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# Dominican Republic

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## DOMINICAN REPUBLIC

*The following is a brief summary of recent legislative and judicial developments in the Dominican Republic.*

### ECONOMIC SOLIDARITY PACT INTRODUCES POLICY OF ADJUSTMENTS

During the first week of August 1990, President Joaquín Balaguer called representatives from the business and labor sectors to sign an Economic Solidarity Pact. The Pact represents a consensus on the measures necessary to redirect the economy. However, time for negotiations was not granted and the majority of the union representatives were not present, therefore, the Pact, signed on August 6, 1990, was not the product of true consultation with all interested parties. Nevertheless, the Pact demonstrates the desire of the people for strong economic corrective measures. The document contains twenty-one specific points that evidence the Government's intent to carry out a program of structural adjustments. Noteworthy among them are the commitments by the Government to maintain a balanced budget, eliminate the deficits in the public sector, abstain from unsupported monetary growth, implement tax reforms, and begin customs reforms. To achieve the aims of the Pact, the business sector intends to use the foreign currency generated from the exportation of goods and services to increase domestic production and to maintain harmonious business-labor relations. Similarly, the labor sector agreed to work toward social peace and to avoid unnecessary strikes that would contribute to decreased productivity.

### CUSTOMS REFORM

The new customs reform guidelines, announced by the Government during the first week of August 1990, were the first step on the path to a wholesale reform of the tax system. On September 2, 1990, President Balaguer issued Decree No. 339-90, for the execution of the new customs duties. The President also introduced a bill that replaced Law No. 170 of 1971 and establishes customs tariffs and other laws regarding special taxes on certain imports. The bill displaces the provisions granting exemptions on customs

duties.

The new customs duties are scheduled to produce a gradual reduction in customs rates over a four-year period. To effect these reductions, the basic tax for each range would be affected by a thirty percent surcharge in the first year, twenty percent in the second, and ten percent in the third. The new rates would enter into full effect in the fourth year. The new duties will increase the income generated for the Government due to several reasons: the calculations are made on the basis of net CIF, rather than, FOB value; the conversion of net CIF value to national currency is made at the official exchange rate in effect on the date of payment, while to date preferential rates far below the official rate have been applied; and exemptions are eliminated.

A potential inflationary aspect of the new duties that the business sector criticized is the exchange surcharge on imports that theoretically would supply pesos to the Government for the payment of the public sector's foreign debt. In addition to the economic debates on the inflationary effects that the reform could have over the short term, questions have arisen as to the legitimacy of reformatory measures introduced by decree, even considering its transitory nature.

According to official data published before the promulgation of the Decree, when the introductory period is over, the new customs duties shall be distributed according to the following schedule: five percent on unprocessed materials, ten percent on basic raw materials, machinery, and equipment, fifteen percent on semi-manufactured raw materials, twenty percent on manufactured raw materials, twenty-five percent on final consumer goods, and thirty percent on other consumer goods meriting special attention. Later, the last three categories were modified to twenty-five percent, thirty percent, and thirty-five percent.

#### SALARY INCREASES

On September 10, 1990, after several unsuccessful attempts, the Salaries Committee announced its position on salary increases in Resolution 1/90. The Resolution indiscriminately increased salaries by sixty percent in all companies. This decision was contested and regarded as illegal because the law empowers the Committee to establish only a minimum salary. The Committee's Resolution also presented practical difficulties since it intended to mandate an

increase for all salaried employees.

On September 29, 1990, the Salaries Committee modified its position in Resolution 2/90 and set differing salary increases for differing levels of workers. The Resolution set a salary increase of sixty percent for workers earning up to RD\$3,000 per month. For all other workers, the minimum salary shall remain at RD\$1,120 per month, compared with RD\$700, which had been the minimum since October 1989.

