



# DOMINICAN REPUBLIC

Rank: **72**  
 Score: **3.00**  
 Category: *Mostly Unfree*

Trade Policy	<b>4</b>	Government Intervention	<b>1</b>	Foreign Investment	<b>3</b>	Wages and Prices	<b>3</b>	Regulation	<b>4</b>
Fiscal Burden	<b>1.5</b>	Monetary Policy	<b>3</b>	Banking and Finance	<b>3</b>	Property Rights	<b>4</b>	Black Market	<b>3.5</b>

For the past several years, the Dominican Republic has enjoyed steady economic growth, although a large part of its population still lives in poverty. President Hipolito Mejia, who took office in August 2000, faces high popular expectations of an improvement in living standards, but meeting those expectations will be difficult. Passage of the Trade Development Act of 2000 further opened the U.S. market, but because the United States is the Dominican Republic's major trading partner, the recent U.S. economic slowdown inevitably will have a negative impact on the Dominican economy. In February 2001, the government launched the *paquetazo social*, an anti-poverty program. As reported by the Economist Intelligence Unit, many of the program's components represent expansions of existing initiatives, in addition to a distribution of US\$17 per month in direct payments to 300,000 families. The agriculture and manufacturing sectors have reported extraordinary gains in the past year, suggesting an increase in productivity. Tourism, one of the country's major industries, has also increased, encouraging further investment in construction. The Dominican Republic's black market score is 0.5 point better this year; however, its monetary policy score and wages and prices score are both 1 point worse. As a result, the Dominican Republic's overall score is 0.15 point worse this year, making the Dominican Republic a "mostly unfree" country.

## TRADE POLICY

**Score: 4—Stable (high level of protectionism)**

The Dominican Republic imposes tariffs between 0 percent and 35 percent. The average tariff rate is 12.08 percent. Non-tariff barriers take the form of inefficient customs procedures. According to the U.S. Department of State, "Bringing goods through Dominican Customs can often be a slow and arduous process.... The use of 'negotiated fee' practices to gain faster customs clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market."

## FISCAL BURDEN OF GOVERNMENT

**Score—Income and Corporate Taxation: 2—Stable (low tax rates)**

**Score—Government Expenditures: 1—Stable**

**(very low level of government expenditure)**

**Final Score: 1.5—Stable (low cost of government)**

The Dominican Republic's top marginal income tax rate is 25 percent; the average taxpayer faces a 0 percent marginal tax rate. The top corporate tax rate is 25 percent. In 2000, government expenditures equaled 14.8 percent of GDP.

## GOVERNMENT INTERVENTION IN THE ECONOMY

**Score: 1—Stable (very low level)**

Government consumes about 8 percent of GDP. In 1998, the Dominican Republic received 1.90 percent of its total revenues from state-owned enterprises and from government ownership of property.

### Scores for Prior Years:

**2001:** 2.85      **2000:** 2.90      **1999:** 3.10  
**1998:** 3.20      **1997:** 3.10      **1996:** 3.20  
**1995:** 3.40

**Population:** 8,404,420

**Land area:** 48,730 sq. km

**Major industries:** tourism, sugar processing, ferronickel and gold mining, textiles, cement, tobacco

**Major agricultural products:** sugarcane, coffee, cotton, cocoa, tobacco, rice, beans, potatoes, corn, bananas, cattle, pigs, dairy products, meat, eggs

**GDP:** \$16 billion

**GDP growth rate:** 8.3%

**GDP per capita:** \$1,916

**Exports of goods and services:** \$4.9 billion

**Major export trading partners:** US 66.1%, Netherlands 7.8%, Canada 7.6%, Russia 7.4%, UK 4.5%

**Imports of goods and services:** \$6.3 billion

**Major import trading partners:** US 25.7%, Venezuela 9.2%, Mexico 4.0%, Japan 3.0%, Panama 2.6%

**Foreign direct investment (net):** \$1.1 billion

## **MONETARY POLICY**

### **Score: 3–Worse (moderate level of inflation)**

From 1991 to 2000, the Dominican Republic's weighted average annual rate of inflation was 7.16 percent, up from 5.8 percent from 1990 to 1999; as a result, the Dominican Republic's monetary policy score is 1 point worse this year.

## **CAPITAL FLOWS AND FOREIGN INVESTMENT**

### **Score: 3–Stable (moderate barriers)**

The Dominican Republic has liberalized a portion of its foreign investment policy by, among other things, creating free trade zones to encourage investment. In most of the country, however, constraints on the freedom to invest remain in effect. Foreigners may not invest in toxic waste removal, national security-related sectors, forestry, transportation, or areas of the economy that may affect environmental or public health. According to the U.S. Trade Representative, "The seizures of foreign investors' property by past governments which are still unresolved and the government's slowness in resolving claims for payments reduce the attractiveness of the investment climate."

## **BANKING AND FINANCE**

### **Score: 3–Stable (moderate level of restrictions)**

The banking sector has undergone some reform over the past few years. It includes 15 commercial banks, of which one is state-owned and two are foreign-owned, and 16 development banks that provide loans for housing, agriculture, and other investments. According to the Economist Intelligence Unit, "The foreign investment law that came into effect in September 1997 opens up the banking sector to further foreign participation, although it stipulates that insurance agencies remain under majority Dominican ownership." Only so-called multibanks, created through the merger of commercial or development banks with mortgage and savings banks, may offer a full range of services.

## **WAGES AND PRICES**

### **Score: 3–Worse (moderate level of intervention)**

The market sets most wages and prices, but the government maintains price controls on sugar, petroleum derivatives, cement for construction, and staples and agricultural products. Since agriculture and sugar refining are among the most dynamic sectors of the economy, price controls in these areas significantly distort the economy overall. The government also affects prices through some state-owned utilities. The Dominican Republic maintains a minimum wage. Based on a reassessment of the evidence for this factor, the Dominican Republic's wages and prices score is 1 point worse this year.

## **PROPERTY RIGHTS**

### **Score: 4–Stable (low level of protection)**

Although the constitution provides for an independent judiciary, other branches of the government have undermined this independence. The court system is inefficient, corruption and bureaucratic red tape run high, and the government can expropriate property. According to the U.S. Department of State, "In the last five years the Dominican Government has made little progress in resolving outstanding disputes with international companies concerning expropriated property and payment defaults." In addition, "Although the Fernandez Government instituted an impressive judicial reform program, it can be difficult and time-consuming to obtain an equitable result in the still antiquated justice system."

## **REGULATION**

### **Score: 4–Stable (high level)**

The government has made some efforts to reform the regulatory system, but business regulations are still burdensome, and red tape and inconsistent application remain problems. The government also has made some efforts to fight corruption, but it remains a serious problem. According to the Economist Intelligence Unit, "The Mejia government's high-profile crackdown on corruption against members of the outgoing administration continues to be handicapped by the emergence of allegations of misconduct against members of the current administration."

## **BLACK MARKET**

### **Score: 3.5–Better (high level of activity)**

Transparency International's 2001 score for the Dominican Republic is 3.1. Therefore, the Dominican Republic's black market score is 3.5 this year.