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BANCO CENTRAL DE LA REPUBLICA DOMINICANA

DEVELOPMENT AND INVESTMENT POLICY

By

Bernardo Vega

Governor of the Central Bank

of the Dominican Republic

Santo Domingo, D. N.
December 9, 1983

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I wish to thank the Organizing Committee of the Meeting between the distinguished U.S. visitors and our Dominican businessmen for the opportunity offered to me to address you and be able to - express some ideas about the open-door policy to foreign investment and the promotion of exports, which is being carried out by President Salvador Jorge Blanco.

Since its inception, the objectives of the present government have been the achievement of stability through the reduction of internal and external deficits. At the same time, an effort has been made to rebuild the national economy within a framework of morality and austerity in government expenditures.

Nevertheless, the government has been aware of the fact that stability and austerity cannot by themselves achieve a dynamic growth in our economy and that they are mere prerequisites for fortifying the generating forces of that growth.

As a result of that conviction, the stability program is being - carried out without destroying those creative forces as can be seen by the expectation of an economic growth, in real terms, of the Gross Domestic Product (GDP) of our country in 1983 of 3.0 - percent, a rate double that of last year, which was 1.5 percent. Said level is favorably compared with the perspectives being faced by non-oil developing countries, wherein an average growth of 1.6

percent is projected, some of which are at a standstill or even have a negative rate. At the same time, the inflation rate is projected at only 7 percent, slightly lower than last year's, which in itself was one the lowest inflation rates in all of Latin America.

However, simultaneously with austerity, the government has adopted a series of regulations which tend to change the growth model and restore confidence in the country's economy while promoting private investment in those areas with a greater growth potential and with optimum perspectives for the generation of foreign exchange.

For years, the Dominican economy policy was based on an import substitution model without foreseeing that, in the near future, it would tend to exhaust itself or, at least, to reduce its economic impact; whether it be due to the saturation of the internal market, or because it was postulated that the country would always generate foreign exchange with which to finance the import of raw materials, machinery and equipment required for this model; when reality proved that, at a given time, the foreign exchange needed to sustain said imports was not generated.

For these reasons, today there is evidence that the economic feasibility of developing countries and, particularly, that of our

country demands the definition of concrete policies in the correct direction, that is, that it be based on a model of development towards the outside as has been adopted by the present government.

In harmony with this model which is closely linked to the promotion of exports and in line with a series of legislations, mechanisms and incentives to the export sector, the National Export Financing Fund was created, granting new foreign-exchange incentives to exporters of non-traditional products, which can reach up to 100 percent non-delivery of foreign exchange to the Central Bank for over 80 agricultural products. Also, the Exchange Credit Certificate was created for the benefit of traditional product exporters, such as insurance companies and tourist-sectors firms, and destined to totally or partially compensate their operating costs in foreign currency.

These measures create the juridical and economic policy infrastructure required so that the country may take advantage in an aggressive manner, through the trade liberalization implicit in the Caribbean Basin Initiative, of new approaches to markets - such as that of the United States, which is the largest in the world, and other definitely smaller but closer and very -

promising markets such as that of Jamaica.

In this sense, as expressed by President Jorge Blanco in his speech delivered before the Sixth Annual Conference on Caribbean Commerce, Investment and Development "we can now say that the doors of the Dominican Republic are open to foreign investment, above all to that which generates new imports".

Within this general development policy, the government has declared four investment priority areas: tourism, agro-industry, mining and free trade zones.

In the case of tourism, measures have been taken to liberalize foreign-exchange regulations so that local tourist costs may be more competitive with other destination points. As a complementary measure, the use of tourist credit cards was liberalized and prior executive authority permission for the acquisition of real estate by foreigners in tourist areas has been practically eliminated.

In addition, the Tourist Infrastructure Development Fund (INFRA-TUR) of the Central Bank finances up to 65 percent of the cost of hotels and Law 153 for the Promotion and Incentive of Tourism

exempts these projects from profit taxes for a period of ten years. It is satisfying to be able to report that, in part, due to these measures, the Dominican Republic is the Caribbean nation towards which tourism is flowing most rapidly.

In the agro-industrial area, the President announced his government's promotion policy for this sector through co-investment between public and private sectors. He invited U.S. investors to participate in joint ventures in areas wherein specific projects have already been negotiated, such as, pineapple, cotton and African palm.

The recent increase in the support price for corn and sorghum has stimulated the planting of these crops. Law 409 also guarantees investors in these sectors a 100 percent tax exoneration. On the other hand, the recent establishment of an insurance company that will offer coverage of crop and livestock risks will constitute a support mechanism for these sectors as will a new law that offers exoneration of profit taxes for 20 years to those agro-industries establishing themselves on the nation's border with Haiti.

In the finance area, special funds have been created to provide

credit for the production of corn, sorghum, agro-industry on our border, and guarantees to the agro-industrial sector in general. Also, the government is undertaking feasibility studies to identify agro-industrial opportunities open to investors, both domestic and foreign.

An important measure was taken in the mining sector when the new government revoked a legal disposition which, in 1971, had declared the entire nation as a mineral reserve, which meant that the private sector was prohibited from mineral prospecting and, much less, from obtaining operating concessions. By virtue of a recent decree issued by President Jorge Blanco, once again, after a lapse of 12 years, private sector prospecting is permitted.

With respect to industrial free zones, Dominican authorities have adopted incentive measures over and above those already existing that offer 100 percent exoneration on taxes and import duties applying to raw materials, semi-elaborated products, materials that enter into the manufacturing process of finished goods, as well as packaging materials. Similar treatment is extended to machinery and equipment imported in good condition for the use of the industry, as well as fuels and lubricants (except gasoline) used in the industrial process.

In another measure, authorization has been given to private groups, local or foreign, to promote privately-owned free zones in cities where they do not yet exist. This call has received the response of local and foreign investors who have shown interest in establishing such zones in some of the important cities of the nation.

This measure has been complemented by the Central Bank's decision to offer bland credit terms to both locals and foreigners for the financing of industrial buildings and the infrastructural facilities required by new industrial zones.

It must be emphasized that the Dominican government, in addition to having substantially improved through its economic stabilization program, the climate within which the private sector may grow, has also established clear guidelines as to the areas of investment of first priority and has adopted a series of measures that are indispensable for the stimulus of local and foreign investment in a country that has always been characterized by its respect of property and where expropriations have never occurred.

In closing, it can be said that the problems of our economy are being attended to in an adequate and efficient manner, based on -

just treatment of all concerned within a context of peace and democracy, proper to the democratic system reigning in our country.

We are therefore confident in the results of these favorable conditions for investment and development. It is you, Dominican businessmen and distinguished U.S. visitors who, with your actions, can confirm that the Dominican Republic is a country open for progress.

Thank you.