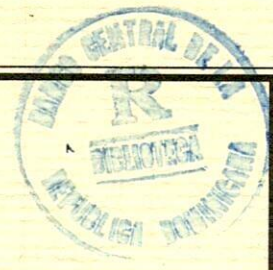


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**The New Investment Climate
in the Dominican Republic**

by

Lic. Hector Valdez Albizu
Governor of the Central Bank of the Dominican Republic

Council of The Americas
New York, N. Y.
February 22, 1996



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BIBLIOTECA

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THE NEW INVESTMENT CLIMATE IN THE DOMINICAN REPUBLIC

Ladies and Gentlemen:

We are sincerely grateful for the invitation extended to us by the Americas Society, the Council of the Americas, and the Dominican-American Assistance Fund, sponsors of this panel, to speak to you about the business opportunities available in the Dominican Republic, and about the new law which regulates and provides incentives for foreign investment.

In my dissertation I will present a general overview of the country, followed by a synthesis of the scope of the Foreign Investment Law and of the advantages it offers to the investor who opts to associate him or herself with the future of one of the most dynamic, stable, and promising of the emerging economies in the Caribbean Region. I will also present a brief review of the Dominican Republic's macroeconomic evolution and of recent developments in the structural reform process.

The Dominican Republic occupies the eastern two-thirds of the Island of Hispaniola, the second in land area of the Caribbean islands. Given its abundance of natural and human resources, its pleasant tropical climate, its proximity to the North American market, and its location on routes to other no less important markets, our country has excellent potential as we look outward to successfully face the challenges of the new economic order. We receive 2 million guests annually and have a permanent population of 7.5 million.

As a nation with a small but open economy, the Dominican Republic has historically maintained a significant external commercial flow, equivalent to a third of our total production. The volume of the country's international business has reached US\$7.6 billion. Fully half this amount is composed of revenues from the export of goods and services, and remittances which Dominicans living abroad send to their families.

In recent years, the contribution of the non-traditional export sector to our growth, employment, investment, productivity, and generation of foreign exchange, has demonstrated our ability to compete within a global scenario. This has facilitated the transition from a commodity export economy (chiefly sugar, coffee, cacao, tobacco, and ores) to a vigorous provider of services, thus manifesting our objective of inserting ourselves into the globalization scheme.

It follows then that in accordance with the pattern established by the industrialized countries, the most dynamic sectors of the Dominican economy are those which are most internationally oriented: tourism, industrial free zones, commerce, and our telecommunications facilities which are among the most modern in the region and which we point to with pride. Thanks to its competitiveness, our external sector has substantially strengthened itself. We have efficient services at our disposal which facilitate our mobility in the entrepreneurial environment: a solid banking sector, ample highway and communication networks, a good tourist infrastructure, and an energetic professional and commercial sector comprised of many disciplines, all making a positive contribution to the country's socioeconomic development.

For the past thirty years the Dominican Republic has enjoyed a level of political stability, domestic tranquility, and order which is fully democratic. Turbulent politics, armed insurgency, terrorism, and international tensions which have affected some of our neighbor countries: these have not enjoyed a presence in the Dominican Republic, the institutionality of which has been based to a large extent on the strength of our civic organizations.

The economic policies outlined by the Dominican government, under the leadership of President Joaquín Balaguer, give priority to structural reforms which work to drive competitiveness, preserving macroeconomic stability as a condition for the economy's balanced growth.

The results of this policy demonstrate a healthy performance level in the economy, which in 1995 registered single-digit inflation, and a GDP growth of 5%, one of the highest in the region, according to the UN Economic Council for Latin America and the Caribbean. After paying all our external obligations, we also had a surplus in our Balance of Payments Current Account. This raised our international reserves to levels which will allow us to comfortably meet those obligations which may arise during the present year.

Another important landmark was the considerable reduction, by more than US\$600 million, of our external debt, between 1991 and 1995. Last year, the Dominican Republic was the only Latin American country to reduce its debt. The rescheduling and repurchase of both bilateral and commercial debt, resulting in a reduction of the latter by 57%, was achieved by the accumulation of reserves. No new sources of financing were tapped. Today, debt service represents the equivalent of only 12% of foreign exchange income.

This positive performance, marked by the maintenance of exchange rate stability, fiscal balance, inflation control, reductions in unemployment and interest rates, has been acknowledged by the international financial community and by institutions such as the International Monetary Fund, the World Bank and the Inter-American Development Bank.