#### ELECTRIC ENERGY CRISIS WORSENS

Many companies have found their production hampered by frequent and prolonged interruption of their electrical energy supply. To convey an idea of the gravity of the crisis, it is helpful to note a press report of October 5, 1990, that Compañía Dominicana de Electricidad, the Government-owned electric utility company, only produced 184,000 kw. when the average daily demand is 750,000 kw. With reductions in electrical output similar to this, it is hardly surprising that blackouts often last twenty hours or more. One possible solution to the problem has been offered by the private sector which has initiated several projects to provide energy mainly to tourist companies and to free trade zones. The projects are expected to generate a total of 643,000 kw.

#### NEW INCREASE IN FUEL PRICES

The Government announced its decision to raise the controlled price of fuel. The price of a gallon of gasoline rose from RD\$15.00 to RD\$20.00, diesel fuel rose from RD\$8.95 per gallon to RD\$13.70, and kerosene rose to RD\$18.00 per gallon. A 100-pound container of propane gas will continue to be sold at RD\$70.00. The price hikes are due to increases in international prices for petroleum and its derivatives. The prices will be reviewed weekly and adjusted according to developments in the world market.

#### SHORTAGES

The country is currently experiencing serious shortages in many products needed for mass consumption. These shortages are attributable to many sources, including increases in production costs, a lack of electricity, a shortage of foreign currency, and unrealistic price controls. Throughout the entire country, the public

has had to wait in long lines to purchase sugar, propane gas, gasoline, and diesel fuel. Pasta products, bread, and other wheat products have practically disappeared because bakeries and pastry shops have drastically reduced their production. Additionally, certain companies, such as soft drink manufacturers, have been forced to import sugar to continue production.

#### HUMAN RIGHTS IN THE INTERNATIONAL SPHERE

The Dominican Republic is considered the Caribbean country with the highest growth in commercial relations with the United States. This growth is largely credited to the country's participation in the Caribbean Basin Initiative (CBI) and the General System of Preferences (GSP). In addition, the Dominican Republic's recent entry into the Lomé IV Agreement opens the doors to the European market by providing preferential conditions for trade.

Nevertheless, these opportunities could be greatly reduced by the accusations brought by certain groups within the United States against the Dominican Republic for violations of human and labor rights. The Americas Watch Organization, the Committee of Attorneys for Human Rights, and other organizations have requested that the Dominican Republic be excluded from the commercial privileges derived from its membership in the CBI and the GSP, invoking the provisions that require the beneficiaries of the agreements to respect human and labor rights. Specifically, the accusations focus on the country's practice of using forced labor, particularly Haitian canecutters. In addition, the Government refuses to recognize a free trade zone worker's right to unionize.

Public hearings were held in September 1990 at the United States International Commerce Commission in Washington, where the private sector as well as official representatives of the Dominican Republic testified. President Bush is expected to make a decision regarding the accusations and the Dominican Republic's continued participation in the international trade agreements.

#### THE MONETARY BOARD ISSUES PACKAGE OF MEASURES

The Monetary Board adopted a set of eighteen resolutions in compliance with commitments made by the Government in the Economic Solidarity Pact. The new regulations attempt to provide greater financial stability in the country. The following provisions

represent highlights from the most important resolutions:

Resolution I increased the maximum interest rates for savings according to the type of instrument and the financial institution. Interest rates were further increased by Resolution XV of October 4, 1990.

Resolution II increased interest rates for loans from the Economic Development Investments Fund (FIDE) to 27% for the intermediaries and 36% for the final beneficiaries.

Resolution IV authorized the Central Bank to open a temporary window for the promotion of savings banks securities, for cases of non-liquidity. A bank was also established for the purpose of promoting securities. On October 4, 1990, the interest rates for those securities were also adjusted.

Resolution VII permits the opening of new kinds of financial entities, previously frozen for one year.

Resolution IX set a cap on the internal net credit for the public sector with the Banco de Reserves (the Government-owned commercial bank).

Resolution XII charges commercial banks 36.5% annually for any deficiency in their marginal deposit requirements with the Central Bank.

