Dominican Republic Trade Brief

Trade Policy

For the last several years, the Dominican Republic's simple average MFN tariff has remained constant at around 8.6 percent (in 2008), lower than an average Latin America and Caribbean (LAC) or an upper-middle-income country (with average tariffs of 9.3 and 9 percent, respectively). It ranks 92nd among 181 countries (where 1st is least restrictive). The country's simple average MFN tariff on agricultural products is almost twice as high as that for non-agricultural products at 13.6 percent. When taking into account the preferences, the simple average applied tariff is 8.0 percent. The 40 percent maximum tariff rate (excluding alcohol and tobacco) is relatively low and has not changed in years. The trade policy space in 2008, as measured by the wedge between bound and applied tariffs (the overhang), has been constant since 2001 at 26.4 percent, with all tariff lines bound. In April 2009, the government initiated a safeguard investigation on imports of glass bottles.[1] Regarding the extent of its commitment to trade liberalization in services, the Dominican Republic is ranked 77th out of 148 countries according to the GATS Commitment Index.

External Environment

The 2008 rest of the world simple average applied tariff (including preferences) on the Dominican Republic's exports is 9.9 percent, compared to 6.6 percent in 2006. But, when its trade flows are taken into consideration, it is apparent that the country's exports have good access to international markets. Its 2008 rest of the world weighted average applied tariff is low at 1.0 percent, especially when compared to that of its LAC and upper-middle income country comparators (3.2 and 3.1 percent, respectively), with its agricultural exports facing 3.5 percent and its manufactured exports 0.6 percent tariffs. The Dominican peso appreciated by 0.9 percent in real terms in 2008, making exporters less competitive abroad.

A comprehensive Economic Partnership Agreement (EPA) between the EU and 15 Caribbean states in the Caribbean Forum of African, Caribbean, and Pacific States (CARIFORUM) EPA group, including the Dominican Republic, was signed in 2008. This replaced the expired preferences given under the Africa, Caribbean, and Pacific (ACP)-EU Cotonou Agreement. The EU committed to immediately removing all tariffs and quotas on Caribbean exports with the exception of sugar and rice, which will get full duty-free and quota-free access by the end of 2009. The Caribbean countries, on the other hand, committed to an asymmetric and gradual opening of their economy to EU imports.[2]

After more than a decade of market reforms and significant advances in trade reforms, five nations of Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic embarked on negotiations for a free trade agreement with the United States in early 2003. The outcome is DR-CAFTA, an agreement that was signed by the executive branches of all countries involved in August 2004; the Dominican Republic ratified the agreement on March 1, 2007. As a result of DR-CAFTA, duties affecting trade with the United States are being eliminated for virtually all goods. Due to strong sensitivities, some agricultural products were exempted from the eventual zero-duty status: sugar for entry into the United States, and some other agricultural products for the Central American countries. While the bulk of tariffs were removed upon implementation, some tariffs are being phased out gradually.[3]

Behind the Border Constraints

Between June 2007 and May 2008, the Dominican Republic implemented a series of regulatory reforms, including reforms in easing cross-border trade, leading to its rank as the ninth top reformer in the 2008 Doing

---

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Dominican Republic Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at http://www.worldbank.org/wti.

Business Index. As a result, its business environment improved as well, and its Doing Business rank was 102nd out of 183 countries in 2008 and further improved to 86th out of 183 countries in 2009. Regarding trade facilitation, deficient port infrastructure is particularly problematic and the country lags behind the LAC and upper-middle-income groups with a rank 96th (out of 150) on the 2007 Logistics Performance Index and a score of 2.38 (on the scale of 1 to 5, with 5 being the best). The country's weakest indicator was the quality of transportation and information technology (IT) infrastructures, while its strongest one was domestic transportation costs. The country has been facing regular energy shortages in the last few years which have been hampering economic growth.

Trade Outcomes

Dominican Republic's real (in constant 2000 US dollars) growth in total trade of goods and services reached a peak at 7.5 percent in 2007, decelerating to an estimated 3.7 percent in 2008, and is expected to shrink by 4.3 percent in 2009. Real exports grew by 2.4 percent in 2007 and by 2.7 percent in 2008. Real imports grew by 4.4 percent in 2008. Both exports and imports are expected to decline in 2009, by 3.0 and 5.5 percent, respectively.

In nominal terms, total trade increased by an estimated 11 percent in 2008. Exports decreased by an estimated 3 percent.[4] The services share of exports was more than a third of total exports (40 percent in 2007) and like most other Caribbean countries, tourism was the biggest export sector, contributing about 34 percent of total exports. However, given the recession, there has been significant decrease in tourism recipients.[5] The country, along with Mexico, was the pioneer of the free trade zones known as *maquiladora* that were primarily geared towards garments. Due to falling demand for these top exports, trade in the first quarter of 2009 has outpaced its forecast, with exports falling by 39.8 percent over the same quarter in 2008. The United States is the Dominican Republic's largest destination market, accounting for over 70 percent of all exports, followed by the EU, and both are hard hit by the recent recession. Largely due to increases in commodity prices during the first half of 2008, imports grew by 18.4 percent in 2008 and are expected to fall in 2009. The most important imports include foodstuffs, petroleum, cotton and fabrics, chemicals, and pharmaceuticals, mainly obtained from the United States, Colombia, and other LAC countries. Remittances accounted for a share of 7.6 percent of GDP in 2008. Partially due to the crisis, remittances' share of exports fell from 8.7 percent in 2007 to 7.6 percent in 2008. FDI inflows accounted for 3.7 percent of GDP in 2007.

Notes

1. World Trade Organization, July 2009.
2. *Bridges*, November 2008.
3. SICE, 2009.
4. Nominal output data from Central Bank of the Dominican Republic, 2009.
5. *The Economist*, 2009.

References

Bridges. November 2008. "EU, Former Colonies Sign First New Generation Trade Pact." *Bridges* 12(5). July 20, 2009. <http://ictsd.net/i/news/bridges/32681/>.

Central Bank of the Dominican Republic. 2009. "Balance of Payments of the Dominican Republic." <http://www.bancentral.gov.do>.

International Monetary Fund (IMF). August 2009. International Financial Statistics (Country Tables). IMF, Washington, DC.

Economist, The. January 29, 2009. "A Fall in Tourism, and Other Body Blows."

Foreign Trade Information Service (SICE). 2009. "Dominican Republic: Trade Agreements in Force." <http://www.sice.oas.org/ctyindex/DOM/DOM agreements_e.asp>.

World Trade Organization. 2008. "Trade Policy Review Body—Trade Policy Review—Dominican Republic—Report by the Secretariat." October 20, 2008. WTO, Geneva.

———. 15 July 2009. "Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments." WTO, Geneva.