Our policy of timely payments to the multilateral credit institutions has made possible an expansion of available resources, which in turn have been oriented toward the creation of pro-development infrastructure, education, and vocational training, thus increasing the efficiency of our human resources.

Structural Reform

Let me now sketch out the principal initiatives with which the Dominican Republic is presently involved, in order to confront the challenges of the next century, in a world being increasingly characterized by globalization. The Dominican authorities and the business community are aware that in order to face the challenges and to take advantage of the opportunities that the new international order represents, great institutional changes are needed. Globalization is the frame of reference that is required if the economy is to function.

We are firmly convinced that these changes form the cornerstone of the effort to increase our global competitiveness. A country's capacity to attract and hold investments that enhance its

dynamic qualities can be defined by the effectiveness with which it can implement coherent economic policies.

In 1991 we began a process of structural reforms with the purpose of modernizing our economy and our basic institutions, in order to secure insertion in today's competitive world. With this in mind, the tax, tariff, financial, education and labor sectors have undergone reforms, and the means towards unrestricted access by external commerce have been strengthened.

The modifications to the tariff system resulted in uniformity among laws and rates, setting a minimum of 3% and a maximum of 35%, with an effective level of 22% in 1995. Simplified procedures were adopted to facilitate foreign-based business operations. The modernization of the customs system is underway, including the automation of port-of-entry operations, speeding up of procedures, and personnel training.

Along these same lines a new Tax Code has been approved which integrates legislation in that field, increases efficiency in fiscal administration, and protects salaried workers, thus simplifying the tax system.

The financial reform, now well advanced in its implementation, establishes free foreign exchange convertibility as well as prudent banking regulations, thus improving the solvency and efficiency of intermediaries. It also provides equal treatment for foreign banks, particularly with regard to stockholder participation. The Financial-Monetary Code, which is about to be approved by Congress, insures that this will become a reality.

To stimulate the production sector's international competitiveness, reforms are underway among other essential sectors such as energy, telecommunications, and transportation. Congress is debating a General Energy Act, which will allow participation of the private sector in the generation and distribution of energy, and which reorganizes the energy sector along lines of transparency and efficiency.

In fact, the state-owned Dominican Electric Corporation distributes through its grid a significant contribution from private generating companies, among them the Smith-Enron consortium, the Coastal Commonwealth Development Corporation, and Falconbridge Dominicana. This is a priority investment field, an area in which foreign investment can make a significant impact in the immediate future.

Telecommunications is another service in the process of modernizing, to assure competition and independent regulation, as are the air transport, with its open skies policy, and maritime sectors, with a regime of private concessions for the operation of ports and support services.

There is a new Labor Code which modernizes labor-management relations and equalizes indirect and direct social costs of Dominican businesses with those of the international marketplace.

Since 1993 an Education 10-Year Plan has been in place which is radically transforming the quality of basic education and has reduced the dropout rate.

Political institutions and community participation therein have been strengthened through Constitutional and Electoral Law reform, in order to make more transparent the functionality of democracy.

The finalization of the Uruguay Round of the GATT and the commitments derived from the emergence of the World Trade Organization have driven important changes in the commercial sphere; as have the drafting of bills dealing with intellectual property, competition, antidumping, and export promotion. These are awaiting timely Congressional approval.

Quantitative restrictions on imports have been eliminated, and all private external payments operate in a free market foreign exchange environment. Health and technical barriers are being harmonized with those of the D.R.'s principal trading partners, with the objective of fostering compliance in the local sphere.

The Foreign Investment Law

The Dominican Republic, like other Latin American countries, is carrying out sustained efforts to adapt its institutions and its laws to the challenges of an increasingly open and competitive international economy, in which capital investors are constantly seeking maximum profits, diminished investment risk, and above all, clear and stable rules.

Toward this end, the Dominican Republic has fine-tuned its Foreign Investment Law, as based on the principle of equal treatment for investors both foreign and domestic, as well as equality of obligations and rights. Restrictions and controls have been substituted with liberalized and more transparent norms and procedures, emphasizing simplicity and flexibility.

The Dominican Government, under the leadership of President Joaquín Balaguer, sees in this legislation a key tool for the promotion of foreign investment.

The Interamerican Investment Corp., subsidiary of the Interamerican Development Bank, and the United Nations Development Program, as well as the Association of Foreign Investment Companies (ASIEX), were kind enough to provide their advice and counsel in the preparation of the Foreign Investment Law. On a congressional level, there was ample debate before approval, from which it can be assumed that the Law is product of a broad consensus.