Resolution XVIII established a Foreign Currency Re-Integration System which is similar to the one established on July 21, 1988. The official exchange rates were raised to RD\$10.20 = US\$1.00 for purchasing dollars and RD\$10.50 = US\$1.00 for selling dollars. On October 4, 1990, the rates were raised to RD\$11.20 and RD\$11.50, respectively.

In other resolutions passed by the board, the exchange surcharge established in January 1987 was reduced by 15% as applied to the CIF value in pesos. The exchange rate should be determined by the official rate in effect on the date of the payment of the commission.

#### NEW EXCHANGE REGULATIONS FOR TOURISM

Resolution VII of August 15, 1990, announced to the public on October 4, 1990, it declared a new official exchange rate, which was the lowest on the market. This was done in an apparent effort to induce the tourist industry to use the Central Bank to convert its foreign currency. The new framework requires commercial tourist

agents abroad who contract with tourist services in the Dominican Republic to deposit the corresponding payments in special accounts that the Central Bank will maintain abroad. The tourist companies in the Dominican Republic will then receive the payment due them in pesos from the Central Bank at the official rate of exchange.

To engage in any form of local spending, the resolution requires that tourists convert their foreign exchange with the commercial banks, except when credit cards are used. Those caught violating these provisions will be subject to fines, imprisonment, and/or other sanctions proscribed by Law No. 251 on currency exchange control. The business sector reacted with surprise and rejected the measures which it regards as exaggerated, because they attempt to extend Dominican law to foreign territories as well as restrict the exercise of free trade.

#### LIBERALIZATION OF INCOME TAX

Pursuant to Presidential Decree 328-90, issued on September 12, 1990, public and private employees earning less than RD\$3,000 per month are exempt from payment of income tax. This decree is retroactive to September 1, 1990.

#### LUXURY IMPORTED GOODS TAXED

Presidential Decree 340-90 was issued on September 12, 1990. It complements the structure of the new customs regulations introduced on the same date by Decree 339-90. Decree 340-90 is intended to prevent the reduction in the customs rates from inducing a rise in consumption of non-priority consumer goods. To accomplish this goal, it establishes a selective contribution on the consumption of goods such as drinks, carpets, precious stones, household appliances, and motor vehicles.

Decree 343-90 also deals with another problem relating to the consumption of goods. Law No. 13 designates certain products as those which provide for basic needs. On September 14, 1990, the executive power issued Decree 343-90 mandating that domestic manufacturers of these essential items indicate both final retail price and the expiration date of each item on their labels and/or wrappings. The Decree further provides that the importers and distributors of these items are responsible for the same type of

disclosure.

### PROPOSED BILLS

President Balaguer submitted a bill to the National Congress to establish a civil service program. It is hoped that a civil service work force is a step towards the modernization of the state and a way to optimize the services currently offered by the country's public administration.

A bill modifying the law on foreign investment was submitted to the Central Bank in 1990 for study and review. This announcement was made by Rosendo Alvarez III, the Executive Director of the Association of Foreign Investors (ASIEX), in June of 1990. Upon review by the Central Bank, the bill will be sent to the President who is responsible for submitting the bill to the National Congress.

The Commission on Industry, Commerce, and Finance will study a bill directed toward integrating a higher percentage of Dominican capital in foreign companies applying for mining concessions. The bill requires that companies dedicated to the exploitation of mines must contribute five percent of the amount it exports to the Government and further that they pay the provinces a tax corresponding to exports of subsoil.

Geologist César Reyes is proposing a revision of Law No. 45-32 concerning petroleum mining and Mr. Reyes believes the law must be reformed to adjust to the new needs of the country. There is a distinct possibility that petroleum exploration may be conducted by foreign companies. In addition, the law contains certain ambiguities that must be clarified.

On October 9, 1990, President Balaguer designated a commission to prepare a draft bill to modify the Labor Code. The contents of the bill were promised to labor groups as part of an agreement that prevented a general strike in mid-September. The requested reforms primarily concern greater guarantees for union activity, the streamlining of court procedures in labor matters, and the establishment of labor courts.

