 September 2015.
- ¹¹³ Oriented towards deepening productive links and integrating a broader value chain in the country or with greater links covered by the local industry.
- ¹¹⁴ It is recommended to further support SME programmes due to their impact on employment and inclusive development. SMEs are also highlighted due to their importance in the production and export of agricultural products (particularly in a context of re-primarisation of exports) and the high mortality rate of their export initiatives (largely motivated because they do not dominate aspects linked to foreign trade logistics and commercial intelligence).
- ¹¹⁵ Such as the One-stop Scheme for Foreign Trade (VUCEX).
- ¹¹⁶ See Alternative methodologies from the Asian Development Bank: <http://www.adb.org/publications/methodology-impact-assessment-free-trade-agreements>
- ¹¹⁷ For example, the boards of several public institutions encompass officers and union representatives, including the business sector. Effective operation of these councils or governing bodies makes these ad hoc mechanisms redundant.
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