The scope of the law includes:

- Removal of previous restrictions on foreign investment participation in certain areas of the economy.
- Granting equal jurisdictional treatment, in accordance with national and international legal norms, to foreign and national investors.
- Elimination of percentage limitations to remittances and capital repatriation.
- Harmonizing the criteria for the registration of technology transfer with existing international regulations.
- Clearly defining regulations for foreign investors, notwithstanding modifications to the exchange regime.

With this new law, the investor has the opportunity to make his investment by means of:

- Placements of freely exchangeable currency at an authorized banking entity, using simplified procedures, for the purposes of registry.
- Contributions in equipment and other tangibles.
- Infusions of intangible technology (know-how).
- Placements channeled through financial instruments to be determined by the Monetary Board.
- Contributions through contracts for technology transfer (e.g. - technology licenses, technical assistance, technical services, and basic and applied engineering licenses).

Individuals or corporations which invest in the country will be able to enjoy a liberal and unrestricted regime with respect to the destiny of their capital or of their proceeds. Most important, with the introduction of the capitalization of financial instruments, foreign investors are allowed to participate in security markets, acquiring shares, bonds and other instruments.

I can assure you that the Dominican Republic today has one of the most modern legal frameworks on this matter, offering foreign investors highly attractive benefits and a secure environment for their investments. Additionally, our country has signed onto the World Bank's Multilateral Investment Guaranty Agency (MIGA), which establishes norms for the settlement of potential disagreements among investors.

International Insertion

The Miami Summit and the mandates formulated by the 34 Heads of State, within the Action Plan to create a Free Trade Zone of the Americas by 2005, have revitalized existing reforms and have given rise to new ones, in order for all concerned to be properly absorbed into the process of hemispheric integration.

Last year the Dominican Republic joined the Association of Caribbean States, which includes 37 countries in the region, including Mexico, Venezuela, Colombia and the Central American states.

Our participation in Lomé IV has allowed us to receive important concessional resources for development, as well as preferential treatment in the markets of the European Union. Lomé regulations stimulate the creation of joint ventures with Dominican and European entrepreneurs, thus offering greater opportunities for investment. Likewise, opportunities in Europe for agroindustrial export ventures are excellent. The revitalization which has taken place within the banana industry offers ample confirmation of this.

I would like to point to the significant and diversified growth that foreign investments have experienced, due mainly to a combination of structural reforms, adequate macroeconomic performance, and the enviable environment of domestic tranquility that exists in our country. In 1995, tourism brought us 1.5 million foreign visitors in addition to 450,000 non-resident Dominicans, and an expansion of upwards of 31,000 hotel rooms. The growth of the middle class

has lured fast-food chains such as Burger King, Wendy's, Taco Bell, Pizza Hut, Subway and Domino's Pizza into the Dominican consumer market. The cola wars between Pepsi and Coca-Cola is being rewritten in a Dominican version, as are other brands which are property of corporations such as Colgate and Procter & Gamble.

The growing Dominican community in the United States and Europe (an ethnic group which places among the highest number of long distance calls per capita to their country of origin), and the country's progress towards modernization, have driven the expansion of North American telephone companies such as GTE, AAC, and Motorola, which are already in country, and others based on domestic capital, which are open to coinvestors. The Dominican Republic is one of the top ten countries in the world in calls received which originate in the United States. Fifty percent of these stem from New York.

The substantial growth of tourism and trade has meant an increase in flights to the country. The main beneficiaries are American (American Airlines, TWA, and Continental) and European airlines (Iberia, Air France, and Alitalia), and the charter plane companies. Modern and comfortable airports near the country's main tourist areas, expand the possibilities for investments. The principal Spanish hotel chains, such as Meliá, Barceló, Sol, and North American ones like Sheraton and Renaissance among others, operate numerous beautiful resorts.

The Dominican Republic has become the second most popular tourist destination in the Caribbean, just behind Mexico. It is the fifth most active supplier of garments, and holds first place in six garment categories imported by the U.S.A. We are, likewise, number one in the world in the export of «gourmet» cigars making, surpassing the famous Havanas. Our industrial free zones occupy first place among suppliers of «uppers» for leather shoes to the North American market. Dominican workers - especially women workers, who constitute a majority in the free zones - enjoy a well earned reputation for their manual skills.