### ECONOMIC OUTLOOK

This section examines several areas of the Dominican Republic's economic picture including the economic outlooks on inflation



rates, foreign debt, free trade zones, exports, and the country's tourist industry. A report for the Economic Commission for Latin America (CEPAL) includes the Dominican Republic among the five countries that shall have a 3% rate of expansion for 1990. However, another report prepared by the United States Embassy, projects a growth of 1% in the Dominican Republic's gross national product.

*Inflation.* According to Central Bank data, the accumulated inflation rate for the first nine months of 1990 was 35.94%. Inflation rose by 14.73% in the month of August, and after adjustments the accumulated inflation for the period August 1989-August 1990 escalated to 60%. A conservative projection placed the accumulated inflation rate for December 1990 at 90-100%.

*Public Finance.* According to the National Budget Office (ONAPRES), the accumulated public outlays over seven months through July 1990 came to RD\$3.9585 billion, of which RD\$2.3585 billion was designated for capital expenses. Income for the first semester of 1990 was RD\$3,196,850,409 (a surplus of over 50%). For the first semester of 1990, the deficit for the central Government reached RD\$4.2207 billion. In April 1990, the emissions reached a level of RD\$4.8569 billion.

*Foreign Debt.* The Dominican Republic's foreign debt is estimated at US\$4 billion with past due payments of approximately US\$1 billion. From 1986 to 1988, the country had a negative net flow of external loan funds of US\$609 million. Most analysts agree that the Dominican Republic should negotiate a global restructuring of its foreign debt to promote the flow of foreign currency into the country. There is no doubt that the adjustment process would be less harmful for low-income sectors of the population.

*Tourism.* In 1989 the tourist industry generated an estimated US\$900 million through the expenditures of approximately 1.3 million tourists. According to a publication by the National Hotel and Restaurants Association (ASONAHORES), the Republic had 18,500 hotel rooms available as of March 1990. These figures are evidence of a continuous rapid rate of expansion in the tourist industry despite the energy crisis, currency exchange problems, and other similar difficulties. However, a conflict exists between the Government and the hotel industry. The Government wants to obtain tourist dollars to solve its currency exchange problems. Hotel executives claim a need for dollars to purchase the large quantity of merchandise and equipment necessary for the hotel industry to

maintain international standards of service.

*Free Trade Zones.* Currency exchange problems are having an adverse effect on market competitiveness. These problems coupled with a reduction in productivity act to diminish the growth rate of free trade zones. Thousands of employees have reportedly been let go because of a lack of fuel, a lack of electric energy, and an exchange rate that fails to compensate for increases in local costs. Though the rate of free zone growth has declined, statistics portray an overall growth of free zones. The total value of free zone exports to the United States in 1985 was US\$205 million. In 1989, the figure was US\$205 million. Presently, there are only twenty industrial free zones currently in operation.

*Exports.* Outside the free zones, exports show little vigor. Traditional exports (sugar, coffee, cocoa, and tobacco) continue to suffer from low profitability, and the revenue generated by these exports continuously represents a smaller percentage of the total export revenue.

#### NEW GOVERNMENT TERM BEGINS WITH ADJUSTMENTS AND PROTESTS

In mid-July of 1990, the Central Electoral Board was two months late in publicizing disputed electoral results. The Dominican Liberation Party (PLD), the opposition, called upon the populace to observe a civil vigil lasting forty-eight hours on July 16 and 17, but little support was generated. However, on August 13, 1990, the day before President Balaguer assumed office for another four-year term, the labor organizations called a general strike that paralyzed the entire country. The strike was a protest of the premature economic adjustment measures that had been put into effect on August 7, 1990. Workers from business and industry, including transportation, participated in the strike. In some areas, particularly poorer neighborhoods, there were outbreaks of violence which left ten people dead and many wounded. However, these incidents were relatively few and the strike generally was considered a peaceful one. On September 8, 1990, President Balaguer met with leaders from the labor organizations and proposed a broad social program which halted further plans to strike.

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