The progress achieved in free zone activities, which groups 476 companies, and generates 182,000 direct jobs, has motivated important American companies to locate here, as, for example, Hanes, in underwear, Baxter Biotech, in medical equipments, Johnson & Johnson, in personal hygiene products, Westinghouse, in electrical supplies and a subsidiary of American Airlines, Caribbean Data Services, in data processing.

The Dominican Republic - together with other Caribbean and Central American countries - has lobbied in the Congress of the United States for the approval of the Caribbean Trade Security Bill, which would grant tariff parity with Mexico for textiles and hides. Be it through this, or other comparable, legislation, a fair deal must be guaranteed those nations that have proven themselves to be trustworthy trade partners of the U.S.A. Anything less would promote instability in the region and would feed the demographic time bomb of illegal immigration.

There are mining enterprises underwritten by North American capital in the country, such as Falconbridge, the American-Canadian company, which produces 4% of the world's nickel output. In the past, Alcoa and Rosario Resources have operated here. Other foreign mining companies such Murfinn Drealer, Marchi, Once Once, and Minera Española, have participated in the

extraction of other minerals like copper, zinc, and clay, of precious metals -gold- and of oil and natural gas. Rosario Dominicana, which mines gold and silver deposits in Pueblo Viejo, has about 10 million troy ounces in gold and about 50 million troy ounces in silver, equivalent to about 30 years proven reserves. This represents a business potential of about US\$4 billion.

In agroindustry, Dole has successfully developed the cultivation of pineapple plantations, in areas that were once sugar cane fields. The sugar industry, once the main source of income for the country, still has its importance in the Dominican economy, to the extent that in the North American market we occupy first place as supplier within the quota system. The Franjul family - owner of sugar mills in Florida - has strong investments in Central Romana, while a Dominican family, the Vicinis, operate several sugar mills. The state owned sugar mills - Consejo Estatal del Azúcar (State Sugar Council)- which manages approximately 10 sugar mills, offers a potential for new investments by various means.

Refinería Dominicana - which operates as a successful joint venture between Shell and the Dominican Government - processes oil, while Esso, Texaco, Shell and Isla, are active in fuel distribution.

It is precisely toward these, the most attractive sectors for the purposes of capital placement, that we would like this audience of distinguished business leaders to direct its attention. Energy, agroindustry, tourism, telecommunications, transportation, free zones and mining offer a magnificent potential worth making the most of. This is the time to do it.

Old Links

Historically, trade, political, social, and cultural relations between the United States and Dominican Republic have been fluid, harmonious, and mutually beneficial. A million Dominicans live in the United States, the majority in the Northeast, and their remittances to their families constitute an important category in the balance of payments of the '90's. Conversely, American citizens constitute an important community in the Dominican Republic's world of commerce and of professional services.

Our strong national culture makes the country attractive. Our people are cheerful, open, and hard working. The contributions of multiple cultures (European, African, Asian, and American) have given a cosmopolitan stamp to Dominican life. In recent years, cultural traditions like St. Valentine's Day, Halloween, and Thanksgiving are celebrated with great enthusiasm by the younger generations.

Many Dominicans have stood out in the fields of the arts and sports in the United States. During the 40's, María Montez, who played in 26 pictures between 1941 and 1946, was called technicolor's queen. Presently we have Michael Camilo, jazz musician and composer, whose work has received numerous awards. Juan Luis Guerra and his band, have made the merengue, our typical music, popular worldwide, and Oscar de la Renta, a distinguished Dominican, has triumphed internationally as a fashion designer. The literary works of writer Julia Alvarez have become best sellers.

It has been in the sport of baseball that the Dominican Republic has achieved most success and exposure. Hundreds of Dominican players have distinguished themselves in the «Big Show». We have a Hall-of-Fame member in the person of pitcher Juan Marichal. Baseball and basketball are the most popular spectator sports in the country. Tens of American cable TV networks can be seen in our country, making stronger ties to the American way of life possible.

In the economic field, the bilateral trade exchange represents 70% of the Dominican Republic's international transactions, with good perspectives for growth as we advance towards the continental free zone in 2005. Except for Mexico, we are the main commercial partner of the United States in the Caribbean.

Our country, only two hours from Miami and three from New York by air, strives constantly towards progress and improvement within a democratic and secure environment. Come with us, and let us be partners in development in a climate of mutual benefit. Today's Dominican Republic awaits you.

Thank you very much.

